

**Report of the Chief Constable to the Chair and Members  
of the Policy & Resources / Corporate Development Panel  
5<sup>th</sup> February 2009**

**Executive & Presenting Officer: Mrs Ann Hall, Assistant Chief Officer  
(Finance & Commissioning)**

**Status: For Information**

**Treasury Management to 31<sup>st</sup> December 2008**

**1 Purpose**

- 1.1 Local Authorities' (including Police Authorities) treasury management activities are prescribed by the Local Government Act 2003. Essentially a police authority may borrow or invest for any purpose relevant to its functions, under any enactment, or 'for the purpose of the prudent management of its financial affairs'.
- 1.2 Members agreed an investment strategy for 2008/09 at their meeting on 28<sup>th</sup> February 2008. Due to the unprecedented turbulence of the financial markets, this initial strategy has been updated to enable speed of action when responding to emerging risks to the Authority's investment portfolio. At their meeting on the 30<sup>th</sup> September 2008, Members resolved to delegate authority to amend the approved List of Counterparties and the investment limits with institutions to the Chief Executive in consultation with the Deputy Section 151 officer. This delegated authority would automatically be withdrawn at 31<sup>st</sup> March 2009.
- 1.3 This report is to update Members on the status of the Authority's investments and borrowing. It is part of the process introduced by the Authority to maintain prudent financial management.

**2 Recommendations**

- 2.1 Members are requested to note the contents of the report.

### **3 Reasons**

#### **3.1 Market Conditions**

Market conditions, as previously reported, continue to be turbulent. Local authorities are reported as having difficulty in finding enough low risk institutions for them to be able to spread their investment risk. As a consequence many are investing in the Debt Management Account Deposit Facility (DMADF) of the Treasury. This carries the Government's sovereign AAA credit rating which is the highest available security. However, the quid pro quo for lower risk is lower interest receivable and less flexibility over cash flow management.

3.2 Although, the Authority has been successful in spreading its risk to date, there may be difficulties in future as some of the lower risk institutions will not accept deposits under £10m or for less than 3 months. The paperwork and authorisation for this facility has all been completed and returned, we therefore expect to be able to use this facility, if required, in January.

#### **3.3 Return on Investments**

The December meeting of the Monetary Policy Committee chose to reduce interest rates to 2%. In January they reduced this further to 1.5%. In the space of 4 months interest rates have dropped from 5% to 1.5% and the impact on our returns on investments has been significant.

3.4 Although, the net £200k over-recovery against interest receivable budgets reported in the Budget Monitoring Report on today's agenda can still be achieved, the adverse impact on the Long Term Financial Plan (LTFP) is significant. The LTFP was based on having £16m invested throughout the year at an interest rate of 5% generating £800k of interest. If the rates on investments continue at 1.5% during 2009/10 then this would only generate £240k creating a pressure of £560k.

#### **3.5 NatWest**

NatWest are our current bankers and part of the RBS Group which, as previously reported, is now 57.9% owned by the Government. As a result of the above the counterparty limit on NatWest remains at £10m as approved under delegated authority. At the end of December £7.773m was invested with NatWest, £1.773m of which was instantly accessible. A £3m investment matured on the 1<sup>st</sup> December and a further £6m was invested, on the 3<sup>rd</sup> December, at 3.6% all of which was within the £10m counterparty limit.

#### **3.6 Nationwide Building Society**

The Nationwide Building Society is the largest Building Society in the UK. When it completes the takeover of the Cheshire and Derbyshire Building Societies later this year it is expected to have £191bn of assets and £122bn of retail deposits. It also has access to the £200bn set aside by the Government to encourage interbank lending. The decision was taken under delegated authority to increase the limit on this counterparty from £3m to £4.5m during

November. At the end of December £1.0m was invested with this counterparty. During January a further £3.0m will be invested with this counterparty however due to the short timeframe of these investments they will subsequently mature before the end of January.

3.7 Investments

As at the end of December the Force had £14.5m of external investments in place, these are set out in the table below, this is £1.5m lower than forecast, and compares to £21.0m at the same time last year. Our cash position is lower than forecast due to higher than expected Supplier payments in the run up to Christmas and New Year where we ensured that our suppliers were not disadvantaged by delayed payment over the holiday period. In addition to this the payment of a Government Grant for £0.7m was received in early January as opposed to our forecast of December.

<b>Investment Placed With</b>	<b>Date Investment Made</b>	<b>Date Investment will Mature</b>	<b>Amount Invested</b>
Northern Rock	02.10.08	16.01.09	3,000,000
Natwest	03.12.08	02.02.09	1,000,000
Nationwide B/soc	05.11.08	09.02.09	1,000,000
Natwest	03.12.08	13.02.09	5,000,000
Nottingham BS	18.07.08	09.04.09	2,700,000
<b>Total Time Limited Investments</b>			<b>12,700,000</b>
<u>Amount in High Interest account with our Own Bank</u>			
NatWest High Interest (instant access)			1,773,000
			<b>14,473,000</b>

3.8 These investments are all paying interest of between 2.0% and 6.28%. Given that the Public Works Loan Board are currently charging between 1.02% and 4.26% for Fixed Rate Loans then the returns we are receiving on our investments, whilst not tying up these funds for any great length of time can be viewed as satisfactory. At this current point we are not aware of any concerns relating to the organisations where the Authority's money is currently deposited although this is being reviewed on a regular basis.

3.9 Long Term Loans

All loans are from the Public Works Loan Board. The loan profile is set out at Appendix A. As at the end of December the Authority had £11.428m of outstanding long term loans. This is well within the Operational Boundary for External Debt of £13.428m and also the Authorised Limit for External Debt of £15.428m approved by the Authority on 28<sup>th</sup> February 2008.

3.10 Due to the historic nature of the loan profile, the Authority is incurring a range of interest charges of between 4.40% and 5.30% with the average charge

being 4.93%. The cost to the organisation of the above loans for this financial year will be £534k as previously reported.

3.11 The maturity date of these loans is spread over the next 11 financial years. No further loans are due for repayment in the current financial year. Appendix B refers.

3.12 Cash Flow Forecast

The graph attached at Appendix C maps the forecast movements in our investment balances across the year against actual balances. For comparison, the graph also shows actual investment levels during the 2007/08 financial year.

3.13 The cash balances at the end of December are £1.5m lower than forecast as mentioned in 3.7 above.

## **4 Implications**

4.1 Finance

There are no financial implications other than those mentioned above.

4.2 Diversity & Equal Opportunities

Diversity considerations are kept under constant review in line with Force policies and 'Putting People First'. There are no issues arising from this report to bring to Members attention.

4.3 Sustainability

This report is part of the process introduced by the Authority to establish sustainable annual and medium term financial plans and maintain prudent financial management.

4.4 Risk

The Corporate Risk Register contains the following financial risk:

- Insufficient financial resource to deliver operational and strategic objectives.

4.5 This is mitigated through:

- Robust financial planning and control processes.
- Independent 'Robustness of Estimates & Adequacy of Financial Reserves' report prepared by the Section 151 Officer.
- Contingency plans to redeploy released resource into areas of operational need.

## **5 Conclusion**

- 5.1 Given the current unprecedented turbulence and uncertainty in financial markets and financial institutions, the protection of the Authority's underlying investments is of utmost importance. The investment strategy that underpins this has recently been reviewed and amended to enable a quick response to changes in market conditions as they take place. Consequently, the Authority continues to manage its cash resources in a low risk yet highly liquid manner.

Sean Price  
Chief Constable

## APPENDIX A

### Schedule of Fixed Rate Loans

Loan Number	Balance	Interest Rate	Loan Repayment Date	Annual Interest Charges
	£000	%		£000
480212	Repaid	Repaid	Sep-08	24
481392	320	5.000	Sep-09	16
483442	354	5.250	Sep-10	19
485148	385	5.000	Sep-11	19
486372	575	5.125	Sep-12	29
487161	1,106	4.625	Sep-12	51
488248	860	5.300	Sep-13	46
489234	1,340	4.800	Sep-14	64
489425	1,100	4.700	Sep-15	52
491366	872	4.400	Sep-16	38
493143	872	4.950	Mar-17	43
494503	872	4.520	Sep-18	39
494694	2,772	5.080	Sep-19	94
<b>Totals</b>	<b>11,428</b>			<b>534</b>

## APPENDIX B

### Repayments to be made

Financial Year		£000
2008/9		Repaid
2009/10		320
2010/11		354
2011/12		385
2012/13		1,681
2013/14		860
2014/15		1,340
2015/16		1,100
2016/17		1,744
2018/19		872
2019/20		2,772
<b>Total</b>		<b>11,428</b>

APPENDIX C

### Forecast Investment Balances

