



AGENDA NO: **5A**

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 26 JANUARY 2021

FOIA OPEN

TITLE OF REPORT: TREASURY MANAGEMENT COVERING REPORT

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

PURPOSE OF THE REPORT:

To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	YES
Internal Audit	-
External Audit	-
Financial reporting	-
Other matter (please specify here)	-

RECOMMENDATIONS:

The Independent Audit Committee is asked to:

Review the Report	YES
Consider the Report	-
Note the report	-
Other (please specify here)	-

1. BACKGROUND INFORMATION

- 1.1 The Police and Crime Commissioner (PCC) has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the PCC to approve a Treasury Management Strategy before the start of each financial year.

- 1.2 The Independent Audit Committee (IAC) is responsible for scrutinising the Treasury Management Strategy and making recommendations to the PCC, before it is approved.
- 1.3 Any comments made will be considered by the Devon and Cornwall Joint Leadership Board, prior to approval by the PCC who is ultimately responsible for approving the Strategy.
- 1.4 The Treasury Management Strategy is 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 PCC's annual precept setting process. This is further supported by the Capital Strategy, and the Reserves Strategy (both being considered on the agenda).

2. DRAFT TREASURY MANAGEMENT STRATEGY

- 2.1 The Draft 2021/22 Treasury Management Strategy is shown in Appendix A.
- 2.2 This Strategy has been drafted ahead of the budget deadline in order to allow IAC to scrutinise the document in advance of the finalisation of the budget in February. Consequently, an early draft means that some of the figures will be subject to change.
- 2.3 In support of the task to scrutinise the Strategy, members of the Committee received treasury management training in December from our treasury management advisors, Arlingclose.
- 2.4 There are some presentational changes in the 2021/22 Treasury Management Strategy. The key substantive content changes are noted below:

2.4.1 Dealing with negative interest rates

During 2020/21, the Debt Management Office (DMO) made a decision to charge negative interest rates for some of the short term investments. Subsequently, an amendment to the 2020/21 Treasury Management Strategy was recommended and approved. This amendment introduced additional capacity by increasing the operational banking limit of £1.25m to £6m to only be applied when the only option to deal with excess funds is to place them with DMO at a negative interest rate. Whilst this policy has not been put into practice to date, having this option available gives flexibility and avoids having to pay counterparties for our invested funds.

2.4.2 Earning Interest

Based on the current and future interest rate predictions and lower forecasted average cash balance for the year, the budget for interest income has significantly reduced from £242k (2020/21) to £12k. The rate used to set the 2021/22 budget is 0.05% compared with an interest rate of 0.75% for the 2020/21 budget.

Investing in a property fund has been discussed previously. This type of investment along with other investments will be considered in line with the strategy whilst seeking advice from Arlingclose. At this stage, any potential interest income from these types of investments has been excluded from the budget.

2.4.3 Money Market Sector Limits

Arlingclose's advice changed during 2020/21 whereby they no longer recommend setting a sector limit for Money Market Funds (MMFs). This change has arisen as it is recognised that in the current economic climate diversification into other sectors may increase risk and MMFs are a key tool to manage credit and liquidity risk. This change is reflected in the 2021/22 Strategy. It should however be noted that we will still look to diversify investments over a variety of providers in line with the Strategy.

2.4.4 MiFID II

To maintain our professional client status, MiFID II rules require a total of £10m of cash and cash equivalents and investments to be held at the balance sheet date. Therefore, a preferred year end position of £10m has been included in the Liability Benchmark table within the Strategy.

2.4.5 IFRS 16 Leases

CIPFA has made the decision to delay the implementation of IFRS 16 from 1 April 2021 to 1 April 2022. The impact of IFRS 16 has therefore been excluded from the figures within the Strategy.

2.4.6 Glossary

A glossary has been added to assist readers of the Strategy.

Author: Lucinda Hines
Head of Technical Accounting

Sponsor: Nicola Allen
Chief Finance Officer to the OPCC

Date: 7 January 2021