

TREASURY MANAGEMENT – INVESTMENT STRATEGY

Background

1. The 'Code of Treasury Management' published by the Chartered Institute of Public Finance and Accountancy (CIPFA), and recommended by the Home Office, has been adopted by the Office of the Police and Crime Commissioner for Leicestershire ("the OPCC").
2. The Treasury Management Strategy is approved annually to run from 1st April to the following 31st March.
3. The Strategy has evolved in recent years in response to the relative instability within the banking sector. This saw the removal of all European/foreign banks and all but one Building Society (Nationwide) from the authorised lending list.
4. The Local Government Act 2003 included capital regulations that applied from 1st April 2004. These regulations allow the OPCC freedom to borrow to fund capital expenditure provided it has plans that are affordable, prudent and sustainable. The requirements are covered in the Prudential Code.

Treasury Management Strategy

5. The core aim is to generate additional income for the OPCC but by balancing risk against return. The avoidance of risk to the principal cash amounts takes precedence over maximising returns.
 - i. Managing daily cash balances and investing surpluses

In order that the OPCC can maximise income earned from investments, the target for the uninvested overnight balance in the current account is a maximum of £15k. At any one time, the OPCC has in excess of £21m available to invest. The current lending list is as follows:-

| <u>Institution</u> | <u>Maximum Loan</u> £m | <u>Maximum Period of</u> <u>Loan</u> | <u>Short-Term Credit</u> <u>Ratings **</u> |
|-----------------------------|---------------------------|---|---|
| Royal Bank of Scotland plc | 10.0 | 364 days | F1 / A-2 / P-2 |
| Lloyds TSB Bank plc | 10.0 | 364 days | F1 / A-1 / P-1 |
| Barclays Bank plc | 10.0 | 364 days | F1 / A-1 / P-2 |
| HSBC Bank plc | 10.0 | 364 days | F1+ / A-1+ / P-1 |
| Nationwide Building Society | 10.0 | 364 days | F1 / A-1 / P-1 |
| Debt Management Office | * | 364 days | n/a |

** No limit is set. The DMO tends to pay a low rate of return and hence are used only when funds can not be placed with other approved institutions.*

*** Short-term credit ratings (valid as at 17/12/2015) are as supplied by the OPCC's brokers - Tullet Prebon (Europe) Ltd. The highest potential ratings are F1+ (Fitch), A-1+ (Standard & Poor's) and P-1 (Moody's) respectively.*

ii. **Borrowing**

Funds are only borrowed to finance part of the Capital Programme. External borrowing is from the Public Works Loan Board (PWLB) at below commercial rates. The critical factor in determining the length of such loans is the view on the future movement of interest rates.

Borrowing may be made from internal cash resources where it is considered appropriate by the OPCC having assessed its merits against the external alternative.

Any borrowing, whether internal or external, will be timed such that the impact on the OPCC is as advantageous as possible.

Latest Position regarding Treasury Management

6. The banking sector continues to show signs of instability alongside the wider economy. In this context it is not yet advisable to consider a return to placing investments with the majority of Building Societies or European/Foreign banks. This is in keeping with the OPCC's stated aim of protecting the principal (cash) amount.
7. Funds are placed with institutions based on (a) available headroom and (b) rate of return – this is a daily decision-making process. A balance is struck between the desired level of return and the need to provide liquid funds to meet the OPCC's obligations i.e. supplier payments, payroll costs and tax liabilities.

1. Continued monitoring of the ratings agencies' assessment of institutions takes place and is reported to SAB throughout the year via the "Treasury Management Performance" report.

9. The Bank of England Base Rate has been at 0.50% since 5th March 2009. Returns have therefore been lower in recent years as can be seen below:

| <u>Financial Year</u> | <u>Interest Income</u> | <u>Comments</u> |
|-----------------------|------------------------|-----------------|
| 2008/09 | £1.48m | Actual |
| 2009/10 | £0.18m | Actual |
| 2010/11 | £0.12m | Actual |
| 2011/12 | £0.10m | Actual |
| 2012/13 | £0.25m | Actual |
| 2013/14 | £0.14m | Actual |
| 2014/15 | £0.12m | Actual |
| 2015/16 | £0.09m | Forecasted |
| 2016/17 | £0.09m | Proposed Budget |

External Advice

10. External advisers have not been used over the last year. However they may be used on an *ad hoc* basis if required.

Borrowing Limits

11. In accordance with the Prudential Code it is a requirement that the OPCC set borrowing limits for the next 3 years. These limits are intended to reduce risk. It is proposed that the limits should be as follows:

| | | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|-------|---|---------|---------|---------|---------|
| | | £m | £m | £m | £m |
| (i) | Total authorised borrowing limit* | 19.2 | 24.1 | 30.2 | 32.2 |
| (ii) | Long term liabilities | 2.3 | 1.9 | 1.4 | 1.0 |
| (iii) | Interest payable limit on borrowing at variable rates | 0.2 | 0.2 | 0.2 | 0.3 |
| (iv) | Interest payable limit on borrowing at fixed rates | 0.6 | 0.6 | 0.7 | 0.7 |

* includes headroom for short term borrowing - £1m for each year and potential future IT strategic Alliance proposals.

12. The OPCC has an obligation to repay transferred debt to Leicestershire County Council, to finance capital spending prior to 1st April 1995. The amount outstanding at 30th November 2015 was £1.356m and is subject to interest charged at variable “pool” rates.
13. The Prudential Code also recommends that the Police and Crime Commissioner sets upper and lower limits for the maturity structure of its fixed rate borrowing. The following limits are proposed:-

| | Upper Limit | Lower Limit |
|---------------------------------|-------------|-------------|
| Under 12 months | 20% | 0% |
| Between 12 months and 24 months | 20% | 0% |
| Between 24 months and 5 years | 20% | 0% |
| Between 5 years and 10 years | 50% | 0% |
| Over 10 years | 100% | 25% |