



west midlands  
police and crime  
commissioner



**AGENDA ITEM 08**

**JOINT AUDIT COMMITTEE  
27th SEPTEMBER 2018**

**2018/19 TREASURY MANAGEMENT  
UPDATE REPORT**

**1. PURPOSE OF REPORT**

- 1.1 This report updates members on recent Treasury Management activity, in line with recommended best practice and the revised CIPFA Code of Practice for Treasury Management. The report provides a summary of macroeconomic factors and also an update of the Police and Crime Commissioner's (PCC) position.
- 1.2 It is important to note that financial information contained within this report should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The PCC and their treasury advisers will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this report.

**2 ECONOMIC BACKGROUND**

- 2.1 The first half of 2018/19 has seen the continued fallout from the UK's vote to leave the EU which has increased uncertainty and reduced prospects for growth. The Monetary Policy Committee (MPC) raised Bank Rate to 0.75% on 02/08/18. The flow of generally positive economic statistics since the end of the first quarter this year has meant that the MPC had no further reason to not increase Bank Rate above 0.5% for the first time since the financial crash. However, the MPC emphasised that future Bank Rate increases would be gradual (they gave a figure of around 2.5% in ten years' time). The significant points of the MPC meeting were:
  - The MPC vote was 9-0, not 7-2 as expected.
  - GDP growth forecast for 2019 was raised from 1.7% to 1.8%; (2018 and 2020 unchanged).

- The MPC believe the economy will be operating at a small amount of excess demand in 2020, (previously 2021). This is likely to generate an increase in home grown inflationary pressures, (as opposed to imported inflation due to a one off fall in the value of sterling).
- The unemployment rate is expected to fall to 3.9% (equilibrium rate forecast to be 4.25%). The percentage of the population in employment is also at record highs.
- The MPC expressed concern at how weak productivity increases have been in recent years and this may lead to a build-up of wage inflation pressures as a result.
- CPI inflation now forecast to be slightly above 2% target in 2 years' time.

### 3. INTEREST RATE FORECAST

- 3.1 Finance staff meet regularly with the PCC's treasury advisers, Link Asset Services, to review the economic conditions and the PCC's overall position.
- 3.2 Even though economic circumstances were improving the difficulties of forecasting in such uncertain times leads Link Asset Services to provide the following forecast of interest rates as at 09/08/18:

<b>Forecasts</b>	<b>Sep-18</b>	<b>Dec-18</b>	<b>Mar-19</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>
Bank Rate	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.50	1.50
5 year PWLB	2.00	2.00	2.10	2.20	2.20	2.30	2.30	2.40	2.50	2.50	2.60
10 year PWLB	2.40	2.50	2.50	2.60	2.70	2.70	2.80	2.90	2.90	3.00	3.10
25 year PWLB	2.80	2.90	3.00	3.10	3.10	3.20	3.30	3.30	3.40	3.50	3.50
50 year PWLB	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.10	3.20	3.30	3.30

*Note: PWLB is the Public Works Loans Board which is the main body through which the PCC borrows money against capital requirements. The rates shown in the table are for interest only loans over different loan periods, with the principal repayable as a lump sum at the end of the loan period.*

- 3.3 Long term PWLB borrowing rates (50 years) are expected to steadily increase to reach 3.00% by the end of 2019 due to high levels of gilt issuance and investor concerns over inflation.

### 4. ANNUAL INVESTMENT STRATEGY

- 4.1 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the PCC in March 2018. The PCC's Annual Investment Strategy which is included in the TMSS outlines the PCC's investment priorities as "Security of Capital and Liquidity".
- 4.2 The best possible return on investments will be pursued but only to the extent that this is consistent with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep a proportion of investments short term, and

only invest longer with other local authorities and highly credit rated financial institutions, using Link Asset Services' suggested creditworthiness approach.

- 4.3 This creditworthiness approach includes credit rating and Credit Default Swap information collected on a daily basis by Link Asset Services. A full list of investments held as at 17th August 2018, including credit rating data supplied by Link Asset Services, is shown in Appendix 1.
- 4.4 The level of funds invested at 17<sup>th</sup> August 2018 was £179.5m with maturity dates ranging between 1 day and 3 years. This is so high because the PCC received the year's police pensions top up grant, £100m in July.
- 4.5 The average cumulative interest rate achieved on investments maturing by 31<sup>st</sup> July 2018 was 0.70% which compares well with benchmarks of 0.25% for 7 day LIBID and 0.48% for 3 month LIBOR over the same period (see Appendix 2).
- 4.6 The PCC's budgeted investment return for 2018/19 is £1.0m and performance for the year to date is in line with the budget expectation. The average monthly investment balance for 2018/19 is expected to be £120.5m.
- 4.7 The investment returns for 2018/19 will now include returns from the £3m invested with the CCLA property fund. A longer term investment that both boosts average returns and diversifies the portfolio of investments.

## **5 PRUDENTIAL INDICATORS**

- 5.1 It is a statutory duty for the PCC to determine and keep under review the affordable borrowing limits that were part of the Prudential Indicators agreed in the Treasury Management Strategy Statement approved in March 2018.
- 5.2 The Prudential Indicators were not breached during the first 5 months of 2018/19, as shown in the table below:

<b>Prudential Indicator</b>	<b>2018/19 Indicator</b>	<b>Actual to 31/08/18</b>
Capital Financing Requirement (CFR)	£44.7m	£44.7m
Gross Borrowing	£47.2m	£47.2m
Authorised Limit for External Debt	£100.0m	£47.2m
Operational Boundary for External Debt	£90.0m	£47.2m
Limit of Fixed Interest Rates based on Net Debt	100%	100%
Limit of Variable Interest Rates based on Net Debt	20%	0%
<b>Maturity Structure of Borrowing Limits</b>	<b>2018/19 Indicator</b>	<b>Actual to 31/08/18</b>
Under 12 Months	25%	0%
12 Months to 2 Years	25%	1%
2 Years to 5 Years	50%	6%
5 Years to 10 Years	75%	17%
10 Years and Above	100%	76%

- 5.3 All of the PCC's borrowing to date, £47.2m, has been obtained from the PWLB (see Appendix 2). No additional borrowing has been undertaken so far in 2018/19. It is anticipated that additional borrowing will be required in line with the Estates Strategy but this will be kept under review against the actual capital spending in year.
- 5.4 To fund planned initial capital expenditure in the estates strategy the PCC plans to borrow £10m during 2018 when PWLB rates are favourable and another £20m during 2019. Additional borrowing will be undertaken as the estates strategy progresses further during 2019 and beyond.

## **6 RECOMMENDATIONS**

- 6.1 The Committee is recommended to note the report which complies with the CIPFA Code of Practice for Treasury Management.
- 6.2 The Committee is advised of the new opportunity for longer term investments as described in 4.7 above.
- 6.3 The Committee is advised of the plan for borrowing long term described in 5.4 above.

Mark Kenyon  
Chief Financial Officer  
Police and Crime Commissioner

Neil Chamberlain  
Director of Commercial Services  
West Midlands Police

**INVESTMENTS AS AT 17/08/18**

Maturity	Borrower	Broker	Principal	Rate	Rating
					LT ST viab supp
20-Aug-18	Nat West	DIRECT	24,000,000	0.05	A- F2 bbb+ 5
24-Aug-18	Doncaster MBC	PREBON	3,500,000	0.60	Local Authority
24-Aug-18	Merthyr Tydfil CBC	BUTLERS	5,000,000	0.40	Local Authority
24-Aug-18	Wirral MBC	BUTLERS	5,000,000	0.35	Local Authority
24-Aug-18	Coventry BS	BUTLERS	5,000,000	0.44	A F1 a 5
24-Aug-18	Coventry BS	PREBON	10,000,000	0.50	A F1 a 5
03-Sep-18	Bournemouth BC	PREBON	3,000,000	0.55	Local Authority
25-Oct-18	Plymouth CC	PREBON	10,000,000	0.53	Local Authority
23-Nov-18	Santander	BUTLERS	2,000,000	0.70	A F1 a 2
23-Nov-18	Leeds BS	CDB	5,000,000	0.59	A- F1 a- 5
20-Dec-18	North Tyneside MBC	BUTLERS	5,000,000	0.75	Local Authority
21-Dec-18	Isle of Wight	PREBON	5,000,000	0.70	Local Authority
08-Jan-19	Darlington Borough Council	BUTLERS	5,000,000	1.35	Local Authority
09-Jan-19	Rugby BC	CDB	3,000,000	2.30	Local Authority
09-Jan-19	Northumberland County Coun	PREBON	10,000,000	0.60	Local Authority
25-Jan-19	Eastleigh BC	PREBON	10,000,000	0.77	Local Authority
25-Jan-19	Leeds BS	CDB	5,000,000	0.69	A- F1 a- 5
25-Feb-19	Eastleigh BC	PREBON	10,000,000	0.79	Local Authority
25-Feb-19	Leeds BS	CDB	5,000,000	0.73	A- F1 a- 5
26-Feb-19	Dorset County Council	BUTLERS	5,000,000	0.70	Local Authority
25-Mar-19	Leeds BS	CDB	5,000,000	0.77	A- F1 a- 5
07-May-19	Fife Council	BUTLERS	3,000,000	1.40	Local Authority
16-Sep-19	Walsall MBC	CDB	10,000,000	0.80	Local Authority
07-Jan-20	Northumberland County Coun	CDB	10,000,000	0.75	Local Authority
06-Jul-20	London Borough of Croydon	PREBON	10,000,000	1.30	Local Authority
13-Aug-20	Staffordshire Moorlands DC	BUTLERS	1,000,000	2.05	Local Authority
28-Aug-20	Fife Council	BUTLERS	5,000,000	1.75	Local Authority
		TOTAL	179,500,000		
5 to 10 years	CCLA		3,000,000		Property Fund

Long Term Ratings AAA to DDD the best quality to junk bonds

Short Term Ratings F1+ to F3 the safest to the riskier

Viability Rating aaa to bbb as its title suggests

Support Rating 1 to 5 how well backed by sovereign nation

Local Authorities are assumed to have the same ratings as UK Government

**TREASURY MANAGEMENT REPORT: JULY 2018****1. LONG TERM EXTERNAL BORROWING**

				JUNE		JULY	
				£000	%	£000	%
Balance b/fwd.				47,167		47,167	
Loans raised in month				0		0	
Loans repaid in month				0		0	
Balance c/fwd.				47,167		47,167	
Average Fixed Interest Rate					4.56%		4.56%
Average Variable Interest Rate					0.00%		0.00%
Average Overall Interest Rate					4.56%		4.56%
Loan No.	Yrs	Start	Maturity				
480123 F	22	15/10/1997	15/10/2019	550	6.5000%	550	6.5000%
480124 F	26	15/10/1997	15/10/2023	800	6.6250%	800	6.6250%
480125 F	27	15/10/1997	15/10/2024	2,200	6.6250%	2,200	6.6250%
480126 F	28	15/10/1997	15/10/2025	2,000	6.6250%	2,000	6.6250%
480785 F	25	31/03/1998	31/03/2023	580	6.1250%	580	6.1250%
480784 F	25	31/03/1998	31/03/2023	2,420	6.1250%	2,420	6.1250%
485901 F	60	23/09/2001	01/09/2061	2,000	4.8750%	2,000	4.8750%
490558 F	15	14/09/2005	01/09/2020	2,830	4.3500%	2,830	4.3500%
491185 F	45	23/01/2006	23/01/2051	15,000	3.7000%	15,000	3.7000%
491764 F	50	28/06/2006	15/06/2056	5,587	4.4500%	5,587	4.4500%
493148 F	50	26/03/2007	01/03/2057	8,200	4.3500%	8,200	4.3500%
494753 F	50	15/08/2008	15/08/2058	5,000	4.3900%	5,000	4.3900%
				47,167		47,167	
Proportion Variable				0.00%		0.00%	
Proportion Fixed				100.00%		100.00%	

## 2. TEMPORARY EXTERNAL BORROWING

	JUNE		JULY	
	£000		£000	
Balance b/fwd	10,000		20,000	
Loans raised in month	10,000		0	
Loans repaid in month	0		(20,000)	
Balance c/fwd	20,000		0	
Month end cash overdrawn balance (Nat-West)	0		0	
Average value of overdrawn balance	0		0	
Number of days	0		0	
Avg. Int. Rate (excl O/D balance)		0.55%		0.60%
Cumulative Interest Rate (year to date)		0.55%		0.57%
Bank Base Rate		0.50%	No meeting	0.50%

## 3. TEMPORARY INVESTMENTS

	JUNE		JULY	
	£000		£000	
Balance b/fwd	93,200		75,800	
Investments made in month	57,200		190,800	
Investments realised in month	(74,600)		(90,200)	
Unrealised Investments				
Balance c/fwd	75,800		176,400	
Month end cash deposit balance (Nat-West)		855		240
Average value of deposit balance		504		662
Number of days in credit		30		31
Average WMPA Interest Rate for month		0.72%		0.67%
LIBID 7 day rate in month		0.21%		0.36%
LIBOR 3 month rate in month		0.41%		0.68%
Cumulative WMPA Interest Rate (year)		0.73%		0.70%
Cumulative LIBID 7 day rate		0.21%		0.25%
Cumulative LIBOR 3 month rate		0.41%		0.48%
Bank Base Rate		0.50%		0.50%

Major Banks & Subsidiaries  
 Overseas Institutions  
 Building Societies  
 Other Local Authorities

No.	Total £000	Individual Maximum
1	5,300	5,300
0	0	0
0	0	0
11	70,500	20,000
	75,800	
	3,000	
	78,800	

CCLA

No.	Total £000	Individual Maximum
2	25,900	23,900
0	0	0
2	25,000	20,000
16	125,500	20,000
	176,400	
	3,000	
	179,400	