For Comment / Decision	
Public/Non Public	Public
Report to:	Strategic Resources and Performance Meeting
Date of Meeting:	20th May 2015
Report of:	Chief Finance Officer
Report Author:	Charlotte Radford
E-mail:	
Other Contacts:	Pamela Taylor
Agenda Item:	6

TREASURY MANAGEMENT ANNUAL REPORT 2014-15

1. Purpose of the Report

1.1 To inform the Commissioner and stakeholders of treasury management performance against the approved strategy for 2014-15.

2. Recommendations

2.1 To accept and approve the report attached at Appendix A.

3. Reasons for Recommendations

3.1 This complies with good Financial Management accountability and governance.

4. Summary of Key Points

4.1 We are required to provide details on the treasury management activity for the financial year. This is attached at Appendix A.

4.2 Interest rates continue to remain low and this will continue for some time yet. The consequence of which is that our returns on investments also remain low, although we continue to outperform the market benchmarks.

4.3 We borrow to finance the capital programme and currently remain under borrowed. Our advisors assure us that this is a good position to be in and this has a lower impact on our revenue account as a result of this position.

4.4 Our treasury management activity is undertaken only with organisations that meet the requirements of the approved strategy and therefore with high counterparty ratings. The security of our assets remains the key factor in making treasury management decisions.

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 None as a direct result of this report

10. Changes in Legislation or other Legal Considerations

10.1 This report complies with local government prudential code reporting.

11. Details of outcome of consultation

11.1 Not applicable

12. Appendices

12.1 Annual Treasury Management Review 2014-15

Appendix 1

The Nottinghamshire Office of the Police and Crime Commissioner

Nottinghamshire
POLICE & CRIME COMMISSIONER

Annual Treasury Management Review 2014-2015

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 2014-2015 the minimum reporting requirements were that the Commissioner should receive the following reports:

- an Annual Treasury Strategy in advance of the year (February 2014)
- a Mid year Treasury Update report (November 2014)
- 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 original market expectation at the beginning of 2014-2015 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen to 7% reaching the trigger the Bank of England's had previously set. However, the Bank revised this decision due to a combination of very weak pay rises and inflation above the rate of pay rises meaning 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 heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were unexpectedly effected by a 50% decrease in oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB reacted too late to ward off the threat of deflation and recession in the Eurozone. By December, it was clear that UK inflation was heading towards zero or even negative in 2015. These factors meant that the MPC would have great difficulty in starting to raise Bank Rate in 2015.

Gilt yields were on a falling trend for much of the last eight months of 2014-2015 but were then affected both positively and negatively by several influences. These include: concerns regarding the anti-austerity agenda in Greece and potential leaving of the euro or debt default. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing. On the other hand, strong growth in the US caused an increase in confidence that the US was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015 with the UK closely following. This was tempered by an increase in concerns around political risk from the general election due in May 2015.

3. Overall Treasury Position as at 31 March 2015

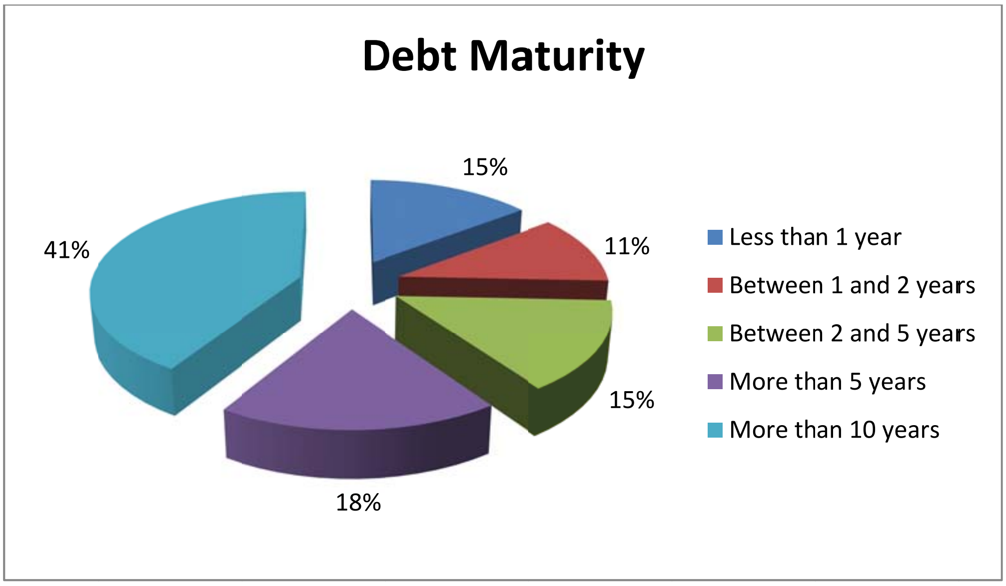
At the beginning and the end of 2013-2014 the Commissioners treasury position was as follows:

	31 March 2014 £m	31 March 2015 £m
Total Debt	31.5	32.6
Capital Financing Requirement	49.0	52.8
Over / - Under borrowing	-17.5	-20.2
Total Investments	11.7	12.2
Net debt	19.8	20.4

4. The Strategy for 2014-2015

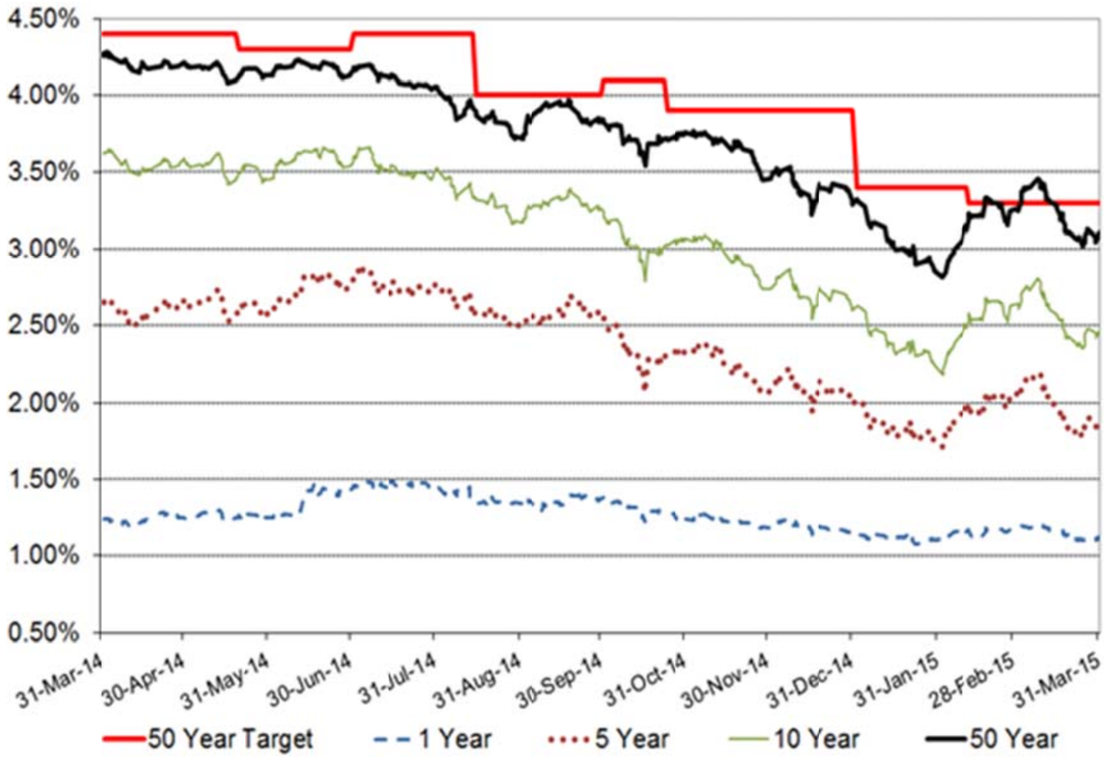
The Commissioner has maintained an under borrowed position. meaning that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with reserves balances being utilised. This is a pragmatic and cautious approach at a time of high risk coupled with low return on investments. 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 during the first four months of the year but there was then a downward trend for the rest of the year with a partial reversal during February. 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 2014-2015

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



6. Borrowing Activity for 2014-2015

The Treasury Management Strategy had authorised up to £10m 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 £5m was borrowed in December 2014 at a rate of 3.31%. this is a maturity loan repayable in 2034.

The budget for interest was £1.349m and savings of £0.294m were possible due to a combination of a reduction in borrowing and the borrowing undertaken being 069% less than budgeted.

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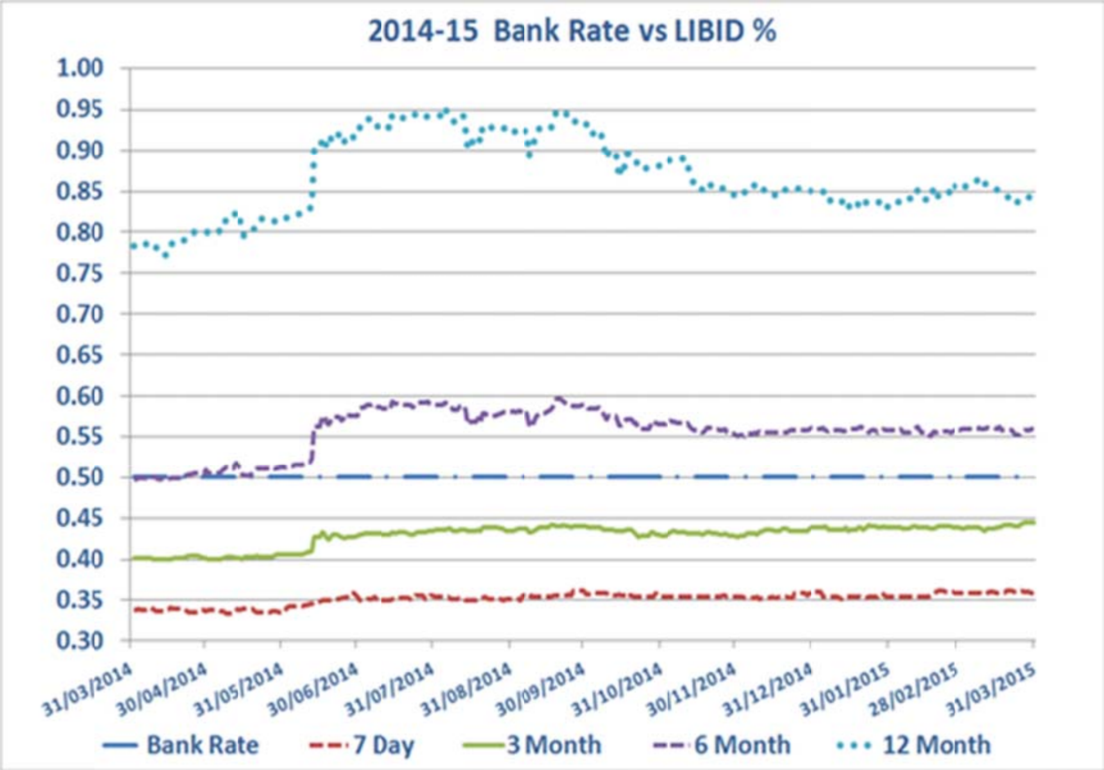
The summary of borrowing activity is as follows.

Treasury Activity Report 2014-2015
Monitoring Report

	Position @ 01/04/14 £	Loans taken £	Loans repaid £	Position @ 31/03/15 £
Long Term Borrowing				
PWLB	25,451,884	5,000,000	(1,399,267)	29,052,617
LOBO	3,500,000	0	0	3,500,000
Total Long Term Borrowing	28,951,884	5,000,000	(1,399,267)	32,552,617
Temporary Borrowing				
Local Authorities	2,500,000	8,000,000	(3,500,000)	7,000,000
Banks & Other Institutions	0	0	0	0
Total Temporary Borrowing	2,500,000	8,000,000	(3,500,000)	7,000,000
Total Borrowing	**31,451,884**	**13,000,000**	**(4,899,267)**	**39,552,617**

7. Investment Rates in 2014-2015

The Bank Rate remained at its historic low of 0.5% throughout the year, unchanged for six years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.



8. 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 were two occasions when the investment with Barclays exceeded the maximum investment allowed (£7m) by small amounts due to unforeseen credits. There was one occasion when an expected credit did not arrive and the account went into overdraft. 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 2014-2015 there were 24 days which fell into the latter category.

The average invested balance was £27.6m and earned 0.77% (£0.213m). This compares favourably to the average 7 day LIBID uncompounded rate of 0.35%.

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

Treasury Activity Report 2014/2015
Monitoring Report

	Position @ 01/04/14 £	Investments made £	Investments withdrawn £	Position @ 31/03/15 £
Temporary Investment				
Banks	(10,853,000)	(11,990,000)	15,740,000	(7,103,000)
Building Societies	(2,000,000)	(2,000,000)	4,000,000	0
Local Authorities	(2,000,000)	(10,000,000)	7,000,000	(5,000,000)
MMF	(3,710,000)	(224,314,000)	227,954,000	(70,000)
Total Investment	**(18,563,000)**	**(248,304,000)**	**254,694,000**	**(12,173,000)**

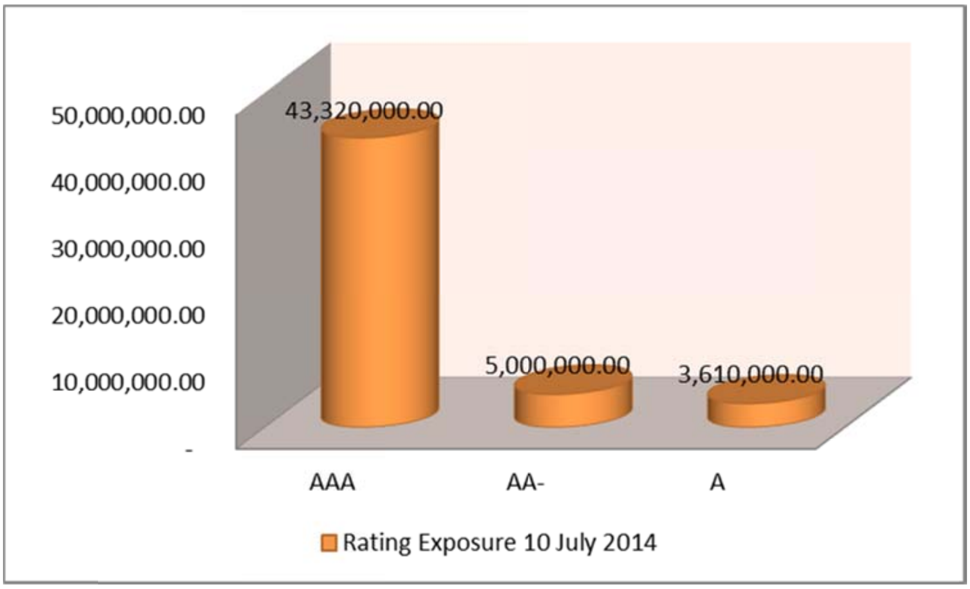
Investment:

	Position @ 01/04/14 £	Investments made £	Investments withdrawn £	Position @ 31/03/15 £
Fixed Term Investment	(8,000,000)	(22,000,000)	20,000,000	(10,000,000)
Variable Term Investment	(10,563,000)	(226,304,000)	234,694,000	(2,173,000)
	(18,563,000)	**(248,304,000)**	**254,694,000**	**(12,173,000)**

Proportion of Fixed Term Investment held	82.15%
Proportion of Variable Term Investment held	17.85%

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 £51.9 million held on 10/07/2014, 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 0.1 % of any fund.

Money Market Fund	Max Investment exposure at 10/07/14 £m	Interest rate at 12/5/14 %
Ignis	10.0	0.46
Federated Investors	10.0	0.43
Black Rock	9.32	0.40
Goldman Sachs	7.0	0.40

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.

Prudential Indicator Monitoring 2014-2015

	2012-13 Authority Approved Indicator	2012-13 Outturn @ 31 Mar 13	2013-14 Authority Approved Indicator	2013-14 Outturn @ 31 Mar 14	2014-15 Authority Approved Indicator	2014-15 Outturn @ 31 Mar 15
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%**	**2.0%**	**1.9%**
2) Incremental Impact of Capital Investment Decisions	**£3.46**	**-**	**£2.09**	**-**	**£2.49**	**-**
3) Capital Expenditure	**-**	**£5.190m**	**-**	**£7.554m**	**-**	**£9.833m**
4) Capital Financing Requirement	**£51.097m**	**£48.016m**	**£50.934m**	**£48.998m**	**£56.503m**	**£52.780m**
Section 2 - Indicators Based on Limits						
Affordability:						
1) Actual External Debt	**-**	**£35.415m**	**-**	**£28.952m**	**-**	**£32.553m**
2) Authorised Limit for External Debt	**£65.000m**	**-**	**£60.000m**	**-**	**£70.000m**	**-**
3) Operational Boundary for External Debt	**£55.000m**	**-**	**£50.000m**	**-**	**£60.000m**	**-**
Prudence:						
1) Net Borrowing Requirement & CFR	**£48.553m**	**£50.151m**	**£50.934m**	**£58.301m**	**£59.020m**	**£55.297m**