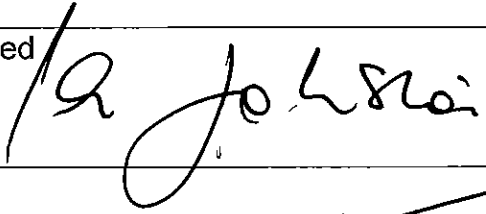



<b>Police and Crime Commissioner for Gwent Decision</b>	
PCCG-2013-118	Police and Crime Commissioner for Gwent Decision Session
Subject	Treasury Management Annual Report 2012/13
Summary	To record the decision of the Police and Crime Commissioner regarding the approval of the Annual Treasury Management Activity Report and actual Prudential Indicators for 2012/13.

**DECISION**

1. Treasury Management is the management of cash flows, banking, money market and capital market transactions and the management of the associated risks, in the pursuit of the optimum performance or return consistent with those risks.
2. The Treasury Management Annual Report is a requirement of the Police and Crime Commissioner's statutory responsibilities and covers both Treasury Management activity during 2012/13 and the actual Prudential Indicators for 2012/13.
3. The attached report was presented to the Joint Audit Committee on the 19<sup>th</sup> September 2013 for their consideration and comment.
4. After scrutiny by the Joint Audit Committee, I approve the Annual Treasury Management Activity Report and actual Prudential Indicators for 2012/13.

<b>Ian Johnston QPM, Police and Crime Commissioner for Gwent</b>	
I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with my code of conduct. Any such interests are recorded below.	
The above request has my approval.	
Signed 	Date 23 <sup>rd</sup> September 2013



<b>Contact Officer</b>	
Name	Darren Garwood-Pask
Position	Chief Financial Officer, OPCC
Telephone	01633 643083
Email	Darren.Garwood@gwent.pnn.police.uk
<b>Background papers</b>	Treasury Management Annual Report 2012/13

<b><u>OFFICE OF THE POLICE &amp; CRIME COMMISSIONER</u></b>	
<b>TITLE:</b>	<b>Treasury Management Annual Report 2012/13</b>
<b>DATE:</b>	<b>19<sup>th</sup> September 2013</b>
<b>TIMING:</b>	<b>Routine</b>
<b>PURPOSE:</b>	<b>For monitoring</b>
<b>1.</b>	<b><u>RECOMMENDATION</u></b>
1.1	That the Annual Treasury Management Activity Report and actual Prudential Indicators for 2012/13 are approved.
<b>2.</b>	<b><u>INTRODUCTION &amp; BACKGROUND</u></b>
2.1	<p>Treasury Management is the management of cash flows, banking, money market and capital market transactions and the management of the associated risks, in the pursuit of the optimum performance or return consistent with those risks.</p> <p>The Treasury Management Annual Report is a requirement of the Police and Crime Commissioner's (PCC's) statutory reporting responsibilities.</p> <p>The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The PCC is required to comply with both Codes through Regulations issued under the Local Government Act 2003.</p> <p>The report covers both Treasury Management activity during 2012/13 and the actual Prudential Indicators for 2012/13.</p> <p>During 2012/13 the minimum reporting requirements were that the PCC received an annual treasury management strategy in advance of the year, a mid-year update report and an annual report following the year end, describing the activity compared to the strategy.</p>
<b>3.</b>	<b><u>ISSUES FOR CONSIDERATION</u></b>
<b>3.1</b>	<b>Capital Expenditure and Financing</b>
3.1.2	<p>During each financial year the PCC incurs expenditure on acquiring and enhancing land, buildings, vehicles and other long term assets. These activities are known as capital expenditure. Such expenditure may either be:</p> <ul style="list-style-type: none"> <li>• financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on borrowing need; or</li> <li>• if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a</li> </ul>

borrowing need.

Actual capital expenditure forms one of the required Prudential Indicators. The table below shows capital expenditure in the respective years and how this was financed.

	2011/12 Actual £m	2012/13 Estimate £m	2012/13 Actual £m
Total Capital Expenditure	2.059	7.288	1.945
Financed by			
Capital Receipts		0.677	
Capital Grants	1.332	1.200	1.218
Reserves	0.336	5.411	0.450
Revenue			
Supported Borrowing			
Increase/(decrease) in Capital Creditors	0.391	0.000	0.277
Total Financing	2.059	7.288	1.945
Unfinanced Capital Expenditure	0.000	0.000	0.000

### 3.2 Borrowing Requirement

3.2.1 The PCC's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the PCC's debt position. It represents 2012/13 and any prior years' net capital expenditure which has not yet been financed by revenue or other resources.

Part of the PCC's treasury activity is to address this borrowing need, either through borrowing from external bodies, or utilising temporary internal cash resources.

Under treasury management arrangements actual debt can be borrowed or repaid at any time within the confines of the annual Treasury Management Strategy. However, the PCC is required to make an annual revenue charge to reduce the CFR. This statutory revenue charge is called the Minimum Revenue Provision (MRP). The total CFR can also be reduced by:

- the application of additional capital resources; or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The PCC's CFR for the year is shown below, and represents a key prudential indicator.

	2011/12 Actual £m	2012/13 Estimate £m	2012/13 Actual £m
Capital Financing Requirement	9.089	8.600	8.993

Full details of the movement in the PCC's CFR are given on page 70 the PCC Group's Statement of Accounts, reported to this meeting as a separate item.

### 3.3 Treasury Position

3.3.1 Whilst the PCC's gauge of his underlying need to borrow is the CFR, the Chief Finance Officer for the PCC can manage the actual borrowing position by either:

- borrowing to the CFR;
- choosing to utilise some temporary internal cash flow funds in lieu of borrowing (under-borrowing); or
- borrowing for future increases in the CFR (borrowing in advance of need).

The figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the Statement of Accounts by items such as accrued interest.

The treasury position at the 31<sup>st</sup> March 2013 compared with the previous year was:

	31st March 2012		31st March 2013	
	Principal £m	Average Interest Rate %	Principal £m	Average Interest Rate %
<b><u>Actual Borrowing Position</u></b>				
Fixed Rate Debt	4.260	5.8	4.260	5.8
Variable Rate Debt	1.293	6.8	1.132	6.3
Total Debt	5.553	6.2	5.392	6.1
CFR (Excluding PFI Assets) (Over) / Under Borrowing	3.823 (1.730)		3.854 (1.538)	
<b><u>Actual Investment Position</u></b>				
Fixed Interest Investments	39.325	0.58	42.515	0.42
Variable Interest Investments	0.000		0.000	
Total Investments	39.325		42.515	
<b>Net Borrowing</b>	(33.772)		(37.123)	

<p><b>3.4</b></p> <p>3.4.1</p> <p>3.4.2</p>	<p><b>Prudential Indicators and Compliance Issues</b></p> <p>Some of the Prudential Indicators provide either an overview or specific limits on treasury activity and these are shown below.</p> <p><u>Net Borrowing and the CFR</u></p> <p>In order to ensure that borrowing levels are prudent over the medium term the PCC's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15. The table below highlights the PCC net borrowing position against the CFR. The PCC has complied with this prudential indicator.</p> <table border="1" data-bbox="354 674 1337 920"> <thead> <tr> <th></th> <th>2011/12 Actual £m</th> <th>2012/13 Estimate £m</th> <th>2012/13 Actual £m</th> </tr> </thead> <tbody> <tr> <td>Net Borrowing</td> <td>(33.772)</td> <td>(30.268)</td> <td>(37.123)</td> </tr> <tr> <td>Capital Financing Requirement</td> <td>9.089</td> <td>8.600</td> <td>8.993</td> </tr> </tbody> </table> <p>The Authorised Limit - The Authorised Limit is the "Affordable Borrowing Limit" required by Section 3 of the Local Government Act 2003. The PCC does not have the power to borrow above this level. The table below demonstrates that during 2012/13 the PCC maintained gross borrowing within the Authorised Limit.</p> <p>The Operational Boundary – The Operational Boundary is the expected borrowing position during the year. Periods where the actual position is either below or over the Operational Boundary are acceptable subject to the Authorised Limit not being breached.</p> <p>Maximum Gross Borrowing – This is the Gross Borrowing at the beginning of the financial year.</p> <p>Average Gross Borrowing – This is the average of borrowing position at the beginning of the year and the borrowing position at the end of the year.</p> <p>Actual financing costs as a proportion of Net Revenue Stream - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the Net Revenue Stream.</p>		2011/12 Actual £m	2012/13 Estimate £m	2012/13 Actual £m	Net Borrowing	(33.772)	(30.268)	(37.123)	Capital Financing Requirement	9.089	8.600	8.993
	2011/12 Actual £m	2012/13 Estimate £m	2012/13 Actual £m										
Net Borrowing	(33.772)	(30.268)	(37.123)										
Capital Financing Requirement	9.089	8.600	8.993										

			2012/13 £m
		Authorised Borrowing Limit	13.819
		Operational Boundary	10.819
		Maximum Gross Borrowing Position	10.819
		Average Gross Borrowing Position	10.675
		Financing Costs a % of Net Revenue Stream	0.511%

### 3.5 Economic Background

3.5.1 The financial year 2012/13 continued the challenging environment of the previous year, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that the Bank of England Base Rate would start gently rising from quarter three in 2012/13. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market – the European Union (EU). The latest forecast suggests the Bank of England Base Rate will begin to rise from quarter one 2015.

### 3.6 Investment Position

3.6.1 Investment Policy – The PCC’s investment policy is governed by the Welsh Government, which has been implemented in the annual investment strategy. The investment activity during the year conformed to the approved strategy, and the PCC had no liquidity difficulties.

Resources – The PCC’s longer term cash balances comprise primarily revenue and capital resources, although these will be influenced by cash flow considerations. The PCC’s core cash resources were comprised as follows, and met the expectations of the 2012/13 budget:

	31.3.12 £m	31.3.13 £m
General Reserves	8.940	8.518
Earmarked Reserves	31.090	30.764
Provisions	1.488	2.335
Useable Capital Receipts	0.000	0.972
Total	41.518	42.589


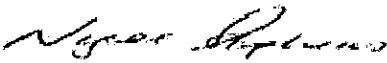
Investments Held by the PCC - The PCC maintained an average balance of £47.955m of internally managed funds which compares with a budget assumption of £47.889m. The internally managed funds received an average return of 0.42% compared to a budget assumption of 0.52%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.40%. The budget assumption of 0.52% average return, reflected no increase in the bank base rate but a slightly different mix of investments split

	<p>between the Debt Management Office, Local Authorities, Banks and Building Societies than that which actually transpired.</p> <p>The Economic Background for 2012/13 set out the continuing difficulties in economic conditions during the period. Interest rates remained at historic lows impacting adversely on investment returns. Concerns over the security of financial institutions continued, resulting in a defensive investment position.</p>
<b>3.7</b>	<b>Landsbanki</b>
3.7.1	<p>The Committee will be aware of the Icelandic banking crisis of October 2008 and the collapse of the Icelandic Bank Landsbanki with which the former Police Authority had an investment of £1.027m.</p> <p>After lengthy court proceedings in Iceland it was determined that UK Local Authority and Police Authority creditors would have priority status. The former Police Authority's outstanding investment with Landsbanki transferred to the PCC at midnight on the 21<sup>st</sup> November 2012. To date £484,843 of the original investment has been repaid including £185,342 in 2012/13. Further repayments of the outstanding investment are expected over the next three to four years which are estimated to bring the total amount recovered up to approximately 98% of the original investment.</p> <p>However, the potential sale of the outstanding investment to third parties, is currently being explored.</p>
<b>3.8</b>	<b>Regulatory Framework, Risk and Performance</b>
3.8.1	<p>The PCC's treasury management activities are regulated by a variety of professional codes and statutes and guidance:</p> <ul style="list-style-type: none"> <li>• The Local Government Act 2003, which provides the powers to borrow and invest as well as providing controls and limits on this activity;</li> <li>• The Act permits the Welsh Government to set limits either on the PCC or nationally on all local authorities restricting the amount of borrowing which may be undertaken;</li> <li>• Statutory Instrument (SI) 33239 (W319) 2003, as amended, develops the controls and powers within the Act;</li> <li>• The SI requires the PCC to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;</li> <li>• The SI also requires the PCC to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;</li> <li>• Under the Act the Welsh Government has issued Investment Guidance to structure and regulate the PCC's investment activities.</li> </ul>



	<ul style="list-style-type: none"> <li>Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Welsh Government has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section.</li> </ul> <p>The PCC complied with all of the above relevant statutory and regulatory requirements which require the PCC to identify and, where possible, quantify the levels of risk associated with his treasury management activities. In particular his adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that his capital expenditure is prudent, affordable and sustainable, and his treasury practices demonstrate a low risk approach.</p>
<b>4.</b>	<b><u>NEXT STEPS</u></b>
4.1	A Treasury Management update report, reviewing performance for the first seven months of 2013/14 will be presented to the next Joint Audit Committee in December.
<b>5.</b>	<b><u>FINANCIAL CONSIDERATIONS</u></b>
5.1	These are detailed in the report.
<b>6.</b>	<b><u>PERSONNEL CONSIDERATIONS</u></b>
6.1	There are no staffing/personnel implications arising from this report.
<b>7.</b>	<b><u>LEGAL IMPLICATIONS</u></b>
7.1	There are no legal implications arising from this report.
<b>8.</b>	<b><u>EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS</u></b>
8.1	The content of this report has been considered against the general duty to promote equality, as stipulated under the Gwent Police Equality Schemes, and has been assessed not to discriminate against any particular group.
8.2	This project/proposal has been considered against the general duty to promote equality, as stipulated under the Single Equality Scheme and has been assessed not to discriminate against any particular group.
8.3	In preparing this report, consideration has been given to requirements of the Articles contained in the European Convention on Human Rights and the Human Rights Act 1998.
<b>9.</b>	<b><u>RISK</u></b>
9.1	Treasury management can never be risk free. In borrowing the risk is that the PCC incurs a higher interest charge than was necessary and in lending there is the risk of default on repayment and the risk that a better rate of interest could have been achieved from an alternative borrower with acceptable credit status. Adherence to the CIPFA Code of Practice on Treasury Management is best practice in terms of balancing risk and return.

<b>10.</b>	<b><u>PUBLIC INTEREST</u></b>
10.1	This is a public document.
<b>11.</b>	<b><u>CONTACT OFFICER</u></b>
11.1	David Young, Principal Financial Accountant.
<b>12.</b>	<b><u>ANNEXES</u></b>
12.1	None

Consultation:	Tick to confirm (if applicable)
<b>Financial</b> The Chief Finance Officer has been consulted on this proposal.	✓
The Assistant Chief Officer-Resources has been consulted on this proposal.	✓
<b>OPCC (insert name)</b> The Chief Finance Officer has reviewed the request and is satisfied that it is correct and consistent with the PCC's plans and priorities.	✓
<b>Legal</b> The legal team have been consulted on this proposal.	N/A
<b>Equalities</b> The Equalities Officer has been consulted on this proposal.	N/A
<b>Chief Financial Officer, Office of the Police &amp; Crime Commissioner:</b>  I have been consulted about the proposal and can confirm that financial, legal, equalities etc... advice has been taken into account in the preparation of this report.  I am satisfied that this is an appropriate report to be submitted to the Joint Audit Committee.	
<b>Signature:</b>  	
<b>Date: 11/09/13</b>	
<b>Chief Financial Officer, Office of the Chief Constable</b>  I have been consulted about the proposal and can confirm that financial, legal, equalities etc... advice has been taken into account in the preparation of this report.  I am satisfied that this is an appropriate report to be submitted to the Joint Audit Committee.	
<b>Signature:</b>  	
<b>Date: 11/09/13</b>	