Cambridgeshire Police & Crime Commissioner

To: Business Coordination Board

From: PCC Chief Finance Officer

Date: 04 June 2015

PROPOSED CHANGES TO TREASURY MANAGEMENT STRATEGY 2015/16 TO 2017/18

1. Purpose

1.1. This report provides the Business Coordination Board ("the Board") with proposed amendments to the Treasury Management Strategy Statement (TMSS) for 2015/16 to 2017/18.

2. Recommendation

2.1 Further to approval at the Finance Sub Group meeting on 21st May 2015, the Board is recommended to approve the revised TMSS as follows:-

a) the Prudential Indicators and Limits for 2015/16 to 2017/18 contained within Appendix A of the report, including the Authorised Limit Prudential Indicator;

b) the Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the Commissioner's policy on MRP;

c) the Treasury Management Strategy 2015/16 to 2017/18 contained within Appendix A; and

d) the Investment Strategy 2015/16 contained in the Treasury Management Strategy (Appendix A).

3. Background

3.1. In the spirit of making all our assets count, it was agreed that consideration should be given to methods of improving the return on investments with a minimal increase in risk.

4. Process

4.1. The Commissioner's CFO has performed a desktop review of the TMSSs of a sample of three Police and Crime Commissioners, one County Council and one District Council. The CFO has also held meetings to discuss treasury management with the CFO of Hertfordshire PCC/County Council and also the Treasury Development Manager and treasury adviser for Cambridgeshire. The findings were presented to and approved by the Finance Sub-Group on 23 April 2015.

5. Findings

5.1. Cambridgeshire PCC's current investment criteria may be summarised as follows:

	Fitch Long term Rating (or equivalent)	**Money and/or % Limit**	**Time Limit**
Banks 1 higher quality	***F1***	25% of available funds up to £5m per institution	**364 Days**
Banks 2 – part nationalised	**F1**	25% of available funds up to £5m per institution	**364 Days**
Limit 3 category – Commissioner's banker (not meeting Banks 1)	**F1**	**£5m**	**Overnight**
DMADF	**AAA**	100% available funds	**6 months**
Local authorities	**N/A**	**£5m**	**364 days**
	Fund rating	**Money and/or % Limit**	**Time Limit**
Money market funds	**AAA**	100% of available funds. If over £5m, spread over 2 funds	**liquid**

5.2. In addition, Cambridgeshire PCC will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent).

5.3. The organisations reviewed had a range of minimum credit ratings for investment, as follows:

- The County Council and PCC with large (>£45m) portfolios had a greater risk appetite, as expected, and permitted investments up to £1m in counterparties rated BBB-
- The two PCCs with a similar portfolio size to Cambridgeshire PCC had (1) a minimum rating of A for Banks 1 (Higher Quality) and AA for the Commissioner's Banker and (2) a minimum rating of AAA for overseas banks and AA+ for UK banks, respectively.
- The sample District Council's lowest minimum long-term credit rating was A-.

5.4. If Cambridgeshire PCC reduces its minimum credit rating, it would give it exposure to a wider range of counterparties although it would probably not equate to much additional yield in the current market. In addition, expanding our money market funds to include non-government funds could yield 5-10 basis points of extra yield, equating to £4-£8k per annum.

5.5. Country limits at other bodies ranged from AAA to A-. Due to the priority of security over return, no change to country credit ratings are proposed for Cambridgeshire PCC.

5.6. Unlike Cambridgeshire PCC, all organisations reviewed permitted the investment of principal for periods exceeding one year, with the District Council having a caveat that the maturity date must be under two years from the date of the investment. The maximum investments allowed over one year varied according to the size of the organisation's overall portfolio, but were between 15% (the District Council, which had £12.7m in its portfolio as at 31 March 2014) and 57% (one of the PCCs; total portfolio £43.5m) of the portfolio.

5.7. However, further discussions with the advisers and Treasury Development Manager have revealed that the increase in return for Cambridgeshire PCC on adopting a similar policy would be around £10k for a threefold increase in risk.

5.8. It should also be borne in mind that the PCC is currently under-borrowed (cash has been used in lieu of borrowing), by £15m, so approximately half the cash available to the PCC has been utilised for long term purposes. This saves interest costs of 3%+ and reduces counterparty risk, so is a very efficient use of funds. Approximately £9m of the current residual £15m cash investments is required for liquidity purposes, so given the uncertainty of future cashflows in the current environment, an increase in investment duration is not recommended at this time.

5.9. A further technical amendment was suggested by our adviser for Limit 3, our own banker. This is a contingency that allows our banker to be used for transactional purposes should the rating fall below our minimum criteria. It was suggested that we remove any criteria for this category to ensure that we can continue to use our bank should their rating fall. Clearly, should there be a major change in our bank's financial standing we would then need to consider alternative arrangements.

6. Proposed amendments to TMSS

6.1. It is therefore proposed that Cambridgeshire PCC adopts a minimum credit rating policy as follows:

	Fitch Long term Rating (or equivalent)	Money and/or % Limit	Time Limit
Banks 1 higher quality	*A- (long-term)* *F1 (short-term)*	25% of available funds up to £5m per institution	**364 Days**
Banks 2 – part nationalised	*A- (long-term)* *F1 (short-term)*	25% of available funds up to £5m per institution	**364 Days**

Limit 3 category – Commissioner's banker (not meeting Banks 1)		**£5m**	**Overnight**
DMADF	**AAA**	100% available funds	**6 months**
Local authorities	**N/A**	**£5m**	**364 days**
	Fund rating	**Money and/or % Limit**	**Time Limit**
Money market funds – *including non-government funds*	**AAA**	100% of available funds. If over £5m, spread over 2 funds	**liquid**

6.2. The proposed updated TMSS is shown in Appendix A. A summary of Fitch ratings and the equivalence between long- and short-term ratings is shown in Appendix B to this report.

7. Recommendation and next steps

7.1 Further to approval at the Finance Sub Group meeting on 21st May 2015, the Board is recommended to approve the revised TMSS as follows:-

a) the Prudential Indicators and Limits for 2015/16 to 2017/18 contained within Appendix A of the report, including the Authorised Limit Prudential Indicator;
b) the Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the Commissioner's policy on MRP;
c) the Treasury Management Strategy 2015/16 to 2017/18 contained within Appendix A; and
d) the Investment Strategy 2015/16 contained in the Treasury Management Strategy (Appendix A).

7.2. The TMSS with its amendments will then be presented to the Joint Audit Committee on 29 June 2015.

7.3. It is proposed that the time limit on investments is revisited in 12-18 months' time when there may be greater clarity on future cashflows and cost pressures.

BIBLIOGRAPHY

Source Documents	Treasury Management Strategy Statement 2015/16 to 2017/18 Finance Sub Group minutes 21st May 2015 (draft)
Contact Officers	Josie Gowler, Chief Finance Officer, Office of Police and Crime Commissioner