Police and Crime Board, 31st March 2021 13:00 – 17:00

Venue: Meeting to be held via Teams

Attendees:
- **Police and Crime Commissioner**
- **Chief Constable**
- **Deputy Chief Constable**
- **Chief Officer – People and Organisational Development**
- **OCC CFO**
- **OPCC Interim CEO**
- **OPCC Interim CFO**
- **OPCC Head of Commissioning and Partnerships**
- **OPCC Strategic Planning and Performance Officer**
- **Director of Transformation and Improvement**

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

4. Key Organisational Risks and Issues

5. Performance against Police and Crime Plan
  a. Integrated Performance and Quality Report
  b. Assurance Report – County Lines
  c. Serious and Organised Crime – verbal update
  d. SPM update (performance, uplift growth & savings/efficiency) – presentation at meeting

6. Decision (to be signed following the meeting) – **2021/005 Treasury Management Strategy 2021/22**

7. People and Organisational Development Update

8. Major Projects - Highlight Report

9. A.O.B

10. Action Update

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

Date of the Next Meeting: 2nd June 2021, 13:00 – 17:00

Item 2

DRAFT Minutes of the Police and Crime Board, 3rd March 2021

Held via Teams

Attendees:
Sue Mountstevens, Police and Crime Commissioner
Andy Marsh, Chief Constable
John Smith, Deputy Police and Crime Commissioner
Sarah Crew, Deputy Chief Constable
Mark Simmonds, OPCC Interim CEO
Stephen Cullen, Assistant Chief Constable
Jon Reilly, Assistant Chief Constable
Paul Butler, OPCC Interim CFO
Nick Adams, OCC CFO
Dan Wood, Chief Officer – People and Organisational Development
James Davis, Delivery Manager – Portfolio
Jon Dowey, Business Intelligence Manager
Marc Hole, OPCC Head of Commissioning and Partnerships
Ben Valentine, OPCC Strategic Planning and Performance Officer
Alaina Davies, Resources Officer

1. **Apologies**

   Karen Michael-Cox, Director of Transformation and Improvement

2. **Opening Comments**

   The PCC and Chief Constable thanked ACC Cullen for all the work he has done and wished him well in his retirement. ACC Cullen has taken on some difficult challenges in his career and his approach has always been fair, balanced and reasonable. The PCC and Chief Constable commented on the amount of work that ACC Cullen has undertaken within communities.

3. **Minutes and Action Update**

   The Board agreed the minutes from the Police and Crime Board Meeting held on 3rd February 2021.

4. **Chief Constable's Update**

   The Chief Constable highlighted the following:
   - Community confidence and inclusion – reiterated the organisational commitment to inclusion. Learning from recent incidents was highlighted (which has been checked and tested). National and international factors which affect community confidence with regard to inclusion where highlighted e.g. Black Lives Matter.
   - Continuity and stability – with changes in leadership within the Constabulary and the OPCC this risk was highlighted. The PCC

highlighted the importance of ensuring that historical information is shared as widely as possible before individuals leave the organisation. The Chief Constable is confident that the Constabulary have the right team in place to deliver improved performance.

5. Key Organisational Risks and Issues

No risks and issues were raised by the OPCC in addition to those highlighted by the Constabulary in the IPQR. The IPQR is a valuable report for the PCC and OPCC.

6. Performance against Police and Crime Plan

a. Integrated Performance and Quality Report (IPQR)

The Constabulary highlighted the most recent public confidence figures, which remain high, and the strong victim satisfaction rates.

The DPCC queried why the victim satisfaction rates were higher for non-enhanced victims. This links to the wider VCOP work being done which will be reported to PCB next month – further information will be provided to the PCC/DPCC before then.

The DPCC asked why Avon and Somerset are flagged as being an outlier for business robbery. Following advice from the National Crime Registrar in 2017 on use of force the Constabulary began to interpret business crime in a more robust way e.g. previously a scuffle with a security guard in a retail setting would have been classed as shoplifting but is now classed as business robbery. This resulted in an increase in cases. This issue was raised for the FCIR to look at last month and they concluded that the interpretation of the advice is correct. A number of other things are now being looked at to identify why Avon and Somerset is an outlier in this area.

The organisational risk with regard to ICAT backlogs was discussed. The number of high risk backlogs is coming down but there is still more to be done. There have been staffing challenges but the wider uplift programme will help to address these challenges. A Qlik dashboard is also under development. This issue will be revisited once the improvements bedded in.

A spotlight in the report focused on Warrants Management. The number of outstanding warrants has reduced by half from around 1200 a year ago. Work is ongoing to reduce the remaining outstanding warrants alongside dealing with new ones. Recommendations include closer working together of different parts of the organisation and better ownership (clear, roles, responsibilities and oversight). The PCC raised concerns regarding the ability to reduce the backlog once demand returns to normal levels following the easing of lockdown restrictions. This will be looked at again in the IPQR. The Criminal Justice System backlogs and the impact this has on outstanding warrants was discussed and how the use of technology could improve this e.g. text alert system.

There was also a spotlight in the report on how well the Constabulary respond when the public need them. The Constabulary have done a number of things to enable the more effective flow of demand away from patrol. The qualification of gradings was discussed at Constabulary Management Board (CMB). There were lots of positive points highlighted in the report. The Board discussed whether the Service Level Agreement (SLA) is set at the appropriate level for response times. Need to ensure the focus on investigative standards and attending in a timely manner where it affects the outcome – links to the positive outcomes process. This is a complex picture and the Constabulary will do a piece of work to understand the data. It was noted that the Constabulary are moving back to an 8 based patrol model which could also improve response times.

b. Assurance Report – Road Safety

The report highlights where the Constabulary are against the current Road Safety Strategy which runs out this year – the Constabulary will be working on a new strategy which aligns with the national strategy. Demand has been affected by the Covid-19 pandemic with lower volumes of traffic seen on the roads during the first lockdown in particular. Community SpeedWatch has been very productive over the past year with the highest ever number of sessions being recorded in September 2020. Speed detection has been reduced as a result of the pandemic.

Drink and drug driving arrests remains at the same level as the previous year. 85% are drink drive and 15% drug drive arrests. The PCC asked whether this was a reflection of an increase in drink and drug driving or more resource due to lower demand. The Constabulary believe both of these factors have contributed.

Road traffic collisions dropped by a third due to reduced volumes of traffic.

The Constabulary are developing a Road Safety Strategic Threat and Risk Assessment (STRA) – this will be a joint documents between the Roads Policing Unit and the Roads Safety Unit. This will be submitted to the Chief Officer Group (COG) for approval in April 2021. A new Road Policing and Safety Tasking Model has been developed to provide a clear and informed approach to assessing the risk (this group meets on a fortnightly basis) – this has been running for 6 weeks and has been successful.

The Constabulary have reviewed the speed enforcement thresholds and should be in line with the national standard by the end of the month (10% +2). Speed Enforcement Unit recruitment will be complete and up to full establishment by end of March 2021.

Road Traffic Collision (RTC) data was discussed. Low number of fatal RTCs: 23 in the first six months of 2018, 18 in the first six months on 2019 and 7 in the first six months on 2020. The Constabulary was in the top quarter in the country for January to June 2020.

The review of Smart Motorways was discussed and the Constabulary will be engaging with this as necessary. The Constabulary will link in with the PCC on this.

The Constabulary have a user friendly interface for camera footage to be uploaded from members of the public. Only offences where an offence can be clearly identified are uploaded and in 94% of cases there is a positive outcome (50/50 split between warning and prosecution).

The PCC asked where the Constabulary are on creating a Special Constabulary Road Safety Team and what is the latest on addressing issues in relation to the Bristol and Bath cycle path. The Constabulary will look into Special Constabulary Road Safety Team. The cycle path issues are being dealt with under Neighbourhood Policing and the PCC was assured that there is a problem solving plan in place.

The Board discussed the risk of people returning to using the road after the period of lockdown, in some cases where they have been shielding for a year. Might be worth liaising with the third sector to encourage them to run courses for those wishing to build confidence around getting back to using the roads.

Governance was discussed and the proposal to create a force wide board. The Constabulary already have good relationships with the Local Authorities and recognise that they all have different priorities and ways of doing things. The Constabulary is open to suggestions but are not sure that there is a need for a force wide board.

c. Quarterly Vulnerability Report

A workshop was held on 22nd February 2021 which brought together the vulnerability strands and thematic leads. Looked at the National Action Plan, KPIs and work in progress. Evidence led prosecutions were discussed, identifying gaps and what enabling functions bring to the action plan (not just looking at it from an operational side). This was a very positive event.

The PCC sought clarification on the arrangements in place to temporarily accommodation children in cases of child abuse. The Constabulary have worked with partners to agree a new protocol with more clear lines of accountability and making it clear that it is not appropriate to hold children at police stations.

It was highlighted that Domestic Abuse (DA) courts are running at less than a third of capacity for first appearance cases. The CPS and Criminal Justice are working to identify cases going to the wrong courts.

The PCC was assured that the Constabulary would maintain their focus on tackling Female Genital Mutilation (FGM) following a change in PCC at the next election in May. The reduction in the number of cases reported locally was discussed. Need to keep vigilant that the international travel ban may mean more cases in this country.

d. Strategic Threat Assessment (STRA)

The force has a good understanding of the strategic threats and risks. It was noted that all intelligence collection plans are going through a refresh.

The DPCC queried why there has been a reduction in the percentage of harassment cases with a DA flag.

There will be a report to CMB in the next couple of months relating to the drugs market and a potential increase in violence and drug offences following the easing of lockdown restrictions.

The PCC asked for an update on the plans the Constabulary have been working on with the Local Authority to tackle issues in Cheddar Gorge which have cause community concerns.

The PCC asked if the Constabulary have been in conversation with local authorities regarding the new areas highlighted in the report with issues relating to the drugs market.

7. Decisions

Please note that Decision Notices are published on the PCC website on the Decisions page under the Openness section.

2021/004 Interim OPCC CEO and Monitoring Officer – Agreed to run a recruitment process for the appointment of an interim Chief Executive and Monitoring Officer for the Office of the Police & Crime Commissioner (OPCC) following the resignation of the current interim CEO. The Decision Notice will be signed and published on the PCC’s website.

8. People and Organisational Development Update

The Board discussed the letter received yesterday from Kit Malthouse in relation to diversity and inclusion. This was disappointing but the Constabulary recognise the need to go further in their ambitions regarding inclusion and so the Chief Officer – People and Organisational Development has already tasked his team to make contact with forces highlighted as positive outliers to learn what they are doing. The Constabulary are looking to take legal and practical advice on where they could go further and be more exclusive in recruitment and attraction activities. Also need to keep a focus on retention.

The challenge with driving diversity in the uplift programme through the Covid-19 pandemic was recognised. The activities of the outreach workers has been supressed as a result of the pandemic, although they made great efforts to engage as much as possible virtually. A disproportionate intake in 2019 has also impacted across the year. It was noted that a better understanding of the pipeline is needed.

The PCC recommended a regular meeting with OPCC representatives focusing on this issue. It is important to also recognise all the good work that has been done to date in relation to diversity and inclusion.

An update was given on the latest recruitment figures. On target regarding police officer recruitment and closing the gap in terms of police staff vacancies. Now looking at the flow and distribution of resources from the uplift programme. It was agreed that in future the report should breakdown the officer numbers by those that are in training, under tutorship or fully qualified/fully operational – this is an important message for the public to understand.

The Constabulary will be meeting with SARI and other partners regarding the community and cultural programme in diversity and inclusion – there is an April start date for this.

9. Finance: Revised Medium Term Financial Plan (MTFP)

The Police and Crime Panel vetoed the original MTFP presented and so this revised proposal was presented and agreed. The proposed used of the underspend was highlighted.

10. Major Projects

a. Highlight Report

There are 25 projects live now with the inclusion of Anaplan and Facial Recognition. An updated was given on the projects. The OPCC CFO queried why one of the estates projects was not flagged as a red risk given the uncertainty around costs – this is red on Verto and there will be an update tomorrow.

b. Digital Roadmap

A presentation was given on the digital roadmap work. Includes national, regional and local projects. Increases in national projects take up capacity and restrict space for local/regional projects. Need to consider where the force wants to influence, innovate or adopt. Roadmaps will always be a work in progress and needs to be part of regular governance going forward. The investment in digital technology made to date was discussed and how it has enabled the force to continue to work effectively through the Covid-19 pandemic.

The Constabulary may need further enabling tools and to dedicate a bit more support to this. The OPCC would like a clearer understanding of the capacity of the Constabulary team to deliver this amount of work within the timeframe. The Constabulary are developing a resourcing model alongside the roadmap which they will share with the OPCC.

The PCC was assured that a cautious approach is being taken to adopting facial recognition – static use for identifying those involved in criminality.

c. Case Management System Outline Business Case

Business Case to procure a new case management system for Legal Services and other data compliance teams. The current system does not have the required functionality going forward. 2 options were presented to CMB and option 1 (to procure a new system) was approved. A more sophisticated system will create workflows, greater integration with other systems, live time data availability and potential for process automation.

This is a comprehensive business case. The OPCC CFO was assured that it is funded in the capital programme but that depending on what the Constabulary sign up to there may be a revenue and capital split in future.

The PCC approved option 1 as set out in the business case.

d. Leadership Academy Business Case

Business case to provide leadership development to all with the use of technology and blended learning. Option 1 was agreed at CMB which utilises the technology currently available and aligns with future plans.

The PCC is very supportive of this business case and approved option 1 as set out in the business case. This is not included in the MTFP but the Constabulary CFO is confident in being able to meet the costs as it is a modest amount.

e. Enterprise Resource Planning (ERP) Strategy

There is no one solution in the market place which meets all the requirements. Any future system will need to interface with other solutions. The current SAP system will be unsupported by the end of the decade and the work to replace the system will take between 18 months and 2 years – it was noted that the longer the Constabulary take to leave the current system the more expensive it will become. The legacy contract from SW1 has been extended until June 2024. The Constabulary CFO is confident that savings can be made with whatever system is chosen to replace SAP.

Early considerations were discussed. The PCC sought assurance that the lessons had been taken from the previous attempt to replace SAP. This won't be a collaboration and the timescales will be more generous with plenty of implementation time. Will look to develop an outline business case in the summer/early autumn 2021 with implantation in 2024/25.

The OPCC CEO reiterated that the focus should be on the people side of a system and interoperability with current systems. Also should be cloud based.

The Chief Constable is confident in what is being proposed and highlighted the following as being important criteria:

- Low risk
- Cost saving
- Low impact implementation
- Sustainable

With the support of the OPCC Section 151 Officer and OPCC CFO the PCC approved progression to market place to appoint a partner to support business case development. It was noted that implementation will not take place until the PCC term after this next one.

11. A.O.B

Borrowing plan – the OPCC CFO proposed drawing down borrowing of £1.3m from PWLB by the end of the month to lock in the beneficial borrowing rate. The PCC noted the proposal and requested a formal written proposal setting out the reasons for the borrowing, the costs and the consistency with the TMSS prudential indicators and the MTFP.

12. Action Update

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

- Lighthouse Safeguarding Unit (LSU) – Good progress but what is the timescale for meeting the SLA and the OPCC would like to see the feedback on the consultation in relation to the change in shift pattern.

13. Publication

The following items were agreed for publication:

- 3rd February 2021 Police and Crime Board Agenda
- 3rd February 2021 Police and Crime Board Minutes

Actions List:
See Exempt Actions List

Date of the Next Meeting: 31st March 2021

Item 6

POLICE AND CRIME COMMISSIONER FOR AVON AND SOMERSET (PCC)

POLICE & CRIME BOARD 31st MARCH 2021

TREASURY MANAGEMENT STRATEGY 2021-22

REPORT OF THE PCC's CHIEF FINANCE OFFICER

1. Introduction and Background

This report brings together the requirements of the Chartered Institute of Public Finance Accountants (CIPFA) Treasury Management in the Public Services Code of Practice Revised 2017 Edition (CIPFA TM Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities: Revised 2017 Edition (CIPFA Prudential Code). Whilst most of the requirements of the 2018 Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance are no longer relevant to Treasury Management Investments (it now overwhelmingly refers to non-treasury investments), this report does adhere to MHCLG guidance to prioritise Security, Liquidity and Yield, in that order.

Non-treasury investments are substantially covered by the 2018 Revised MCHLG guidance and would be presented to the PCC in a separate Investment Strategy if they were to be considered (They are not at this point in time).

The PCC acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Treasury management is the management of the PCC's cash flows, borrowing and treasury investments, and the associated risks. The PCC has significant debt and treasury investment portfolios and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the PCC's prudent financial management.

Treasury risk management at the PCC is conducted within the framework of the CIPFA Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the PCC to approve a treasury management strategy before the start of each financial year. This report fulfils the PCC's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Under Section 3 of the LGA 2003 (duty to determine affordable borrowing limit), a Local Authority must have regard to the CIPFA Prudential Code. This code requires the setting of a number of Prudential Indicators, benchmarks within which Treasury and Investment Management, and Capital Financing are managed. The setting of Prudential Indicators for Treasury Management requires Authorities to recognise key implications of their borrowing and investment strategies. These relate to the affordability of overall borrowing limits, the maturity structure of borrowing, and longer-term investments.

In formulating the Treasury Management Strategy, and the setting of Prudential Indicators, the PCC adopts the Treasury Management Framework and Policy recommended by CIPFA. These can be found in Appendix A.

The current TMPs are attached for information as Appendix C to this report and set out the main categories of risk that may impact on the achievement of Treasury Management objectives. No treasury management activity is without risk. The successful identification, monitoring and control of risks are the prime criteria by which the effectiveness of its treasury management activities will be measured. The main risks to the PCC's treasury activities are:

- Credit and Counterparty Risk (security of investments)
- Liquidity Risk (inadequate cash resources)
- Market or Interest Rate Risk (fluctuations in price / interest rate levels)
- Refinancing Risk (impact of debt maturing in future years)
- Legal & Regulatory Risk

The schedules to the TMPs provide details of how those risks are actively managed.

External Context

The impact on the UK from coronavirus, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will remain major influences on the Authority's treasury management strategy for 2021-22.

The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the November Monetary Policy Report (MPR) forecasts, the Bank expects the UK economy to shrink 2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a COVID-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021.

GDP growth rebounded by 16.0% in Q3 2020 having fallen by 18.8% in the second quarter, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE's November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in November, the fourth successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time but expanded its monetary stimulus in December 2020, increasing the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

The US economy contracted at an annualised rate of 31.4% in Q2 2020 and then rebounded by 33.4% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

Internal Context

As at 31st December 2020 the external long-term debt portfolio of the PCC stood at just under £45m as in the table below.

	Balance on 31-03-2020 £m	Debt Matured / Repaid £m	New Borrowing £ms	Balance on 31-12-2020 £m	Increase/ Decrease in Borrowing
Short Term Borrowing	0.00	0.00	0.00	0.00	0.00
PWLB	34.27	-1.16	0.00	33.11	-1.16
LOBOs	5.27	0.00	0.00	5.28	0.00
Fixed Rate Loans	6.50	0.00	0.00	6.50	0.00
Total Borrowing	**46.04**	**-1.16**	**0.00**	**44.88**	**-1.16**

The investment portfolio at the same time stood at just under £73.5m.

	Balance at 31-03-2020 £m	Rate of Return at 31-3-2020 %	Balance at 31-12-2020 £m	Rate of Return at 31-12-2020 %
Liquid Balances (Variable)	12.90	0.45	18.49	0.03
Fixed Deposits	42.00	0.83	48.00	0.41
CCLA Property Fund	3.00	4.05	3.00	3.91
Total Lending	**57.90**	**0.92**	**73.49**	**0.44**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while useable reserves and working capital are the underlying resources available for investment.

Statutory guidance is that debt should remain below the CFR, except in the short-term. The PCC expects to comply with this in the medium term.

In the table below, as shown in the Capital Strategy, the ‘Assumed debt not yet taken’ row indicates that £5.3m of new borrowing could be needed by the end of March 2022. Timings of actual capital expenditure linked to the capital plan are not totally predictable, but it is envisaged that the £4.0m of borrowing will be necessary during 2021-22. This will be in addition to £1.3m that is required for 2020-21, and which is expected to be borrowed before the end of March 2021.

External Debt and the Capital Financing Requirement in £ millions

	31.3.2020 actual	**31.3.2021 forecast**	**31.3.2022 budget**	**31.3.2023 budget**	**31.3.2024 budget**
Short term debt	0	0	0	0	0
Long term debt *	46.04	46.06	48.21	48.77	48.96
Assumed debt not yet taken (inc. in above)	0	1.30	5.3	7.10	8.60
PFI Liability	55	53.3	51.6	49.7	48.4
Total external borrowing	**101.04**	**99.36**	**99.81**	**98.47**	**97.36**
Capital Financing Requirement	**103.21**	**101.00**	**101.18**	**99.02**	**97.08**

*Reduces for Minimum Revenue Provision (MRP) & debt repayment

The PCC has a projected cash income of approximately **£340m** for 2021-22.

These factors represent significant cash flow, and debt and investment portfolio management for the PCC. In the current financial and economic environment and taking into account potential influencing factors, it is imperative that the PCC has strategies and policies in place to manage flows and balances effectively. The strategies and policies herein state the objectives of Treasury Management for the year and set out the framework to mitigate the risks to successfully achieve those objectives.

2. Borrowing Strategy

The PCC currently holds £44.7m of loans, (and an anticipated £1.3m more to be taken before 31st March 2021) as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in the table above shows that the PCC may have a need to borrow up to £4.0m in 2021-22, and a further £1.8m in 2022-23 and £1.5m in 2023-24. The PCC may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

Objectives: The PCC's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the PCC's long-term plans change is a secondary objective.

Strategy: The PCC's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short to medium-term loans instead.

By doing so, the PCC is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short to medium-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Somerset County Council (SCC) officers will monitor the 'cost of carry' and in conjunction with the PCC Chief Finance Officer (CFO), will determine whether the PCC borrows additional sums at long-term fixed rates in 2021-22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The PCC has previously raised most of its long-term borrowing from the PWLB or via LOBOs with banks. Current policy is not to take further LOBO loans. After the 1% rise in PWLB rates in October 2019, HM Treasury, after a lengthy consultation, reversed the rise, but stated that PWLB loans would no longer be available to local authorities planning to buy investment assets primarily for yield. The PCC intends to avoid this activity in order to retain its access to PWLB loans. The PCC will continue to assess alternatives to borrowing long-term loans from other sources including banks, pensions and local authorities, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

The PCC may also arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

The use of Call Accounts and MMFs will continue for short-term liquidity; However, it may be appropriate and/or necessary to borrow short-term to cover cash flow fluctuations. Where this is deemed advantageous, short-term funds will be obtained from the money market using the services of a panel of money market brokers.

Sources of borrowing: Approved sources of borrowing are cited in the TMPs. Since PWLB rates were reduced in December 2020, commercial lenders' offerings are less attractive than previously, but this option will still be sought and considered. It is envisaged that any new borrowing will be in the short to medium-term periods (up to 25 years), as this is most compatible with the current maturity profile. Interest rates for these maturities are expected to remain lowest as the continued economic uncertainty necessitates lower interest rates for longer. A smaller amount of longer-dated borrowing may also be deemed appropriate when considering the overall portfolio.

Whilst all options will be explored, the flexibility of type, size, and timing of PWLB loans means that they will probably remain the primary source for new borrowing. Variable rate loans currently mitigate the cost of carry. Shorter-dated Equal Instalment of Principal (EIP) loans are cheaper than loans paid on maturity and are repaid systematically in equal instalments over their life. Both will be actively considered, as will shorter dated loans (1-3 years) from other Local Authorities.

No new borrowing will be in the form of LOBOs. The PCC will continue with the current policy not to accept any option to pay a higher rate of interest on its' LOBO loans and will exercise its own option to repay the loan should a lender exercise an option. The PCC will also investigate opportunities to repay where a lender is looking to exit the LOBO by selling the loan. This would be done in conjunction with SCC and their advisors Arlingclose. The PCC may utilise cash resources for repayment or may consider replacing any loan(s) by borrowing from the PWLB or other Local Authorities.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The PCC may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. SCC officers continually monitor repayment rates and calculate premiums to identify opportunities to repay or reschedule PWLB loans.

3. Investment Strategy

In 2018, the MHCLG issued revised Statutory Guidance on Local Government Investments (3rd Edition). It states "Investments made by local authorities can be classified into one of two main categories:

- Investments held for treasury management purposes; and
- Other investments.

"Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code. They should disclose that the contribution that these investments make to the objectives of the local authority is to support effective treasury management activities. The only other element of this Guidance that applies to treasury management investments is the requirement to prioritise Security, Liquidity and Yield in that order of importance".

The changes made to the 3rd edition of this Guidance reflect changes in patterns of local authority behaviour. Some local authorities are investing in non-financial assets, with the primary aim of generating profit. Others are entering into very long-term investments or providing loans to local enterprises or third sector entities as part of regeneration or economic growth projects that are in line with their wider role for regeneration and place making.

In addition, the National Audit Office and the Public Accounts Committee have raised a number of concerns about local authority behaviour that this guidance aims to address. 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 local authorities have as a result of borrowing and investment decisions; and
- Members do not always have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.

This strategy applies only to investments held for treasury purposes. Any non-treasury investments are dealt with in a separate Investment Strategy. The PCC's treasury investments can be divided into three main areas.

- Monthly working capital (Approximately £30m) - This is regular monthly grant and precept income received and used to pay monthly outgoings such as creditors and payroll. This is invested very short term to help smooth cash flows.
- Funds which have been identified as not being immediately required (Approximately £25m) – This pot is core balances / reserves, and can be invested for longer periods, providing sufficient liquidity is maintained via a rolling portfolio of loans.
- Annual Pensions top-up (£54.4m for 2020-21). This rump of cash is generally spent evenly throughout the year, and can be invested accordingly, i.e. investments with maturities spread evenly throughout the year.

Total balances for 2020-21 to the end of December have ranged between £43.7m to £119.2m, averaging £83.6m. The strategy must address risks presented by the large spread between the minimum and maximum balances.

Objectives: The CIPFA Code requires the PCC to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The PCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. With this in mind, the PCC has set an objective of achieving a gross return of 0.5% above 7-day LIBID, over a rolling 3-year period.

Strategy: Short-term, mainly revenue cash will be lent for short periods where appropriate, with authorised counterparties, either by direct contact or via brokers. Call Accounts and Money Market Funds (MMFs) will also be used to provide instant liquidity. AAA rated MMFs offer a high security, high liquidity investment into an extremely diversified portfolio.

The pool of funds identified as not immediately needed, i.e. earmarked reserves and core balances (circa £25m) will be invested for longer periods when investment conditions are deemed favourable, to protect against a prolonged period of low interest rates. The pensions top-up will be invested via both short-term call facilities and the use of time deposits up to 1 year.

The list of further potential investment activities below was included last year, and they will continue to be monitored and assessed as alternatives to mitigate bail-in risk and falling, potentially negative returns.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on an Authority's "business model" for managing them. The PCC aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Implementation: The CFO, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. He in turn commissions treasury management services, including implementing policy, to Treasury Management Officers at SCC. This is done by using only the agreed investment instruments, and credit criteria below and in appendix B. As is current procedure, the use of a new instrument or counterparty would need to be specifically authorised by the CFO. Details of deposits and investments taken by SCC Officers are reported monthly to the Chief Finance Officer and discussed at quarterly meetings.

Approved Investments: The list below shows currently approved instruments, with a brief description of current and potential investment instrument characteristics underneath.

- Business Reserve Accounts and term deposits.
- Deposits with other Local Authorities.
- Low Volatility Net Asset Value (LVNAV) Money Market Funds
- The Debt Management Office (DMO)
- Variable Net Asset Value (VNAV) Money Market Funds.
- Gilts and Treasury Bills.
- Certificates of Deposit with Banks and Building Societies
- Commercial Paper
- Use of any public or private sector organisation that meets the creditworthiness criteria rather than just banks and building societies.
- Building Societies – Including unrated Societies with better creditworthiness than their credit rated peers.
- Corporate Bonds – Can offer access to high credit rated counterparties, such as utility, supermarket, and infrastructure companies.
- Covered Bonds and Reverse Repurchase Agreements (Repos) present an opportunity to invest short-term with banks on a secured basis and hence be exempt from bail-in.
- Pooled Funds. These funds allow the PCC to diversify into asset classes other than those above, without the need to own and manage the underlying investments. Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. Their values change with market prices, so will be considered for longer investment periods. It would be the PCC's intention to be to be invested in longer-dated Bond Funds, Equity Funds, or Property Funds for at least 3-5 years.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period may be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow an investor to diversify into other asset classes without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the PCC's investment objectives will be monitored regularly.

Approved counterparties – Credit Rated: The PCC maintains a restricted list of financial institutions to be used as counterparties, and in accordance with the credit criteria set out in appendix B. Any proposed additions to the list must be approved by the CFO

Approved counterparties – Non-Credit Rated: As investment decisions are never made solely based on credit ratings, and some institutions may not have ratings at all, account will be taken of any relevant credit criteria in appendix B, and any other relevant factors; Again, potential counterparties will be specifically authorised by the CFO.

Credit rating: The PCC has constructed and will maintain a counterparty list based on the criteria set out in Appendix B. The minimum credit quality is proposed to be set at A- or equivalent. The credit standing of institutions (and issues if used) will be monitored and updated on a regular basis.

SCC will continuously monitor counterparties creditworthiness. All three credit rating agencies' websites will be visited frequently, and all ratings of proposed counterparties will be subject to verification on the day of investment (MHCLG guidance states that a credit rating agency is one of Standard & Poor's, Moody's Investor Services Ltd, and Fitch Ratings Ltd). All ratings of currently used counterparties will be reported in the monthly treasury management papers, where proposals for any new counterparties may be put forward. New counterparties must be approved by the CFO before they are used. Any changes to ratings that put the counterparty below the minimum acceptable credit quality whilst we have a deposit, or a marketable instrument will be brought to the attention of the CFO immediately, and an appropriate response decided on a case-by-case basis. Sovereign credit ratings will be monitored and acted on as for financial institution ratings. Investment limits are set by reference to the lowest published long-term credit rating from the three rating agencies mentioned above. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

Other information on the security of investments: The PCC understands that credit ratings are good, but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including those outlined below.

- 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.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.
- Underlying securities or collateral for 'covered instruments'.
- Other macroeconomic factors

It remains the PCC's policy to suspend or remove institutions that still meet criteria, but where any of the factors above give rise to concern. Also, when it is deemed prudent, the duration of deposits placed is shortened or lengthened, depending on counterparty specific metrics, or general investment factors.

The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the PCC's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment limits: Investment limits are set out in appendix B.

Liquidity management: SCC uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the PCC being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the PCC's medium-term financial plan and cash flow forecast.

4. Prudential and Treasury Management Indicators

The PCC measures and manages its exposures to treasury management risks using the following indicators.

Authorised limit and Operational Boundary: The PCC is required to set an authorised limit and an operational boundary for external debt.

	2021-22 £m	2022-23 £m	2023-24 £m
Authorised limit			
Borrowing	51	51	51
Other Long-Term Liabilities	54	52	51
Total	105	103	102
Operational boundary			
Borrowing	49	49	49
Other Long-Term Liabilities	52	50	49
Total	101	99	98

CIPFA no longer recommends setting upper limits on fixed and variable rate exposures, so these are no longer calculated for this paper.

Maturity Structure of Borrowing: The PCC has set for the forthcoming year, both the upper and lower limits with respect to the maturity structure of its borrowing. The calculation is the amount of projected borrowing maturing in each period, expressed as a percentage of the total projected borrowing. CIPFA Code guidance for the 'maturity structure' indicator states that the maturity of LOBO loans should be treated as if their next option date is the maturity date. The 'maturity structure of borrowing' indicators have been set with regard to this, and having given due consideration to proposed new borrowing, current interest rate expectations, and the possibility of rescheduling or prematurely repaying loans outlined in the borrowing strategy. The periods to be used going forward and the limits are the same as for 2020-21.

	Upper Limit	Lower Limit
Under 12 months	30%	0%
> 12 months and < 24 months	30%	0%
> 24 months and < 5 years	25%	5%
> 5 years and < 10 years	25%	0%
> 10 years and < 20 years	35%	0%
> 20 years and < 30 years	15%	0%
> 30 years and < 40 years	45%	10%
> 40 years and < 50 years	10%	0%
> 50 years	0%	0%

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments.

It is possible that the PCC may place a small number of deposits for more than one year. Should the PCC wish to diversify more into pooled funds, it would be the PCC's intention to be invested in these for periods of 3-5 years plus. Therefore, a prudential indicator of £20m is deemed necessary for year 1, with similar amounts for years 2 and 3.

	2021-22	**2022-23**	**2023-24**
Prudential Limit for principal sums	**£m**	**£m**	**£m**
invested for periods longer than 1 year	20	20	20

Credit Risk Indicator: The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its in-house (SCC) managed investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk and will be calculated quarterly.

Credit risk indicator	**Target**
Portfolio average credit rating (score)	A (6.0)

5. <u>Other Matters</u>

The CIPFA Code requires the PCC to include the following in its treasury management strategy.

Derivative Instruments: The code requires that the PCC must explicitly state whether it plans to use derivative instruments to manage risks. The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). However, the authority does not intend to use derivatives.

Should this position change, the PCC may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require PCC approval.

External Service Providers: The code states that external service providers should be reviewed regularly and that services provided are clearly documented, and that the quality of that service is controlled and understood.

Officers from the SCC Treasury Management team report debt and investment positions and performance via monthly papers, and at quarterly meetings with the PCC Chief Finance Officer. As required by the CIPFA TM Code, the Chief Finance Officer reports to the PCC via the Finance Committee on its treasury activities in the form of a mid-year review and an Annual Treasury Management Report.

Member Training: All public service organisations should be aware of the growing complexity of treasury management in general, and its application to the public services in particular. Modern treasury management, and particularly non-treasury investments (should they be entered into) demand appropriate skills.

The new Investment Strategy demands a greater level of understanding and involvement by members, and that document sets out the specific requirements for that purpose; However, there should still be an appropriate level of skills and understanding applied to the Treasury Management Strategy.

SCC Officers would be able and willing to provide a level of training, if the PCC CFO thought that there would be no conflict of interest. SCC could also facilitate training via an independent third party and have contacts within a number of money market brokers and fund managers who could provide training. As and when needed, briefing sheets could be prepared and distributed to keep the PCC and the PCC CFO/CEO abreast of current developments.

Markets in Financial Instruments Directive II (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 that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved. Each regulated Financial Services firm undertakes a separate assessment with ongoing compliance.

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.

6. <u>Recommendations</u>

The PCC is recommended to: -

1. Approve the Treasury Borrowing Strategy (Section 2) for the financial year 2021-22.

2. Approve the Treasury Investment Strategy (Section 3) for the financial year 2021-22.

3. Note the Prudential Indicators (Section 4) for the financial years 2021-2024.

Paul Butler
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Background papers

Local Government Act 2003 – Guidance under section 15(1)(a) 3rd Edition, effective from 1 April 2018.

The CIPFA 'Treasury Management in the Public Services' Code of Practice Revised Edition 2017.

CIPFA Prudential Code for Capital Finance in Local Authorities: Revised Edition 2017.