

Approved by: Charles Garbett, PCC's Chief Financial Officer	Classification of paper: Not Protectively Marked
Report to PCC	Report reference number PCC/0006/16
Date of decision 12 January 2016 Date of report 17 December 2015	Area of county / Stakeholders affected Force wide
Title of report Half Year Treasury Review 2015/16	
Report by Colin Woollard, Interim Corporate & Capital Accountant	
Enquiries to Charles Garbett, Treasurer	

1.0 Purpose of Report

1.1 To present the half year treasury review for 2015/16. The Chartered Institute of Public Finance and Accountancy (CIPFA) definition of treasury management:

'The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'

1.2 To present an update regarding investments with UK financial institutions.

2.0 Recommendations

2.1 The PCC is recommended to:-

- (i) Note the half year treasury review for 2015/16.
- (ii) Maintain the treasury investment limits shown at Appendix B.
- (iii) Approve the use of the UK Counterparty List issued by the treasury advisors for investment decisions.

3.0 Benefits of Proposal

3.1 This report provides the PCC with a half yearly review of treasury management activity.

4.0 Half Yearly Review 2015/16***Investments***

4.1 The table on the following page summarises the investment position at 1 April and 30 September 2015.

Investments	1 April 2015	30 Sept 2015
	£000	£000
Call accounts	7,964	20,000
Fixed term deposits	16,000	6,000
Lloyds current account	36	6,218
Total	24,000	32,218

Full details of the investments are shown at Appendix A.

4.2 The increase in investments between the two dates is mainly due to the receipt of £30.369m Police Pensions Top-Up Grant in July 2015. Investments will decrease over the second half of the year, with the balance at 31 March 2016 forecast to be £19.752m.

4.3 The average level of investments over the six month period was £32.054m. Interest earnings for the period were £0.071m, representing an average return of 0.44%. The budgeted investment income for the half year is £0.126m, and the earnings therefore represent an under-achievement of £0.055m. This is partly due to a fall in interest rates on call accounts and fixed term investments since the budget was set.

Borrowings

4.4 There were no long term borrowings during the period. There have been three instances of short term borrowing during the six month period, one with Derbyshire County Council for £3.0m and two with Leicester City Council totalling 6.5m. These were necessary to fund temporary peaks in cash outflows, including the police officer pension's payroll in July (see 4.6 below).

4.5 There is a possibility that further short-term borrowing of up to £8.0m will be required in March 2016 to cover pension payments as a result of payments arising from the Government Actuary Department v Milne case. These payments will be reimbursed by the Home Office.

Compliance with Treasury Management Strategy

- 4.6 The treasury position on 1st July 2015 was a net deficit of £4.5m due to the monthly police officer pension's payroll.
- 4.7 As no short term borrowing had been pre-agreed it was necessary to cover the deficit with our Lloyds overdraft facility. This incurred an interest charge of £308. Short term borrowing of £4.5m from Leicester City Council was made for 2 days to address the position.
- 4.8 In every other respect, treasury activity has been fully compliant with the strategy during the review period to not enter into short term borrowing arrangements.

5.0 Investments with UK Financial Institutions

- 5.1 The 2015/16 treasury management strategy defines the country, duration and monetary limits for investments and the limits are set out at Appendix B.
- 5.2 The PCC's treasury advisors, Arlingclose, maintain a recommended lending of UK banks and building societies, the UK Counterparty List. Arlingclose issue the list each month. The most recent version was issued on 30 October 2015, and is as follows:

**Arlingclose UK Counterparty List
30 October 2015**

Banks

Bank of Scotland
Barclays
Close Brothers Ltd
Goldman Sachs International
HSBC
Lloyds
National Westminster
Royal Bank of Scotland
Santander UK
Standard Chartered

Darlington Building Society
Furness Building Society
Harpenden Building Society
Hinckley & Rugby Building Society
Leek United Building Society
Loughborough Building Society
Mansfield Building Society
Market Harborough Building Society
Marsden Building Society
Melton Mowbray Building Society
National Counties Building Society
Newbury Building Society
Scottish Building Society
Stafford Railway Building Society
Tipton & Coseley Building Society
Vernon Building Society

Building Societies

Coventry Building Society
Leeds Building Society
Nationwide Building Society
Cumberland Building Society

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5.3 Any investment will be compliant with the PCC's investment criteria and limits shown at Appendix B. This is to maximise investment returns with minimal additional risk

5.4 The PCC's investments are, at present, concentrated with a small number of financial institutions. This position will be reviewed by the Treasurer for the 2016/17 treasury management strategy in order to ensure that the PCC's exposure to the risk of institutional failure is minimised.

6.0 Police and Crime Plan

Not applicable

7.0 Police Operational Implications

Not applicable

8.0 Financial Implications

Fully covered within this report.

9.0 Legal and Contractual Implications

9.1 Approval of the Treasury Management Strategy and variations satisfies the requirements of the Local Government Act 2003, CIPFA Prudential Code, CLG MRP Guidance, CIPFA Treasury Management Code & CLG Investment Guidance.

10.0 Staffing and Other Resource Implications

Not applicable

11.0 Equality and Diversity Implications

Not applicable

12.0 Background Papers

None

Appendix A

Investment position at 1 April and 30 September 2015

	1 April 2015 £000	Start date	Maturity date	Rate %
<u>Call accounts</u>				
Santander UK Plc	6,173			0.60%
Barclays Bank Plc	1,791			0.30%
Total	7,964			
<u>Fixed term deposits</u>				
Nationwide Building Society	3,000	12-Jan-15	13-Jul-15	0.66%
HSBC	3,000	09-Feb-15	10-Aug-15	0.45%
Leeds Building Society	2,000	09-Jan-15	09-Apr-15	0.47%
Santander UK Plc	2,000	06-Feb-15	06-May-15	0.55%
Lloyds Bank Plc	3,000	08-Aug-14	08-Aug-15	0.95%
Lloyds Bank Plc	3,000	09-Jan-15	08-Jul-15	0.70%
Total	16,000			
<u>Lloyds current account</u>	36			0.40%
Total all Investments	24,000			

	30 Sept 2015 £000	Start date	Maturity date	Rate %
<u>Call accounts</u>				
Santander UK Plc	10,000			0.40%
Barclays Bank Plc	10,000			0.30%
Total	20,000			
<u>Fixed term deposits</u>				
Bank of England DMO	3,000	28-Sep-15	01-Oct-15	0.25%
Bank of England DMO	3,000	28-Sep-15	05-Oct-15	0.25%
Total	6,000			
<u>Lloyds current account</u>	6,218			
Total all investments	32,218			

Appendix B

For 2015/16 The PCC may invest surplus funds with any of the counterparties in the table below, subject to the cash and time limits shown in the following table:

Counterparty	Cash limit	Duration
UK banks whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor is A-	£10m each	1 year
UK banks whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is BBB+	£10m each	100 days
UK Central Government (irrespective of credit rating)	unlimited	1 year
UK Local Authorities (irrespective of credit rating)	£10m each	1 year
UK building societies who have credit ratings from at least two of the three main credit ratings agencies (Fitch, Moody's and Standard & Poor) and whose lowest published long-term credit rating from is A-	£10m each	1 year
Foreign banks whose lowest published long-term credit rating is A- and whose country has a sovereign rating of AAA	£10m each	1 year

Country limits: For 2015/16 the counterparties include non-UK banks whose country is AAA rated. This rating is higher than the current UK rating of AA+

UK Banks: these are defined as:

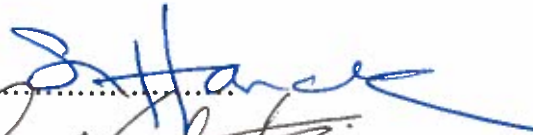
- a) those that have no foreign parent bank, e.g. Barclays
- b) those that are 100% owned by a UK bank, e.g. National Westminster (which is fully owned by Royal Bank of Scotland)


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- c) UK banks, and their formally guaranteed subsidiaries, that are owned by foreign parent banks, provided that the UK banks meet the following criteria:
 - i) registered in the UK as companies in their own right
 - ii) operate under a banking licence issued by the Bank of England
 - iii) regulated by the Financial Conduct Authority

Report Approval

The report will be signed off by the Chief Executive and CFO and the PCC Solicitor where legal implications arise.

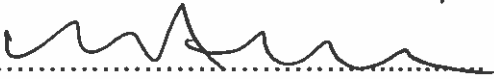
Chief Executive/M.O 

Chief Financial Officer 

PCC Legal Advisor (as necessary)

Decision

I agree the recommendations to this report

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PCC/Deputy PCC

I do not agree the recommendations to this report because

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PCC/Deputy PCC

Publication

Reasons for non-publication (*state 'None' if applicable*)

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Signed/Print name

Report for publication	YES	<input type="checkbox"/>
	NO	<input type="checkbox"/>

If the report is not for publication, the Chief Executive will decide if and how the public can be informed of the decision.