For consideration	
Public/Non Public	Public
Report to:	Strategic Resources and Performance Meeting
Date of Meeting:	23 May 2014
Report of:	Chief Finance Officer
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Agenda Item:	6

Year End Treasury Management Review

1. Purpose of the Report

1.1 This report complies with the Code of Practice in relation to Treasury Management and the Prudential Indicators. The report provides the final position for Treasury activity and the Prudential Indicators for 2013/14.

2. Recommendations

2.1 To note the information provided in the report..

3. Reasons for Recommendations

3.1 Good financial management and governance.

4. Summary of Key Points

4.1 In compliance with the CIPFA code of practice this report summarises the economic factors that pertained in 2013/14 and the performance on investments and borrowing.

4.2 Interest rates remained at low levels throughout the year with the Bank Rate fixed at 0.5%, low investment returns continued although Gilts rose sharply in 2013 before dipping in first quarter of 2014 as uncertainty in markets returned.

4.3 The Commissioner continues to maintain an under borrowed position, using available reserves whilst the return on investments is low, the CFO to the Commissioner will continually review this position as market conditions change.

4.4 Despite historically low investment returns our investments compared favourable to relevant comparators.

5. Financial Implications and Budget Provision

5.1 As set out in the report.

6. Human Resources Implications

6.1 None

7. Equality Implications

7.1 None

8. Risk Management

8.1 Risks are managed by adherence to the CIPFA code and by regular monitoring and reporting.

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

9.1 None

10. Changes in Legislation or other Legal Considerations

10.1 Compliant with guidance issued by CIPFA

11. Details of outcome of consultation

11.1 none

12. Appendices

12 Appendix 1: The Nottinghamshire Office of the Police and Crime Commissioner Annual Treasury Management Review 2013-2014
Appendix 2: Prudential and treasury indicators.

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Appendix 1
The Nottinghamshire Office of the Police and Crime Commissioner Annual Treasury Management Review 2013-2014

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 2013-2014 the minimum reporting requirements were that the Commissioner should receive the following reports:

- an annual treasury strategy in advance of the year (PCC decision 20 Feb 2013)
- a mid year treasury update report (Strategic Resources and Performance 20 November 2013)
- 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

The financial year 2013-2014 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty risk reduced slightly. The original expectation for 2013-2014 was that the Bank Rate would not rise during the year and for it to gently rise from quarter 1 2015.This forecast rise has now been pushed back to a start in quarter 3 2015. Economic growth (GDP) in the UK was virtually flat during 2012-2013 but surged strongly during the year. As a result there was no additional quantitative easing during 2013-2014 and Bank Rate ended the year unchanged at 0.5% for the fifth successive year. CPI inflation remained substantially above the 2% target during 2013, but by January 2014 it fell below the target rate to 1.9% and then fell further to 1.7% in February. It is expected to remain slightly below the target rate for most of the two years ahead.

Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014. Rates dipped down amid fears regarding emerging markets, vulnerabilities in the Chinese economy, the increasing danger for the Eurozone to drop into a deflationary spiral, and the situation in the Ukraine. This reflected a flight to quality into UK .

The Funding for Lending Scheme, announced in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of the year and continuing into 2013-2014. That part of the Scheme which supported the provision of credit for mortgages was terminated in the first quarter of 2014 as concerns rose over resurging house prices.

The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a cumulative reduction in the forecasts for total borrowing, of £97bn over the next five years. This results in a £5bn surplus in 2018-19.

The Eurozone debt crisis subsided during the year and the confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved following commitments in July 2012 to support struggling Eurozone countries. This led to a return of confidence in its banking system which has continued into 2013-2014. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

3. Overall Treasury Position as at 31 March 2014

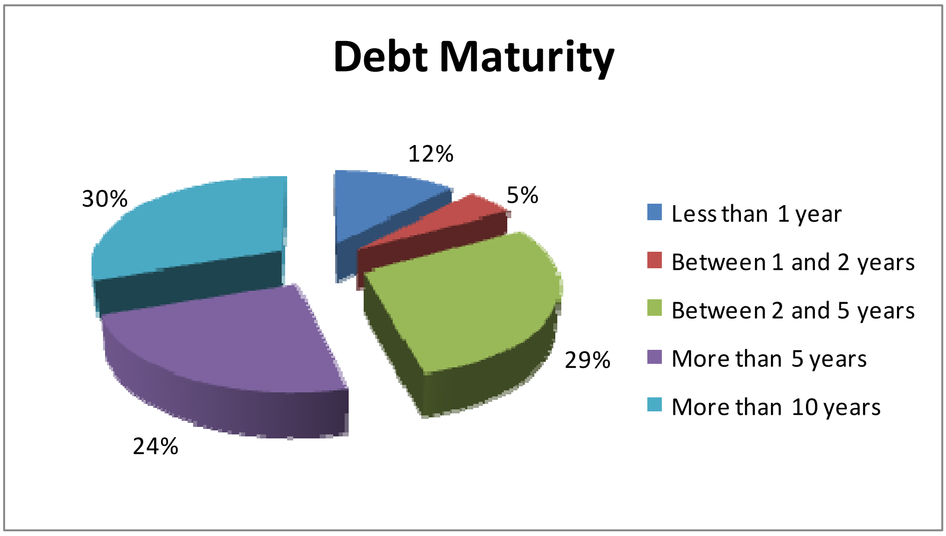
At the beginning and the end of 2013-2014 the Commissioners treasury position was as follows:

	31 March 2013 £m	31 March 2014 £m
Total Debt	35.7	31.5
Capital Financing Requirement	48.0	49.0
Over / - Under borrowing	-12.3	-17.5
Total Investments	16.3	11.7
Net debt	19.4	19.8

4. The Strategy for 2013-2014

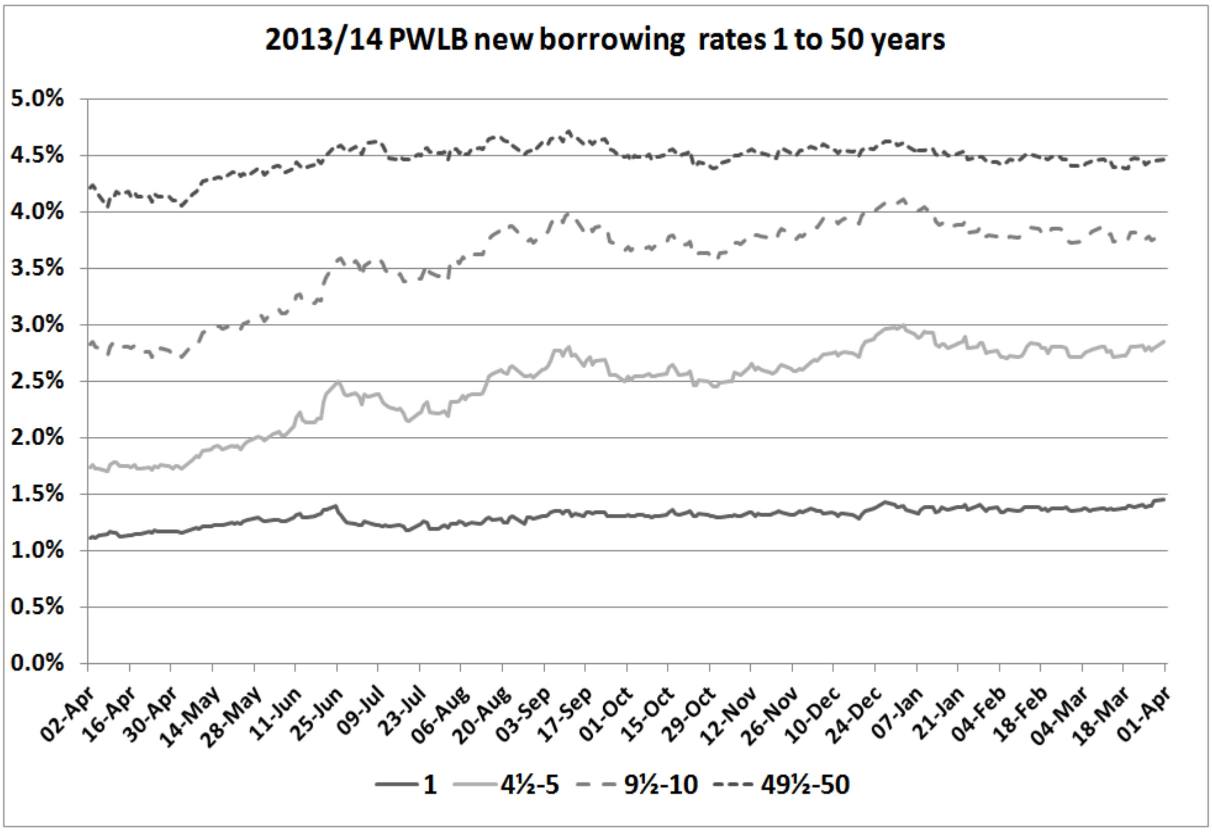
The Commissioner has maintained an under borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with reserves balances being utilised. This is a pragmatic and cautious approach at a time of high risk in investments. The CFO to the Commissioner carefully monitored this situation, whereby investments would continue to receive relatively low returns compared to borrowing rates. The strategy was to avoid unnecessary borrowing while ensuring that reserves were sufficient to meet the level of under-borrowing.

The borrowing maturity at the end of the year is illustrated in the following pie chart.



5. Borrowing Rates in 2013-2014

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



6. Borrowing Activity for 2013-2014

As interest rates rose with the PWLB it became possible to repay a £2.5m loan at 1.46% without penalty June 21 2013 and replace this with short term loans on the open market at lower interest rates.

Original interest was due to be repaid between 21/6/2013 to 23/12/2015. Replacements have been arranged up to the 27/01/2015 so far, and overall savings will have been made as long as the final replacement is at an average rate of less than 2.58%

The budget for interest was £1.4m and savings of £0.1m were possible due to delays in borrowing.

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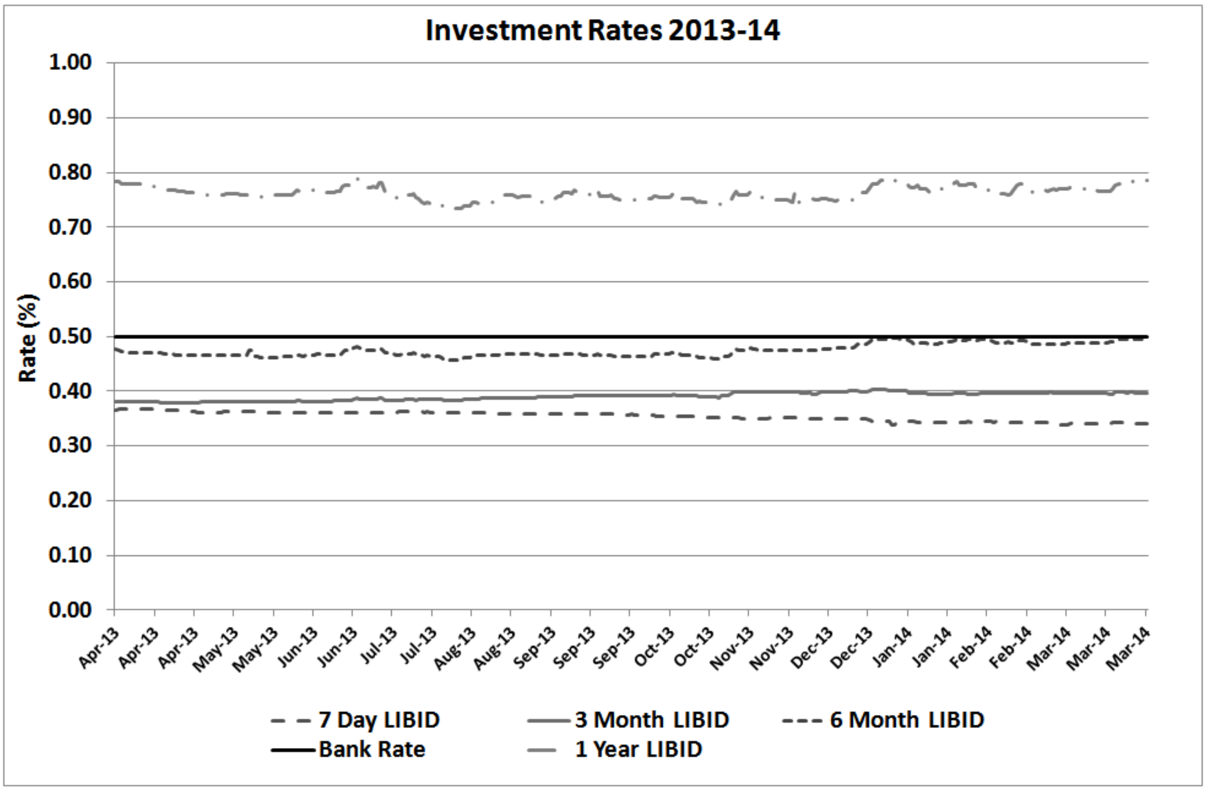
The only borrowing during the year was for the restructuring as already described.

The summary of borrowing activity is as follows.

	Position @ 01/04/13 £	**Loans taken £**	**Loans repaid £**	**Position @ 31/03/14 £**
Long Term Borrowing				
PWLB	31,915,255	0	(6,463,371)	25,451,884
LOBO	3,500,000	0	0	3,500,000
Total Long Term Borrowing	35,415,255	0	(6,463,371)	28,951,884
Temporary Borrowing				
Local Authorities	0	2,500,000	0	2,500,000
Banks & Other Institutions	0	0	0	0
Total Temporary Borrowing	0	2,500,000	0	2,500,000
Total Borrowing	**35,415,255**	**2,500,000**	**(6,463,371)**	**31,451,884**

7. Investment Rates in 2013-2014

The Bank Rate remained at its historic low of 0.5% throughout the year, unchanged for five years. Market expectations as to the timing of the start of rate increases ended up unchanged at early 2015.The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year, despite the part of the scheme supporting provision of credit for mortgages ending in the first quarter of 2014.



8. Investment Outturn for 2013-2014

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 were two occasions when the investment with Barclays exceeded the maximum investment allowed (£7m) by small amounts due to unforeseen credits. There were no 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 Chief Financial Officer to the Commissioner to utilise. During 2013-2014 there were 41 days which fell into the latter category.

The average invested balance was £32m and earned 0.60% (£0.2m). This compares favourably to the average 7 day LIBID uncompounded rate of 0.34%.

	Position @ 01/04/13 £	Investments made £	Investments withdrawn £	Position @ 31/03/14 £
Temporary Investment				
Banks	(7,000,000)	(4,920,000)	5,910,000	(6,010,000)
Building Societies	0	0	2,000,000	0
Local Authorities	(2,000,000)	0	0	(2,000,000)
MMF	(7,300,000)	(216,215,000)	219,805,000	(3,710,000)
Total Investment	**(16,300,000)**	**(221,135,000)**	**227,715,000**	**(11,720,000)**

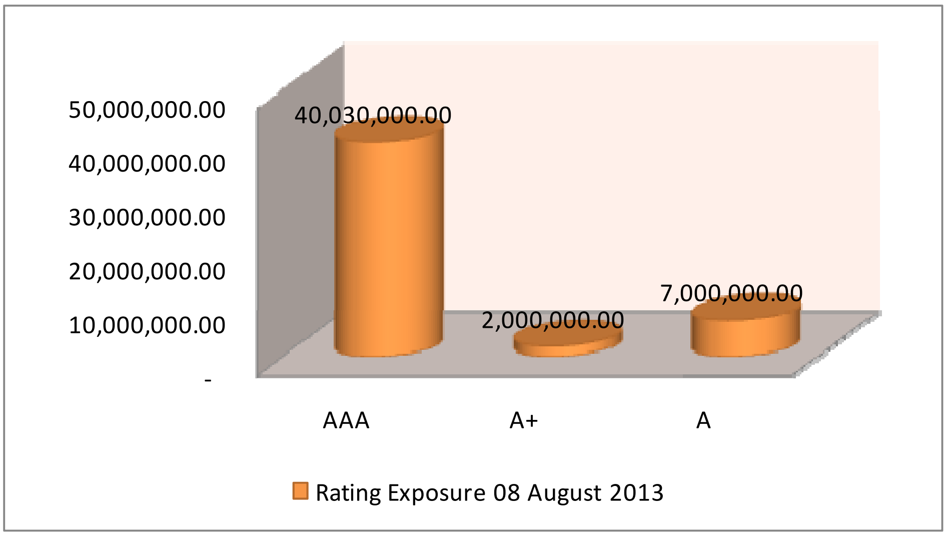
Investment:

	Position @ 01/04/13 £	Investments made £	Investments withdrawn £	Position @ 31/03/14 £
Fixed Term Investment	(2,000,000)	(2,000,000)	0	(4,000,000)
Variable Term Investment	(14,300,000)	(221,135,000)	227,715,000	(7,720,000)
	(16,300,000)	**(223,135,000)**	**227,715,000**	**(11,720,000)**

34.13%	Proportion of Fixed Term Investment held
65.87%	Proportion of Variable Term Investment held

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 £49m million held on 08/08/2013, when pension top up grant and August 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 a AAA rating, being the most secure available. The four 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 0.5 of a % of any fund.

Money Market Fund	Max Investment exposure at 08/08/13 £m	Ranking out of 42 12/05/14	Interest rate at 12/5/14 %
Ignis	10.0	1	0.43
Federated Investors	10.0	5	0.40
Black Rock	10.0	8	0.38
Goldman Sachs	8.0	10	0.37

Appendix 2: Prudential and treasury indicators

The net borrowing and the Capital Financing Requirement (CFR) indicator ensures that borrowing levels are prudent over the medium term the Authority's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Authority is not borrowing to 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 Authority does not have the power to borrow above this level. The table below demonstrates that during 2013-2014 the Authority has maintained gross borrowing within its authorised limit.

The operational boundary is the expected borrowing position of the Authority 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.

Prudential Indicator Monitoring 2013-2014

	2012-13 Authority Approved Indicator	2012-13 Outturn @ 31 Mar 13	2013-14 Authority Approved Indicator	2013-14 Outturn @ 31 Mar 14
Section 1 - Indicators Based on Expected Outcomes				
Affordability:				
1) Ratio of Financing Costs to Net Revenue Stream	**1.7%**	**1.5%**	**1.8%**	**1.7%**
2) Incremental Impact of Capital Investment Decisions	**£3.46**	**-**	**£2.09**	**-**
3) Capital Expenditure	**-**	**£5.190m**	**-**	**£7.554m**
4) Capital Financing Requirement	**£51.097m**	**£48.016m**	**£50.934m**	**£48.998m**
Section 2 - Indicators Based on Limits				
Affordability:				
1) Actual External Debt	**-**	**£35.415m**	**-**	**£28.952m**
2) Authorised Limit for External Debt	**£65.000m**	**-**	**£60.000m**	**-**
3) Operational Boundary for External Debt	**£55.000m**	**-**	**£50.000m**	**-**
Prudence:				
1) Net Borrowing Requirement & CFR	**£48.553m**	**£50.151m**	**£50.934m**	**£58.301m**