

**Report of the Chief Constable to the Chair and Members
of the Policy & Resources Panel
30th June 2011**

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

Status: For Information

**Treasury Management and Prudential Indicators Outturn
2010/2011**

1. Purpose

- 1.1 To provide details of Treasury Management performance in 2010/11.
- 1.2 To provide details of performance against the Prudential Indicators for 2010/2011, approved by Members on 25th February 2010.
- 1.3 Since approval of the Prudential Indicators, the way in which PFI is accounted for has been changed. Comparison is therefore also shown against the revised estimates which include the restatement of all indicators for the effects of PFI. These revised estimates are those on which the 2011/12 Prudential Indicators (approved 24th February 2011) were based.

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. Turbulence and

uncertainty in financial markets and financial institutions has remained in existence throughout this financial year and has meant the protection of the Authority's underlying investments was of utmost importance.

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 0.70% compared with the average 7-day rate of 0.43%. The graph shown at Appendix A shows actual performance against target.

3.3.3 During the year, as a result of interest rates remaining at their lowest historical level after setting the 2010/11 budget, the interest received during the year totalled £78k versus a budget of £100k. The £22k variance in this area is consistent with the treasury forecasts that the Authority have received monthly, and has been absorbed by underspends in other budgets. This is included as part of the revenue outturn report on today's agenda.

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 2010/11 the Authority did not take out any loans due to sufficient cash balances throughout the year.

3.4.3 For information, the graph shown at Appendix B shows how PWLB rates on a 10.5 to 11 year loan have moved across the year and these averaged at just less than 4.2%.

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*

As stated above, the Authority has not taken out any external borrowing in 2010/11.

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 2010/2011.

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 2010/11. The indicators were approved by Members on 25th February 2010.

3.8 A schedule of performance against the indicators set for the year is attached at Appendix C. This appendix also compares the 2010/11 results to the restated estimates for 2010/11 which include the effects of PFI accounting, not in place when the original 2010/11 indicators were approved.

4. Implications

4.1 Finance

The financial implications are all included in section 3 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

The current Treasury Management Policy is sustainable.

4.4 Human Rights Act

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

4.5 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 managed its cash and investments in a prudent manner, during the 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 and highly liquid manner throughout 2010/11.

Sean Price
Chief Constable

Prudential Indicators Outturn 2010/11

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	2010/11	2010/11	2010/11
	Estimate	Estimate	Actual
	AT 25/02/2010	AT 24/02/2011	31/03/11
	£000	£000	£000
Capital Expenditure	10,209	12,460	9,266
PFI Capital Expenditure	0	482	482
Total Capital Expenditure	10,209	12,942	9,748
Funded By:			
Gross Borrowing	5,972	7,110	4,047
PFI Borrowing	0	0	0
Other Capital Resources	4,237	5,832	5,701
%age of Expenditure funded by Borrowing	58.5%	54.9%	41.5%

A full discussion of the Capital expenditure, rephasing and slippage during 2010/11 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	2010/11	2010/11	2010/11
	Estimate	Estimate	Actual
	AT 25/02/2010	AT 24/02/2011	31/03/11
	£000	£000	£000
Minimum Revenue Provision (MRP)	771	1,355	1,355
Interest Payable on Borrowing	671	3,605	3,705
Interest Receivable	(100)	(55)	(78)
Financing Costs	1,342	4,905	4,983
Net Revenue Stream	132,172	132,172	132,172
Ratio %	1.0%	3.7%	3.8%

Financing costs were significantly higher than initially forecast during 2010/11, the majority of this relates to the change in the way that we had to account for our PFI assets as at the 31st March 2010 (post approval of the 2010/11 Prudential Indicators). Previously these charges were recorded as part of the Unitary Charge for our PFI assets. One of the results of the changing accounting policy is that the Unitary Charge is split into what are its component parts. This was not in line with our expectations when we set the indicators for 2010/11. In addition to this variance we also received less interest on our investments than we forecast when setting the 2010/11 budget. As previously discussed this was as a result of interest rates remaining at their lowest historical level.

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	2010/11	2010/11	2010/11
	Estimate	Estimate	Actual
	AT 25/02/2010	AT 24/02/2011	31/03/11
	£000	£000	£000
Opening Capital Financing Requirement	21,269	16,764	16,764
Supported Borrowing	872	872	872
MRP on Supported Borrowing	(600)	(591)	(591)
Closing Capital Financing Requirement	21,541	17,045	17,045
Unsupported borrowing to fund Capital Expenditure	5,100	8,138	5,075
PFI Borrowing		34,978	34,978
Total CFR Base on which MRP is calculated	26,641	60,161	57,098
MRP on Unsupported Borrowing	(171)	(48)	(48)
MRP on PFI		(1,336)	(1,336)
Total CFR Base for borrowing purposes	26,470	58,777	55,714

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 reason for the CFR being significantly higher than originally estimated, at the time of setting the 2010/11 Prudential Indicators, is that the legislated change in Accounting Policy relating to PFI now requires our PFI buildings to be classified as assets. The value of these assets are therefore incorporated into our Fixed Asset balances and this has increased the calculated Capital Financing Requirement.

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	2010/11	2010/11	2010/11
	Estimate	Estimate	Actual
	AT 25/02/2010	AT 24/02/2011	31/03/11
	£000	£000	£000
Borrowing	19,998	21,136	18,073
PFI Borrowing	0	31,036	31,036
Provision for Temporary Borrowing	4,000	4,000	0
	23,998	56,172	49,109

Actual borrowing was lower than planned due to slippage in the 2010/11 Capital Programme. Also, the borrowing which took place was borrowing from our own internal cash funds due to a surplus in year. The provision for temporary borrowing was not used during 2010/11.

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	2010/11	2010/11	2010/11
	Estimate	Estimate	Actual
	AT 25/02/2010	AT 24/02/2011	31/03/11
	£000	£000	£000
Borrowing	19,998	21,136	18,073
PFI Borrowing	0	31,036	31,036
Provision for Temporary Borrowing	2,000	2,000	0
	21,998	54,172	49,109

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 above. 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 Authority needs to ensure that its total borrowing net of any investments does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2010/11 and the following two financial years. This allows some flexibility for limited early borrowing for future years, to take advantage of market opportunities and to build in budget uncertainty.

Net Borrowing and the Capital Financing Requirement (CFR)	2010/11	2010/11	2010/11
	Estimate	Estimate	Actual
	AT 25/02/2010	AT 24/02/2011	31/03/11
		£000	£000
Borrowing	19,998	21,136	18,073
PFI Borrowing	0	31,036	31,036
Investments	(8,500)	(7,500)	(7,500)
Net Borrowing	11,498	44,672	41,609
Total CFR Base for borrowing purposes	26,470	58,777	55,714

This is another Indicator that is significantly impacted by the change in Accounting Policy that occurred in March 2010 in relation to our PFI schemes as discussed above. The Fixed Assets now recognised are offset by the liability to the Private company which, under accounting standards, takes on all the characteristics of debt and therefore must be included in our net borrowing.

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

This indicator identifies a maximum level of borrowing that can be made at Fixed and Variable interest rates.

Borrowing	2010/11		2010/11
	Estimate	Estimate	Actual
	AT 25/02/2010	AT 24/02/2011	31/03/11
	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100
Upper Limit of Variable Rate Exposures	20	20	0

The Authority did not enter into any variable rate lending during the financial year.

Indicator 9: Upper Limits on Investments

This indicator identifies a maximum level of investments that can be made at Fixed and Variable interest rates.

Investments	2010/11		2010/11
	Estimate	Estimate	Actual
	AT 25/02/2010	AT 24/02/2011	31/03/11
	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100
Upper Limit of Variable Rate Exposures	20	20	0

The Authority did not enter into any variable rate investments during the financial year.

Indicator 10: 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. These gross limits are set to reduce the Authority's exposure to large fixed rate sums falling due for re-financing within a short timeframe.

Maturity Structure of Debt	2010/11		2010/11	
	Forecast		Actual	
	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	3%
Over 12 months and under 2 years	0%	50%	0%	12%
Over 2 years and under 5 years	0%	50%	0%	23%
Over 5 years and under 10 years	0%	50%	0%	60%
Over 10 years	0%	100%	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 current maturity structure is outside the limits approved by the Authority in the “over 5 years and under 10 years” category. This is due to the fact that no borrowing was taken out during the 2010/11 year thus lowering the level of overall debt to that which was forecast, and therefore increasing the percentage of debt repayable in the 5 to 10 year period.

Indicator 11: 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	2010/11	2010/11	2010/11
	Estimate	Estimate	Actual
	25/02/2010	24/02/2011	31/3/11
	£000	£000	£000
Maturity Profile	2,000	2,000	0

There were no instances of the Authority investing for a period of longer than 364 days during the 2010/11 financial year.