

14th July 2014

ANNUAL TREASURY MANAGEMENT REPORT 2013-14

Background and Purpose of Report

1. The Treasury Management Strategy for 2013-14 was adopted by the Commissioner on 4 March 2013, incorporating a set of Prudential Indicators (Prls) and an Annual Investment Strategy (AIS), in accordance with the Prudential Code for Capital Finance in Local Authorities 2003 (The Prudential Code).
2. The Commissioners Monitoring Board received an interim report for the period from 1 April to 30 September 2013 at its meeting on 9 December 2013.
3. This report conforms to the CIPFA Code of Practice on Treasury Management in the Public Services, and reviews the actual delivery of the approved Treasury Management and Investment Strategies for 2013-14 and the Prudential Indicators adopted in March 2013.

Main Considerations for the Office of the Commissioner

4. This report reviews:
 - a) the actual cash position at the end of 2013-14 against the original forecast for the year;
 - b) prudential indicators and other treasury management strategies originally set for 2013-14 against actual positions resulting from actions within the year – Appendix A;
 - c) actions during the year of the adopted AIS – Appendix B.

Review of Cash Position

5. In setting its Strategies and Prls for 2013-14 the Office of the Commissioner assumed a forecast cash position for the year. The February strategy paper reported a forecast surplus of £1.7million, the actual position at 31 March 2014 was £1.7million.

Review of Treasury Management Strategy including Prudential Indicators (Prls) & other issues

6. The detail of the review is given in Appendix A, which demonstrates that funds have been managed in accordance with the limits and tolerances set in the strategy.

Review of Investment Strategy

7. This review is detailed in Appendix B. It shows the scale of the investments managed on a daily basis and the return achieved through active management of daily cash funds.

Effect of strategy on the Revenue Budget

8. During the year there were opportunities to place surplus cash in call accounts and out on temporary deposits. This resulted in interest income (receivable) of £0.271 million, this includes all interest earned during 2013-14 with accruals included where deposits occur across financial years.
9. Where possible opportunities were taken to improve returns in a secure manner, however, due to the continued low interest rates and market volatility these were limited. Returns do, however, include interest received from a longer term (12 months) deposit, which was placed/renewed with Lloyds Banking Group in August 2013 (£5m at 1.01%, the previous rate being 2.85% for a similar duration).

Treasury Expenses

10. Treasury expenses incurred during the year were as follows:

	£
Wiltshire Council administration charge	7,800
Bank charges	<u>3,500</u>
Total	<u>11,300</u>

Risk

11. Investment decisions involve a certain degree of risk. In order to minimise exposure to risk, the Treasury Management Strategy recognises the need for security, liquidity, credit ratings of organisations with which the Office of the Commissioner places investments and return on investment.

Diversity

12. There are no issues arising from this report.

Collaboration

13. The Treasury Management function is outsourced to Wiltshire Council. Using their skills and contacts with market experts it is believed that value for money is achieved, together with good returns.

Recommendation

14. The Commissioner is asked to note this report and, in particular, the net return for 2013-14 from the investment of surplus cash of £0.271 million

Clive Barker
Chief Finance Officer to the PCC

Review of Prudential and Treasury Indicators 2013-14

Prudential Indicators

Prl 1 - Capital Expenditure

1. The capital expenditure plans of the Office of the Commissioner are set in Capital Programme reports, but under the Prudential Code, there is a requirement to confirm this as a Prudential Indicator. Revised actual and estimated Capital expenditure for the years 2012-13 to 2015-16 are as follows:

	2013-14 Est.	2013-14 Actual	2014-15 Est.	2015-16 Est.	2016-17 Est.
Capital Expenditure	£2.8m	£4.1m	£8.7m	£5.6m	£2.8m

Prl 2 – Ratio of Financing Costs to Net Revenue Stream

2. Prl 2 expresses the net costs of financing as a percentage of the funding receivable from the Government and council tax payers. The net cost of financing includes interest and principal repayments for long and short term borrowing, as well as other credit-like arrangements, netted off by interest receivable in respect of cash investments. The Prl does not include the revenue contribution to capital expenditure.
3. Of these costs, only interest receivable is significant for the Office of the Commissioner (being debt-free) and this means that the resulting Prl is negative.

	2013-14 Est.	2013-14 Actual	2014-15 Est.	2015-16 Est.	2016-17 Est.
Ratio of Financing Costs to Net Revenue Stream	-0.2%	-0.3%	-0.3%	-0.3%	-0.3%

Prl 3 – Estimate of Incremental Impact of Capital Expenditure Decisions on the Council Tax

4. This indicator is only relevant at budget setting time and for 2013-14 was calculated as being -£0.92.

Prl 4 – Gross Borrowing to Capital Financing Requirement

5. Prl 4 measures the so called “Golden Rule” which ensures that borrowing is only for capital purposes.
6. The Capital Financing Requirement increases year-on-year by the amount of capital expenditure that is not funded from sources other than borrowing (e.g. government capital grant, capital receipts, developer contributions, direct revenue), reduced by the amount set-aside from the revenue budget and capital receipts for the repayment of debt. Net Borrowing is the Office of the Commissioner’s long and short term external debt less its short term cash investments.
7. As the PCC’s entire capital programme is funded by cash sources (grants, capital receipts, direct revenue), there is no Capital Financing Requirement and thus no long term borrowing. Net Borrowing is negative because it relates only to investments, and thus what the table below shows us is that the investments equate to the Capital Financing Requirement not funded by gross borrowing, which is technically available to finance capital expenditure without borrowing.

	2013-14 Est.	2013-14 Actual	2014-15 Est.	2015-16 Est.	2016-17 Est.
Capital Financing Requirement	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m
Gross Borrowing	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m
Capital Financing Requirement not funded by gross borrowing	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m

Prl 5 – Compliance with CIPFA Code of Practice for Treasury Management in the Public Services

The PCC is and will continue to be fully compliant with the CIPFA Code of Practice for Treasury Management in the Public Services.

Treasury Management Indicators within the Prudential Code

Trl 1 – External debt

8. The borrowing limits set gross of investments were:

Operational Limit	2013-14	2014-15	2015-16
Annual gross Borrowing	Nil	Nil	Nil
Temporary borrowing	£5.0m	£5.5m	£6.0m
Total Operational limit	£5.0m	£5.5m	£6.0m

Authorised Limit	2013-14	2014-15	2015-16
Annual gross Borrowing	Nil	Nil	Nil
Temporary borrowing	£5.8m	£6.3m	£6.9m
Total Operational limit	£5.8m	£6.3m	£6.9m

9. The PCC has managed to operate on a debt free basis to date, except for very short term temporary borrowing, and will remain so. The borrowing shown in the table below at the end of 2012-13 reflects the temporary borrowing outstanding at the end of the financial year, which was taken out for cash flow purposes and was repaid on 3 and 4 April 2013.

Actuals	31/3/13 Actual	31/3/14 Actual
Borrowing	£6.0m	£0.0m
Other Long Term Liabilities	£0.0m	£0.0m
TOTAL	£0.0m	£6.0m

Trl 2 – Interest Rate Exposures

11. This Trl relates to net borrowing (i.e. borrowing less investment). As the Authority has no long term borrowing there is no risk to borrowing costs of an increase in interest rates. However it does partly rely on returns from invested funds in order to finance revenue and capital expenditure.
12. Limits for this Trl were therefore set as:

The Authority's upper limit for fixed interest rate exposure for the period 2013-14 to 2016-17 is 100% of net outstanding principal sums.

The Authority's upper limit for variable interest rate exposure for the period 2013-14 to 2016-17 is 0% of net outstanding principal sums.

13. The details of all loans taken (where applicable) and deposits placed are shown at Appendix C (ii) and I can confirm that all (100%) deposits were at fixed rates of interest for each period of investment.

Trl 3 – Maturity Structure of Borrowing

The PCC remains debt free, so there will be no maturity profile.

Trl 4 – Total Principal Sums invested for periods longer than 364 days

14. This Trl is now covered by the Annual Investment Strategy for 2013-14
15. This Code of Practice has been complied with during 2013-14.

Other Treasury Management issues

Operating leases

16. The agreed strategy was to allow for up to £0.5 million items of a capital nature, notably cars and computer hardware to be financed by operating leases. It was not found necessary to fund any items in this way during the year.

Short Term Cash Deficits and Surpluses

17. It was agreed that temporary loans and deposits would be used to cover short term cash surpluses and deficits that would arise during the year. Such borrowing or investments would be made to specific dates at fixed rates, with reference to the cash flow requirements.
18. Temporary loans taken out and deposits placed during the year are detailed in Appendix C (ii).

Longer Term Cash Balances

19. Longer term balances were placed with Lloyds, as stated previously, at an annual rate of interest of 1.01%.

POLICE AND CRIME COMMISSIONER FOR WILTSHIRE AND SWINDON – INVESTMENT STRATEGY FOR 2013-14

1. All investments of surplus cash balances were placed so as to ensure:
 - a) the security of capital, deposits only being placed with financial institutions which met the **high credit ratings** laid down in the approved Strategy and
 - b) the liquidity of investments, all deposits being placed for fixed periods at fixed rates of interest.
 - c) all such investments were in sterling and in “Specified Investments”, as prescribed in the DCLG’s Guidance on Local Government Investments (the “Guidance”).
2. As summarised on Appendix C (i), 147 deposit transactions were processed during the year, with a gross value of £185.623 million. Of deposits placed, 117 were placed direct with HSBC Bank Treasury on the PCC’s overnight deposit account, 11 were placed on call and 19 were placed with other borrowers (as detailed in Appendix C (ii)). Deposits were placed in this way to obtain better interest rates and to spread risk within the authorised lending limits.
3. Credit ratings are monitored on a monthly basis, by the PCC’s treasury management providers (Wiltshire Council), against ratings issued by Fitch Ratings Ltd.
4. No investments were made in Money Market Funds during the year.
5. There were no investments held with an average duration of 24 months or more (Non-Specified investments as described in the DCLG Guidance).
6. The PCC was holding surplus cash balances at the year end of £26.0 million, invested as follows:

	£ million
Temporary deposits (including overnight):	
- (see Appendix C (i))	26.0
Total	26.0

7. This surplus cash results from a number of different items, the bulk of which are earmarked for future expenditure. These include the PCC’s general revenue balances, provisions for future liabilities such as pensions and insurance claims, creditor payments due, and resources earmarked for future capital spending.

Temporary Deposit/Loans Transactions

1 April 2013 to 31 March 2014

Type	Balance at 1 Apr 13 £	Placed		Repaid		Balance at 31 March 14 £	Interest Range* %	Interest Receivable/Payable** to 31 March 14 £
		Value £	No	Value £	No			
Temporary deposits								
Placed with HSBC Treasury	1,280,000	68,610,000	117	68,860,000	59	1,030,000	0.20/0.20	2,492
Placed in Call Accounts	1,004,390	27,013,441	11	23,038,000	19	4,979,831	0.25/0.45	13,441
Placed with other borrowers (Details shown in appendix B(ii))	28,000,000	90,000,000	19	98,000,000	21	20,000,000	0.35/1.01	218,384
Totals	30,284,390	185,623,441	147	189,898,000	99	26,009,831		234,317
Temporary loans								
Taken from lenders (Details shown in appendix B(ii))	6,000,000	8,300,000	5	14,300,000	7	0	0.30/0.50	788
Totals	6,000,000	8,300,000	5	14,300,000	7	0		788
Analysis by Broker		Deposits £	No	Loans £	No			
Placed direct		13,000,000	131	0	0			
Via Tullett Prebon		39,000,000	8	0	0			
Via Traditon		-	0	0	0			
Via Intercapital		23,000,000	5	3,000,000	1			
Via Martin Brokers		15,000,000	3	5,300,000	4			
Totals		90,000,000	147	8,300,000	5			

* Interest range is the lowest/highest interest rate for transactions during the period.

* In terms of deposits placed with other borrowers, the high of 1.01% was obtained on a 'special tranche' 12 month deposit.

** All investments "Placed with other borrowers" and loans are for a fixed maturity period and interest is not actually received/paid until maturity. Interest receivable/payable represents: the interest received/paid from deposits placed/loans made and repaid/paid in the period 1 April 2013 to 31 March 2014; interest receivable/payable in the financial year 2013-14 from deposits placed/loans made prior to 1 April 2013; and interest receivable/payable in the financial year 2013-14 from deposits placed/loans made during the financial year ended 31 March 2014 but not actually repaid/paid until after 31 March 2014.

Deposits placed and Temporary Loans made to 31 March 2014

Deposit Borrower	Broker	Amount £	Date Raised	Terms	Interest rate* %	Interest Receivable** to 31 March £
Fixed Term Deposits						
Nationwide	PY	5,000,000	08-Apr-13	Fixed to 08-Jul-13	0.44	5,485
Commonwealth Bank of Australia	INT	4,000,000	09-Apr-13	Fixed to 26-Apr-13	0.40	745
Barclays	Direct	3,000,000	11-Apr-13	Fixed to 11-Jul-13	0.45	3,366
Commonwealth Bank of Australia	MB	5,000,000	09-May-13	Fixed to 28-May-13	0.35	911
Ulster Bank	INT	5,000,000	24-May-13	Fixed to 23-May-14	0.90	38,342
Commonwealth Bank of Australia	PY	5,000,000	10-Jun-13	Fixed to 28-Jun-13	0.35	863
Development Bank of Singapore (DBS)	INT	5,000,000	03-Jul-13	Fixed to 03-Jan-14	0.45	11,342
Overseas Chinese Banking Corporation	PY	5,000,000	03-Jul-13	Fixed to 03-Jul-14	0.55	20,418
Canadian Imperial Bank of Commerce	PY	5,000,000	04-Jul-13	Fixed to 28-Oct-13	0.42	6,674
Nationwide	PY	5,000,000	08-Jul-13	Fixed to 08-Jan-14	0.50	12,603
Barclays	Direct	5,000,000	11-Jul-13	Fixed to 11-Oct-13	0.45	5,671
Lloyds	Direct	5,000,000	09-Aug-13	Fixed to 08-Aug-14	1.01	32,375
Canadian Imperial Bank of Commerce	PY	5,000,000	08-Nov-13	Fixed to 28-Nov-13	0.40	1,096
Commonwealth Bank of Australia	PY	4,000,000	09-Dec-13	Fixed to 27-Dec-13	0.38	750
Development Bank of Singapore (DBS)	INT	5,000,000	03-Jan-14	Fixed to 03-Apr-14	0.45	5,363
Canadian Imperial Bank of Commerce	PY	5,000,000	08-Jan-14	Fixed to 28-Jan-14	0.37	1,014
Nationwide	INT	4,000,000	09-Jan-14	Fixed to 28-Feb-14	0.42	2,301
Canadian Imperial Bank of Commerce	MB	5,000,000	10-Feb-14	Fixed to 03-Mar-14	0.35	1,007
Canadian Imperial Bank of Commerce	MB	5,000,000	03-Mar-14	Fixed to 28-Mar-14	0.35	1,199
Interest received in 2013-14 relating to deposits placed prior to 1 April 2013						66,859
Totals		90,000,000				218,384
Loan Lender	Broker	Amount £	Date Raised	Terms	Interest rate %	Interest Payable to 31 March £
Thurrock Borough Council	MB	1,400,000	29-Jul-13	Fixed to 30-Jul-13	0.37	14
Leicester City Council	MB	1,100,000	29-Jul-13	Fixed to 08-Aug-13	0.30	90
Cambridge City Council	MB	1,800,000	03-Sep-13	Fixed to 09-Sep-13	0.33	98
Cambridge City Council	MB	1,000,000	27-Sep-13	Fixed to 30-Sep-13	0.40	33
City of Edinburgh Council	INT	3,000,000	30-Sep-13	Fixed to 08-Oct-13	0.50	329
Interest paid in 2013-14 relating to loans made prior to 1 April 2013						224
Totals		8,300,000				788

* The higher interest rate of 1.01% with Lloyds was obtained on 'special tranche' 12 month deposit.

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