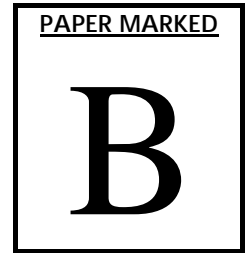


# **LEICESTERSHIRE POLICE AUTHORITY**



Meeting      **FINANCE AND GENERAL PURPOSES COMMITTEE**

Date          **TUESDAY, 24 MARCH 2009 – 10.00 A.M.**

Report of     **CHIEF CONSTABLE & TREASURER**

Subject       **TREASURY MANAGEMENT**

## **Purpose of Report**

1. To obtain approval to the Treasury Management Policy and Strategy for 2009/10.

## **Background**

2. The 'Code of Treasury Management' published by the Chartered Institute of Public Finance and Accountancy (CIPFA), and recommended by the Home Office, has been adopted by the Police Authority. This states that the Police Authority must receive two reports annually on Treasury Management. This is the first and covers policy and strategy for 2009/10.
3. The Treasury Management Policy and Strategy is approved annually to run from 1 April to the following 31 March.
4. The Police Authority approved a report on the 11 November 2004, which set out changes to the policy which took into account Internal Audit recommendations. The report also redefined the categories of approved organisations for lending and the maximum amount that could be loaned to them.
5. The Local Government Act 2003 introduced new capital regulations that applied from 1 April 2004. The new regulations allow the Authority freedom to borrow to fund capital expenditure provided it has plans that are affordable, prudent and sustainable. The requirements are covered in the Prudential Code.
6. On 29 October 2008 the Police Authority agreed a temporary suspension of the investment strategy. This was in response to the volatility being experienced in the banking sector. The latest position is discussed below.

## **Treasury Management Strategy**

6. The overall objective is to balance risk against return. The avoidance of risk takes precedence over maximising returns. The strategy covers:-

- (i) Managing the Day to Day Cash Position of the Police Authority

The objective is to generate more funds to assist the Police Authority budget. Accordingly the target for the uninvested overnight balance in the current account is a maximum of £15,000 as no interest is paid on such balances. The

procedure governing lending for longer periods is dealt with in paragraph (iii) below.

(ii) Borrowing

Funds are only borrowed to finance part of the Capital programme. External borrowing is from the Public Works Loan Board (PWLB) at below commercial rates. The critical factor in determining the length of such loans is the view on the future movement of interest rates.

The 2009/10 Capital Programme provides for £3.159 million to be financed from loan. Any external borrowing will be from the PWLB and provision for the debt servicing costs is contained within the approved 2009/10 revenue budget. Together with the Force Finance Director, the Treasurer will continually review the timing of the draw down of the facility to ensure that it is done at a time that is considered to be the most advantageous.

(iii) Lending

At any one time the Police Authority has available between £20m and £30m to lend. This is a combination of reserves supplemented by positive cash flow i.e. grant and precept income coming in before expenditure is incurred. Whilst the objective is to maximise returns, security of the loan is the overriding consideration in selecting the organisations to whom money is lent.

The original policy provides that only those types of organisations approved by the Government are used and within this only those with the highest credit rating according to the credit rating agency list are recommended. The credit ratings are monitored on a quarterly basis. If a rating did fall below the required level no further loans would be made.

However, that strategy is currently suspended by virtue of the decision of the Police Authority on 29 October 2008. Investments are made only with UK clearing banks, Northern Rock, Irish banks and the Nationwide Building Society.

In view of the continuing volatility in the banking sector it is proposed to continue with the current investment strategy for the time being.

There are no current proposals for the Authority to invest for periods longer than 364 days.

**Treasury Management Policy**

7. This is detailed in the attached Appendix 'A'. It is the same as that approved by the Police Authority at its meeting on 29 October 2008

**External Advice**

8. External advisers have not been used over the last year. However they may be used on an ad-hoc basis if required.

## **Borrowing Limits**

9. In accordance with the Prudential Code it is a requirement that the Police Authority set borrowing limits for the next 3 years. These limits are intended to reduce risk. It is proposed that the limits should be as follows:-

	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>
	£m	£m	£m	£m
(i) total authorised borrowing limit*	22.4	13.7	16.6	16.5
(ii) long term liabilities	5.4	4.9	4.5	4.0
(iii) limit on borrowing at variable interest rates	40%	40%	40%	40%
(iv) limit on borrowing at fixed interest rates	90%	90%	90%	90%

\* includes headroom for short term borrowing - £1m for each year.

10. The Police Authority is still repaying transferred debt to Leicestershire County Council, to finance capital spending prior to 1 April 1995. The amount outstanding at 1 April 2008 is £4.869 million and all of this is subject to variable interest rates.

11. The Prudential Code also recommends that the Authority sets upper and lower limits for the maturity structure of its fixed rate borrowing. The following limits are proposed:-

	<u>Upper limit</u>	<u>Lower limit</u>
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	25%

## **Recommendation**

12. The Committee is RECOMMENDED to:-

- (i) Approve the Treasury Management Strategy outlined in the report and the Treasury Management Policy Statement detailed in Appendix 'A'.
- (ii) Approve the borrowing limits set out in paragraphs 9 and 11.
- (iii) Note that a further review of the investment strategy will be undertaken at the next meeting of the Committee.

## **Implications**

Financial: As described in the report. Legal: none. Diversity: none. Risk Management: As described in the report.

## **Background Papers**

CIPFA 'Code of Practice for Treasury Management in the Public Services'.  
CIPFA Prudential Code for Capital Finance in Local Authorities

## **Officer to Contact**

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