WEST MIDLANDS POLICE AND CRIME COMMISSIONER

NON-CONFIDENTIAL

NOTICE OF DECISION

[017/2017]

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Treasury Management Strategy 2017/18

EXECUTIVE SUMMARY

This report sets out the Police and Crime Commissioner's Treasury Strategy Statement 2017/18 and updates on debt management activity and investment activity during the financial year 2016/17 as reported to the Joint Audit Committee on 30 March 2017.

DECISION

(a) The Commissioner formally adopts the CIPFA Code of Practice for Treasury Management.

(b) The Commissioner approves the Treasury Strategy Statement for 2017/18 set out in Appendix B.

(c) The Commissioner approves the criteria for selecting counter parties and the current eligible counter parties and their limits as set out in Appendix C.

(d) The Commissioner will undertake a mid-year review of Treasury Management activity in accordance with the CIPFA Code of Practice for Treasury Management. This will be reported to the Joint Audit Committee.

West Midlands Police and Crime Commissioner

I confirm that I do not have any disclosable pecuniary interests in this decision and take the decision in compliance with the Code of Conduct for the Police and Crime Commissioner for the West Midlands. Any interests are indicated below.

Signature..........David Jamieson..........

Date.....7.4.17.....

NON - CONFIDENTIAL FACTS AND ADVICE TO THE POLICE AND CRIME COMMISSIONER

1 INTRODUCTION AND BACKGROUND

1.1 The Commissioner is legally required to produce an Annual Investment Strategy. Therefore, included is an Investment Strategy as part of the Treasury Strategy Statement shown in Appendix B.

1.2 In order to protect the Commissioner's position if an individual or organisation were to act upon this advice, it is deemed necessary to produce a disclaimer, which is shown as a note at the head of Appendix B.

1.3 The Commissioner is responsible for administering a Capital Programme of £71.3m between 2016/17 and 2019/20. As far as possible all surplus revenue money and other reserves are invested on a daily basis until they are required.

1.4 The Commissioner follows the Code of Practice for Treasury Management produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code emphasises the following key points:

- The Commissioner must formally adopt the Code.
- The strategy report will affirm that the effective management and control of risk are prime objectives.
- The Commissioner's appetite for risk must be clearly identified within the strategy report and the priority given to security of capital and liquidity when investing funds and an explanation as to how that will be carried out.
- Responsibility for risk management and control lies within the organisation.
- Credit ratings should be used as a starting point when considering risk but use should also be made of market data and information, the financial news media, information on government support for banks and the credit ratings of that government support.
- The Commissioner needs a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
- Borrowing in advance of need is only allowed when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
- There needs to be, at a minimum, a mid year review of treasury management strategy and performance to highlight any areas of concern that have arisen since the original strategy was approved.
- The Commissioner must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
- Treasury management performance and policy setting should be subjected to prior scrutiny.
- The Commissioner, and his staff, should be provided with access to relevant training as those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

- Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Commissioner.

1.5 The Commissioner's Treasury Management activity is governed by the following documents:

1. **Treasury Policy Statement.** This is a statement, defining treasury management and the general approach to it. It emphasises firstly the control of risk and secondly the pursuit of best value as the main factors defining the approach. A copy is attached at Appendix A.

2. **Treasury Management Practices** (TMPs) and Schedules to TMPs. TMPs define the overall approach to various aspects of treasury management, including such things as risk management, performance monitoring and management, segregation of duties and dealing arrangements, cash flow management, money laundering and staff training. The Schedules to TMPs deal with the criteria for selecting third parties (banks and building societies) with whom the Commissioner is prepared to deposit funds. The TMPs and Schedules are reviewed regularly by the Commissioner's CFO and electronic copies are available on request.

3. **Annual Treasury Strategy Statement** details the expected activities of the treasury function in the financial year 2017/18. A copy is attached at Appendix B.

2 DEBT MANAGEMENT ACTIVITY 2016/17

2.1 Since April 1986, the Police Authority had been incurring long term debt from the Public Works Loans Board to finance major capital expenditure. All the borrowing was transferred to the Commissioner in November 2012.

2.2 Borrowing at the 31st March 2017 will total £47.2m all at fixed rates and repayable over various periods up to 2061.

2.3 The Commissioner has the capacity to undertake variable rate borrowing (up to 20% of the total debt portfolio) should the need arise or to take advantage of favourable rates to fund identified need.

2.4 No loans matured during 2016/17 and no additional borrowing was made. There was therefore no change to the average rate of interest on debt; 4.56%. Capita, the Commissioner's treasury advisors, continue to advise on debt restructuring to enable the Commissioner to take advantage of opportunities to reduce the overall cost of debt, set in the context of the financial constraints and markets. There were no opportunities for this during 2016/17.

2.5 The table below shows that the level of borrowing during 2016/17 and the average interest rate have not changed since 2015/16.

PWLB Borrowing

Loan Type	Borrowing £'m		Average Interest Rates %	
	2015/16	**2016/17**	**2015/16**	**2016/17**
Fixed	**47.2**	**47.2**	**4.56**	**4.56**
Variable	**0.0**	**0.0**	**0.0**	**0.0**
Total	**47.2**	**47.2**	**4.56**	**4.56**

3 INVESTMENT ACTIVITY 2016/17

3.1 Any surplus funds have been invested on a daily basis. The target was to achieve an average return on investments as close as possible to the 3 month London Inter Bank Offer Rate (LIBOR).

3.2 Interest earned on investments up to the end of March is predicted to average 0.66%, approximately 21 basis points above the average return on 3 month LIBOR (0.45%) as at 28/02/17. This represents good performance given the continued depressed state of the money markets and the continued low Base Rate.

3.3 In the 2016/17 report the Commissioner approved a revised list of counter parties with whom investments could be placed. This list has been updated during the year to take account of the effects of the national economic conditions and the significant amounts invested (at the 6th March 2017, the Commissioner had £119m invested with a range of maturity dates between one day and three and a half years).

3.4 All of the Commissioner's investments are with UK based entities: 59% Local Authorities, 24% British Banks, 17% Building Societies.

3.5 Since the final recovery, in January 2014, of investments frozen in the Icelandic bank Landsbanki, the Commissioner has held no investments with foreign banks.

3.6 Based on market information provided by Capita, the counter party list has been fully reviewed to reflect: current market conditions, credit ratings of sovereign nations, and the impact of Government support for the banking sector. As a consequence the limits, both financial and for duration, have been adjusted for some institutions. Specifically the group and individual limits (£60m) for the part government owned institutions (National Westminster Bank, Royal Bank of Scotland) have been retained as it is considered that they are less risky than other UK institutions that are not directly supported by the government.

3.7 If institutions now fall below the set criteria they have been removed from the list and added if they become eligible. A copy of the latest list, which will be kept under review by the Commissioner's CFO, in accordance with the TMP Statements, is attached at Appendix C. Details of the criteria are contained within the annual investment strategy in Appendix B.

3.8 The day to day work of Treasury Management is carried out in the Finance Department with oversight from the Director of Commercial Services. The Treasury Management Strategy is therefore managed using appropriate delegations and periodic management reporting to the Director of Commercial Services and the Commissioner's CFO. This will continue for the next financial year.

4 TREASURY STRATEGY STATEMENT 2017/18

4.1 The Treasury Strategy Statement covers the Commissioner's latest capital funding requirements, view of interest rate movements, and strategy for borrowing and investment in the light of that view. As such, it needs to be reviewed annually. The Treasury Strategy Statement for 2017/18 is attached at Appendix B.

4.2 The expectations for interest rates over the next twelve months, which will be subject to continuous review with the Commissioner's treasury advisors, are as follows:

Short-term rates.

- The Bank of England Base Rate had been unchanged at 0.50% since March 2009 but was lowered to 0.25% in August 2016 and is forecast to remain unchanged during much of 2017/18 but may rise from June 2019 to reach 0.75% by December 2019.
- The growth rate for the UK economy is expected to remain low because of the wider global economic conditions. As Base Rate underpins investment returns it is unlikely that this forecast is an under estimate especially if the economic recovery is weaker than currently anticipated or there is negative fallout from the Brexit negotiations.
- The low interest rates will continue to depress future interest receivable estimates and an average investment return as low as 0.30% on new investments made in 2017/18 can be expected.

Long-term rates.

- Very long term rates (50 year PWLB rate) are expected to be around 2.70% for most of 2017/18.
- Long term rates (25 year PWLB rate) are expected to be around 2.90% during 2017/18.
- The view of long term rates will affect the borrowing strategy in 2017/18. Although borrowing rates are currently attractive, they should remain low for some time. The timing of any borrowing will need to be monitored carefully. Any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

4.3 The Local Government Act 2003 introduced a new system of "prudential borrowing" which allows the Commissioner to set borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the CIPFA Prudential Code that specifically requires a number of prudential indicators are set. The full range of prudential indicators was considered when the 2017/18 Budget and Precept were agreed in February 2017. This is particularly relevant when set in the context of the overall limitation of planned capital resources and therefore a potential increase in prudential borrowing across the medium term plan. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement.

4.4 The Local Government Act 2003 also requires the Commissioner to set out a treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Commissioner's policies for managing investments and for giving priority to the security and liquidity of those investments.

5 FINANCIAL IMPLICATIONS

5.1 The financial implications of the Treasury Management function are included in the Commissioner's annual budget. The estimated total net cost of capital financing in 2017/18 (including direct charges to revenue) is £3.3m.

6 LEGAL IMPLICATIONS

6.1 These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Commissioner to do anything which is calculated to facilitate or is conducive or incidental to the discharge of their various statutory functions.

6.2 Adoption of the CIPFA Code of Practice on Treasury Management in the Public Services as part of the Commissioner's Standing Orders and Financial Regulations gives it the status of "a code of practice made or approved by or under any enactment" and hence proper practice under the provisions of the Local Government and Housing Act 1989.

6.3 The Commissioner's CFO continues to delegate the responsibility for the discharge of Treasury Management on a daily basis to the Director of Commercial Services through the appropriate Finance Department staff.

7 EQUALITY IMPLICATIONS

7.1 Any issues of Equality and Diversity that may arise during the undertaking of Treasury Management activities will be noted, considered and reported upon.

8 RECOMMENDATIONS

8.1 It is recommended that the Joint Audit Committee:

a. note the treasury management activity in 2016/17 set out in paragraphs 3 and 4, and the interest rate observations in paragraph 5.

b. approve the Treasury Strategy Statement for 2017/18 set out in Appendix B.

c. approve the criteria for selecting counter parties in Appendix B and the current eligible counter parties and their limits as set out in Appendix C.

d. continue to include a mid-year review of Treasury Management activity in the Joint Audit Committee's work plan in accordance with the CIPFA Code of Practice for Treasury Management.

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