



**Report of the Chief Constable to the Chair and Members
of the Policy & Resources Panel
16th February 2012**

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

Status: For Information

Treasury Management to 31st December 2011

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 2011/12 in line with the CIPFA Code of Practice at their meeting on 24th February 2011.
- 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

Conditions within the Financial Markets have become slightly more turbulent in recent months due to the downgrading the American Investment Market from AAA to AA and the continuing issues surrounding the Euro Zone. Therefore we continue to only place investments with a select few institutions and where possible we primarily place these investments where the money is instantly accessible.

3.2 Return on Investments

The LTFFP was based on the generation of £50k of income from interest on investments placed. This was based on a return rate of 0.8% for the year on an average cash balance similar to that seen in 2010/11. The Bank of England base rate has remained at 0.5% for over 2 years but this is expected to rise at some point in the future.

3.3 As at the end of December, we are not seeing any pressure (our average investment return rate is at 0.73%) but updates will be presented at future meetings.

3.4 Investments

As at the end of December the Force had £1.789m of external investments in place, these are detailed in the table below. This is £2.4m less than forecast, and the reasons for this are:

- £1,000,000 was borrowed from PWLB rather than the £3,000,000 forecast in order to minimise interest exposure.
- During December there were a number of retirements which resulted in several lump sum payments which were not anticipated at the time of the original forecast in February 2011.

3.5 The graph at Appendix C sets out the expected cash balances throughout 2011/12 and shows these in comparison to 2010/11.

Investment Placed With	Date Investment Made	Date Investment will Mature	Amount Invested £
Nat West Holding Account (Instant Access)	n/a	n/a	£1,789,000
Total Investments			£1,789,000

3.6 Whilst returns on investments are of secondary importance to the security of the sums invested, it is still important to ensure that the best financial decisions are being made. With this in mind we will track the investments that we make throughout the year against the 7 day Average Interest Rate. The investments made so far this year are shown at Appendix D. All of the investments have been made at an interest rate higher than the 7 day average.

3.7 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 £18.641m of outstanding long term loans, having taken out a loan for £4m in June and £1m in December; along with £31.036m of PFI associated borrowing – giving a total of £49.677m. This is well within the Operational Boundary for External Debt of £58.039m and also the Authorised Limit for External Debt of £63.039m approved by the Authority on 24th February 2011.

- 3.8 The maturity date of these loans is spread over the next 10 financial years. One loan of £385k was repaid on the 30th September; there are no further loans to be repaid this financial year.
- 3.9 To underpin the approved Capital Programme for 2011/12 it may be necessary for the Authority to take out further loans with the Public Works Loan Board (PWLB). In 2010/11, approval was granted to take out £6.238m of unsupported borrowing. It was not forecast that any cash balances would be used to fund the Capital Programme, however in order to reduce interest costs, cash balances were utilised to minimise additional borrowing.
- 3.10 A further £4.182m has been approved for 2011/12 meaning that £10.420m of borrowing could be taken out in this financial year; of which £4m was taken out in June, and a further £1m in December.
- 3.11 The loan in June was with the PWLB at a rate of 4.52% to be repaid 30th September 2021. The loan of £1.0m was taken out at the end of December at a rate of 3.29% to be repaid September 2022. A further £2.0m is scheduled to be taken at the beginning of February; work is ongoing to confirm the exact requirement as much is dependent on Steria milestone dates.
- 3.12 The original plan was to take a loan of £3.0m in December, however, in order to minimise interest charges and as interest rates were showing a downward trend, it was decided that the requirement should be split into two, as indicated above.
- 3.13 The current rate of interest for a 10.5 to 11 year loan, which is the period over which we are likely to take the loan out, is 3.18%.
- 3.14 The Authority is currently incurring a range of interest charges of between 3.29% and 5.30% on the outstanding loans with the average charge being 4.60%. The cost to the organisation of these loans, plus those forecast to be taken prior to the end of the year as noted above, for this financial year will be £825k which provides a £53k pressure to the 2011/12 budget as approved by Members on 24th February 2011. However, this will be more than offset by a lower Minimum Revenue Provision than was budgeted owing to the fact that less of our capital expenditure in 2010/11 was funded by borrowing than had been anticipated as part of the budget setting process.

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 Human Rights Act

There are no Human Rights Act implications arising from this report.

4.4 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.

4.5 Risk

There are no additional risks arising from this report.

5 Conclusion

- 5.1 The protection of the Authority's underlying investments will continue to be of utmost importance throughout 2011/12. To that end the investments of the Authority will continue to be placed in a prudent manner and also one that ensures sufficient funds are available to meet its' commitments as they become due.

Jacqui Cheer
Temporary Chief Constable

APPENDIX A

Schedule of Fixed Rate Loans

Loan Number	Balance	Interest Rate	Loan Repayment Date	Annual Interest Charges
	£000	%		£000
486372	575	5.125	Sep-12	30
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	141
496955	872	4.290	Sep-20	37
496955	2,400	4.290	Sep-20	103
498683	4,000	4.520	Sep-21	181
499274	1,000	3.290	Sep-22	33
Totals	18,641			858

APPENDIX B

Repayments to be made

Financial Year		£000
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
2020/21		3,272
2021/22		4,000
2022/23		1,000
Total		18,641

APPENDIX C

