

**Report of the Chief Constable to the Chair and Members
of the Policy & Resources / Corporate Development Panel
9th April 2009**

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

Status: For Information

Treasury Management to 28th February 2009

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 28th 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 30th 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 This delegated authority was to be withdrawn at 31st March 2009. At their meeting on 26th February 2009, Members agreed to extend this period of delegated authority to 30th September 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, this has been evidenced during February in the fluctuating share prices of the Banks on the London Stock exchange and the large losses and write downs reported by the Banks.

- 3.2 The Debt Management Account Deposit Facility (DMADF) that we reported to Members that we were in the process of opening is now available for use. 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. For example when the Bank of England interest rates stood at 1% this facility was only paying 0.4%. This will be used only where it represents security for deposit or a facility not available in the open market.

3.3 Return on Investments

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. With interest having been reduced to 0.5%, as of the 5th March, the potential impact on the LTFP would be a pressure of £720k. This is £160k greater than the pressure assumed in the LTFP 2009-13 that was approved by Members on the 26th February 2009.

3.4 NatWest

NatWest are our current bankers and part of the RBS Group which, as previously reported is now 70% 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 February £2.970m was invested with NatWest, all of which was instantly accessible.

3.5 Bank of Scotland

The Bank of Scotland is now part of the Lloyds Group. It has reported some quite significant losses during February however it is more than 40% owned by the Government. The continued difficulties of this Group mean that it is likely that the Government will own around 65% in the near future. The decision was taken under delegated authority to increase the limit on this counterparty from £3m to £5.5m during February to place the investments noted in the table in 3.6 below.

3.6 Investments

As at the end of February the Force had £12.2m of external investments in place, these are set out in the table overleaf, this is £4.3m lower than forecast, and compares to £19.5m at the same time last year. Our cash position is primarily lower than forecast due to £1.6m being paid in relation to Pensions on the 28th February which we had initially forecast to be paid in

early March. In addition to this the Government only provide Police Authorities with 80% of the Grant needed for their Pension Payments in the year they are incurred. This payment is made in July each year, with the final 20% being paid in the following July. The impact this has had on our Cash Flow is £1.1m.

Investment Placed With	Date Investment Made	Date Investment will Mature	Amount Invested
Standard Life	13.01.09	02.03.09	1,000,000
Bank of Scotland	05.02.09	20.03.09	2,000,000
Nottingham BS	18.07.08	09.04.09	2,700,000
Bank of Scotland	05.02.09	15.04.09	1,500,000
Bank of Scotland	05.02.09	15.05.09	2,000,000
Total Time Limited Investments			9,200,000
<u>Amount in High Interest account with our Own Bank</u>			
NatWest High Interest (instant access)			2,970,000
			<u>12,170,000</u>

3.7 The above investments are all paying interest of between 1.0% and 6.28%. The Public Works Loan Board are currently charging between 0.78% and 4.52% for Fixed Rate Loans and given that interest rates are currently at 0.5%, and cannot go much lower, it may be worth considering taking out the capital loans for 2009-10 as early in the next financial year as possible. At this 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.

3.8 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 February 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 28th February 2008.

3.9 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.

3.10 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.

3.11 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.

- 3.12 The cash balances at the end of January are £4.3m lower than forecast as mentioned in 3.6 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

Error! Not a valid link.

APPENDIX B

Error! Not a valid link.

APPENDIX C

