The Nottinghamshire Office of the Police and Crime Commissioner

Annual Treasury Management Review 2015-2016

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 2015-2016 the minimum reporting requirements were that the Commissioner should receive the following reports:

- an Annual Treasury Strategy in advance of the year (February 2015)
- a Mid-year Treasury Update report (November 2015)
- 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. The Economy and Interest Rates

Market expectations were delayed considerably for the first increase in Bank Rate, which had been originally predicted to be starting at quarter 3 2015 but is now not expected until quarter 2 2018. This is due global economy concerns particularly regarding China and the Eurozone. The continued decline in oil prices has also impacted.

These concerns have caused sharp market volatility in equity prices, bond prices and bond yields. The Bank Rate has remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015-2016 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.In addition, a notable trend in the year was that several overseas central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

The UK elected a majority Conservative Government in May 2015, removing one potential concern but introducing another due to the promise of a referendum on the UK remaining part of the EU. The government maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position within the period of this parliament.

The Eurozone Central Bank undertook a substantial quantitative easing programme which put downward pressure on Eurozone bond yields. Resilient consumer demand.in the USA fuelled steady economic growth. This led to a cautious increase in the central rate in December 2015.

3. Overall Treasury Position as at 31 March 2016

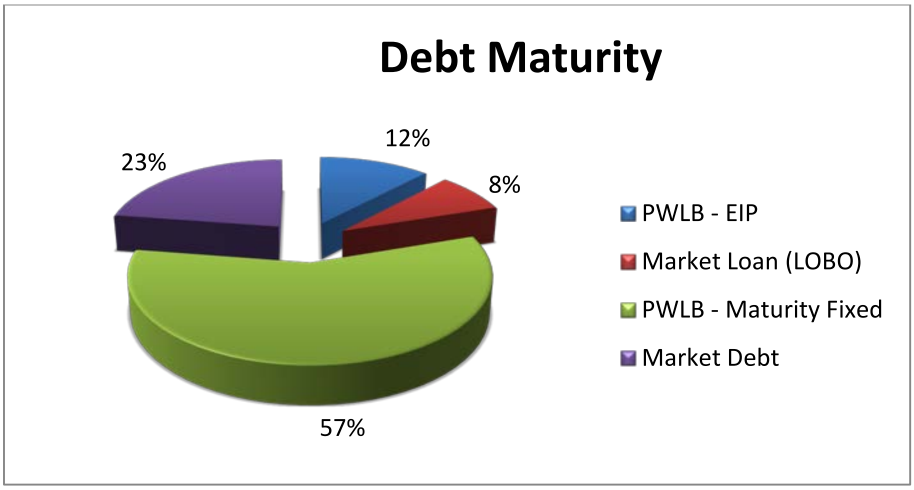
At the beginning and the end of 2015-2016 the Commissioners treasury position was as follows:

	31 March 2015 £m	31 March 2016 £m
Total Debt	32.6	44.3
Capital Financing Requirement	52.8	56.2
Over/-Under borrowing	-20.2	-11.9
Total Investments	12.2	9.0
Net Debt	20.4	35.3

4. The Strategy for 2015-2016

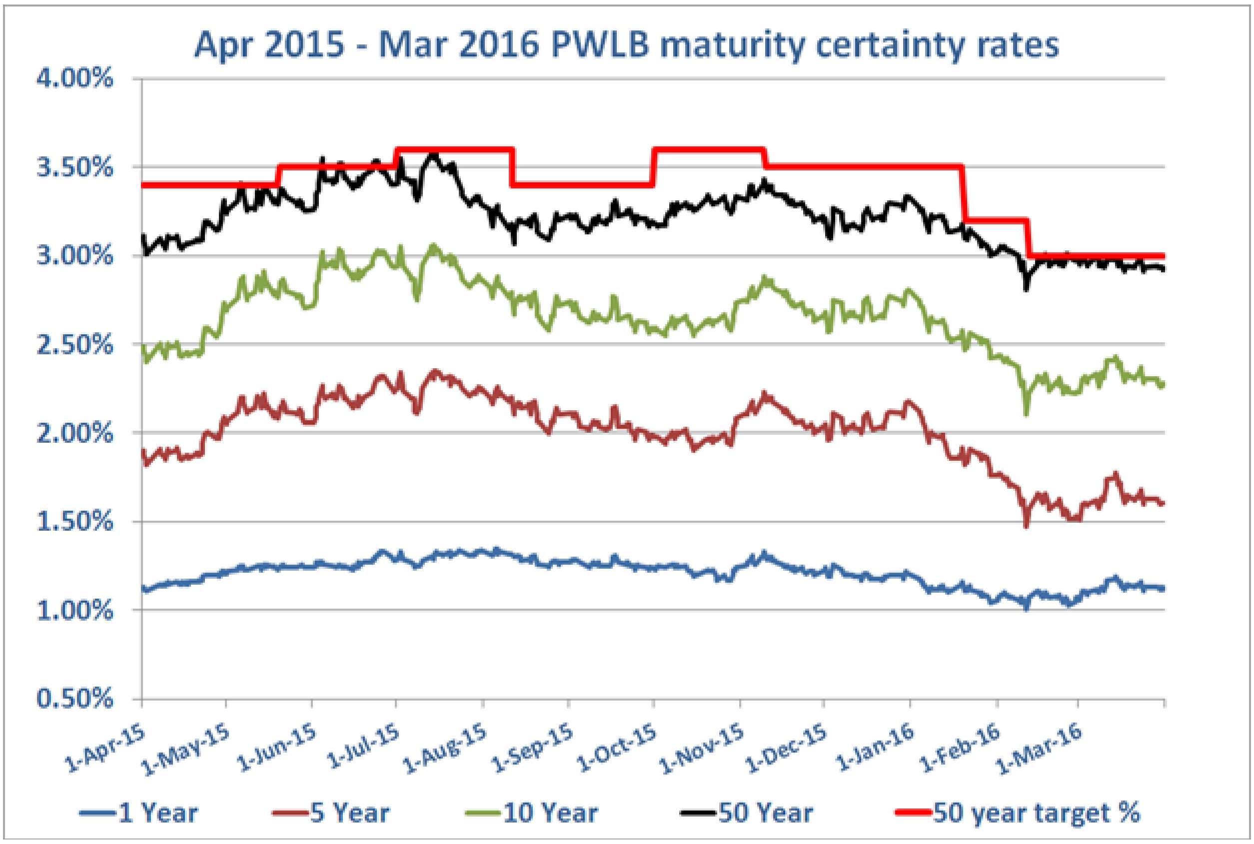
The Commissioner has maintained an under borrowed position; meaning that the capital borrowing need (the Capital Financing Requirement) has not been fully funded through borrowing, but that some had been financed with reserves balances being utilised. This is a pragmatic and cautious approach at a time of high risk coupled with low return on investments. The CFO to the Commissioner has carefully monitored this situation, whereby investments continue to receive relatively 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.

The actual movement in gilt yields meant that PWLB rates saw little overall change. There was no therefore no reason to take out borrowing above the minimum level needed to fund new capital spend and debt repayment. The borrowing maturity at the end of the year is illustrated in the following pie chart:



5. Borrowing Rates in 2015-2016

The graph below shows how PWLB certainty rates have rates have remained at historically very low levels during the year.



6. Borrowing Activity for 2015-2016

The Treasury Management Strategy had authorised up to £12.4m borrowing during the year. However, as previously mentioned the level of capital spend was monitored to ensure borrowing was not taken unnecessarily. Capital expenditure indicated substantial slippages and only the following borrowing was undertaken. Capita advised that the most advantageous rates were either for shorter terms or very long terms. To be prudent the required borrowing was split between these extremes and due regard given to other existing maturity dates.

Lender	£m	Month taken	Period	Interest Rate
PWLB	3.0	December	48.5 years	3.2%
Torbay	4.0	January	3 years	1.3%

The budget for interest was £1.632m and savings of £0.299m were possible due to a combination of a reduction in borrowing and the borrowing undertaken being less than the 4% rate budgeted for.

The summary of borrowing activity is as follows:

Treasury Activity Report 2015-2016
Monitoring Report

	Position @ 01/04/15 £	Loans taken £	Loans repaid £	Position @ 31/03/16 £
Long Term Borrowing				
PWLB	29,052,617	3,000,000	(1,249,267)	30,803,350
LOBO	3,500,000	0	0	3,500,000
Local Authorities	0	4,000,000	0	4,000,000
Total Long Term Borrowing	32,552,617	7,000,000	(1,249,267)	38,303,350
Temporary Borrowing				
Local Authorities	7,000,000	22,000,000	(23,000,000)	6,000,000
Banks & Other Institutions	0	0	0	0
Total Temporary Borrowing	7,000,000	22,000,000	(23,000,000)	6,000,000
Total Borrowing	**39,552,617**	**29,000,000**	**(24,249,267)**	**44,303,350**

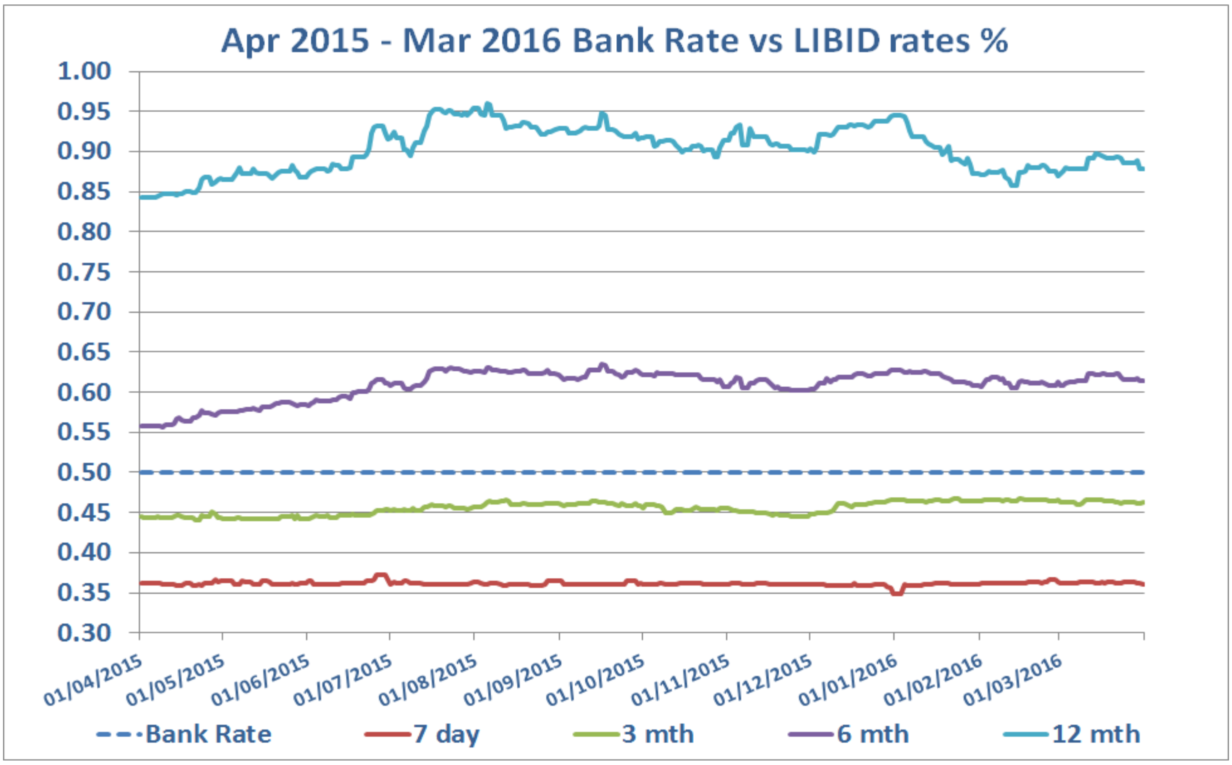
7. Minimum Revenue Provision MRP 2015-2016

As reported in the Mid-year strategy review, that although the MRP policy has not been amended the interpretation of how the policy is applied has been changed during the year and applied retrospectively. Although this has resulted in a more affordable MRP repayment in the short term, it is still considered a prudential approach to repaying the debt and one that has been applied by other Public Bodies.

The original budget for MRP was £4.73m and the actual cost was £2.14m providing a revenue saving of £2.59m. £1.59m of this being due to lower capital expenditure in 2014-2015 and £1.0 m due to the revised calculation method.

8. Investment Rates in 2015-2016

The Bank Rate remained at its historic low of 0.5% throughout the year, unchanged for seven years. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rate would start rising. Short – term rates have also been impacted by the banks re-structuring of their portfolios away from shorter debt.



9. Investment Outturn for 2014-2015

The Authority's investment policy is governed 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 small amount due an unforeseen credit. There were no liquidity difficulties. The strategy has two levels of maximum investment allowable in Money Market Funds. The general ceiling of £7m and an increased ceiling of £10m, which requires the authority of the CFO to the Commissioner to utilise. During the year there were 40 days which fell into the latter category. The CFO to the Commissioner also authorised 1 day in 2 of the funds when the maximum value reached £11.4m.

The average invested balance was £21.7m and earned 0.92% (£0.199m). This compares favourably to the average 7 day LIBID uncompounded rate of 0.36%.

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

Treasury Activity Report 2015-2016
Monitoring Report

	Position @ 01/04/15 £	Investments made £	Investments withdrawn £	Position @ 31/03/16 £
Temporary Investment				
Banks	(7,103,000)	(22,295,000)	27,333,000	(2,065,000)
Building Societies	0			0
Local Authorities	(5,000,000)		5,000,000	0
MMF	(70,000)	(230,803,000)	223,963,000	(6,910,000)
Total Investment	**(12,173,000)**	**(253,098,000)**	**256,296,000**	**(8,975,000)**

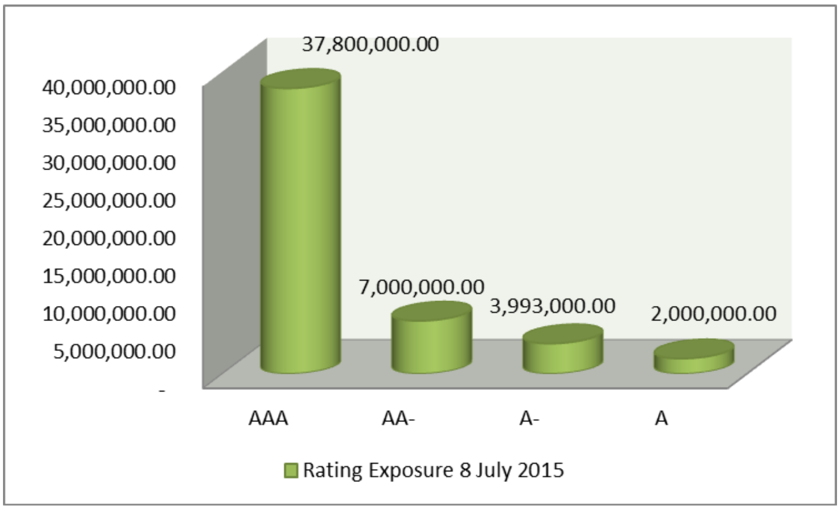
Investment:

	Position @ 01/04/15 £	Investments made £	Investments withdrawn £	Position @ 31/03/16 £
Fixed Term Investment	(10,000,000)	(5,000,000)	15,000,000	0
Variable Term Investment	(2,173,000)	(248,098,000)	241,296,000	(8,975,000)
	(12,173,000)	**(253,098,000)**	**256,296,000**	**(8,975,000)**

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 £50.793m held on 08/07/16, when pension top up grant and July main police grant had just 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 07/07/15 £m	**Ranking out of 45 11/05/16**	**Interest (Net 1 year yield) 11/05/16 %**
Money Market Fund			
Standard Life	11.4	1st	0.49
Federated Investors	11.4	2nd	0.48
Black Rock	10.0	5th	0.45

Appendix 1: Prudential and treasury indicators

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 2015-2016

	2013-14 Authority Approved Indicator	2013-14 Outturn @ 31 Mar 14	2014-15 Authority Approved Indicator	2014-15 Outturn @ 31 Mar 15	2015-16 Authority Approved Indicator	2015-16 Outturn @ 31 Mar 16
Section 1 - Indicators Based on Expected Outcomes						
Affordability:						
Ratio of Financing Costs to Net Revenue Stream	1.8%	1.7%	2.0%	1.9%	2.9%	1.7%
Incremental Impact of Capital Investment Decisions	£2.09	-	£2.49	-	£7.08	-
Capital Expenditure	-	£7.554m	-	£9.833m	-	£8.986m
Capital Financing Requirement	£50.934m	£48.998m	£56.503m	£52.780m	£65.001m	£56.207m
Section 2 - Indicators Based on Limits						
Affordability:						
Actual External Debt	-	£28.952m	-	£32.553m	-	£44.303m
Authorised Limit for External Debt	£60.000m	-	£70.000m	-	£75.000m	-
Operational Boundary for External Debt	£50.000m	-	£60.000m	-	£65.000m	-
Prudence:						
Net Borrowing Requirement & CFR	£50.934m	£58.301m	£59.020m	£55.297m	£65.306m	£58.220m