For Information / Consideration	
Public/Non Public*	Public
Report to:	Joint Audit and Scrutiny Panel
Date of Meeting:	July 2018
Report of:	Chief Finance Officer
Report Author:	Charlotte Radford
Other Contacts:	Pamela Taylor
Agenda Item:	11

TREASURY MANAGEMENT YEAR END REPORT

1. Purpose of the Report

1.1 To provide members with details of compliance with the Treasury Management Strategy and prudential indicators for 2017-18.

2. Recommendations

2.1 Members are recommended to consider the report and the assurance it provides.

3. Reasons for Recommendations

3.1 This complies with good governance.

4. Summary of Key Points

4.1 The attached report details the Treasury Management activity for 2017-18 and how this compares with the approve treasury and prudential code indicators for the year.

4.2 Treasury Management is a significant activity within the finance function of the OPCC. It ensures that there are sufficient funds available to meet day to day expenditure such as paying creditors and salaries. It is also responsible for investing income from grants and precept to meet future expenditure requirements.

4.3 The Treasury Management Strategy is approved annually by the Police & Crime Commissioner and sets out the parameters within which the activity performs. The essential element of this is to protect the assets of the OPCC, with the ability to generate additional income secondary to this.

4.4 A key element to the performance of this activity is the completion of the capital programme. Unfortunately, capital projects by their nature are large and take time to complete as various factors can affect them (e.g. other partners involved in the project, planning permission, availability of staff). Any delay in capital projects can impact on when payments are made and when borrowing is actually needed.

4.5 Income from investments in the money markets has remained static and low for quite some time. This will continue as austerity continues and market returns remain low. However, compared to market averages the returns made from investments are relatively high. And investments have only been made with those organisations with an approved rating.

5. Financial Implications and Budget Provision

5.1 None as a direct result of this report.

6. Human Resources Implications

6.1 None as a direct result of this report.

7. Equality Implications

7.1 None as a direct result of this report.

8. Risk Management

8.1 None as a direct result of this report.

9. Policy Implications and links to the Police and Crime Plan Priorities

9.1 This report complies with good governance and financial regulations.

10. Changes in Legislation or other Legal Considerations

10.1 None

11. Details of outcome of consultation

11.1 Not applicable

12. Appendices

12.1 Appendix A – Treasury Management Report 2017-18

The Nottinghamshire Office of the Police and Crime Commissioner

Nottinghamshire
POLICE & CRIME COMMISSIONER

Annual Treasury Management

Review 2017-18

1. Introduction

The Nottinghamshire Office of the Police and Crime Commissioner is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for the year. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2016-17 the minimum reporting requirements were that the Commissioner should receive the following reports:

- an Annual Treasury Strategy in advance of the year (February 2017)
- a Mid-year Treasury Update report (November 2017)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

There is a continued requirement for scrutiny within the regulatory framework and this report is an important aspect including adherence to policies and performance against previously set indicators

The Chief Financial Officer to the Commissioner also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports prior to the above reports being presented. The Prudential Indicators for the year are attached as addendum to this report.

2. Events during the year

Revised CIPFA Codes

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.
The main change focussed on the treatment of investments which are not treasury type investments such as purchasing property in order to generate income. It is intended that these investments and the risks associated are clearly highlighted. The commissioner has no intentions of this kind of investment.
Another requirement is that capital strategy is reported including a split between treasury and non-treasury investments. This requirement was announced too late for 2018-19 but will form part of the reporting cycle for 2019-20. The code also reduced the number of mandatory indicators required but these have been disclosed voluntarily and are indicated in the addendum.

Markets in Financial Instruments Directive II (MiFID II)

The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This required Nottinghamshire to opt up to be a commercial client by demonstrating training and experience of appropriate staff regarding Treasury Management. It also required registering at the London Stock Exchange to be a verifiable financial counterparty.

2. The Economy and Interest Rates

Despite gloomy forecasts following the outcome of the EU referendum in June 2016 the UK economy performed to a G7 leading growth rate of 1.8% in 2016, actually joint equal with Germany, with the same increase 2017, which was comparatively weak compared to the US and some other European countries This comparably weaker growth and little pressure for wage increases has slowed the planned interest rate rises, although this is viewed a temporary delay, particularly if there is strong GDP growth coupled with wage rises.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. This was assisted by UK gilts moving in a relatively narrow band, within 0.25% for much of the year.

The equity markets have been buoyant with the FTSE 100 hitting a new peak near to 7,800 in early January before moving back somewhat.

The inconclusive result of the general election on 8 June, had relatively little impact on financial markets. .However, sterling did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. far, there has been little significant hold up to making progress. No doubt the currency devaluation was partly responsible for the strong growth in manufacturing exports.
However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a limited impact on the growth in GDP overall.

Economic growth in the EU.has been slow in comparison to the massive programme of quantitative easing and interest rate In the USA it has been volatile but generally performing well despite the reversing of interest rate cuts and quantitative easing. Asian economies have not performed well overall.

3. Overall Treasury Position as at 31 March 2018

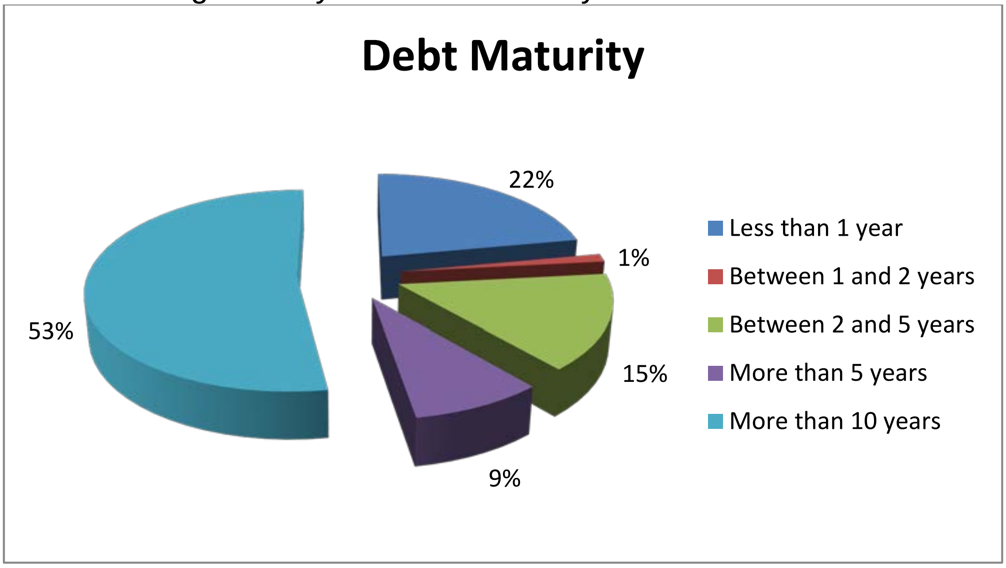
At the beginning and the end of 2017-18 the Commissioner's treasury position was as follows:

	31 March 2017 £m	31 March 2018 £m
Total Debt	40.7	37.1
Capital Financing Requirement	59.5	62.8
Over/-Under borrowing	-18.8	-25.7
Total Investments	2.3	10.3
Net Debt	38.4	26.8

4. The Strategy for 2017-18

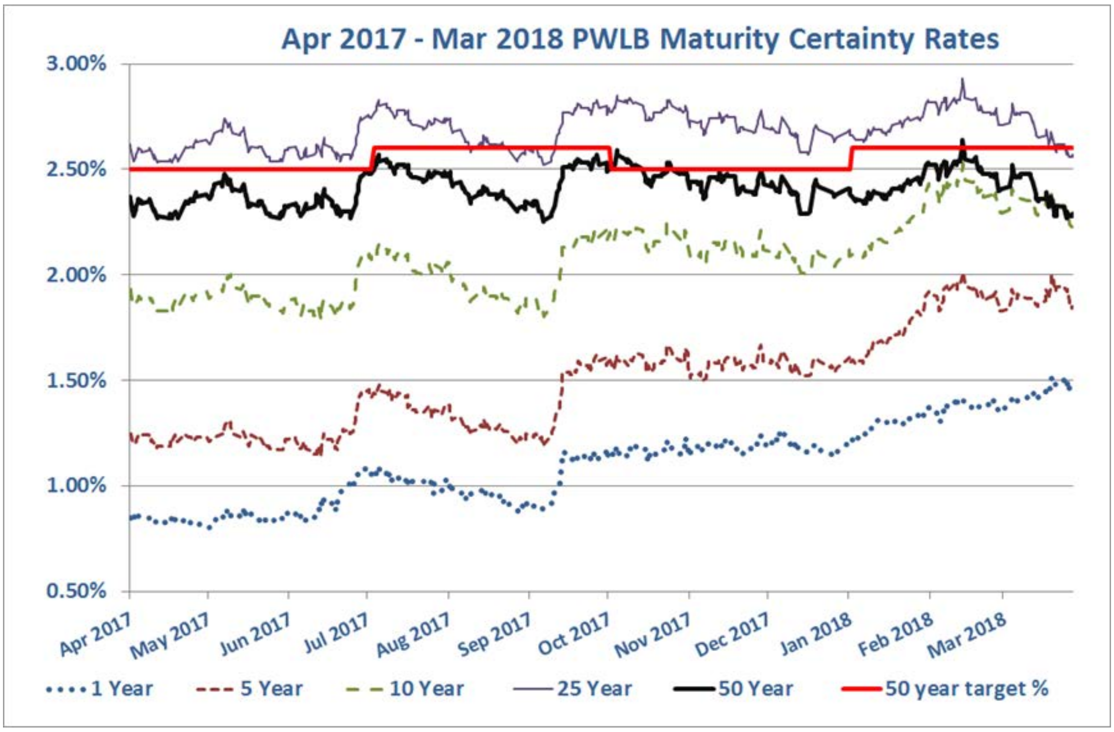
The Commissioner has maintained an under borrowed position; meaning that the capital borrowing need (the Capital Financing Requirement) has not been fully funded through borrowing, but that some has been financed with reserve balances being utilised. This is a pragmatic and cautious approach at a time of high risk coupled with low return on investments. The CFO to the Commissioner has carefully monitored this situation, whereby investments continue to receive low returns compared to borrowing rates. The primary focus for investments continues to be security and liquidity over return. The strategy was to avoid unnecessary borrowing while ensuring that reserves were sufficient to meet the level of under-borrowing. At the same time interest rates on borrowing were carefully monitored to ensure that advantage of relatively low interest rates could be taken if it was apparent that rates were going to increase to historical norms.
PWLB rates although fluctuating were still at historically low levels and no long term borrowing was taken borrowing undertaken while still maintaining Cashflow liquidity.

The borrowing maturity at the end of the year is illustrated below:



5. Borrowing Rates in 2016-17

The graph below shows how PWLB certainty rates have rates have remained at historically very low levels during the year, although showing increases in shorter term rates.



6. Borrowing Activity for 2017-18

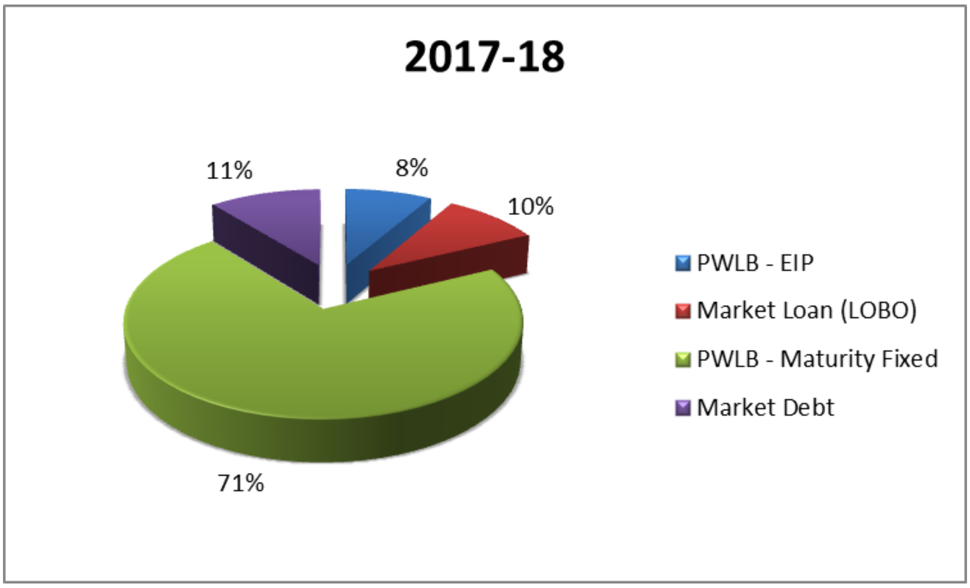
The Treasury Management Strategy had authorised up to £1.659m borrowing during the year. However, the level of capital spend against the budget was low. Therefore as previously mentioned no external borrowing was taken not even to replace debt maturing

The budget for interest was £1.674m and savings of £0.323m were possible due to no borrowing being undertaken and a full year impact of lower borrowing and getting better interest rates in 2016-17. There has been no opportunity for rescheduling debt for more advantageous rates during the year, although this has been considered on a regular basis.

The summary of borrowing activity is as follows:

	Position @ 01/04/17 £	Loans taken £	Loans repaid £	Position @ 31/03/18 £
Long Term Borrowing				
PWLB	33,204,084		(3,599,267)	29,604,817
LOBO	3,500,000	0	0	3,500,000
Local Authorities	4,000,000	0	0	4,000,000
Total Long Term Borrowing	40,704,084	0	(3,599,267)	37,104,817
Temporary Borrowing				
Local Authorities	0	0		0
Banks & Other Institutions	0	0	0	0
Total Temporary Borrowing	0	0	0	0
Total Borrowing	**40,704,084**	**0**	**(3,599,267)**	**37,104,817**

The borrowing (by loan type) at the end of the year is illustrated in the following pie chart:

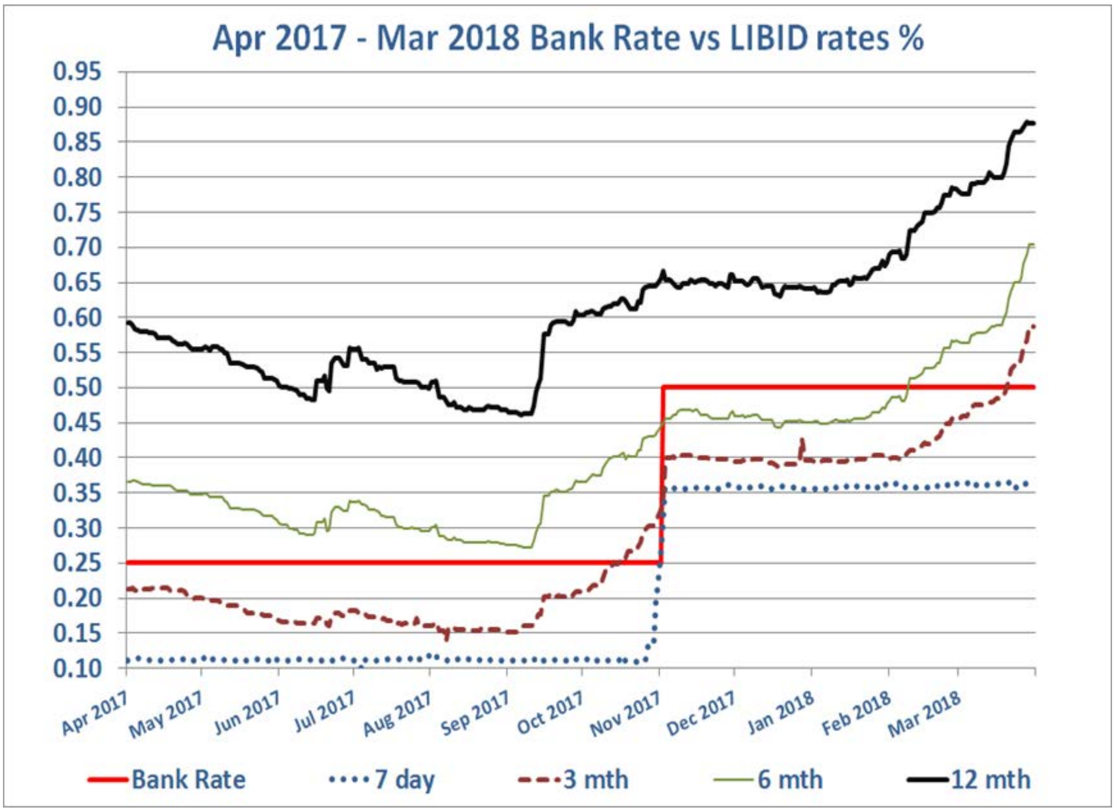


7. Minimum Revenue Provision MRP 2017-18

The MRP policy has remained unchanged. Due to revenue underspends it has been decided to make an additional voluntary MRP payment of £0.25m. This will have a positive impact on the financial position of the revenue account in future years.

8. Investment Rates in 2017-18

Investment rates remain low but have increased slightly following the rise in the base rate to 0.5% on 2 November 2017



9. Investment Outturn for 2017-18

The Authority's investment policy is governed by the annual investment strategy incorporated within the Treasury Management Strategy. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year generally conformed to the approved strategy. There was one occasion when the investment with Barclays exceeded the maximum investment allowed (£5m) by a £0.7m due to problems that MFSS had in processing Staff pay in December 2017. There were no liquidity difficulties. The strategy has two levels of maximum investment allowable in Money Market Funds, the general ceiling of £10m and an increased ceiling of £15m, which requires the authority of the CFO to the Commissioner to utilise. During the year there were 263 days which fell into the latter category. For clarity this is days per fund. Additionally there were 14 days when the £15m limit was breached (max £19m) while waiting for other investments to start, this was done with the consent of the PCC. The average invested balance was £33.732m and earned 0.31% (£0.104m). This compares favourably to the average 7 day LIBID uncompounded rate of 0.21%

The following table gives information on the investments held at the start and end of the year:

	Position @ 01/04/17 £	Investments made £	Investments withdrawn £	Position @ 31/03/18 £
Temporary Investment				
Banks	(183,000)	(15,875,000)	15,500,000	(558,000)
Building Societies	0	(4,000,000)	4,000,000	0
Local Authorities	0	(17,000,000)	17,000,000	0
MMF	(2,150,000)	(241,100,000)	233,450,000	(9,800,000)
Total Investment	**(2,333,000)**	**(277,975,000)**	**269,950,000**	**(10,358,000)**

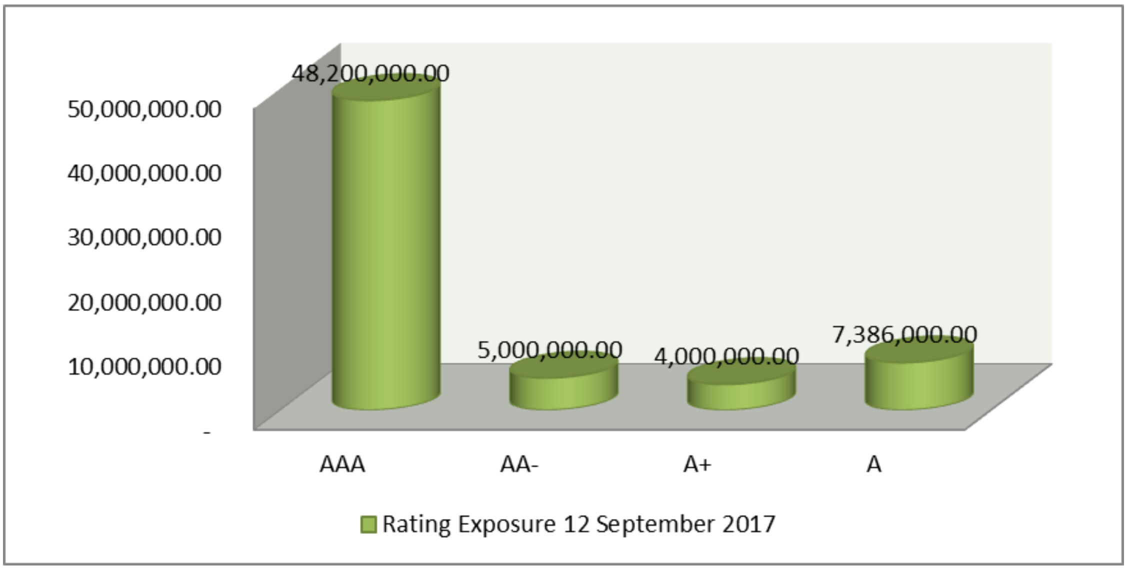
Investment:

	Position @ 01/04/17 £	Investments made £	Investments withdrawn £	Position @ 31/03/18 £
Fixed Term Investment	0	(26,000,000)	26,000,000	0
Variable Term Investment	(2,333,000)	(251,975,000)	243,950,000	(10,358,000)
	(2,333,000)	**(277,975,000)**	**269,950,000**	**(10,358,000)**

Proportion of Fixed Term Investment held	0.00%
Proportion of Variable Term Investment held	100.00%

9. Security of Investment

The quality of counterparties for investment is governed by the approved Treasury Management Strategy. This is monitored on a daily basis and an important part of this is the credit agency ratings. The maximum investment held during the year was £64.6m held on 12/09/17, when pension top up grant and other grants had been received. The following graph shows the rating exposure on that day.



The majority of investments are made in money market funds which all carry an AAA rating, being the most secure available. The three being used by The Commissioner are as follows and shows how they are ranked for performance (judged by net 1 day yield) out of the 42 available funds. Money market funds operate by spreading risk across a wide variety of counterparties many of which are not available to smaller investors. The impact of any counterparty failure is therefore minimised. It is also important that Commissioner forms a minor part of the fund. At all times the PCC has formed less than 0.1 % of any fund.

	Max. Investment exposure 07/07/17 £m	**Ranking out of 42 29/06/18**	**Interest (Net 1 year yield) 29/06/18 %**
Money Market Fund			
Standard Life	18.00	5th	0.33
Federated Investors	19.00	4th	0.34
Black Rock	10.10	14th	0.29

Appendix 1: Prudential and treasury indicators

During 2017-18 all legislative and regulatory requirements have been complied with.

The net borrowing and the Capital Financing Requirement (CFR) indicator ensures that borrowing levels are prudent over the medium term and that external borrowing, net of investments, must only be for a capital purpose. This essentially means that the borrowing cannot support revenue expenditure. In order to ensure this the following key indicator of prudence is in place. External borrowing does not (except in the short term) exceed the total of CFR in the preceding year plus the estimates of any increases in CFR in the current and next two financial years

The authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. The OPCC may not borrow above this level. The table below demonstrates that gross borrowing has remained within its authorised limit.

The operational boundary is the expected borrowing position during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

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.

Appendix 2

Prudential Indicator Monitoring 2017-18

	2015-16 Authority Approved Indicator	2015-16 Outturn @ 31 Mar 16	2016-17 Authority Approved Indicator	2016-17 Outturn @ 31 Mar 17	2017-18 Authority Approved Indicator	2017-18 Outturn @ 31 Mar 18
Section 1 - Indicators Based on Expected Outcomes						
Affordability:						
Ratio of Financing Costs to Net Revenue Stream	**2.9%**	**1.7%**	**2.4%**	**2.2%**	**2.8%**	**2.1%**
Incremental Impact of Capital Investment Decisions	**£7.08**	**-**	**£2.83**	**-**	**£3.82**	**-**
Capital Expenditure	**-**	**£8.986m**	**-**	**£8.043m**	**-**	**£4.037m**
Capital Financing Requirement	**£65.001m**	**£56.207m**	**£64.261m**	**£59.473m**	**£60.899m**	**£62.829m**
Section 2 - Indicators Based on Limits						
Affordability:						
Actual External Debt	**-**	**£44.303m**	**-**	**£40.704m**	**-**	**£37.105m**
Authorised Limit for External Debt	**£75.000m**	**-**	**£80.000m**	**-**	**£80.000m**	**-**
Operational Boundary for External Debt	**£65.000m**	**-**	**£70.000m**	**-**	**£70.000m**	**-**
Prudence:						
Net Borrowing Requirement & CFR	**£65.306m**	**£58.220m**	**£64.941m**	**£70.164m**	**£61.579m**	**£74.797m**