Police and Crime Commissioner for Gwent Decision	
PCCG-2015-039	Police and Crime Commissioner for Gwent Decision Session
Subject	Treasury Management Annual Report 2014/15
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 2014/15.

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 2014/15 and the actual Prudential Indicators for 2014/15.
3.	The attached report was presented to the Joint Audit Committee on the 10th June 2015 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 2014/15.

Ian Johnston QPM, Police and Crime Commissioner for Gwent	
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 29-6-15.

Contact Officer	
Name	Darren Garwood-Pask
Position	Chief Financial Officer, OPCC
Telephone	01633 643083
Email	Darren.Garwood@gwent.pnn.police.uk
Background papers	Treasury Management Annual Report 2014/15 Item 10 Treasury Management Annual I

OFFICE OF THE POLICE & CRIME COMMISSIONER	
TITLE:	**Treasury Management Annual Report 2014/15**
DATE:	**10th June 2015**
TIMING:	**Routine**
PURPOSE:	**For monitoring**

1.	**RECOMMENDATION**
1.1	That the Annual Treasury Management Activity Report and actual Prudential Indicators for 2014/15 are approved.
2.	**INTRODUCTION & BACKGROUND**
2.1	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.
2.2	The Treasury Management Annual Report is a requirement of the Police and Crime Commissioner's (PCC's) statutory reporting responsibilities.
2.3	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.
2.4	The report covers both Treasury Management activity during 2014/15 and the actual Prudential Indicators for 2014/15.
2.5	During 2014/15 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 actual performance or activity compared to the annual strategy.
3.	**ISSUES FOR CONSIDERATION**
3.1	**Capital Expenditure and Financing**
3.1.1	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: • 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 • if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

3.1.2 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. The 2014/15 Estimate of Capital expenditure is as per the Treasury Management Strategy for 2014/15.

	2013/14 Actual £m	2014/15 Estimate £m	2014/15 Actual £m
Total Capital Expenditure	3.353	4.371	3.070
Financed by			
Capital Receipts	0.730	0.380	0.000
Capital Grants	1.037	1.100	1.802
Reserves	1.615	2.891	1.148
Revenue	0.016	0.000	0.120
Supported Borrowing			
Increase/(decrease) in Capital Creditors	(0.045)	0.000	000.0
Total Financing	3.353	4.371	3.070
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 2014/15 and any prior years' capital expenditure which has not yet been financed by revenue or other resources.

3.2.2 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.

3.2.3 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).

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

	2013/14 Actual £m	2014/15 Estimate £m	2014/15 Actual £m
Capital Financing Requirement	8.350	8.582	8.006

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).
3.3.2	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.
3.3.3	The treasury position at the 31st March 2015 compared with the previous year was:

	31st March 2014		31st March 2015	
Actual Borrowing Position	Principal £m	Average Interest Rate %	Principal £m	Average Interest Rate %
Fixed Rate Debt	4.260	5.8	4.260	5.8
Variable Rate Debt	0.969	7.0	0.808	6.5
Total Debt	5.229	6.1	5.068	5.9
CFR (Excluding PFI Assets)	3,326		3.096	
(Over) / Under Borrowing	(1.903)		(1.972)	
Actual Investment Position				
Fixed Interest Investments	45.300	0.35	40.500	0.35
Variable Interest Investments	0.000		0.000	
Total Investments	45.300		40.500	
Net Borrowing	(40.071)		(35.432)	

3.4	**Prudential Indicators and Compliance Issues**
3.4.1	Some of the Prudential Indicators provide either an overview or specific limits on treasury activity and these are shown below.
	Gross Borrowing and the CFR
3.4.2	In order to ensure that borrowing levels are prudent over the medium term the PCC's external borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, have exceeded the CFR for 2014/15 plus the expected changes to the CFR over 2015/16 and 2016/17. The table below highlights the PCC's gross borrowing position against the CFR.

	2013/14 Actual £m	2014/15 Estimate £m	2014/15 Actual £m
Gross Borrowing	10,253	9,980	9,978
Net Borrowing	(40.071)	(32.439)	(35.432)
Capital Financing Requirement (including PFI)	8.350	8.582	8.006

3.4.3 The PCC has not complied with this prudential indicator. In previous years this prudential indicator was calculated by deducting investments from gross debt and comparing this figure with the Capital Financing Requirement. The new requirement to exclude investments shows that gross debt needs to be reduced below the CFR. Resources are available from investments to do this, but such action would incur penalties for early repayment of debt.

3.4.4 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.

3.4.5 The table below demonstrates that during 2014/15 the PCC maintained gross borrowing within the Authorised Limit.

3.4.6 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.

3.4.7 Maximum Gross Borrowing – This is the Gross Borrowing at the beginning of the financial year.

3.4.8 Average Gross Borrowing – This if the average of borrowing position at the beginning of the year and the borrowing position at the end of the year.

	2014/15 £m
Authorised Borrowing Limit	13.255
Operational Boundary	10.255
Actual Maximum Gross Borrowing Position	10.253
Average Gross Borrowing Position	10.116
Estimated Financing Costs as a % of Net Revenue Stream	0.24%
Actual Financing Costs as a % of Net Revenue Stream	0.28%

3.4.9 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 (NRS). Actual Financing costs as a % of NRS increased by 0.04% as

	a result of additional voluntary funds being set aside for the repayment of external debt (MRP) plus a partial offset against this increase from additional investment income received during the year.
3.5	**Economic Background and Interest Rates**
3.5.1	The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015, as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May 2014, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded. In August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price. Fears also increased considerably that the European Central Bank (ECB) was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the Monetary Police Committee (MPC) would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.
3.5.2	The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth and falling gilt yields led to a reduction in the forecasts for total borrowing in the March budget.
3.5.3	The EU sovereign debt crisis had subsided since 2012, until the Greek election in January 2015 sparked a resurgence of fears. While the UK and its banking system has little direct exposure to Greece, it is much more difficult to quantify quite what effects there would be if contagion from a Greek exit from the euro were to severely impact other major countries in the EZ and cause major damage to their banks.
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.
3.6.2	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 2014/15 budget:

	31.3.14 £m	31.3.15 £m
General Reserves	10.790	12.570
Earmarked Reserves	30.260	33.006

Provisions	1.791	1.418
Useable Capital Receipts	0.972	1.502
Total	43.813	48.496

3.6.3 Investments Held by the PCC - The PCC maintained an average balance of £51.573m of internally managed funds which compares with a budget assumption of £51.789m.

3.6.4 These internally managed funds received an average return of 0.35% compared to a budget assumption of 0.30%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.35%. The budget assumption of 0.30% average return, reflected no increase in the bank base rate but a slightly different mix of investments split between the Debt Management Office, Local Authorities, Banks and Building Societies than that which actually transpired.

3.7 Regulatory Framework, Risk and Performance

3.7.1 The PCC's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003, which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- 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;
- Statutory Instrument (SI) 33239 (W319) 2003, as amended, develops the controls and powers within the Act;
- The SI requires the PCC to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- 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;
- Under the Act the Welsh Government has issued Investment Guidance to structure and regulate the PCC's investment activities; and
- 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.

3.7.2 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.

4.	**NEXT STEPS**
4.1	A Treasury Management update report, reviewing performance for the first five months of 2015/16 will be presented to the Joint Audit Committee in December 2015.
5.	**FINANCIAL CONSIDERATIONS**
5.1	These are detailed in the report.
6.	**PERSONNEL CONSIDERATIONS**
6.1	There are no staffing/personnel implications arising from this report.
7.	**LEGAL IMPLICATIONS**
7.1	There are no legal implications arising from this report.
8.	**EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS**
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 report 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.
9.	**RISK**
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.
10.	**PUBLIC INTEREST**
10.1	This is a public document.
11.	**CONTACT OFFICER**
11.1	David Young, Principal Financial Accountant.
12.	**ANNEXES**
12.1	None