Police and Crime Board, 4th July 2019 13:00 – 17:00

Venue: Avon Room

Attendees:

- **Police and Crime Commissioner**
- **Chief Constable**
- **Deputy Chief Constable**
- **Director of People and Organisation Development**
- **OCC CFO**
- **OPCC CEO**
- **OPCC CFO**

To support the carrying out of the PCC's statutory functions including overseeing delivery of the Police and Crime Plan, being the forum for formal decision making by the PCC and otherwise allowing for the PCC to scrutinise the work, performance, key projects and budget of the Constabulary and other partners.

AGENDA

1. Apologies

2. Minutes

3. Performance against Police and Crime Plan

a. Assurance Report (prevention and enforcement)
b. Performance Overview (including Op Remedy update)

4. Chief Constable's Update (any risks or issues that the Chief Constable wishes to raise)

5. Key Organisational Risks and Issues

6. Monthly HR Data

7. Finance

a. Annual Accounts (verbal update on audit and inspection period)
b. Six Monthly Proceeds of Crime Update

8. Major Projects

a. Highlight Report
b. Yeovil Progress Check
c. Transport Services – not this is a different paper
d. Learning and Skills
e. Learning Business Case – Exception Report

9. Update from the Inclusion and Diversity Board (verbal update)

10. A.O.B

a. Serious Violence

b. Reducing Reoffending

11. Action Update

12. Publication (agree any items for publication other than the Minutes and Decision Notices)

Date of the Next Meeting: 1st August 2019, 13:00 – 17:00

Item 7a

POLICE AND CRIME COMMISSIONER FOR AVON AND SOMERSET

5th JUNE 2019

ANNUAL TREASURY MANAGEMENT REPORT April 2018- March 2019

Report of the Treasurer

1. Purpose of the Report

1.1 The purpose of the report is to inform the Police and Crime Commissioner and the Police & Crime Board of the key matters arising from Treasury Management activities during the last financial year. It reports on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and treasury management practices (TMPs).

2. Background

2.1 The CIPFA definition of Treasury Management is: -

"The management of the PCC's investments and cash flows, its banking and capital market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks".

2.2 The PCC's treasury management activities are regulated by a variety of professional codes, statutes and guidance. The Local Government Act 2003 (the Act), provides the powers to borrow and invest as well as providing controls and limits on these activities. Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act. The SI requires the Authority to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. A Revised edition of this code was published in late December 2017. The SI also requires the Authority to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services. A Revised edition of this code was also published in late December 2017. Under the Act the Ministry for Housing, Communities and Local Government (MHCLG) has issued Investment Guidance to structure and regulate the Authority's investment activities. This was updated in February 2018, effective from 1st April 2018.

2.3 The CIPFA Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and, as a minimum, formally report on their treasury activities and arrangements to the Police and Crime Commissioner Mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities and enable those with ultimate responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives.

2.4 This report: -

1) Is prepared in accordance with the CIPFA Treasury Management and Prudential Codes.
2) Presents details of capital financing, borrowing, debt-rescheduling and investment activities.
3) Reports on the risk implications of treasury decisions and transactions.
4) Gives details of the outturn position on treasury management transactions in 2018-19.
5) Confirms compliance with treasury limits and Prudential Indicators or explains non-compliance.

2.5 The report is to the Police and Crime Board that comprises the PCC, Chief Constable, the PCC's CFO and CEO, the Deputy Chief Constable and the Constabulary's CFO and as such is the appropriate forum for scrutiny of Treasury Management and any required decisions.

3. Treasury Management Framework

3.1 The Office of the Police and Crime Commissioner (PCC) has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this, and the Prudential Code, and other regulatory requirements. Treasury Management activities are structured to manage risk as a priority and then to optimise performance and ensure that borrowing activities are undertaken in a prudent, affordable and sustainable basis.

3.2 It is acknowledged that effective treasury management provides support to the business and service objectives of the PCC.

3.3 During 2018-19, Somerset County Council (SCC) has managed Treasury Management activities, overseen by the PCC's CFO and under an agreed 1-year extension to the tender to provide Treasury Management services for 3 years from April 2015.

3.4 The PCC delegates responsibility for the implementation and monitoring of its treasury management policies and practices, and the execution and administration of treasury management decisions, to me as Chief Finance Officer.

4 The Economy and Events in 2018-19 including Interest and PWLB Rates

4.1 All Treasury Management decisions are made in a dynamic environment in which market sentiment, and rates for borrowing and investment are subject to constant change from many different factors. Any volatility in markets makes risk management, forecasting and decision making more difficult. In order to give context, and to help appraise the effectiveness of Treasury Management activity during any given year, it is important to understand the economic, financial, and other external factors that affect Treasury Management decisions. Here follows a brief review of the key issues for

2018-19.

4.2 UK GDP rose to 0.6% in the third calendar quarter from 0.4% in the second, but fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend.

4.3 After spiking at over $85 a barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over $50 in late December before steadily climbing toward $70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year on year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report.

4.4 Labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

4.5 Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

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4.6 The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

4.7 With 29th March 2019, the original EU 'exit day' now been and gone, an extension to the Brexit process has been agreed. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have yet to yield any positive results. Whilst the EU insists that the terms of the deal are not up for further negotiation, the ongoing uncertainty continues to weigh on sterling and UK markets

4.8 While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with the EU. The EU itself appeared to show signs of a rapid slowdown in economic growth with Germany and France both suffering downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

4.9 December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

4.10 Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3-month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year.

4.11 Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year. The 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The August increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period. A summary of PWLB and key benchmark lending rates is included below

PWLB Rates 2018-19 (Maturity rates unless stated)

	1 Year	5 Year	5 Year EIP	10 Year	15 Year EIP	30 Year	50 Year
03/04/2018	1.68	2.04	1.84	2.42	2.26	2.71	2.47
30/04/2018	1.63	2.06	1.82	2.51	2.33	2.86	2.63
31/05/2018	1.50	1.91	1.68	2.36	2.18	2.72	2.49
30/06/2018	1.60	1.97	1.75	2.38	2.21	2.74	2.55
31/07/2018	1.66	2.04	1.82	2.44	2.28	2.80	2.61
31/08/2018	1.69	2.03	1.82	2.42	2.26	2.80	2.62
30/09/2018	1.75	2.13	1.91	2.53	2.37	2.91	2.76
31/10/2018	1.72	2.01	1.82	2.42	2.24	2.87	2.75
30/11/2018	1.73	1.93	1.79	2.35	2.15	3.06	2.94
31/12/2018	1.73	1.90	1.78	2.28	2.10	2.82	2.70
31/01/2019	1.74	1.90	1.78	2.25	2.09	2.74	2.62
28/02/2019	1.79	1.96	1.85	2.30	2.13	2.81	2.69
31/03/2019	1.68	1.75	1.68	2.05	1.90	2.57	2.43
Average 2018-19	**1.70**	**2.00**	**1.81**	**2.39**	**2.22**	**2.82**	**2.66**
Minimum	1.48	1.70	1.63	2.00	1.85	2.50	2.36
Maximum	1.84	2.27	2.02	2.70	2.53	3.10	2.99
Spread	0.36	0.57	0.39	0.70	0.68	0.60	0.63
Average 2017-18	**1.31**	**1.70**	**1.45**	**2.28**	**2.04**	**2.85**	**2.61**
Difference in average	**+0.39**	**+0.30**	**+0.36**	**+0.11**	**+0.18**	**-0.03**	**+0.05**

Money Market Rates 2018-19 (LIBID Source = ICE LIBOR previously BBA LIBOR)

	O/N LIBID	7-Day LIBID	1-Month LIBID	3-Month LIBID	6-Month LIBID	12-Month LIBID	2-Yr SWAP
01/04/2018	0.35	0.36	0.39	0.59	0.70	0.88	1.10
30/04/2018	0.35	0.37	0.39	0.59	0.68	0.85	1.05
31/05/2018	0.35	0.36	0.37	0.49	0.59	0.76	0.93
30/06/2018	0.34	0.36	0.38	0.55	0.66	0.84	1.01
31/07/2018	0.33	0.50	0.56	0.67	0.78	0.93	1.11
31/08/2018	0.58	0.58	0.60	0.68	0.77	0.92	1.10
30/09/2018	0.58	0.59	0.60	0.68	0.78	0.94	1.14
31/10/2018	0.57	0.59	0.60	0.69	0.80	0.93	1.12
30/11/2018	0.56	0.58	0.61	0.77	0.89	1.01	1.17
31/12/2018	0.55	0.58	0.61	0.79	0.91	1.05	1.16
31/01/2019	0.55	0.58	0.61	0.79	0.90	1.04	1.09
28/02/2019	0.55	0.57	0.60	0.73	0.87	1.01	1.10
31/03/2019	0.55	0.57	0.61	0.72	0.83	0.94	0.96
Average 2018-19	**0.49**	**0.51**	**0.53**	**0.67**	**0.79**	**0.94**	**1.09**
Minimum	0.33	0.35	0.37	0.48	0.59	0.75	0.89
Maximum	0.58	0.59	0.61	0.81	0.92	1.06	1.23
Spread	0.25	0.24	0.24	0.33	0.33	0.31	0.34
Average 2017-18	**0.20**	**0.21**	**0.23**	**0.28**	**0.40**	**0.60**	**0.73**
Difference in average	**+0.29**	**+0.30**	**+0.30**	**+0.29**	**+0.39**	**+0.34**	**+0.36**

5 Treasury Outturn for 2018-19

5.1. The Portfolio Position as at 31st March 2019

The Treasury portfolio at the start and the end of the financial year is set out below:

	31st March 2018 £m	31st March 2019 £m
Long-term Borrowing		
PWLB	28.032	29.355
Market Loans (LOBOs)	11.775	11.775
Market Loans (Short-term)	0.000	0.000
Total	39.807	41.130
Average rate	3.90%	3.80%
Short-term Investments		
Cash on call	0.06	9.81
Deposits	31.00	32.00
CCLA Property Fund	2.00	3.00
Total	33.06	44.81
Average rate	0.83%	1.15%

5.2 Borrowing

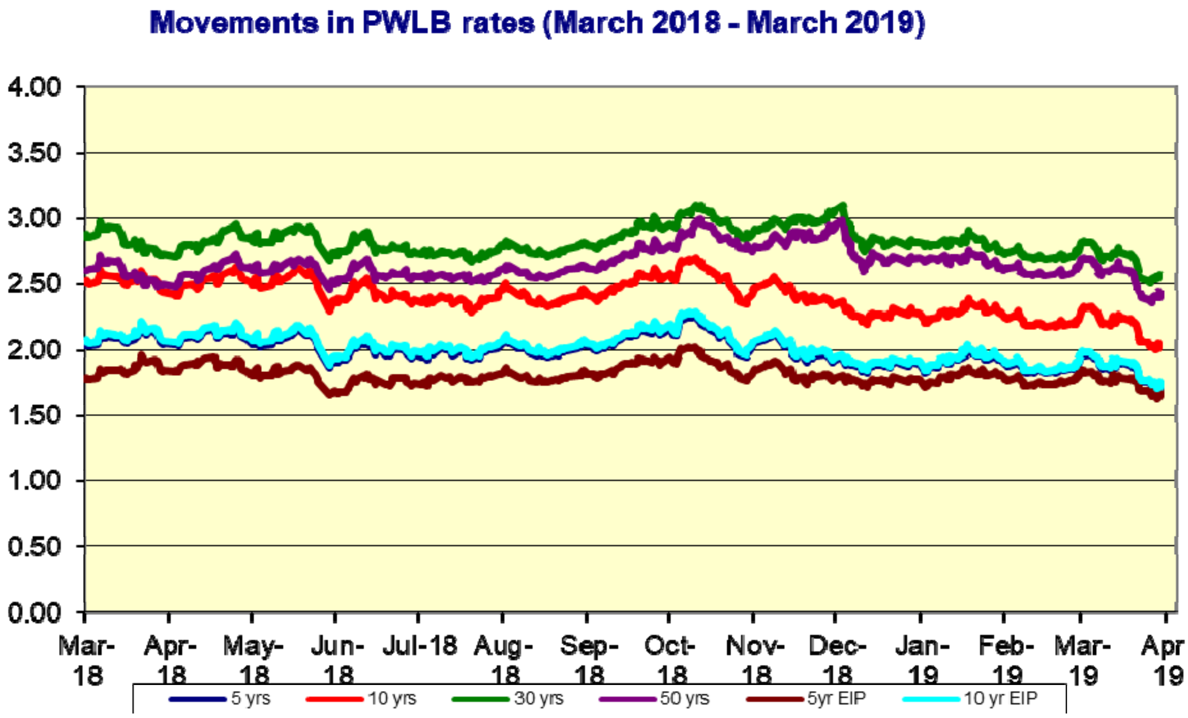
5.2.1 The PCC did not need to be a short-term borrower during the year, as cash flow was managed to avoid this. Balances are deliberately worked hard so as to be minimal at the low point of the working capital cycle. The holding of £9.8m short-term cash is a timing issue in that Pensions and Creditors had been paid on 31st March 2018, whereas £7m was due to be paid on 1st April 2019.

Some call accounts and money market funds (MMFs) offered yields in excess of those on offer for time deposits up to 3-months, which meant that it was beneficial to use these facilities. This was beneficial not just for the yield, but in mitigating counterparty, interest rate, and liquidity risk.

5.2.2 The capital funding requirement for 2018-19 was largely driven by the progress of many smaller programmes and change projects. The exact timing of the proposed expenditure was not certain, but more frequent smaller amounts were anticipated. A passive borrowing strategy, borrowing funds internally, was deemed appropriate during the year, as the cost of carry remained elevated.

5.2.3 Gilt yields across all durations ended the year lower than in March 2018 (the exception being 1-year which was the same), a reversal of last years' rise in yields. However, up until September many maturity rates were higher than the beginning of the financial year. The bank base rate rise in August and market expectation of 'more and sooner' rises, saw rates increase significantly and peak in the Autumn.

5.2.4 The fall in rates at the end of the year were driven by the fear of a no-deal Brexit, as investors clamoured for the safe haven of Gilts. As a result of the above. 1-year, 5-year, 10-year and 50-year maturity rates averaged 1.70%, 2.00%, 2.39% and 2.66% respectively for 2018-19, and at 31st March 2018 were 1.68%, 1.75%, 2.05% and 2.43%. A summary of rates can be seen in the table on page 4, and graphically below: -



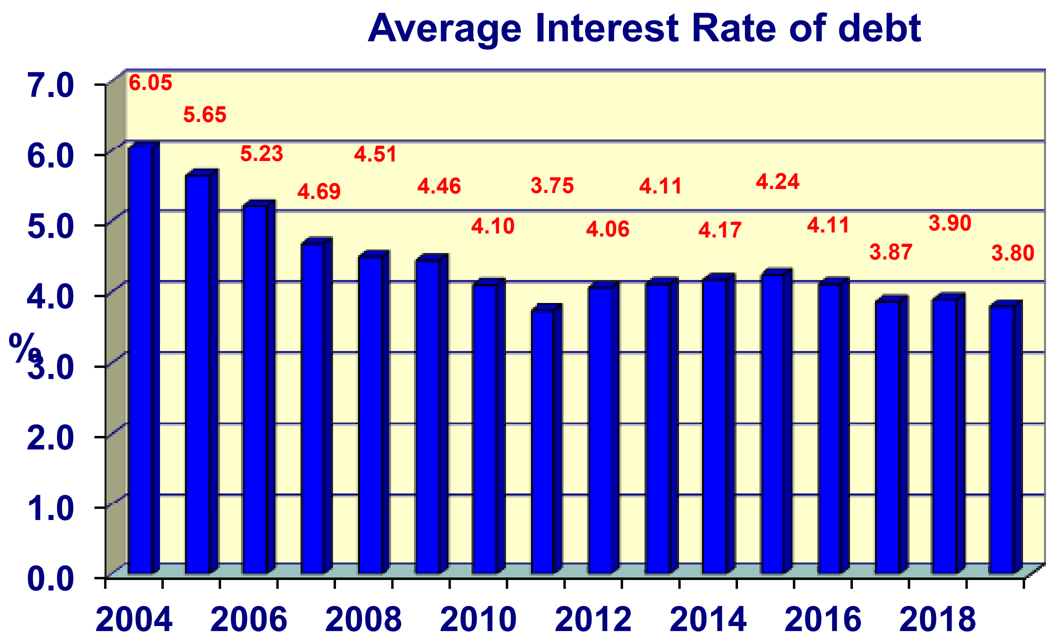
5.2.6 No debt rescheduling was undertaken during the year, as repayment premiums remained at elevated levels.

5.2.7 As expected, the LOBO loan with an option to call during the period did not exercise the right to call. The total of market loans remained at £11.775m at year-end, the average rate being 4.3%.

5.2.8 Scheduled repayments of existing EIP loans during the year totalled just under £1.18m. It was anticipated that new borrowing may have been necessary during 2018-19, but to avoid the cost of carry, a passive borrowing strategy, borrowing funds internally was deemed the appropriate approach; However, in line with strategy it was deemed appropriate to take a £2.5m loan in the final quarter of the financial year as cash balances reduced.

5.2.9 A 15-year EIP loan was taken at 1.84%. This was achieved using the 'Certainty Rate' a rate that has to be applied for annually and is 20 basis points below the advertised PWLB rate. The (certainty rate) average for this type and period of loan for 2018-19 was 2.02%, with a high of 2.33%. The year low of 1.65% came at the end of March when investors flocked to Gilts as a safe haven to the Brexit uncertainty.

5.2.10 The overall rate for PWLB loans at year end of 3.60% was lower than the 3.73% at the end of 2018 because of the scheduled repayment of cheaper EIP loans and the taking of the new loan. The combined LOBO and PWLB rate at year-end 2019 was 3.80%, down from 3.90% as a result of the aforementioned PWLB activity. Annual figures for comparison are highlighted in the graph below: -



5.3 Lending

5.3.1 The Guidance on Local Government Investments in England gives priority to security and liquidity and the PCC's aim is to achieve a yield commensurate with these principles.

5.3.2 **Security:** Security of capital remained the PCC's main investment objective. This was maintained by following the counterparty policy as set out in the Annual Investment Strategy, and by the approval method set out in the Treasury Management Practices. Current approved counterparties are listed below. Those used during the year are denoted with a star.

Bank or Building Society		Svenska Handelsbanken	*
Australia & N Zealand Bank	*	Toronto-Dominion Bank	
Bank of Scotland		United Overseas Bank (UOB)	*
Barclays Bank Plc			
DBS Bank	*	**Sterling CNAV Money Market Funds**	
Goldman Sachs International Bank	*	Deutsche	*
HSBC Bank		Invesco AIM	*
Landesbank Hessen-Thuringen	*	Federated Prime Rate	*
Lloyds Bank	*	Insight	*
National Westminster	*	Aberdeen Standard	*
Nationwide BS	*	LGIM (Legal & General)	*
Nordea Bank AB		SSGA MMF	*
OP Corporate			
Oversea-Chinese Banking Corp		**Other Counterparties**	
Rabobank	*	Debt Management Office	
Santander UK	*	Other Local Authorities	*(4)
Standard Chartered Bank		CCLA Property Fund	*

5.3.3 SCC, as Treasury Management contractor, has continuously monitored counterparties, and all ratings of proposed counterparties have been subject to verification on the day, immediately prior to investment. Other indicators taken into account have been:-

- Credit Default Swaps and Government Bond Spreads.
- GDP and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions i.e. bail-in.
- Share Price.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

5.3.4 The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities, and the subsequent re-rating by the agencies resulted in some notable changes to the ring-fenced entities. Fitch upgraded Barclays, RBS, Nat West, and Santander UK to A+, RBS and Nat West from BBB+, which was previously below PCC minimum criteria.

5.3.5 Moody's also elevated RBS and Nat West, from A2 to A1, but Barclays went in the opposite direction.

5.3.6 Standard & Poor's upgraded Bank of Scotland and Lloyds to A+ from A, and RBS and Nat West from BBB+ to A-. This put RBS and Nat West above minimum criteria across the 3 agencies and made them eligible for consideration for investments.

5.3.7 As a result of the continued uncertainty around Brexit, Fitch has put the United Kingdom Government and most UK domiciled banks on Ratings Watch, citing an increased risk of a disruptive 'no-deal' Brexit.

5.3.8 Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

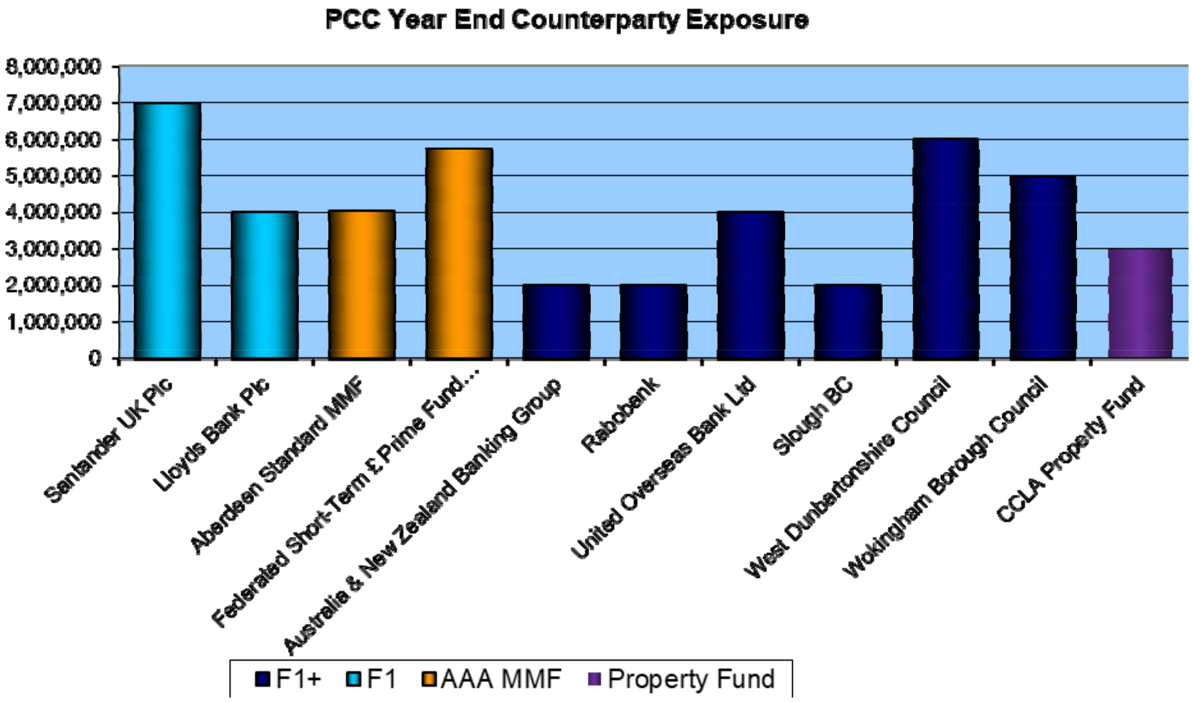
5.3.9 In response to the above, the PCC reintroduced RBS and Nat West onto the lending list. Rabobank was reduced to 6-months, leaving the Singaporean banks as the only ones with durations beyond 6-months.

5.3.10 At year-end maximum durations per counterparty were as follows: -

- Barclays, Goldman Sachs International Bank, Nat West, and RBS – **100 days;**
- Bank of Scotland, Close Brothers, Handelsbanken Plc, HSBC Bank Plc, Lloyds Bank, Nationwide BS, Santander UK, Standard Chartered, Landesbank Hessen-Thuringen, OP Corporate, Rabobank and all Australian and Canadian banks – **6-months;**
- DBS Bank, OCBC, and UOB (Singaporean banks) – **13-months.**

5.3.11 Another means of assessing inherent risk in an investment portfolio is to monitor the duration, the average weighted time to maturity of the portfolio. The PCC portfolio reached a low of 53 days at the end of February 2019, due largely to the fact that longer-term loans are maturing and not being replaced. The year-end duration as at March 2019 was 67 (77 days for 2018). The average duration for the year (using month-end figures) was 77 days. This average duration decreased from 96 days in 2017-18. Key factors were the reduction in duration limits and the fact that some counterparties are paying better rates for shorter-term notice accounts.

5.3.12 The chart below shows counterparty exposures as at 31st March 2019.



5.3.12 **Liquidity:** In keeping with the CLG guidance, the PCC maintained a sufficient level of liquidity through the use of call accounts, MMFs, and short-term deposits.

5.3.13 **CCLA Property Fund:** In July 2018, the Authority placed a further £1m investment in the CCLA Property Fund, adding to the £2m placed in June 2017. This Fund has been in existence for more than 25 years and is only available to Local Authorities. It is an actively managed, diversified portfolio of UK Commercial Property with a stated investment objective "to provide investors with a high level of income and long-term capital appreciation".

5.3.14 The decision to invest further in the CCLA Property Fund was driven by 2 key factors. Firstly, by diversifying away from unsecured Bank deposits, it would help to mitigate the increased risk posed by unsecured bank bail-in, and secondly, to mitigate the risk of negative returns (real negative returns, or inflation adjusted returns) posed by the low interest rate environment.

5.3.15 A full risk assessment was undertaken and identified the main risks as depreciation in market value (there is an instant drop in value due to the bid/offer spread), and loss of liquidity. These are both mitigated by treating the investment as a longer-term hold. By identifying a suitable level of longer-term investment with reference to core balances and reserves, liquidity will not be compromised, and potential dips in market value can be patiently sat out. Whilst planning for the downside, there is also the upside of expected capital appreciation in the longer-term.

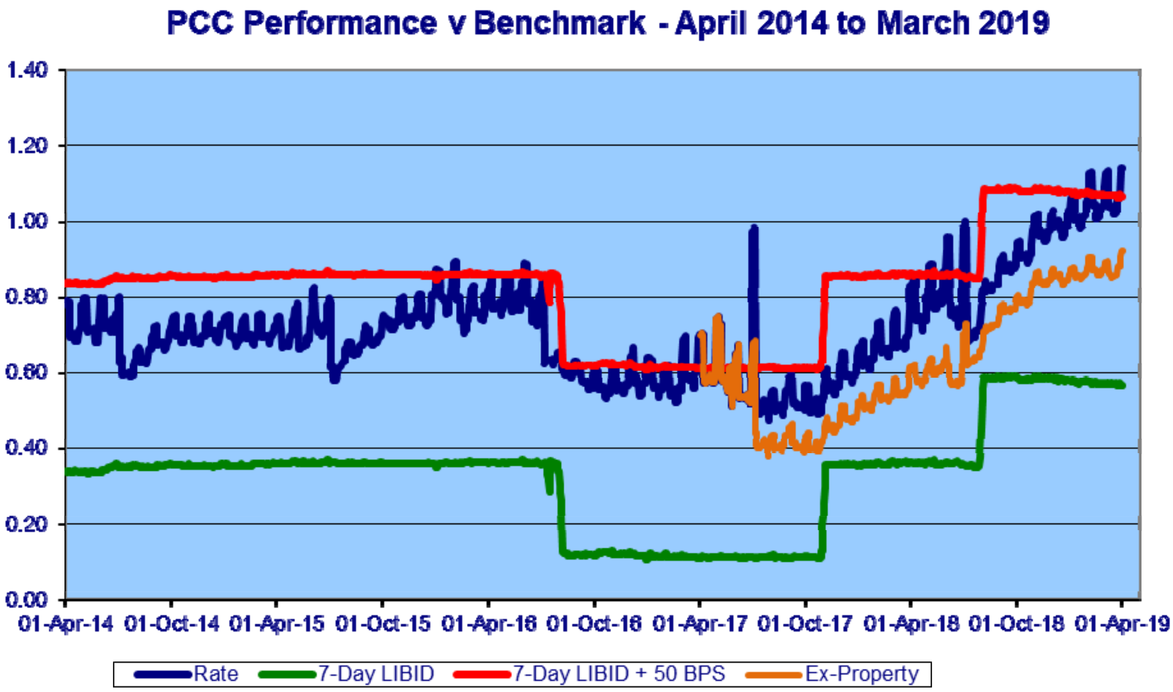
5.3.16 As at 31st March 2019 the Net Asset Value of the PCC holding was £2,923,912 and a Bid Price (value at which investment could be sold) of £2,878,628. The current reduced value in relation to the initial investments was anticipated and is caused by the bid / offer spread. The value of the fund has been steadily increasing since the initial June 2017 investment, but valuations have fallen very slightly in the past 3 months. In the meantime, the average Property Fund yield of circa 4.19% net, was circa 3.43% above cash yields, and provided approximately £112,000 of income during the year.

5.3.17 **Yield:** The PCC sought to optimise returns commensurate with its objectives of security and liquidity. Although economic data had not in itself warranted an increase in base rate, it was widely accepted that that the BoE wanted to raise base rate, so they had some ammunition in the event of a Brexit related downturn. The increase was duly delivered in August with the MPC reiterating the mantra of further rises to be ‘of gradual pace and to a limited extent’. Market rates continued to anticipate a further rise within the year until sentiment changed as the Brexit impasse unfolded, leading to rates dropping off during the last 6-weeks of the year. 1-month, 3-month, 6-month and 12-month LIBID rates averaged 0.53%, 0.67%, 0.79% and 0.94% respectively for 2018-19, and at 31st March 2019 were 0.61%, 0.72%, 0.83% and 0.94%. Given the actual and anticipated rate rises during the year, the 2018-19 average rates for 3-month, 6-month and 12-month LIBID were 0.29%, 0.39%, and 0.34% basis points above those for 2017-18. A table of rates is shown on page 5.

5.3.18 **Excluding Property.** The PCC weighted average return for the year was 0.76%, up from 0.48% for 2017-18. With the benchmark of 7-day LIBID + 50bps averaging 1.01% for the period, the return represents an under-performance of 25bps (23bps 201-18). Although under target, 0.76% does represent a return of just 3 basis points below the 6-month LIBID rate and only 18 bps below the 12-month LIBID rate, on a portfolio that averaged between 2.5-4 months. The graph below shows performance against benchmark. It shows a correlation between performance and times when large amounts of cash are received on grant days (return declines as shorter deposits are made and counterparties paying lesser yields are used). This is made abundantly clear when the Pension Top-up is received at the beginning of July each year (£64.3m in July 2018). The top-up has particularly distorted returns this year because investment decisions for this majority of funds were made in July 2018 when the economic data outlook for rates was not indicating an imminent rise. The graph also clearly shows improving performance after the rate rise, a typical scenario in a rising rate environment.

5.3.19 **Property Fund.** A further investment of £1m was made in the CCLA Property Fund on 30th July 2018. To 31st March it delivered an average net income yield of 4.19%, and £112,000 cash.

5.3.20 **Including Property.** The PCC weighted average return for the year including the CCLA Property Fund was 0.90%, just 0.04% below the average 12-month LIBID rate for the year. The return as at 31st March, when short-term liquid cash was lowest, was 1.15% 8 bps above the benchmark of 7-day LIBID + 50bps of 1.07% for that date.



5.3.21 The PCC's cash balances stood at £44.8m as at 31st March 2019, compared to £33.1m held at 31st March 2018. The average daily balance held during the year was £65.1m, an increase of £3.9m on the previous year.

5.3.21 One hundred and forty-four deposits totalling just over £439m were made during the year, giving an average value of investment at just over £3m. Total interest earned amounted to £589,645 an increase of £234,213 on the £355,432 earned in 2017-18. The increase in income is attributable to more investment in the CCLA Property Fund, larger average balances, and a rise in interest rates.

5.4 Compliance & Governance

5.4.1 During the year, PCC treasury management policies, practices, and activities remained compliant with relevant statutes and guidance, namely the CLG investment guidance issued under the Local Government Act 2003 and the CIPFA Treasury Management and Prudential Codes.

5.4.2 The PCC can confirm that it has complied with its Prudential Indicators for 2018-19.

5.4.3 Short-term borrowing was not necessary during 2018-19, and the £41.13m debt at year-end was well within the stated Prudential limit of £55m. The entire portfolio remained as fixed rate borrowing, whilst the overall rate decreased from 3.90% to 3.80%.

5.4.4 The CLG's Guidance on Investments stresses security and liquidity as the primary objectives of a prudent investment policy. All lending was compliant with guidance issued by the CLG, with the investment strategy agreed, and activities conducted within the procedures contained in the TMPs.

5.4.5 All treasury activity was conducted within the benchmarks set as Prudential limits for prudent and sustainable capital plans, financing, and investment. Indicators approved for the year are set out in the left hand columns, with actual outturns as at 31st March 2019 on the right.

	2018-19 £m	As at 31-03-19 £m
Authorised limit (borrowing only)	60	41.1
Operational boundary (borrowing only)	55	41.1

Debt - Upper limit on 1) fixed, 2) variable interest rate exposure	1) 100%	2) 20%	1) 100.0%
Investments - Upper limit on 1) fixed, 2) variable interest rate exposure	1) 45%	2) 100%	2) 100.0%

Maturity structure of borrowing	Upper Limit	Lower Limit	As at 31-03-19
Under 12 months	30%	0%	10.0%
>12 months and within 24 months	30%	0%	2.6%
>24 months and within 5 years	25%	5%	13.9%
>5 years and within 10 years	25%	0%	10.6%
>10 years and within 20 years	35%	0%	22.8%
>20 years and within 30 years	15%	0%	0.0%
>30 years and within 40 years	45%	10%	40.1%
>40 years and within 50 years	30%	0%	0.0%
>50 years and within 75 years	0%	0%	0.0%

	2018-19 £m	As at 31-03-19 £m
Prudential Limit for principal sums invested for periods longer than 364 days	30	3

As stated in points 56 and 57 of the Treasury Management Strategy Statement there were unique issues as to why both limits were set at 100% for this year; and that traditionally calculated values would not reflect the issues that this indicator was designed to address. The figures above are seen as more meaningful, and represent: - (1) the percentage of fixed rate borrowing at 31st March, and (2) the percentage of variable rate lending at 31st March.

5.4.6 As required by the CIPFA TM Code, a mid-year review was presented to the Finance Committee in November 2018.

5.4.7 Officers from the SCC Treasury Management team reported debt and investment positions and performance monthly via comprehensive reports, and personally at quarterly meetings with the PCC Chief Finance Officer.

5.4.8 All recent annual internal audits conducted by the South West Audit Partnership, of the SCC Treasury Management function, have received a ‘Comprehensive’ Audit Opinion, the highest rating for its management of risk. The Audit report dated 28th September 2015 is the latest report, and awarded the best possible outcome.

"I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed".

5.4.9 **Non-Financial Assets and Regulatory Changes**

Some Local Authorities have continued to invest in non-financial assets, with the primary aim of generating profit. Others have entered into very long-term investments or providing loans to local enterprises or third sector entities as part of regeneration or economic growth projects. Some recent 'non-financial investments' by other Local Authorities include:- Investments in Solar Farms, loans to local Football Club, buy and leaseback of BP Corporate HQ, 33% stake in new start-up bank, direct property investment both within and outside of the Authority's geographical area.

The National Audit Office and the Public Accounts Committee raised a number of concerns about Local Authority (investment) behaviour. These are,

- Local Authorities are exposing themselves to too much financial risk through borrowing and investment decisions
- There is not enough transparency to understand the exposure that LA's have as a result of borrowing and investment decisions
- Members do not always have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving

As a result of esoteric investments, and the subsequent review, Statutory Guidance on Local Government Investments has been revised, effective from 1st April 2018. The CIPFA Treasury Management and Prudential Codes have also been reviewed and updated.

Whilst the PCC does not currently, and has no immediate plans to 'invest' in esoteric schemes, it is appropriate to highlight the main thrust of changes introduced.

5.4.10 **Revised CIPFA Codes**

CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports.

The revised Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards, along with an overview of how risk is managed for future financial sustainability. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

In the revised Treasury Management Code the definition of 'investments' has been widened to include non-financial assets held primarily for financial returns such as investment property as well as financial assets. These, along with other investments made for non-treasury management purposes must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is be identified and reported.

5.4.11 **MHCLG Investment Guidance and Minimum Revenue Provision (MRP)**

In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government Investments and Statutory Guidance on Minimum Revenue Provision (MRP). Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called “loans” (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

The definition of prudent MRP has been changed to “put aside revenue over time to cover the CFR”; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

5.4.12 **MiFID II**

As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could “opt up” to professional client status, providing certain criteria was met. This included having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that the nominated person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The PCC continues to meet the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. As a result, the PCC will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Mark Simmonds
Chief Finance Officer – PCC Avon & Somerset

DRAFT Minutes of the Police and Crime Board, 4th July 2019

Attendees:
Sue Mountstevens, Police and Crime Commissioner
Andy Marsh, Chief Constable
Sarah Crew, Deputy Chief Constable
Stephen Cullen, Assistant Chief Constable
John Smith, OPCC CEO
Mark Simmonds, OPCC CFO (part of the meeting)
Mark Milton, Director of People and Organisational Development
Angharad Morgan, PCC's Staff Officer (part of the meeting)
Ben Valentine, T/Governance Secretariat Manager
Alaina Davies, Resources Officer

1. **Apologies**

   None

2. **Minutes and Action Update**

   The Board agreed the minutes from the Police and Crime Board Meeting held on 5th June 2019.

3. **Performance against the Police and Crime Plan**

   a) **Assurance Report (prevention and enforcement)**

      The Constabulary are looking at key opportunities with regard to prevention and enforcement. Focusing on evidence based policing, problem solving and technology.

      The Prevention Strategy was discussed – prevention through data analytics, prevention through problem solving and prevention through engagement. Work within the Response Directorate has reduced the demand allowing a greater focus on prevention. There are a number of problem solving plans in place and the Constabulary are now looking at evaluating these. The creation of an internal crime prevention webpage for staff and a public facing crime prevention microsite is positive in allowing greater engagement with the community. Various different engagement activities were highlighted such as Independent Advisory Groups and the Citizen's in Policing Project. Other crime prevention initiatives were highlighted such as bike registry, Moped initiatives, burglary packs and advice, road safety education and partnership prevention work.

      The BRAG completion rate is improving. Community Triggers are in place across the force area. Increased capacity around the internet team has been helpful.

A number of early intervention initiatives were highlighted such as IMPACT mentoring, Insight Project, Springboard to achieve, Choice of Consequences workshop, Bright outlook workshop, Sports projects etc.

Joint working between Neighbourhood Policing and Operation Remedy was discussed. It was highlighted that South Bristol are not seeing the same positive trend in demand reduction as other areas which is due to a range of different and complex issues – the PCC was assured that the Constabulary are working closely with the Local Authority who are leading the work to look at the whole picture with regard to the issues and identify solutions.

The Chief Constable commented that the report presented was insightful and the early results of the launch of the new Neighbourhood Policing model show that it is exceeding expectations – supportive of Neighbourhood Policing being protected. Positive comments are coming both internally and from stakeholders on the impact of the changes. It was also noted that some of the benefits will take longer to become evident.

The Force are heavily involved in national Neighbourhood Policing projects and the ACC commented that Avon and Somerset are in a strong position around the service they offer.

The PCC queried what the predicted impact would be on Neighbourhood Policing of the increased demand through the summer. A mature approach is being taken and directorate peers understand not to put too much pressure on Neighbourhood Policing. The approach will be more refined and sophisticated than in previous years.

Technology underpins what is happening in terms of the mobile technology allowing officers to work anywhere and all the apps available – this is allowing fantastic engagement with the community.

Concerns were raised about the number of outstanding warrants. There is a backlog which is being worked on and the PCC was assured that once the backlog is cleared it will be manageable. Ensuring officer understanding of the impact of outstanding warrants was discussed.

It was noted that morale is thought to be good which is partly as a result of the 250 flexible working patterns that have been agreed in recognition of the need for a good work/life balance. There are improvements to be made regarding continuous professional development over the next 12 months.

b) Safeguarding Governance Changes

The Constabulary gave an update on the Safeguarding Governance Changes. The key focus is on local arrangements rather than an Avon and Somerset wide arrangement. The Governance is much wider than children and safeguarding. It is felt that this is a good opportunity to confirm how the police are going to work together with partners – high level arrangements have been published. Funding was discussed and how this will work in the future – reform will need to be evident before this can be agreed. PCC representation on the new area wide Safeguarding Board was discussed.

c) Performance Overview (Including Operation Remedy)

The proposed new format for the report was presented for comment. The Constabulary have worked with the Office of the Police and Crime Commissioner (OPCC) to ensure it reflects the Police and Crime Plan Framework. Further discussions are required to ensure that the report is suitable for both presentation at the Police and Crime Board and to be shared with the Police and Crime Panel.

The PCC queried whether the Constabulary analyse the effect of positive outcomes on reoffending – this would be very difficult to do and the data or research isn't held.

The PCC commented that while she was at the national Criminal Justice Board scrutiny of Out of Court Disposals was raised – there is a general concern regarding ensuring the appropriate use of it.

Positive outcomes has seen a reduction which is thought to be as a result of staffing levels, officers new to service and going into the peak summer demand.

An app is being developed at the moment to determine the demand level to make it more dynamic and risk focused.

The backlog of crimes waiting for the outcome to be applied is due to the capacity within the team.

The small reduction in public confidence will be monitored – it was noted that the local survey is small and variable. There is a delay in the national quarterly data being received but this is expected soon for the quarter ending in March.

Operation Remedy

The PCC will receive the phase 2 plan and communication plan next week. The Officers working on Operation Remedy are positive about their role. Dwelling burglary rate is already down by 15% when comparing the last 12 months. The team is being well received by Neighbourhood Policing and they are working well together. It was noted that the burglary positive outcome rate quoted in the report is not as positive as it is based on 6 months rolling data but Op Remedy has only been live for 3 months.

4. Chief Constable's Update

The Chief Constable highlighted the following areas of risk:

- Community tensions – positive meeting this week with a member of the public in relation to this and publication of an apology letter to this person is planned. Risks regarding St Paul's Carnival at the weekend – need to deliver on promises and commitments whilst policing this event. Diversity in the Professional Standards Department is an area to think about. Need to be mindful that increasing officer numbers does not impact negatively on workforce representation numbers. The Chief Constable commented that the force has won an award for the work on workforce representation.

- High demand period – better than the position last year but still an issue. Op Remedy is having a positive effect. The summer demand is still a threat but the force is in a stronger position this year.
- Political instability – difficult to plan the workforce and the financial position. Risk from Brexit. Possible extra officers. Significant changes maybe ahead. Data visibility across all 43 forces would be a benefit.

5. Key Organisational Risks and Issues

It was agreed that a facilitated session would take place to discuss performance information and what information should be published – to be discussed at the Directorate Leads meeting in 3 weeks. Need to agree the internal measures to be discussed at PCB and make sure the information publically available is clear and can be understood. Also a good time to look at whether the presentation of the information on the PCC website needs updating.

The Constabulary informed the PCC that the Information Governance risk rating on the Constabulary Risk Register has gone up to red but that they are working to bring this risk down.

6. HR Data

The Director of People and Organisational Development is proposing to increase the officer recruitment intake numbers to 90 in quarter 4 to meet the additional number of officers needed and this could continue if the numbers need to increase again – due to the time it takes to become fully operational the benefits will not be seen yet. The degree entry conversion programme is still being worked through.

A reducing number of vacancies was reported and the actual FTE is rising – big increase in May as a result of an intake of officers.

The PCC sought assurance regarding PCSO numbers. There is an intake of PCSOs happening now. The 15 PCSOs in schools as a result of serious violence money was discussed and how this fits into the establishment numbers.

The PCC queried whether there will be better control of overtime with the additional officers. Overtime is not just affected by overall officer numbers but the type of work and also more officers means more bank holiday overtime – the quarter 1 financial performance report will be discussed at the next Police and Crime Board which will give a picture of how the overtime budget is being managed. The OPCC CFO suggested breaking overtime down by core overtime and other types of overtime e.g. Op Remedy.

The results of the staff survey are in and suggest positive change across the seven categories. There was a response rate of 46%. The results are on Pocketbook for managers to work through. Bullying and Harassment is still an area for improvement. There was very positive feedback on equipment with an 11% increase in people saying they have the tools to do their job effectively.

7. Finance:

a. Annual Accounts (verbal update on audit and inspection period)

The Joint Audit Findings report from the external auditor is due to be discussed at the Joint Audit Committee next week. The report is not yet finalised but there is a positive opinion on Value for Money and no major risks have been identified. The ruling on the pension fund is a national risk – having to disclose an extra liability in relation to this at the moment.

The finance team managed the earlier close of accounts with depleted numbers. Only a couple of control points have been identified but these arise out of legacy issues in relation to SAP.

b. Six-Monthly Proceeds of Crime Update

It was noted that the running costs of the Financial Investigations Unit (FIU) were higher in 2018/19 than the money received back from the Home Office Asset Recovery Incentivisation Scheme (ARIS). This was as a result of delays at the Home Office meaning that only 3 quarters of the money was received in 2018/19 and so quarter 4 has been received in 2019/20.

The Complex Crime Unit Manager reported on the activity of the new post which was created to maximise the opportunities of the Criminal Finances Act. Account Freezing and forfeiture orders have been successful. The force is now able to seize high value items as well such as watches. The PCC was informed that forces will receive 50% of the forfeited sums back. Decision on whether the post should become permanent will need to be discussed in six months.

8. Major Projects

a. Highlight Report

Positive position with regard to finding a solution in Williton in a good location which is cheaper than previous options. Work is ongoing to finalise the solution and a full Business Case will be submitted to the next Service Redesign Board before being presented at Constabulary Management Board and Police and Crime Board.

Progress is being made in relation to sale of Trinity Road.

Works have just been signed off in relation to Shepton Mallet which cost a little less than anticipated.

The IT Re-design is delayed.

The trial of the new Body Worn Video Camera equipment has not yet started so this will be delayed for one year.

The Constabulary are engaging with the national IT programmes better than they previously have done.

Making the Avon and Somerset Police position with regard Single Online Home clear was discussed.

b. Yeovil Police Station

The Programme Board looked at four options ranging from refurbishment to rebuild. The costs of the preferred option were discussed. There is more due diligence to be done – more detailed recommendation to be put forward as soon as possible. The PCC is supportive of the preferred option subject to the further work discussed being done. The PCC confirmed that the OPCC CFO can provide approval at the next Infrastructure Board.

c. Transport Services Re-structure

The PCC approved the recommended option presented in the paper in relation to renting a Bridgwater off site workshop.

d. Learning and Skills

The Constabulary are proposing a database of skills and learning (Chronicle) which will allow organisation of training online and booking online. It will record who attended training and the skills that came out of it. Also if an officer has an accredited skill and what date does that run out. Links all the information on an individual. Good step in modernisation and transparency.

The Board discussed the two other forces that would be involved due to Blackrock and the benefit they might gain from this – funding was then discussed. The PCC was assured that the other two forces would not have access to look at information in relation to Avon and Somerset staff. It is believed that Chronicle could interface with any potential new system that might replace the current Enterprise Resource Planning (ERP) system.

The PCC approved the recommended option presented in the paper.

e. Learning Business Case – Exception Report

The projected savings have not been made due to the decision not to go ahead with MFSS and also the need for greater capacity in the Learning Department due to the increase in officer numbers.

The Constabulary need to be more robust and scientific about utilising the capacity they have. Looking at virtual reality opportunities. Agreed to re-profile the MTFP savings. There are new savings.

It was agreed that the MTFP should be re-profiled to exclude the Learning savings and re-assess the Learning Department before 21/22 to establish if there can be any changes made to staffing levels following the introduction and establishment of PCDA.

9. Update from the Inclusion and Diversity Board

The Inclusion and Diversity Board met two weeks ago and is now part of the Constabulary Management Board. There is a refreshed strategy and a good plan around delivering this. The five big initiatives were discussed. There is now a focus on measuring performance and being able to see the impact and identify where further work is required. The Cultural Competence Training is rolling out at leadership level and next will be frontline practitioner level. The outreach workers have been positive with three people meeting the standard.

Stop and Search was discussed and having proper internal scrutiny – Qlik has been amended in the light of HMIC comments to focus on Stop and Search performance and disproportionality can be seen down to officer level.

10. A.O.B

a. Serious Violence

Lots of work is being done in this area. A strategy is being worked on and also understanding the data. There is new funding available (Home Office Early Intervention Youth Fund, Endowment Fund and Violence Reduction Unit Funding).

The Office of the Police and Crime Commissioner (OPCC) has also decided to recruit for a permanent post to sit within the OPCC Commissioning Team with a specific focus on serious violence – this will be an uplift to the payroll budget. This decision has been taken as a reflection of the important part of the agenda serious violence plays and how big of a development area it is.

b. Reducing Reoffending

The Regional and National Reducing Reoffending programmes are going well but there is much to be done locally. There is a workshop due to be held in August to come up with a new way of working. It has also been agreed that the Reducing Reoffending Senior Responsible Officer role (which is match fund by the HMPPS) will continue for another year. It has also been agreed that the PCC will contribute to a regional budget for a regional Reducing Reoffending post which will be a two year temporary post.

11. Action Update

An update was given on the actions from previous Police and Crime Board Meetings as follows:

- Operation Remedy – The Constabulary will share the plan (including the communications plan) for phase 2 of Operation Remedy with the PCC next week.
- Police Constable Degree Apprenticeship (PCDA) – an update will be given at the next Police and Crime Board on the plans for Community Engagement Training as part of the PCDA.

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12. Publication

The following items were agreed for publication:

- 5th June 2019 Police and Crime Board Agenda
- 5th June 2019 Police and Crime Board Minutes

Actions List:
See Exempt Actions List

Date of the Next Meeting: 1st August 2019