For Information / Consideration	
Public/Non Public*	**Public**
Report to:	**Joint Audit and Scrutiny Panel**
Date of Meeting:	**29th May 2019**
Report of:	**Chief Finance Officer**
Report Author:	**Charlotte Radford**
Other Contacts:	**Amanda Harlow**
Agenda Item:	**7**

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 2018-19.

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 2018-19 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 2018-19

The Nottinghamshire Office of the Police & Crime Commissioner

Treasury Management

Annual Review

2018-19

1. Introduction

The Nottinghamshire Office of the Police and Crime Commissioner is required by regulation 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 and the CIPFA Prudential Code for Capital Finance in Local Authorities.

During 2018-19 the minimum reporting requirements were that the Commissioner should receive the following reports:

- an Annual Treasury Strategy in advance of the year (February 2018)
- a Mid-year Treasury Update report (November 2018)
- 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 they have complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports prior to presentation. The Prudential Indicators for the year are attached as an addendum to this report.

2. Economic Background

After weak **economic growth** of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward.

After the Monetary Policy Committee raised **Bank Rate** from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC does have concerns over the trend in **wage inflation,** which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling marginally to 3.4% in the three months to January.

Brexit. The Conservative minority government has so far (1.4.19), been unable to muster a majority in the Commons over its Brexit deal. The EU has set a deadline of April 12 for the House of Commons to propose what form of Brexit it would support. If another form of Brexit, other than the current deal, does get a majority by April 12, then it is likely there will need to be a long delay to Brexit to allow time for negotiations with the EU. It appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018, which generated an upturn in the strong rate of growth. The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth.

EUROZONE. The annual rate of growth for 2018 was 1.8%, but is expected to fall to possibly around half that rate in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt.

WORLD GROWTH. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, although this fear is probably overblown. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks.

3. Overall Treasury Position as at 31 March 2019

Commissioner's treasury position in comparison to the previous financial year:

	31 March 2018 £m	31 March 2019 £m
Total Debt	37.1	51.3
Capital Financing Requirement	62.8	66.3
Over/-Under borrowing	-25.7	-15.0
Total Investments	10.3	23.9
Net Debt	26.8	27.4

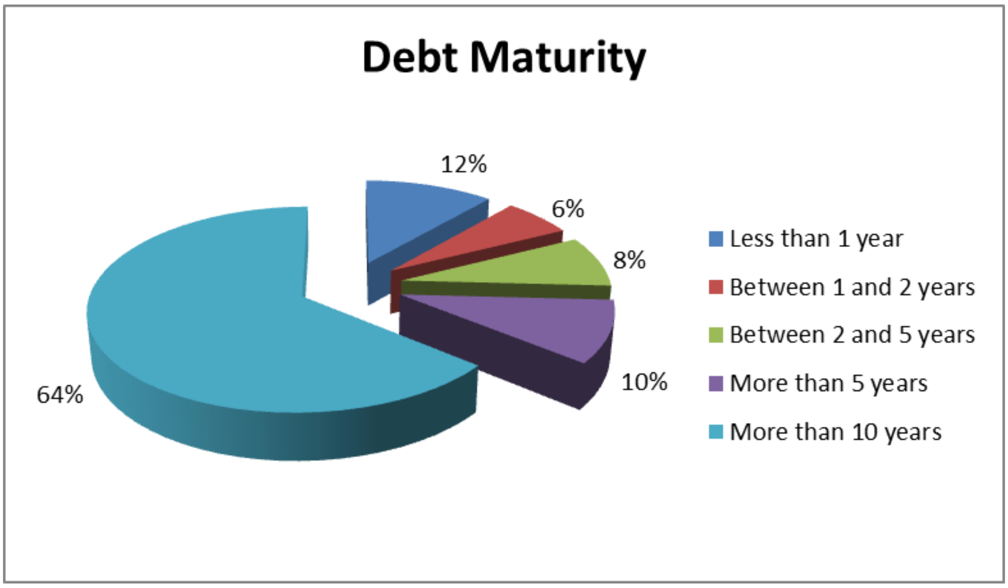
4. Strategy - 2018-19

The Commissioner has maintained an under borrowed position; meaning that the capital borrowing need (the Capital Financing Requirement) has not been fully funded through external borrowing, with reserve balances being utilised to finance the capital spend. 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 undertake borrowing at an opportune time prior to decisions around Brexit which could have affected the market. 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.

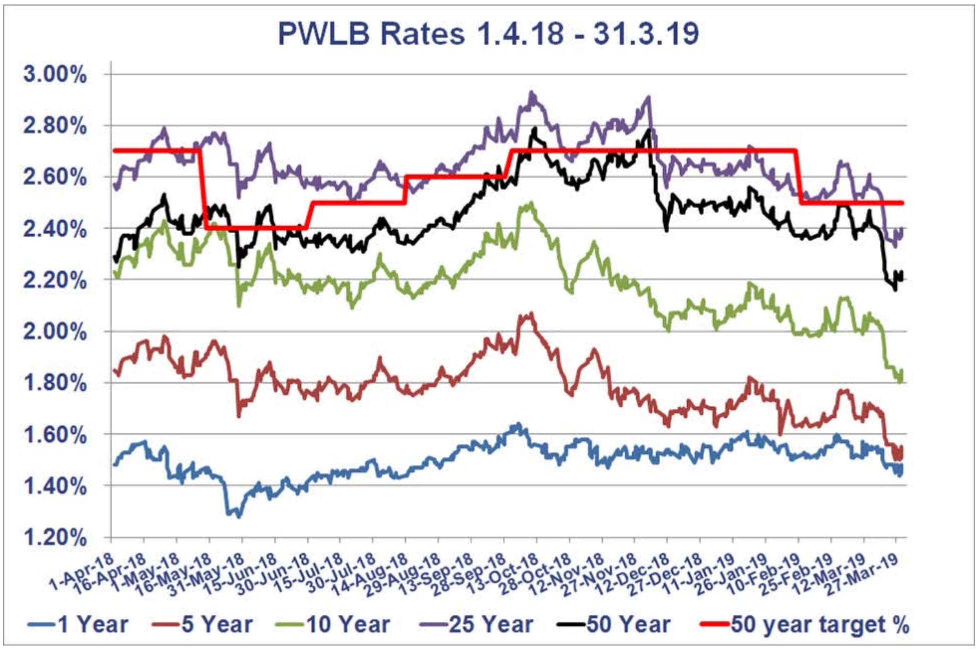
PWLB rates although fluctuating, were still at historically low levels and long term borrowing was undertaken during the year to finance capital expenditure. Short term borrowing from local authorities was utilised to maintain cash flow liquidity.

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



5. Borrowing Rates - 2018-19

The graph below shows how PWLB certainty rates have remained at historically low levels during the year, reaching their lowest point at the end of March.



6. Borrowing Activity - 2018-19

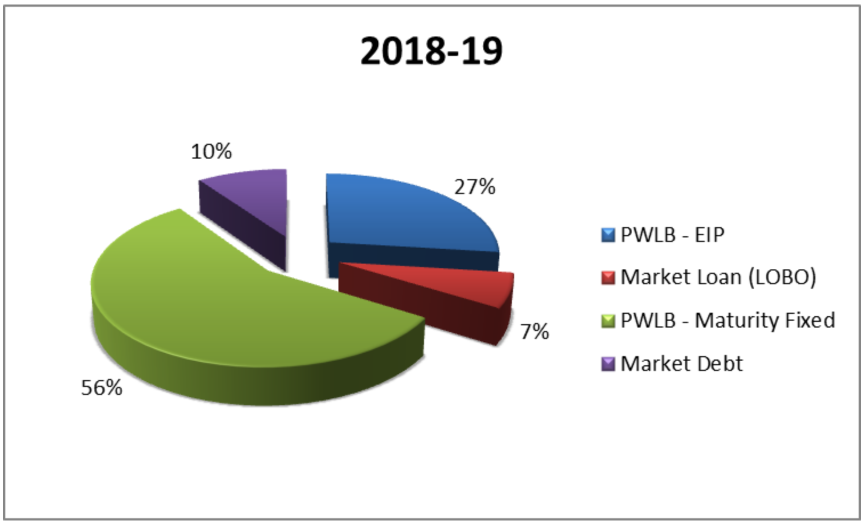
As per the Treasury Management Strategy up to £7.844m borrowing was authorised for the year. Mid-year it was decided to also borrow a further £6.156m to smooth out the cashflow and eliminate the repetitive cost of short term borrowing each year

The budget for interest was £1.538m and savings of £0.153m were possible due to borrowing being available at a lower rate than initially estimated. 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 @ 01-04-18 £	Loans taken £	Loans repaid £	Position @ 31-03-19 £
Long Term Borrowing				
PWLB	29,668,919	14,000,000	(819,959)	42,848,960
LOBO	3,500,000	0	0	3,500,000
Local Authorities	4,000,000	0	(4,000,000)	0
Total Long Term Borrowing	37,168,919	14,000,000	(4,819,959)	46,348,960
Temporary Borrowing				
Local Authorities	0	5,000,000		5,000,000
Banks & Other Institutions	0	0	0	0
Total Temporary Borrowing	0	5,000,000	0	5,000,000
Total Borrowing	**37,168,919**	**19,000,000**	**(4,819,959)**	**51,348,960**

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

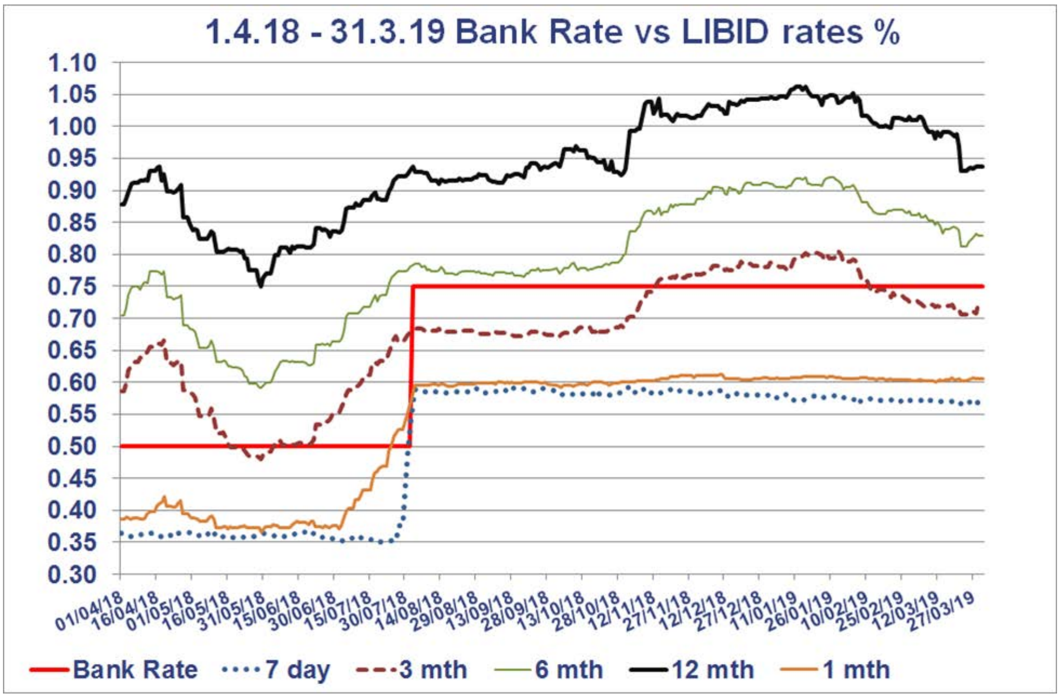


7. Minimum Revenue Provision (MRP) - 2018-19

The MRP policy has remained unchanged. There has been no additional revenue provision this year therefore the accumulated balance remains at £1m.

8. Investment Rates - 2018-19

Investment rates remain low but have increased slightly following the rise in the base rate to 0.75% on 2 August 2018.



9. Investment Outturn - 2018-19

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 conformed to the approved strategy. There were no liquidity difficulties. The strategy has two levels of maximum investment allowable in Low Volatility Net Asset Values (LVNAVs)- successor of Money Market Funds - the general ceiling of £12m and an increased ceiling of £15m, which requires the authority of the CFO to the Commissioner to utilise. During the year there were 22 days which fell into the latter category. For clarity this is days per fund. Additionally there were 15 days when the £15m limit was breached (max £18m) while waiting for other investments to start, this was done with the consent of the PCC. The average invested balance was £37.644m and earned 0.66% (£0.249m). This compares favourably to the average 7 day LIBID rate of 0.36%.

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

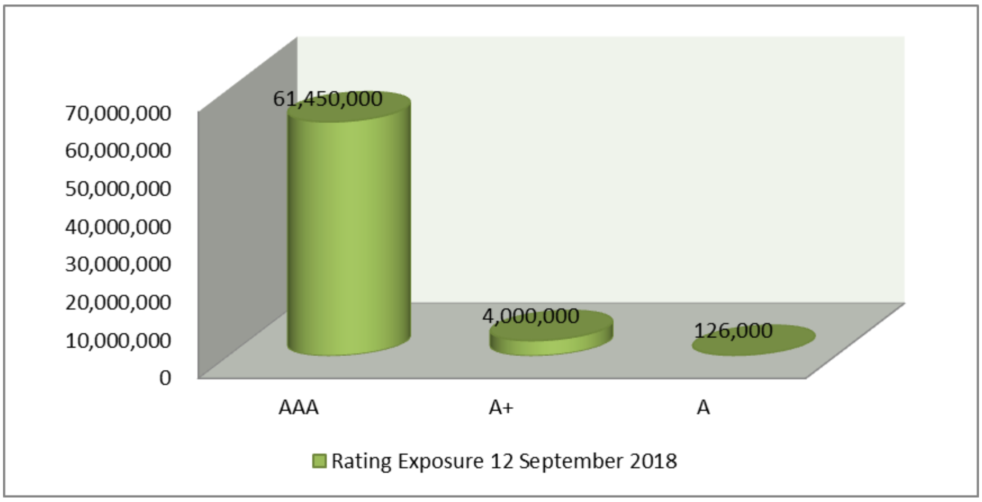
	Position @ 01-04-18 £	Investments made £	Investments withdrawn £	Position @ 31-03-19 £
Temporary Investment				
Banks	(558,000)	(6,000,000)	4,413,000	(2,145,000)
Building Societies	0	(4,000,000)	4,000,000	0
Local Authorities	0	(76,000,000)	59,000,000	(17,000,000)
MMF	(9,800,000)	(269,780,000)	274,820,000	(4,760,000)
Total Investment	**(10,358,000)**	**(355,780,000)**	**342,233,000**	**(23,905,000)**

Investment:

	Position @ 01-04-18 £	Investments made £	Investments withdrawn £	Position @ 31-03-19 £
Fixed Term Investment	0	(86,000,000)	67,000,000	(19,000,000)
Variable Term Investment	(10,358,000)	(269,780,000)	275,233,000	(4,905,000)
	(10,358,000)	**(355,780,000)**	**342,233,000**	**(23,905,000)**
Proportion of Fixed Term Investment held	79.48%			
Proportion of Variable Term Investment held	20.52%			

10. 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 £65.576m held on 12/09/18, 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 LVNAVs which all carry an AAA rating, being the most secure available. The three being used by The Commissioner are as follows and show how they are ranked for performance (judged by net 1 day yield) out of the 61 available funds. LVNAVs 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 the 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 06-07-18 £m	**Ranking out of 61 10-04-19**	**Interest (Net 1 year yield) 10-04-19 %**
LVNAVs			
Aberdeen Liquidity	17.00	5th	0.60
Federated Investors	18.00	3rd	0.62
Black Rock	15.00	13th	0.60

11. Prudential and Treasury Indicators

During 2018-19 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. It reflects a level of borrowing which, while not desired, could be afforded but may not be sustainable. The table below demonstrates that gross borrowing has remained within the authorised limit.

The operational boundary is based on expectations of the maximum external debt according to probable – not simply possible – events and is consist with the maximum level of external debt projected by the estimates. 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.

Prudential Indicator Monitoring 2018-19

	2016-17 Authority Approved Indicator	2016-17 Outturn @ 31 Mar 17	2017-18 Authority Approved Indicator	2017-18 Outturn @ 31 Mar 18	2018-19 Authority Approved Indicator	2018-19 Outturn @ 31 Mar 19
Section 1 - Indicators Based on Expected Outcomes						
Affordability:						
Ratio of Financing Costs to Net Revenue Stream	**2.4%**	**2.2%**	**2.8%**	**2.1%**	**2.1%**	**1.8%**
Incremental Impact of Capital Investment Decisions	**£2.83**	**-**	**£3.82**	**-**	**£1.20**	**-**
Capital Expenditure	**-**	**£8.043m**	**-**	**£4.037m**	**-**	**£9.653m**
Capital Financing Requirement	**£64.261m**	**£59.473m**	**£60.899m**	**£62.829m**	**£68.851m**	**£66.350m**
Section 2 - Indicators Based on Limits						
Affordability:						
Actual External Debt	**-**	**£40.704m**	**-**	**£37.105m**	**-**	**£51.349m**
Authorised Limit for External Debt	**£80.000m**	**-**	**£80.000m**	**-**	**£80.000m**	**-**
Operational Boundary for External Debt	**£70.000m**	**-**	**£70.000m**	**-**	**£70.000m**	**-**
Prudence:						
Gross Debt & CFR	**£64.941m**	**£70.164m**	**£61.579m**	**£74.797m**	**£72.227m**	**£75.748m**