

**Report of the Chief Constable to the Chair and Members
of the Policy & Resources / Corporate Development Panel
11th June 2009**

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

Status: For Information

**Treasury Management and Prudential Indicators Outturn
2008/2009**

1 Purpose

- 1.1 To provide details of Treasury Management performance in 2008/09.
- 1.2 To provide details of performance against the Prudential Indicators for 2008/2009, approved by Members on 28th February 2008.

2 Recommendations

- 2.1 That Members note the content of the report.

3 Reasons

- 3.1 Treasury Management is the day-to-day management of the Authority's cash flow, borrowing and investments. The aim of treasury management is to minimise interest payable on external borrowing and maximise interest receivable on investments within a prudential framework. The unprecedented turbulence and uncertainty in financial markets and financial institutions that has been in existence throughout the majority of this financial year has meant the protection of the Authority's underlying investments was of utmost importance. The investment strategy that underpins this was reviewed and amended in year to enable quick responses to changes in market conditions to take place.

3.2 Members should note that the Authority's Treasury Management Policy and practices complied with the CIPFA Code of Practice.

3.3 Rate of Interest Achieved on Investments

3.3.1 *Indicator*

The average rate of interest on all approved investments should be calculated and compared with the average 7-day interest rate.

3.3.2 *Result*

The average rate of interest achieved was 4.64% compared with the average 7-day rate of 4.10%. The graph shown at Appendix A shows actual performance against target.

3.3.3 During the year, as a result of achieving greater than targeted interest rates and cash collection targets, we exceeded the cash receivable budget of £798k by £135k. This is consistent with the treasury forecasts that the Authority have received monthly.

3.3.4 The Authority has achieved this target consistently every year.

3.4 Timing of Long Term Borrowing

3.4.1 *Indicator*

The timing of all long term borrowing should be compared with a graph of the Public Works Loan Board (PWLB) borrowing rate, for the same length of time the loan was taken out over, to establish if advantageous decisions have been taken.

3.4.2 *Result*

In 2008/09 the Authority took out one loan:

- £2,772k @ 5.08% on 18th July 2008

3.4.3 The graph shown at Appendix B shows that the loan was taken out when interest rates had begun to fall, from their peak at 5.44%. The subsequent falls in interest rates were unexpected and unprecedented.

3.4.4 £872k of this loan is in respect of Supported Capital Expenditure and must be taken out in the year it is awarded. This along with the further £1.9m of prudential borrowing was required to support the approved Capital Programme.

3.5 Rate of Interest Paid on Loans

3.5.1 *Indicator*

The average rate of interest of all long-term borrowing taken out in the year should be calculated and compared with the average PWLB covering the same length of time as the loan taken out.

3.5.2 *Result*

The comparison to the PWLB rates is shown at Appendix B. The rate of interest achieved on the loan was 5.08% compared with the average PWLB rate of 4.53% (for 11 to 11.5 year loans). The graph demonstrates that the average rate of interest for the year was lower than that achieved when taking out this loan due to the significant and unexpected drop in interest rates that occurred after the loan had been taken out.

3.6 Circumstances Which May Restricted Officers' Ability to Act

3.6.1 *Indicator*

If there are any circumstances which restricted officers' ability to act these should be reported.

3.6.2 *Results*

There were no circumstances which restricted officers' ability to act in 2008/2009.

3.7 Prudential Indicators

Members will recall that the CIPFA Prudential Code of Practice is the key element in the system of capital finance that was introduced on 1st April 2004. Under the system, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the code. Under the code members were required to set a range of Prudential Indicators for the financial year 2008/09. The indicators were approved by Members on 28th February 2008.

3.8 A schedule of performance against the indicators set for the year is attached at Appendix C.

4 Implications

4.1 Finance

The financial implications are all included in section 3 above.

4.2 Diversity & Equal Opportunities

There are no diversity or equal opportunities implications.

4.3 Sustainability

The current Treasury Management Policy is sustainable.

4.4 Risks

There are no risks other than those outlined in the body of the report.

5 Conclusions

- 5.1 The Authority has complied with the requirements of the CIPFA Codes for Treasury Management and Prudential Borrowing. It has reacted quickly and positively, during the current unprecedented turbulence and uncertainty in financial markets and financial institutions, to protect the funds that it invests on behalf of the people of Cleveland. The Authority managed its cash resources in a low risk yet highly liquid manner throughout 2008-9.

Sean Price
Chief Constable

Prudential Indicators Outturn 2008/09**1.1 Affordability Indicators**

The affordability indicators address the revenue implications of the Authority's financial strategy as all borrowings are secured on its future revenue income.

Indicator 1: Capital Expenditure

The Police Authority will make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and, at least, the following two financial years.

Capital Expenditure	2008/09	2008/09
	Estimate	Actual
	£000	£000
New Programme	5,300	7,258
B/f from previous year	7,162	7,269
Sub Total	12,462	14,527
Less C/f to next year	(1,806)	(4,098)
Net Capital Expenditure	10,656	10,429

Capital Expenditure was broadly in line with initial forecasts during 2008/09 and there have been significant improvements in both terms of financial and project management of these schemes during the year. A full discussion of the Capital expenditure, rephrasing and slippage during 2008/09 can be found on the Capital Outturn report which is also on the agenda for today's meeting.

Indicator 2: Ratio of Financing Costs to Net Revenue Stream

The Police Authority will estimate for the forthcoming financial year and following two financial years, the ratio of financing costs to net revenue stream.

Financing Costs to Net Revenue Streams	2008/09	2008/09
	Estimate	Actual
	£000	£000
Financing Costs	3	42
Net Revenue Stream	124,603	124,603
Ratio %	0.0%	0.0%

Although financing costs were slightly higher than expected, due to taking out our Capital Loans earlier than previously planned, they were in overall terms very low. The significant falls in the Bank of England Base rate from 5% in October 2008 to

0.5% by March 2009 also impacted on interest receivable which we had expected would have offset the impact of taking out our capital loans earlier.

Indicator 3: Capital Financing Requirement

The Police Authority will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years.

Capital Financing Requirement	2008/09	2008/09
	Estimate	Actual
	£000	£000
Capital Financing	19,993	18,664

The Capital Financing Requirement (CFR) measures the Authority’s underlying need to borrow to fund capital assets in the balance sheet, although this borrowing may not take place externally. The main reason for the CFR being lower than estimated is that whilst everything proceeded as expected this year, at the end of 2007/08 expenditure on fixed assets was less than planned and this has had a knock on effect into the CFR for 2008/09.

1.2 Indicators of External Debt

Within the CIPFA code the emphasis is placed on the monitoring of cash flow. The level of external debt is a consequence of treasury management decisions about how much external borrowing to undertake for a given Capital Financing Requirement.

It should be noted that taken alone the quantum of external borrowing does not itself measure whether an authority has adopted a prudent borrowing strategy. It must be viewed in conjunction with the net borrowing and Capital Financing Requirement which are considered later in the report.

Indicator 4: Authorised Limit for External Debt

The Police Authority will set for the forthcoming financial year and the following two financial years, an authorised limit for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities.

Authorised Limit for External Debt	2008/09	2008/09
	Estimate	Actual
	£000	£000
Borrowing	11,428	11,428
Provision for Temporary Borrowing	4,000	0
	15,428	11,428

Actual borrowing was as planned. The provision for temporary borrowing was not used during 2008/09.

Indicator 5: Operational Boundary for External Debt

The Police Authority will set for the forthcoming financial year and the following two financial years, an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities.

Operational Boundary for External Debt	2008/09	2008/09
	Estimate	Actual
	£000	£000
Borrowing	11,428	11,428
Provision for Temporary Borrowing	2,000	0
	13,428	11,428

The Operational Boundary for External Debt is the focus for day-to-day treasury management activity. It differs from the authorised limit in that it is based on expectations of the maximum external debt of the Authority according to probable events. This limit will be lower than the authorised limit because cash flow variations may lead to the occasional breach of the operational boundary. Actual borrowing was as planned. No temporary borrowing was needed at any time during the year.

1.3 Indicator of Prudence-Financial Strategy

It is possible that while an Authority's financial strategy may be affordable in the short term, it is imprudent and unsustainable because in the medium term, if pursued, be dependent on the use of borrowing to fund revenue expenditure. For a financial strategy to be prudent under the code, medium term net borrowing can only be used for capital purposes.

Indicator 6: Net Borrowing to Capital Financing Requirement (CFR)

The Police Authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Net Borrowing and the Capital Financing Requirement (CFR)	2008/09	2008/09
	Estimate	Actual
	£000	£000
Borrowing	11,428	11,428
CFR	19,993	18,664
%age of CFR funded by borrowing	57%	61%

The actual percentage of CFR funded by borrowing was marginally higher than forecast given that the CFR was £1.3m less than expected given lower than expected Fixed Asset balances brought forward from 2007/08. Whilst the balance is higher than expected the balance is in line with previous years and there is no concern that borrowing will exceed the Capital Financing Requirement.

1.4 Indicators of Prudence-Treasury Management

Treasury management creates the link between the Authority's capital financing requirement and the structure of its external debt. The setting of prudential indicators for treasury management requires members to recognise key implications of their borrowing and investment strategies:

- Exposure to risk of interest rate changes;
- Exposure inherent in the maturity structure of borrowing;
- Risks associated with longer term investment.

The treasury management indicators are not targets to be aimed at but are instead limits within which the treasury management policies of the Authority are deemed to be prudent.

Indicator 7: CIPFA Code of Practice for Treasury Management

The first prudential indicator in respect of treasury management is that the Police Authority has adopted the Code of Practice for Treasury Management.

The CIPFA Treasury Management Code of practice was adopted by the Police Authority at its meeting on 22nd April 2004.

Indicator 8: Interest Rate Exposure

The Police Authority will set for the forthcoming financial year and the following two financial years, upper limits to its exposures to the effects of changes in interest rates. These prudential indicators will relate to both fixed interest rates and variable interest rates.

Fixed Rates	2008/09	2008/09
	Estimate	Actual
	%	%
Fixed Rates	100	100
Upper Limit of Rate Exposure	50	0
Lower Limit of Rate Exposure	150	0

Variable Rates	2008/09	2008/09
	Estimate	Actual
	%	%
Variable Rates	0	0
Upper Limit of Rate Exposure	(50)	0
Lower Limit of Rate Exposure	50	0

The indicator measures how much the risk in changes to fixed interest rates affects the Authority. To reduce risk, the Authority does not borrow at variable rates. The rates achieved for both indicators are within the specified ranges.

Indicator 9: Upper & Lower Limits – Maturity Structure

The Police Authority will set for the forthcoming financial year both upper and lower limits with respect to the maturity structure of its borrowing.

Upper Limits	2008/09	2008/09
	Estimate	Actual
	%	%
Under 12 months	4	3
Over 12 months and under 2 years	4	3
Over 2 years and under 5 years	27	26
Over 5 years and under 10 years	55	44
Over 10 years	10	24
Lower Limits		
Under 12 months	0	0
Over 12 months and under 2 years	0	0
Over 2 years and under 5 years	0	0
Over 5 years and under 10 years	0	0
Over 10 years	0	0

The indicator shows the amount of fixed rate borrowing that is projected to mature in each period. Its purpose is to reduce exposure to refinancing at times of volatile or high interest rates by avoiding large concentrations of fixed rate debt that has the same maturity structure and would have to be replaced at the same time.

The only area where the borrowing exceeds the estimate is in the over 10 years section. This is a consequence of both the SCE loan and the prudential loan being taken out during the year to a maturity date for greater than 10 years. When drawing up the initial plans the expectation was that one would mature within the 5-10 year band.

Indicator 10: Upper & Lower Limits – Principal Sums Invested

Where a police authority invests, or plans to invest, for periods longer than 364 days, the authority will set an upper limit for each forward financial year period for the maturing of such investments. Cleveland Police Authority does not normally invest for longer than 364 days but it is prudent to set a limit of £2m per annum for such maturities.

Principal Sums Invested > 1yr	2008/09	2008/09
	Estimate	Actual
	£000	£000
Maturity Profile	2,000	0

There were no instances of the Authority investing for a period of longer than 364 days during the 2008/09 financial year.