



## AGENDA NO: 8b, c and d

### INDEPENDENT AUDIT COMMITTEE – 17 December 2019

#### DRAFT STRATEGIES

#### REPORT BY NICOLA ALLEN, CHIEF FINANCE OFFICER, DEVON AND CORNWALL OPCC

#### PURPOSE OF THE REPORT

*The draft strategies for the following are appended to this report:-*

- *The Draft Treasury Management and Investment Strategy for 2020/21 including the Prudential Indicators and the Minimum Revenue Provision Policy Statement*
- *The Draft Capital Strategy*
- *The Draft Reserves Strategy*

*These Strategies are presented for consideration and comment by the Independent Audit Committee before being finalised. Changes relative to last year's strategy are highlighted in this covering report.*

#### 1.0 INTRODUCTION

- 1.1 The Police and Crime Commissioner has adopted CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), which requires, as a minimum, a Treasury Management and Investment Strategy to be approved before the start of each financial year, a mid-year stewardship report, and an annual report after the year end.
- 1.2 The Prudential Code for Capital Finance in Local Authorities (*2017 Edition*) requires Police & Crime Commissioners to produce a capital strategy in order to help demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.
- 1.3 CIPFA maintains guidance on the establishment and maintenance of local authority reserves and balances, which is a foundation for good financial management, and is followed by PCCs. The Guidance identifies that Revenue Reserves can be held for 3 main purposes:

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- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- As a contingency to cushion the impact of unexpected events or emergencies –this also forms part of general reserves;
- As a means of building up funds to meet known or predicted requirements; these specific reserves are known as earmarked reserves and remain legally part of the total “General Fund”.

In addition, PCC’s hold the following usable reserves:

- Capital Receipts Reserve – this reserve holds the proceeds from the sale of assets, and can only be used for capital purposes (as specified in the capital finance and accounting regulations).

The Home Office issued specific **Police finance reserves guidance** on 31 January 2018, which is provided in the draft Strategy. They also publish the details of all police reserves annually. This indicates that overall the level of reserves held nationally has reduced.

- 1.4 Any comments made by the Independent Audit Committee will be considered by the Devon and Cornwall Joint Leadership Board, prior to approval by the Police and Crime Commissioner who is ultimately responsible for approving the Strategies.
- 1.5 The Strategies are intrinsic to the annual Budget and Medium Term Financial Strategy which is considered by the Police and Crime Panel each year as part of the Police and Crime Commissioner’s annual precept setting process.

## 2.0 Draft Treasury Management Strategy 2020/21

- 2.1 The Draft Treasury Management Strategy for 2020/21 is attached as Agenda Item 8b.
- 2.2 The timetable for the production of the draft Treasury Management and Investment Strategy has been brought forward for 2020/21, in order to allow for scrutiny in advance of the finalisation of the budget in February. In support of this members of the Committee have received treasury management training in November from our treasury management advisers, Arlingclose.
- 2.3 Consequently it has been necessary to produce this draft document at an earlier stage in the budget timetable, before all of the figures have been finalised. This means that some of the figures will be subject to change and some are not yet available such as those relating to the new accounting standard IFRS16.
- 2.4 **Counterparties** - In previous Strategies named counterparties have been shown. Against each a maximum amount to invest and a duration period was allocated. However, this information is only correct at a point in time and therefore does not reflect changes as the year progresses. This information has therefore been

removed from the 2020/21 Strategy. Instead, the Technical Team will follow the guidance and advice from Arlingclose regarding each counterparty as and when it is required.

- 2.5 Inflation Risk** - Inflation risk is the risk that investments are eroded if interest does not keep pace with inflation. This is an area where some changes could see an improvement in our mitigation of this risk. The main change would be in including the ability to make some longer term investments, in particular the use of some pooled funds, in order to achieve improved interest rates and provide some mitigation against inflation risk. In the 2019/20 Treasury Management Strategy we included limits for long term investment for years 2019/20 and 2020/21. It is therefore proposed that we include limits for each year in the MTFFS period. This approach may result in having to undertake temporary borrowing for cashflow purposes slightly more frequently, however, the additional interest earned on the longer term investments will more than cover the costs of temporary borrowing.
- 2.6 Liquidity Indicator** - An area that has caused some confusion in the past has been the application of the liquidity indicator and whether this voluntary measure has been breached. In order to avoid this situation in the future we will simplify the indicator by having a single measure of funds required to be available within a period of time, for example £7m available within 31 days, but also clarify that this would also include credit such as the overdraft limit and availability of temporary borrowing, not just the actual 'cash at bank' funding.
- 2.7 Borrowing** - The approach to borrowing is on the horizon for Devon and Cornwall, given the position of the capital programme over the Medium Term Financial Plan. This is an area which has changed in the last few weeks with the unexpected increase in Public Works Loan Board (PWLB) interest rates. As a result we will follow the Arlingclose advice of looking to fund our borrowing internally when we have positive cashflow from the top up grant and undertake shorter term temporary borrowing from other Local Authorities as required. This will involve slightly more hands on management but will still be more cost effective. This will be kept under review should PWLB rates reduce. In light of the borrowing requirements, Arlingclose recommend relatively wide limits are set for the maturity structure, since this indicator is only to cover the risk of replacement of loans being unavailable, not interest rate risk.

### **3.0 DRAFT CAPITAL STRATEGY**

- 3.1** The draft Capital Strategy is attached as Agenda item 8c.
- 3.2** There are no significant changes to this strategy when compared to the strategy approved last year. The main changes relate to the removal of the financial information on the current capital programme. The inclusion of the financial data meant that the strategy was becoming outdated as soon as a revision to the capital programme was agreed.

#### **4.0 DRAFT RESERVES STRATEGY**

- 4.1 The draft Reserves Strategy is appended as Agenda item 8d. It has been refreshed for 2020, with only minor presentational changes made.
- 4.2 The forecast balances are estimates at this stage. The General Fund Balance will be fully risk assessed as part of the budget report presented to the Police and Crime Panel in February 2020.

#### **3.0 RISK/THREAT ASSESSMENT**

##### **3.1 Financial/Resource/Value for Money Implications**

Effective treasury management, capital planning and adequate reserves supports the prudent management of the financial affairs of the PCC.

##### **3.2 Legal Implications**

The draft Treasury Management Strategy, draft Capital Strategy and draft Reserves Strategy all follow the latest relevant guidance.

##### **3.3 Implications for Policing Outcomes**

Effective financial management supports all aspects for effective policing outcomes.

##### **3.4 Equality**

No direct implications.

#### **4.0 RECOMMENDATION**

- 4.1. It is recommended that the Independent Audit Committee considers the draft Strategies and provides any comments prior to approval by the PCC.

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