

**To: Surrey Police Authority**

**Date: 3<sup>rd</sup> November 2011**

**By: Ian Perkin – Treasurer to the Police Authority**

**Title: Treasury Management: Mid Year Review of Activity 2011/12, Prudential Indicators and Update on Service Level Agreement Negotiations**

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**Purpose of Report/Issue:**

The CIPFA (Chartered Institute of Public Finance & Accountancy) Treasury Management Code of Practice requires that a mid year report on the activities and performance of the Authority's treasury management function is presented to the full Authority. This report contains that information, together with the Prudential Indicators.

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**Recommendation(s) -**

The Authority is asked to note the contents of this report.

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**Introduction -**

**1 Treasury Management – Statutory Requirements**

- 1.1 Compliance with the CIPFA Code of Practice is a requirement under The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Its key aim is to ensure that local authorities have in place comprehensive policies and practices for the effective management and control of their treasury management activities, including the effective management and control of risk.
- 1.2 To comply with the Code of Practice the Authority will receive as a minimum, an annual strategy report, a mid year review and an end of year report.

**2 Treasury Management Mid-Year Report 2011/12**

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The following treasury management transactions were undertaken between 1<sup>st</sup> April 2011 and 30<sup>th</sup> September 2011 inclusive:

### 2.1 Short Term Lending

In accordance with agreed policy, surplus cash was lent on a daily basis to Surrey County Council (SCC). The return on those loans made during the half year are shown as follows:

Total Interest Received		£0.089 m
Average Interest Earned	Q1	0.72%
	Q2	0.64%

The average rate of return for the period was 0.68%. By comparison the average London Inter-Bank BID rate (formerly Local Authority 7 day rate) for the same period was 0.47%.

2.2 The Authority's treasury management provider, Surrey County Council, has continued to implement a highly risk averse approach to its treasury management strategy. It did not breach any of the criteria in its approved investment strategy in respect of counterparty, sector or national limits, or the maximum term of a deposit. for individual counterparties: criteria which are designed to protect the security and liquidity of funds. Deposits were only placed with UK banks and building societies. For these reasons, there continues to be a low level of risk associated with the Authority's existing treasury management arrangements.

### 2.3 Short Term Borrowing

No short term external borrowing was undertaken during the period as all cash balances were lent overnight allowing us the flexibility to draw on our own resources to fund necessary revenue and capital expenditure.

### 2.4 Long Term Borrowing

No long term external borrowing was undertaken during the year, and no external long term debt was outstanding as at 30<sup>th</sup> September 2011.

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## 2.5 Future Borrowing Requirements

It is planned that the approved 2011/12 capital programme of £16.9m will be financed by up to £7.9m of borrowing, once all 2011/12 capital receipts and grants and unapplied resources brought forward from 2010/11 have been applied. Unless the capital programme is fully spent at the end of the financial year, it is unlikely that the Authority will have to borrow the full amount to support the funding of the programme.

No external borrowing will be undertaken until existing cash balances have been reduced to a minimal level, and on this basis it is unlikely that it will be necessary to undertake any external borrowing in 2011/12.

## 3 Treasury Management Prudential Code indicators

3.1 The Prudential Code provides a framework to enable local authorities to self-regulate their capital expenditure and borrowing plans by setting a range of prescribed estimates and limits (the Prudential Indicators) to ensure affordability, prudence and sustainability. It also requires authorities to ensure that all treasury management practices are in accordance with good practice.

3.2 Target indicators for 2011/12 – 2013/14 were approved by the Authority on 7<sup>th</sup> February 2011. These indicators have been updated based on the most recent capital programme estimates and are set out at Appendices 1-5 and show a satisfactory performance.

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**Equalities Implications** – There are no equalities implications arising from this report.

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**Risk-** – The following risk arises from this report:

- If the Authority does not produce a mid-year performance review of treasury management activity in line with the CIPFA Treasury Management Code of Practice there is a risk of censure from the auditors and reputational damage as a consequence.

**Human Rights** – There are no human rights implications arising from this report.

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**Attachments:**

Appendix 1 – 5 2011/12 Prudential Indicators (revised)

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**Background papers –**

This document has been prepared with due regard to:-

Surrey Police Authority Statement of Treasury Management Policy and Practices,

Surrey Police Authority Borrowing & Investment Plan 2008/09 to 2010/11,

CIPFA The Prudential Code for Capital Finance in Local Authorities – Fully Revised Second Edition 2009

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – Fully Revised Second Edition 2009

CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Authorities and Fire Authorities – Fully Revised Third Edition 2009,

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## Prudential Indicators For Affordability

No.	Indicator	Definition	Last Year's Actual	This Year's Actual	Future Year Targets			Comments
			2009/10	2010/11	2011/12	2012/13	2013/14	
1	<b>Ratio of financing costs to net revenue stream</b>	Financing costs / net revenue stream * 100%	0.52%	0.22%	0.12%	0.33%	0.31%	The figures become positive when the Authority becomes a net borrower. The numbers are very small because interest payable on borrowing represents a very small proportion of our net revenue stream. It is generally increasing because the level of planned borrowing for capital purposes increases, and interest rates on investments have fallen considerably and are forecast to remain low.
2	<b>Estimate of the incremental impact of capital investment decisions on the council tax precept</b>	(i) Forecast total budgetary requirements for the authority based on no change to the existing capital programme <i>less</i> (ii) Forecast total budgetary requirement for the authority with the changes to the capital programme included in the calculation. (iii) Take the difference between (i) and (ii) and calculate the addition or reduction to Council Tax that would result			£0.72	£1.80	£0.30	The figures increase as the revenue costs associated with the planned borrowing for the capital programme increase (MRP and interest payable). They will reduce as the principal is repaid.

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Prudential Indicators For Prudence

No.	Indicator	Definition	Last Year's Actual	This Year's Actual	Future Year Targets			Comments
			2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	
1	<b>Net borrowing and the capital financing requirement</b>	An authority must ensure that net external borrowing does not, except in the short term, exceed the capital financing requirement in the preceding year plus the estimates of any capital financing requirement for the current and next 2 financial years.	✓	✓	✓	✓	✓	It will be necessary to finance some of the 2010/11 to 2013/14 capital programmes from borrowing. Whether this is from internal or external resources will depend upon cashflow and availability of resources.

Investments	-£14,988	-£14,372	-£7,057	-£4,099	-£6,521	(a)
External borrowing	£0	£0	£7,886	£818	£588	(b)
<b>Net external borrowing requirement/investment(-)</b>	<b>-£14,988</b>	<b>-£14,372</b>	<b>£829</b>	<b>-£3,281</b>	<b>-£5,933</b>	(a) + (b)
<b>Capital Financing Requirement to be monitored against existing borrowing.</b>	<b>£11,855</b>	<b>£9,366</b>	<b>£16,895</b>	<b>£16,463</b>	<b>£15,650</b>	
<b>Is net external borrowing &gt; total capital financing requirement?</b>	NO	NO	NO	NO	NO	
<b>Management action required</b>	None	None	None	None	None	

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## Prudential Indicators For Capital Expenditure

No.	Indicator	Definition	Last Year's Actual	This Year's Actual	Future Year Targets			Comments
			2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	
1	<b>Total Capital Expenditure</b>	Total capital expenditure incurred	10,038	10,184	16,113	6,647	5,735	As per the Capital Programme.
2	<b>Capital Financing Requirement</b>	Fixed assets, deferred charges, revaluation reserve, capital adjustment account plus government grants deferred (plus, for future years, future capital expenditure less usable capital receipts, grants, contributions etc.)	11,855	9,366	16,895	16,463	15,650	The figures increase as the amount of the capital programme funded by borrowing increases; and it will reduce in the future as the principal is repaid.

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## Prudential Indicators For External Debt

No.	Indicator	Definition	Last Year's Actual	This Year's Actual	Future Year Targets			Comments
			2009/10	2010/11	2011/12	2012/13	2013/14	
			£000	£000	£000	£000	£000	
1	Authorised Limit	Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities			21,975	22,533	21,733	Equals the operational boundary for external borrowing plus a provision of 10% to meet any potential cash flow fluctuations.
2	Operational Boundary	Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long term liabilities			19,977	20,484	19,757	The operational boundary provides sufficient latitude to borrow externally to fund the entire capital programme in the event that none of the anticipated capital grants or capital receipts are received.
3	Actual External Debt	Actual external debt = actual borrowing + actual other long term liabilities as at 31st March each year.	3,726	1,971				These figures represent the long term liabilities for the three property leases and three equipment leases which have been classified as finance leases. In 2010/11 two property leases have been reclassified as operating leases under IFRS and the equipment leases have been fully paid.

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Prudential Code - 2011/12

Prudential Indicators For Treasury Management

Appendix 5A

No.	Indicator	Definition	Last Year's Actual	This Year's Actual	Future Years Targets			Comments
			2009/10	2010/11	2011/12	2012/13	2013/14	
1	Treasury Management	The authority must adopt the CIPFA Code of Practice For Treasury Management in the Public Services	YES	YES	YES	YES	YES	

## Treasury Management Indicators

No.	Indicator	Definition	Last Year's Actual		This Year's Actual		Future Years Targets			Comments			
			2009/10	2010/11	2011/12	2012/13	2013/14						
2a	Upper Limit On Variable Interest Rate Exposure	Variable interest rate exposure = interest payable on variable rate borrowing less interest receivable on variable rate investments	0% - 100%	0% - 100%	0% - 100%	0% - 100%	0% - 100%	0% - 100%		The use of variable or fixed rate loans will be decided in consultation with the Authority's Treasury Management provider (SCC) as the need arises.			
2b	Upper Limit On Fixed Interest Rate Exposure	Fixed interest rate exposure = interest payable on fixed rate borrowing less interest receivable on fixed rate investments	0% - 100%	0% - 100%	0% - 100%	0% - 100%	0% - 100%	0% - 100%					
	Projected interest payable on borrowing (£000s)		£0	£0	£0	£0	£0	£0		It is assumed that internal resources will be used before borrowing externally.			
	Projected interest receivable on investments (£000s)		-£256	-£128	-£396	-£590	-£775						
3	Maturity Structure of Borrowing	Amount of projected fixed rate borrowing that is maturing in each period/Total projected fixed rate borrowing at the start of the period * 100%											
			Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	Lower	Upper	
		Under 12 months	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		12 months and within 24 months	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		24 months and within 5 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		5 years and within 10 years	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
		10 years and above	0%	100%	0%	100%	0%	100%	0%	100%	0%	100%	
4	Principal Sums Invested For Periods Longer Than 364 days (£000's)	Total principal sums invested to final maturities beyond the period end	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	The Treasury Management strategy allows for longer term investment, however at this time all investments are limited to a maximum period of 364 days.

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