WYPCC – Decision

From: Judith Heeley

Date: 31 August 2013

Circulation list:
Mark Burns Williamson
Fraser Sampson
Isabel Owen

Timing:	Routine
Purpose:	Acceptance of the Treasury Management Stewardship Report for 2012/13.
Cleared by:	Judith Heeley

SUBJECT OF ADVICE Treasury Management Stewardship Report 2012/13

Summary: An annual stewardship report is a requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, the adoption of which is incorporated in the Police and Crime Commissioner's (PCC) Financial Regulations. The Stewardship Report for 2012/13 is attached. This has been subject to scrutiny by the Joint Independent Audit Committee, which recommended it to the PCC for approval

Recommendation: That the Commissioner agrees the Stewardship Report.

Affordability: As set out in the report.

Supporting and Dissenting Views: The report was recommended to the PCC for approval by the Joint Independent Audit Committee.

APPENDICES: Treasury Management Stewardship Report 2012/13.

REPORT OF CHIEF FINANCE OFFICER

SUBJECT: TREASURY MANAGEMENT STEWARDSHIP REPORT 2012/13

PURPOSE OF REPORT

1. To provide outturn information on treasury management activities and prudential indicators for the year ended 31st March 2013, as required under the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and the CIPFA Prudential Code.

KEY INFORMATION

2. An annual stewardship report is a requirement of the CIPFA Treasury Management Code of Practice, the adoption of which is incorporated in the Police and Crime Commissioner's (PCC) Financial Regulations.

3. Treasury Management is the management of the PCC's cash flows, banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

4. As outlined above, treasury management encompasses the following activities which are dealt with in this report:

   - Funding of capital expenditure through short, medium or long-term borrowing, capital receipts, grants, leasing or revenue (Appendix A)
   - Managing the PCC's debt portfolio (Appendix B)
   - Managing other capital resources (Appendix C)
   - Investment arrangements, external fund management and managing the PCC's cash flow (Appendix D)
   - Managing legislative changes (Appendix E)

5. The agreed treasury strategy for 2012/13 is summarised in Appendix F. All treasury activity during 2012/13 was compliant with the strategy.

6. There are a number of prudential indicators that relate to treasury management activity. The outturn position is given at Appendix G.

AFFORDABILITY

7. The financial implications associated with treasury management activity in 2012/13 are set out below.

	Original Estimate	Revised Estimate	Actual
	2012/13 **£000**	**2012/13** **£000**	**2012/13** **£000**
Interest Payable	4,784	4,094	4,140
Debt Management Expenses	7	7	11
Interest Receivable	(573)	(614)	(590)
Net Total	**4,218**	**3,487**	**3,561**

STRATEGIC RISK IMPLICATIONS

8. Treasury management activities expose the PCC to a variety of financial risks, the key risks being credit risk, liquidity risk, re-financing risk and market risk. Overall procedures for managing risk include adopting the requirements of CIPFA's Code of Practice (including an approved Treasury Strategy and Investment Strategy), and approving annually in advance prudential indicators for the following three years.

RECOMMENDATION

9. The PCC is recommended to approve the Stewardship Report for 2012/13.

CONTACT OFFICER
Sophie Abbott
Assistant Chief Finance Officer
Office of the Police and Crime Commissioner for West Yorkshire
Ploughland House
62 George Street
Wakefield
WF1 1DL
01924 294061
Sophie.abbott@wypcc.pnn.police.uk

SUPPORTING DOCUMENTATION
Appendices A to G.

BACKGROUND PAPERS

CIPFA Prudential Code for Capital Finance in Local Authorities

CIPFA Code of Practice for Treasury Management in the Public Services

APPENDIX A

FINANCING OF THE 2012/13 CAPITAL PROGRAMME

The table below details capital expenditure and financing for 2012/13.

During 2012/13 NPAS implementation began, and this has had an impact on capital expenditure. As NPAS does not form part of the West Yorkshire Capital Programme the two are shown separately in the table.

	West Yorkshire Capital Programme	Impact of NPAS	Total 2012/13 £000
Opening Capital Financing Requirement	**119,654**	**0**	**119,654**
Capital Expenditure	**13,077**	**17,966**	**31,043**
Sources of Finance			
Capital Receipts	**(2,170)**	**0**	**(2,170)**
Donated Assets	**0**	**(6,533)**	**(6,533)**
Government Grants and other contributions	**(5,676)**	**(9,371)**	**(15,047)**
Contribution from Revenue	**(5,231)**	**(2,062)**	**(7,293)**
Contribution from Reserves	**0**	**0**	**0**
Provision for debt repayment (MRP)	**(4,672)**	**0**	**(4,672)**
Closing Capital Financing Requirement	**114,982**	**0**	**114,982**
Explanation of movements in year	**4,672**	**0**	**4,672**
Increase in underlying need to borrow (supported)	**0**	**0**	**0**
Provision for debt repayment (MRP)	**(4,672)**	**0**	**(4,672)**
Increase in underlying need to borrow (unsupported)	**0**	**0**	**0**
Increase/(decrease) in Capital Financing Requirement	**4,672**	**0**	**4,672**

The Capital Financing Requirement (CFR) represents the PCC's underlying need to borrow to support capital expenditure that is not financed by other resources, such as capital receipts, government grants or contributions from the revenue budget. It can be seen from the table that NPAS implementation has not had an impact on the 2012/13 CFR.

The PCC receives government grant towards the costs of servicing supported borrowing through the Funding Formula.

No government grant is received for unsupported (Prudential) borrowing.

APPENDIX B

MANAGING THE PCC'S DEBT PORTFOLIO

1. The 2012/13 borrowing position is as follows:

	2011/12 £000	2012/13 (000)
Public Works Loan Board (PWLB)	84,542	84,298
Market Loans (LOBOS)	9,000	9,000
Sub-Total	**93,542**	**93,298**
Temporary Borrowing as at 31st March	30,100	6,100
Total	**123,642**	**99,398**

2. The PWLB is a lender of competitive flexible funds to local authorities and public bodies and will lend an amount up to an PCC's legal borrowing limit (the Authorised Limit).

3. The term LOBO refers to a 'Lenders Option – Borrowers Option' variable rate money market loan. At fixed intervals the lender has the option to vary the rate, at which time the borrower has the option to either accept the revised rate or repay the loan with no penalty.

4. The PCC's borrowing requirement for 2012/13, including the replacement of maturing debt, was set at £14.0m. Due to economic conditions however, no long-term borrowing was undertaken in the year.

5. The portfolio now consists of fixed and variable rate loans ranging from 0.35% to 9.5% the average cost of borrowing being 3.96% (2011/12 3.64%).

6. Borrowing by the PCC was within the limits for 2012/13 approved by the former Police Authority on 17 February 2012, as follows:

	Maximum Approved Limit £000	Maximum Debt Outstanding 2012/13 £000	Actual Debt Outstanding 31.3.2013 £000
Authorised Limit for External Debt (capital Programme)	165,000	123,642	99,398
Operational Boundary for External Debt* (capital Programme)	127,000	123,642	99,398
Authorised Limit for External Debt (PFI)	30,000	0	0
Operational Boundary for External Debt* (PFI)	27,000	0	0

* The operational boundary is a working limit and occasionally the debt level may be in excess of the limit particularly if there has been an unusually large requirement to take short-term borrowing, this is allowable within the parameters of the Prudential Code.

7. As a result of deferring new borrowing and loan repayments made during 2012/13, external debt excluding temporary borrowing (£99.3m) remains less than the closing capital financing requirement (£114.982m). This year on year flexibility is allowed for under the Prudential Code, and will simply increase the borrowing requirement for subsequent years.

MANAGING OTHER CAPITAL RESOURCES

Capital Receipts

1. During 2012/13 the PCC generated some £2.170m of capital receipts. As there is no longer a requirement on the PCC to set aside any part of capital receipts this is all available to finance capital expenditure. All receipts were applied to finance capital expenditure in 2012/13.

Capital Grants

2. In addition to the above, during 2012/13 the PCC received £5.752m of capital grant from the Home Office. Some £1.174m of unapplied capital grant brought forward to finance specific projects.
3. Capital programme expenditure of £5.676m was financed using grant in 2012/13, leaving some £1.250m in capital grants unapplied and receipts in advance, which is earmarked to finance slippage.
4. Specific grants of £9.371 were also received and applied in relation to NPAS funding.

Revenue Contributions and Use of Reserves

5. In 2012/13 £7.293m of capital expenditure was funded by contributions from the revenue budget. Of this £5.231 was used to support the capital programme and £2.062m to fund NPAS.

Donated Assets

6. Donated assets worth £6.533m were received in the form of airframes as part of the NPAS implementation.

INVESTMENT ARRANGEMENTS AND MANAGEMENT OF CASH FLOW

Investment Arrangements

1. External investments (excluding amounts invested overnight with the PCC's bankers and monies held with Icelandic Banks) stood at £45m as at 1 April 2012 and £43.9m as at 31 March 2013.

2. A total of 26 period investments for £139m were made with 17 separate organisations during the year. Investment periods ranged from 4 days to 2 years.

3. Interest earned during 2012/13 (excluding Icelandic Banks) was:-

External Investments	£0.510m	(Average rate 0.88%)
Overnight Deposits	£0.067m	(Average rate 0.80%)
Money Market Funds	£0.013m	(Average rate 0.41%)
Total	£0.590m	(Average rate 0.85%)

Management of the PCC's Cash Flow

5. An estimate is made each day of the projected closing balance on the main account using the opening balance provided by the bank through internet based banking systems and estimates of receipts and payments for the day.

6. This is important because amounts invested in the money market or overnight with the PCC's bankers earn interest whereas credit balances on the main account do not, and temporary borrowing can generally be achieved at a cheaper rate from the money market than on overdraft facilities.

Investments held in Icelandic Banks

7. During 2008/09 the former Police Authority had 2 investments of £3m each placed with the Icelandic Banks Heritable Bank and Landsbanki Islands hf at the time they went into administration.

8. The Administrators for Heritable Bank have since made the following payments:

Year	Dividend £	Percentage
2009/10	1,065,042	34.98
2010/11	460,648	15.08
2011/12	542,422	17.80
2012/13	284,415	9.34
Total:	**2,352,528**	**77.2**

The Administrators estimate of total recoveries remains at between 86 and 90%, with CIPFA recommending that 88% be assumed.

9. With regard to Landsbanki Islands hf: During December 2011 the Icelandic Supreme Court delivered the decision that Local Authority test cases qualified as priority creditors. As a result of the decision, funds relating to all cases were deposited in an Icelandic escrow account. On 17 February 2012, the court's preferential creditor decision was applied to all Local Authority claims (including that of West Yorkshire Police Authority/ PCC). As the funds were deposited in escrow during December 2011, the PCC will receive interest on the escrow account from the December date.

Additionally, a distribution was made in February 2012. Under the terms of the distribution proposal, payment of each claim was made in a basket of currencies (Icelandic Kroner, Euro's, US Dollars and UK Sterling) with conversions made using the Central Bank of Iceland's selling rates as at 22 April 2009 (the original claim date).

A further distribution was of £183,268 was made in October 2012 and it is considered likely that the PCC will recover 100% of the deposit, subject to future exchange rate fluctuations.

10. To date the overall impact of the Icelandic banks on the Police Fund is an impairment of £403,523. This will continue to be adjusted until the administration process is complete.

APPENDIX E

MANAGING LEGISLATIVE AND OTHER CHANGE

Responsibility for Treasury Management Activity

1. Following Royal Assent of the Police Reform and Social Responsibility Act 2011 the West Yorkshire Police Authority (WYPA) was replaced on 22 November 2012 with two corporations sole: the Police and Crime Commissioner for West Yorkshire and the Chief Constable of West Yorkshire Police (WYCC). This involved a transfer of functions, but the essentials of the service delivery have been maintained.

   Both bodies are required to prepare a separate Statement of Accounts, and the PCC as the holding organisation is required to produce group accounts.

   Under the legislation the Chief Constable is not currently allowed to borrow or enter into contracts without the consent of the PCC. Consequently the PCC, through his Chief Finance Officer, is responsible for all Treasury Management activity.

Capital Controls

2. The new Prudential Code began on 1st April 2004 and introduced a set of key indicators that authorities must use and the factors that they must take into account to demonstrate that capital spending plans are affordable, prudent and sustainable.

3. Part of the requirement of the Code is for reporting procedures to be implemented to monitor the progress of the prudential indicators agreed at the former Police Authority's budget meeting on 17th February 2012. The outturn prudential indicators related to treasury management activity are given at Appendix G.

Investment Guidelines

4. The former Office of the Deputy Prime Minister (now Department for Communities and Local Government - CLG) issued guidance on 12 March 2004 that replaced the approved investment regulations contained in Part IV of the Local Government and Housing Act 1989, and this forms the structure of the PCC's policy.

5. The key requirements of the ODPM guidance are to set an annual investment strategy covering the identification and approval of the following:
   - Strategy guidelines for decision-making
   - Liquidity issues
   - Specified investments policy
   - Non-specified investments policy

6. The former Police Authority approved the investment strategy on 17th February 2012 as part of the overall Treasury Management report.

International Financial Reporting Standards

7. The 2012/13 Financial Statements are required to be prepared in accordance with International Financial Reporting Standards. The accounting policies associated with financial liabilities and assets are set out in the statement of accounting policies. Notes to the core financial statements give a breakdown of the carrying amounts shown on the face of the balance sheet between current and long-term assets and liabilities, set out the fair value as compared with the carrying amount, and describe the nature and extent of risks arising from financial instruments and how the PCC manages those risks.

APPENDIX F

COMPLIANCE WITH THE TREASURY MANAGEMENT STRATEGY 2012/13

	Strategy	Issues	Action Taken
1	To borrow sufficient funds to meet the requirements of supported capital expenditure together with maturing loans	The revised budget for 2012/13 projected that no PWLB/Market borrowing would be undertaken.	No long-term borrowing has been undertaken in 2012/13.
2	To undertake approved Prudential borrowing	The Operational Boundary for 2012/13 was £127m, but was revised in February 2013 to £118m.	The level of outstanding debt peaked in April 2012 at £124m (incl temporary borrowing)
3	To consider debt restructuring either through premature repayments, conversions or debt rescheduling. Any restructuring will be done in accordance with the policy on maturity profiles and only where savings can be achieved .	Continually monitor the PCC's debt profile in order to take full advantage of all restructuring opportunities that will secure reductions in the revenue cost of maintaining prudent debt levels.	No rescheduling of loans was undertaken during 2012/13.
4	To manage the PCC's debt maturity profile in accordance with the Prudential Indicators	P.I. Profile Under 1 year 25% 1 year to 2 year 40% 2 year to 5 year 60% 5 year to 10 year 80% 10 year to 20 year 100% 20 year to 30 year 100% 30 year to 40 year 100% 40 year to 50 year 100% 50 year and above 100%	Actual P.I. Profile @ 31.3.2013 Under 1 year 6.27% 1 to 2 year 5.62% 2 to 5 year 1.12% 5 to 10 year 12.13% 10 to 20 year 4.98% 20 to 30 year 0.56% 30 to 40 year 22.09% 40 to 50 year 38.17% 50 and above 9.05%
5	To maintain a spread of maturity dates for investments	Reasonable spread of maturity dates to be achieved in year.	A total of 26 period investments have been made with approved institutions for periods ranging from 4 days to 2 years. As at 31st March 2013 88.62% of the PCC's investments fall within the 1 to 364 days timeframe.

APPENDIX G

Prudential Indicators for Treasury Management

1. Capital Expenditure

The position in relation to budgeted and actual capital expenditure in 2012/13 is shown below:

	2012/13 (£000)
Estimated Capital Expenditure	16,781
Actual Capital Expenditure – Capital Programme	13,077
Actual Capital Expenditure – NPAS	17,966
Total Capital Expenditure:	31,043

2. The Capital Financing Requirement

The capital financing requirement measures the PCC's underlying need to borrow for a capital purpose. In accordance with best professional practice, the PCC does not associate borrowing with particular items or types of expenditure.

In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the PCC and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the PCC's underlying need to borrow for a capital purpose.

The out-turn position in relation to the CFR is as follows:

	2012/13 (£000)
Estimated CFR	126,401
Actual CFR	114,982

3. Operational Boundary for External Debt

The former Police Authority approved the operational boundary for external debt for the same time period. The operational boundary represents a key management tool for in year monitoring, and as reported above external borrowing has been well within the boundary.

	2012/13 (£000)
Authorised Limit	165,000
Operational Boundary	127,000
2012/13 Maximum External Debt (including Temporary Borrowing)	123,642

4. Fixed Interest Rate Exposures

The PCC is required to set upper limits to its exposures to the effects of changes in interest rates.

The Prudential Code gives the PCC the freedom to set his limits for interest rate exposure as either absolute amounts or as a percentage of net principal outstanding or net sums payable as a result of their interest obligations.

The PCC's upper limit for fixed interest exposure for the period 2012/13 to 2014/15 is **£5.0m**, based on the anticipated fixed interest payments net of any anticipated fixed income over the period. The actual figure for 2012/13 is **£3.6m**

5. Upper Limit on Variable Interest Rate Exposures

The PCC's upper limit for variable interest exposure for the period 2012/13 to 2014/15 is **£2.0m**, based on the anticipated variable interest payments net of any anticipated variable income over the period. The actual figure for 2012/13 is **£0.03m**

6. Maturity Structure of Borrowing

The PCC set for the 2012/13 financial year both an upper and a lower limit the amount of projected borrowing that is fixed rate and maturing in each period; each period indicator being expressed as a percentage of the PCC's total projected fixed rate borrowing.

	Upper Limit %	**Lower Limit %**	**Min. 2012/13 %**	**Max. 2012/13 %**
Under 12 Months	30	0	5.22%	24.39%
12 Months and within 24 Months	40	0	4.54%	5.68%
24 Months and within 5 Years	60	0	0.90%	1.13%
5 Years and within 10 Years	80	0	9.79%	12.27%
10 Years and within 20 Years	100	0	4.01%	5.03%
20 Years and within 30 Years	100	0	0.45%	0.57%
30 Years and within 40 Years	100	0	17.82%	22.34%
40 Years and within 50 Years	100	0	30.79%	38.60%
50 Years and above	100	0	7.30%	9.16%

7. Prudential limits for principal sums invested for periods longer than 364 days.

Where the PCC invests, or plans to invest, for periods longer than 364 days he is required to set, for each forward financial year, an upper limit for the maturing of such investments. Two investments totalling £10m were made during 2012/13 for a period longer than 364 days.

	2012/13 Limit £m	2012/13 Actual £m
Total Principal Sums invested, for periods longer than 364 days, where the maturity date is beyond the period end.	15	5

8. Adoption of the CIPFA Code of Practice for Treasury Management

The PCC has adopted this code as shown in Financial Regulation 4035.