Police and Crime Board, 6th June 2018 13:00 – 17:00

Venue: Gordano Room

Attendees:

- **PCC**
- **Chief Constable**
- **Deputy Chief Constable**
- **Constabulary CFO**
- **Director of People and Organisation Development**
- **OPCC CEO**
- **OPCC CFO**
- **OPCC Strategic Planning and Performance Officer**

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

Marc Hole, OPCC Head of Commissioning and Partnerships

2. Minutes and Actions

3. Performance against Police and Crime Plan (Focus on Strategic Priority 1 – Protect the Most Vulnerable from Harm)

- **a.** Assurance Report (specific assurance on Child Abuse)
- **b.** Performance Overview

4. Decisions (to be signed at the meeting)

- Mobile Phone Investment – decision notice to follow

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

6. Key Organisational Risks and Issues

7. Finance

- **a.** Annual Accounts
- **b.** Treasury Management Annual Outturn Report

8. Major Projects: Strategy and Transformation Portfolio Highlight Report

9. Annual Report – report to follow

10. A.O.B

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

Date of the Next Meeting: 4th July 2018, 13:00 – 17:00

DRAFT Minutes of the Police and Crime Board, 6th June 2018

Attendees:
Sue Mountstevens, Police and Crime Commissioner
Andy Marsh, Chief Constable
John Smith, OPCC CEO
Mark Simmonds, OPCC CFO
Julian Kern, OCC CFO
Nick Adams, Deputy Director – Transformation and Improvement
Michael Flay, Governance Secretariat Manager
Karin Takel, OPCC Strategic Planning and Performance Officer
Alaina Davies, OPCC Resources Officer

1. Apologies

Marc Hole, Head of Commissioning and Partnerships

2. Minutes and Action Update

The Board agreed the minutes from the Police and Crime Board Meeting held on 2nd May 2018 and discussed the actions update:

- Public portal – The PCC has seen the latest version and a discussion took place regarding the best time to launch this.
- Stalking and Harassment – The PCC has been assured that the Constabulary proposal to manage these cases through existing MARAC and IOM processes is the best option. An update should be given in 6 months.
- Vulnerability Strategy – The OPCC and Constabulary has liaised to ensure that the SP1 objectives in the strategy match the Police and Crime Plan.
- Operation Topaz (responding to the threat of CSE) – will be rolled out across the force area by September 2018.

3. Performance against the Police and Crime Plan

a) Assurance Report (Focus on Strategic Priority 1 – Protect the Most Vulnerable from Harm)

The report presented focused on specific assurance regarding the response to Child Abuse. The PCC commented that she thought that this was an outstanding paper and thanked the team for their good work in this area of business.

Concerns were raised with regard to the funding of Child Sexual Exploitation (CSE) victim support work in North Somerset in the future as a funding stream which enables additional capacity in the area is due to end – the OPCC will liaise with the Constabulary regarding this.

This area of business went through a structural change which put the team in a better position to cope with the increased demand. The deep dive audit on Child Protection based on HMICFRS methodology was carried out in April 2018. There is now much greater awareness of child protection issues across the force and the organisation has made good progress over the past 10 years but the audit has been useful in giving a clear idea of where improvements are still to be made. The audit suggested good practise but that there are inconsistencies.

Challenges with regard to funding were highlighted. The PCC queried whether staffing levels were being kept consistent – when people leave new people are recruited, however it does take time for them to go through training.

Early intervention in Neighbourhood policing is good. Outcomes rates reported in relation to child protection for 2016 and 2017 (calendar year comparison) remain similar which is positive due to the increased demand this means the actual number of positive outcomes has risen.

Proactive work being undertaken by the Constabulary was highlighted e.g. Operation Topaz, BRAG, risk assessment and use of Body Worn Video Cameras.

Ways to support capturing the voice of the child and doing this consistently were discussed. This can be done through the use of Body Worn Video Camera, use of Qlik Sense, and use of mobile technology to record officer thoughts immediately after speaking with the child.

The PCC queried the process for victims of child abuse being referred to support services – currently they are referred to Children and Social Care but the implementation of BRAG is important to help staff pick up issues and be able to refer directly to the most appropriate support service.

b) Performance Overview

Recent IT issues were discussed and the PCC was assured that learning has been taken from these incidents to ensure that processes are more robust in future. MailMarshal issues were a result of a product upgrade. DEMs go line created some issues which the supplier gave immediate support for. The Constabulary recognise that testing needs to be better before going live. The PCC was informed that one of the issues in recent weeks was a third party supplier issue.

It was explained that the high number of crimes to patrol does include the Resolution Team and Action Fraud demand – one of the actions at Constabulary Management Board (CMB) was to separate these out.

The PCC queried how calls for service are graded and how the Constabulary check and test that the correct gradings are being applied. Call Handlers have question sets to use. Calls are checked regularly but it was agreed that some assurance work could be carried out in this area of business.

Positive Outcomes was discussed and doing a deep dive on arrest rates. The Quest Lead for Positive Outcomes will be invited to attend the next Police and Crime Board.

Confirmed that the Constabulary is committed to the use of the Redbridge House Facility for the next 10 years in Bath.

The PCC requested more information on the File Quality Plan.

4. Decisions

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

Mobile Phone Investment – the final decision notice is not yet available but the PCC approved in principle the uplift of smartphones by 698. The original Business Case did not include Specials or desktop. It is essential to ensure that everyone who needs the technology has it. The OPCC CFO raised the wider issue of funding capital expenditure and the future risk as a result of lack of adequate Government funding.

2018/13 Microsoft Licensing for NEP O365 National Design – decision to approve the increase in Microsoft licensing to conform to the National Enabling Programme's O365 national design. The total value of this increase is £860,438. The Decision Notice will be signed and published on the PCC's website.

5. Chief Constable's Update

The Chief Constable raised the following:

- Community tensions continue to be a concern. Community meeting being held this Saturday which the PCC and Chief Constable will be attending. It is hoped that the meeting will be a positive move forward in easing tension.
- Multi-Force Shared Services – the review should be completed soon and the report is expected by the end of July. A decision will need to be made as soon as possible after receipt of the report on the future of the project.
- Recruitment – the Chief Constable has been assured by the Director of People and Organisational Development that the recruitment programme is on track. Need to watch the representative workforce numbers.
- Senior Leaders – recruitment of senior leaders is not yet complete. The Chief Constable highlighted how stretched existing senior leaders are but doing a good job of completing some big pieces of work e.g. Force Management Statement.

6. Key Organisational Risks and Issues

Risks and issues raised in the report can be discussed once the Force Management Statement is available.

A presentation was given on the Strategic Framework which focuses on how to achieve the vision of becoming an Outstanding Force. The four corporate strategies are being developed which will reflect the Police and Crime Plan. The OPCC will feed comments back on the work so far.

7. Finance

a) Annual Accounts

Draft Statement of accounts 2017/18 are now published on the PCC's website along with the audit notice. The OPCC CFO thanked the Constabulary Finance Team for getting this done on time at the same time as going through the enabling services review. The Draft accounts are now with the Joint Audit Committee for comments and final assurance will be provided by the Joint Audit Committee and External Auditors.

The OPCC CFO reported that cash is reasonably unchanged year on year. The PCC was advised that the figures on the front page don't yet show the accounting adjustment regarding pensions. An asset revaluation was carried out meaning an additional £14m had to be shown in the accounts.

b) Treasury Management Annual Outturn Report

The PCC agreed that the OPCC CFO can prepare a proposal to invest a small amount of around £1m with the property fund.

8. Major Projects: Strategy and Transformation Portfolio Highlight Report

<u>Estates</u>
PCC and Chief Constable visited a site in Yeovil and have now indicated a preferred option. It was agreed that the option for West Somerset Council Building at Williton should be declined and that the Constabulary should look at the cost of staying in the existing building and bringing it up to standard. The preferred option for Wells is co-location with Fire.

The OPCC CFO mentioned the Capital funding issue and the £3m gap for 2018/19.

<u>MFSS</u>
PCC, Chief Constable and OPCC CFO will be visiting Cheshire for a meeting next week.

<u>Service Redesign</u>
The latest figures show savings of around £5.8m which means substantial savings are being realised as a result of this work. £12m savings are required

over the next four years, £8m of which have already been found. The risks associated with the spending review were discussed.

Digital
Laptop roll out starting but early roll outs will need to be recalled to install NEP. Building Wi-Fi is on track but there are delays with in car WiFi which need to be addressed.

9. Annual Report

The draft PCC's Annual Report was discussed and it was agreed that to ensure accuracy of data and clarity of messages, the report author should have sight of the Force Management Statements that were nearing completion. It was also agreed that more detail should be provided relating to the new model of Neighbourhood Policing and the drug education programme.

10. A.O.B

The Chief Constable confirmed that they will be replying to the letter sent to the Constabulary by the PCC following the agreement to raise the council tax precept this year in order to protect officer numbers.

There will be a National Police Air Service (NPAS) update at the next meeting – the Constabulary do not report any adverse operational impact of rationalising the usage.

The OPCC CFO is still liaising with Local Authorities with regard to the payment to the Coroners Office transferring to them.

11. Publication

The following items were agreed for publication:

- 2nd May 2018 Police and Crime Board Agenda
- 2nd May 2018 Police and Crime Board Minutes
- 17/18 Revenue and Capital Outturn

Actions List:

See Exempt Actions List

Date of the Next Meeting: 4th July 2018

Item 7b

POLICE AND CRIME COMMISSIONER FOR AVON AND SOMERSET

POLICE & CRIME BOARD 6th JUNE 2018

ANNUAL TREASURY MANAGEMENT REPORT 2017-18

<u>Report of the PCC's CFO</u>

1. Purpose of the Report

1.1 The purpose of the report is to inform the Police and Crime Commissioner 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 2017-18.
5) Confirms compliance with treasury limits and Prudential Indicators or explains non-compliance.

2.5 The report is to the Police and Crime Commissioner and is in addition being submitted to the Police & Crime Board meeting that has responsibility for scrutiny of the Treasury Management function.

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 2017-18, Somerset County Council (SCC) has managed Treasury Management activities, after winning a full competitive 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 2017-18 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 2017-18.

4.2 The UK economy showed signs of slowing with March 2018 estimates showing GDP growing by 1.8% in 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016. As well as domestic resilience, growth also reflected the re-emergence of the Eurozone economies and an increasingly buoyant US economy.

4.3 The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November 2017 before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth turned negative, before slowly recovering as inflation subsided.

4.4 The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit.

4.5 The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC only reversed its August 2016 cut following the referendum result. The February 2017 Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. In March however, two MPC members voted to increase policy rates immediately and the minutes of the meeting suggested that an increase in May 2018 was highly likely. Markets built in a probability of 90% for a May hike, although recent weak economic data has seen the MPC keep rates at 0.5% at the May meeting. Market rates have oscillated in tandem with prevailing sentiment.

4.6 The FTSE 100 had a strong finish to 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

4.7 In contrast to the UK, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications, the central bank appeared some way off normalising interest rates.

4.8 The US economy grew steadily and increased interest rates in December 2017 by 0.25% and again in March 2018, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war.

4.9 **Gilt Yields and Money Market Rates:** Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June 2017 rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet to 1.70% by the end of the financial year.

4.10 As Gilt yields have a direct correlation with PWLB borrowing rates, most maturities were more expensive at year-end than at the start of the year, with loans around the 30-years maturities being the notable exception. Averages across all shorter periods were more than those for 2016-17, whilst at the longer end of the curve, averages were lower. The 5, and 10 year were 0.14% and 0.07% higher respectively, whilst the 30 and 50-year periods were 0.04% and 0.08% lower respectively.

4.11 The November 2017 increase in Bank Rate, which had barely been indicated in previous bank 'forward guidance' and was not expected by the market, nonetheless resulted in proportionately higher money markets rates. The accompanying minutes suggested future rises 'of gradual pace and to a limited extent'. However, it was after the February 2018 meeting that rates rose significantly higher during the last 6-weeks of the year. Where previously a rise had been priced in for the second half of 2018, most economists had thought a May hike was nailed-on. Rates responded accordingly and movements can be seen in the LIBID table below. 1-month, 3-month, 6-month and 12-month LIBID rates averaged 0.23%, 0.28%, 0.40% and 0.60% respectively for 2017-18, and at 31st March 2018 were 0.39%, 0.59%, 0.70% and 0.88%. A summary of PWLB and key benchmark lending rates is included below.

PWLB Rates 2017-18 (Maturity rates unless stated)

	1 Year	5 Year	5 Year EIP	10 Year	10 Year EIP	30 Year	50 Year
03/04/2017	1.05	1.45	1.18	2.13	1.49	2.78	2.57
30/04/2017	1.02	1.43	1.15	2.11	1.47	2.79	2.57
31/05/2017	1.05	1.37	1.13	2.02	1.40	2.70	2.48
30/06/2017	1.27	1.63	1.39	2.26	1.66	2.89	2.66
31/07/2017	1.18	1.54	1.28	2.22	1.58	2.88	2.67
31/08/2017	1.10	1.42	1.19	2.06	1.46	2.74	2.52
30/09/2017	1.34	1.79	1.51	2.38	1.82	2.95	2.72
31/10/2017	1.37	1.79	1.53	2.37	1.82	2.92	2.68
30/11/2017	1.43	1.86	1.60	2.40	1.89	2.93	2.69
31/12/2017	1.36	1.76	1.52	2.26	1.79	2.81	2.58
31/01/2018	1.53	2.02	1.76	2.50	2.05	2.91	2.66
28/02/2018	1.58	2.10	1.83	2.57	2.13	2.92	2.66
31/03/2018	1.67	2.05	1.85	2.43	2.07	2.73	2.73
Minimum	1.00	1.34	1.12	1.98	1.37	2.68	2.45
Average 2017-18	**1.31**	**1.70**	**1.45**	**2.28**	**1.73**	**2.85**	**2.61**
Maximum	1.71	2.21	1.97	2.73	2.24	3.08	2.84
Spread	0.71	0.87	0.85	0.75	0.87	0.40	0.39

Average 2016-17	**1.13**	**1.56**	**1.28**	**2.21**	**1.60**	**2.89**	**2.69**
Difference in average	**+0.18**	**+0.14**	**+0.17**	**+0.07**	**+0.13**	**-0.04**	**-0.08**

Money Market Rates 2017-18 (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
01/04/2017	0.10	0.11	0.13	0.21	0.37	0.59	0.62
30/04/2017	0.10	0.11	0.13	0.20	0.35	0.55	0.56
31/05/2017	0.10	0.11	0.13	0.17	0.31	0.51	0.52
30/06/2017	0.09	0.11	0.13	0.18	0.34	0.56	0.69
31/07/2017	0.10	0.12	0.13	0.16	0.30	0.50	0.60
31/08/2017	0.10	0.11	0.13	0.15	0.28	0.47	0.53
30/09/2017	0.10	0.11	0.13	0.21	0.37	0.60	0.80
31/10/2017	0.10	0.22	0.28	0.31	0.44	0.65	0.84
30/11/2017	0.35	0.36	0.37	0.40	0.47	0.66	0.86
31/12/2017	0.34	0.36	0.37	0.40	0.45	0.64	0.78
31/01/2018	0.35	0.36	0.37	0.40	0.48	0.68	0.96
28/02/2018	0.35	0.36	0.37	0.46	0.57	0.78	1.03
31/03/2018	0.35	0.36	0.39	0.59	0.70	0.88	1.12
Minimum	0.09	0.11	0.12	0.15	0.27	0.46	0.44
Average 2017-18	**0.20**	**0.21**	**0.23**	**0.28**	**0.40**	**0.60**	**0.73**
Maximum	0.35	0.37	0.39	0.59	0.7	0.88	1.13
Spread	0.26	0.26	0.27	0.44	0.43	0.42	0.69
Average 2016-17	**0.19**	**0.20**	**0.22**	**0.32**	**0.46**	**0.70**	**0.61**
Difference in average	**+0.01**	**+0.01**	**+0.01**	**-0.04**	**-0.06**	**-0.10**	**+0.12**

5 Treasury Outturn for 2017-18

5.1. The Portfolio Position as at 31st March 2018

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

	31st March 2017 £m	31st March 2018 £m
Long-term Borrowing		
PWLB	29.208	28.032
Market Loans (LOBOs)	11.775	11.775
Market Loans (Short-term)	0.000	0.000
Total	40.983	39.807
Average rate	3.87%	3.90%
Short-term Investments		
Cash on call	4.06	0.06
Deposits	32.00	31.00
CCLA Property Fund	0.00	2.00
Total	36.06	33.06
Average rate	0.70%	0.83%

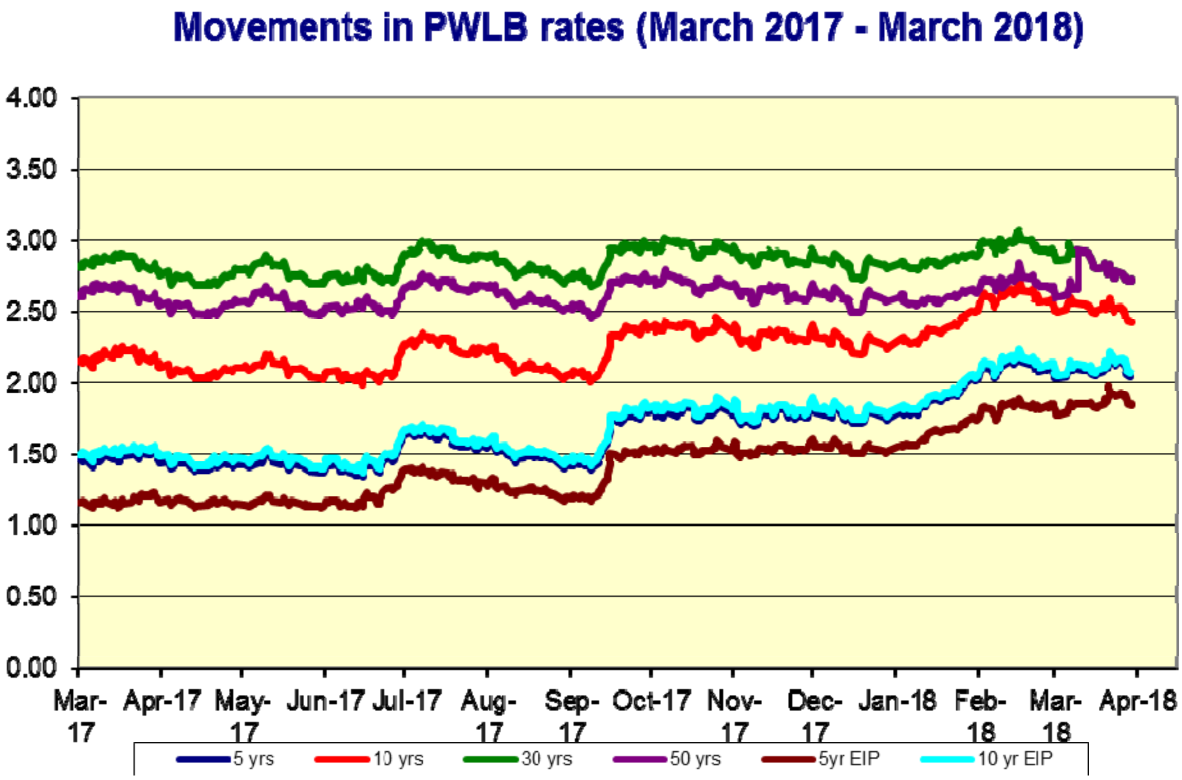
5.2 Borrowing

5.2.1 The PCC needed to be a short-term borrower only once during the year, as cash flow was managed to avoid this were possible. £3m was borrowed for just over 2 weeks at 0.50% in March 2018 as expenditure was greater than anticipated at the end of February. Balances are deliberately worked hard so as to be minimal at the low point of the working capital cycle (as demonstrated by holding only £62,000 cash on call at year-end). Deposits were earning more than the rate paid on the loan at that time.

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 2017-18 was largely driven by the progress of the accommodation programme and IT 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 PWLB rates generally edged upwards during 2017-18, reflecting the better than expected performance of the UK economy after the vote to leave the European Union. Shorter-dated rates moved the most due to the on-off expectation of near-term rate rises. A summary of rates can be seen in the table on page 4, and graphically below: -

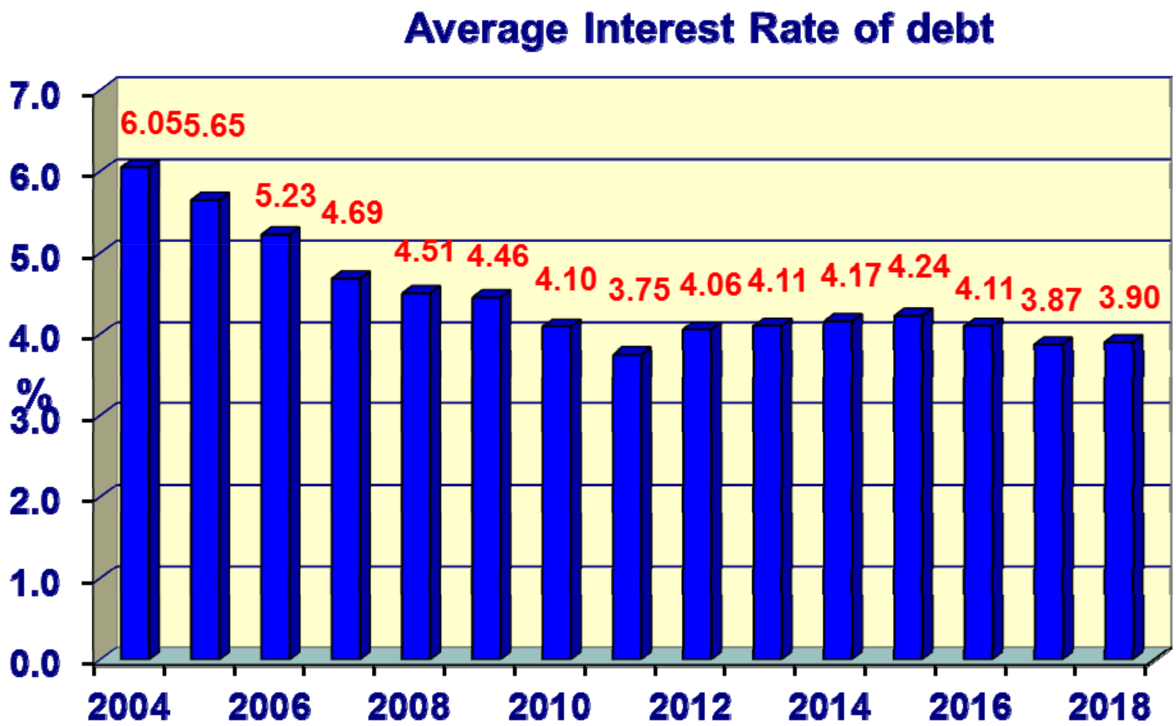


5.2.6 No debt rescheduling was undertaken during the year, as repayment premiums remained at elevated levels.

5.2.7 As expected, the LOBO loan with an option to call during the period did not exercise the right to call. During 2016-17, Barclays stated they had removed the 'Lenders Option' element of their LOBO loan, in effect making their £6.5m a 17-year fixed loan. 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 would be necessary during 2017-18, but to avoid the cost of carry, a passive borrowing strategy, borrowing funds internally was deemed appropriate during the year and no new loans were taken. Furthermore, the Home Office encouraged a reduction in Police Reserves.

5.2.9 The overall rate for PWLB loans at year end of 3.73% was slightly higher than the 3.70% at the end of 2017 because of the scheduled repayment of cheaper EIP loans. The combined LOBO and PWLB rate at year-end 2018 was 3.90%, up from 3.87% 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		**Sterling CNAV Money Market Funds**	
Australia & N Zealand Bank	*	Goldman Sachs	*
Bank of Scotland	*	Deutsche	*
Barclays Bank Plc		Invesco AIM	*
DBS Bank	*	Federated Prime Rate	*
Goldman Sachs International Bank	*	JP Morgan	
HSBC Bank		Insight	*
Landesbank Hessen-Thuringen	*	Standard Life (Previously Ignis)	*
Lloyds Bank	*	LGIM (Legal & General)	*
National Westminster	*	SSGA MMF	*
Nationwide BS	*		
Nordea Bank AB		**Other Counterparties**	
OP Corporate	*	Debt Management Office	
Oversea-Chinese Banking Corp		Other Local Authorities	*(1)
Rabobank	*	CCLA Property Fund	*
Santander UK	*		
Standard Chartered Bank			
Svenska Handelsbanken	*		
Toronto-Dominion Bank	*		
United Overseas Bank (UOB)	*		

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 rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019.

5.3.5 Moody's downgraded the UK sovereign rating in September from Aa1 to Aa2 bringing it in line with the other two rating agencies. Moody's also downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 and placed UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade). Moody's downgraded Rabobank's long-term rating due to its view on the bank's profitability and the long-term ratings of the major Canadian banks on the expectation of a more challenging operating environment. The long-term ratings of the large Australian banks were also downgraded on its view of the rising risks from their exposure to the Australian housing market.

5.3.6 Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

5.3.7 Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt.

5.3.8 There was some uncertainty surrounding which UK banking entities the Authority would be dealing with once ring-fencing was implemented, and in response to the above, the Authority reduced the duration for unsecured investments to UK banks, to a maximum of 6 months and suspended RBS. It also reduced its' duration limits with Canadian Banks to 6-months from 13-months. Australian Banks already had a limit of 6-months.

5.3.9 In the first quarter of the financial year, UK bank credit default swaps reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

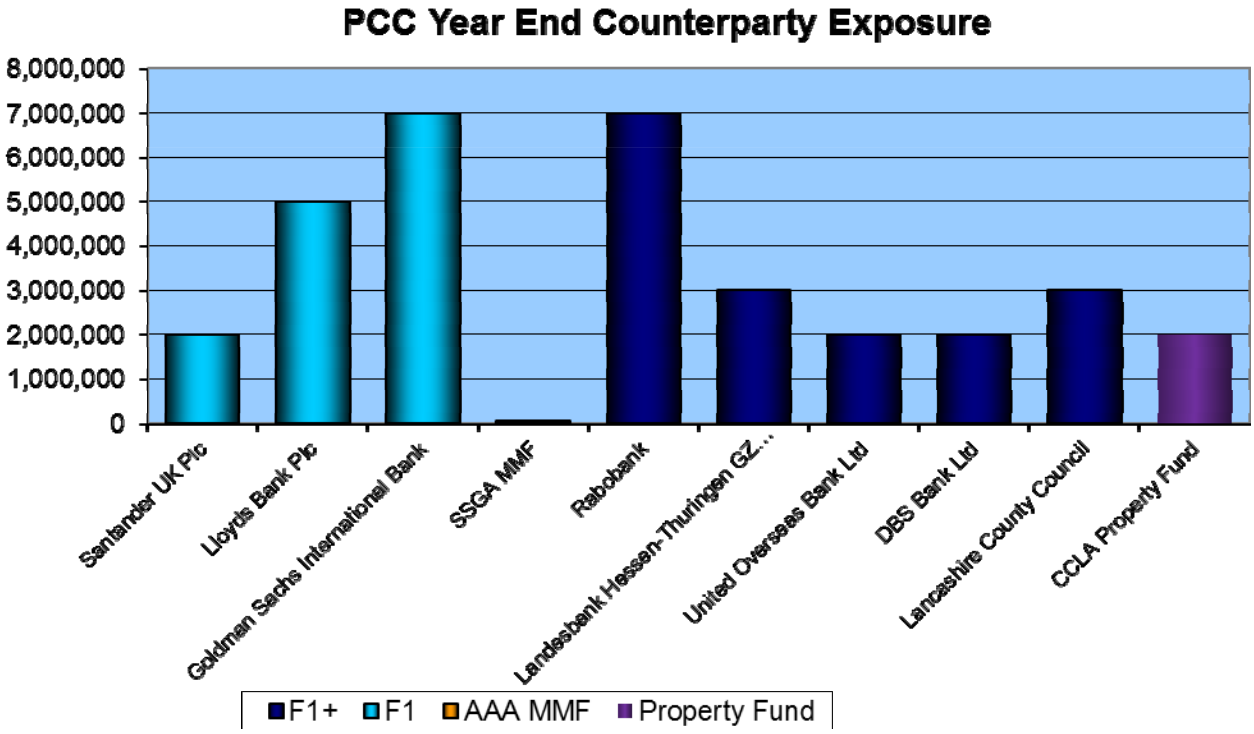
5.3.10 At year-end maximum durations per counterparty were as follows: -

- Nat West– **Operational use only;**
- Barclays, Goldman Sachs International, and Standard Chartered – **100 days;**
- HSBC, Bank of Scotland, Lloyds, Nationwide BS, Santander UK, OP Corporate, Landesbank Hessen-Thuringen, ANZ, and Toronto Dominion – **6-months;**
- Nordea, Rabobank, Svenska Handelsbanken, and all Singaporean banks – **13-months;**

5.3.10 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 74 days at the end of February 2018, due largely to the fact that longer-term loans are maturing and not being replaced. The year-end duration as at March 2018 was 77 (111 days for 2017). The average duration for the year (using month-end figures) was 96 days. This average duration decreased from 117 days in 2016-17. This is consistent with the generally accepted outlook for Interest Rates, i.e. to shorten the duration of the portfolio in a rising interest rate environment.

5.3.11 The chart below shows counterparty exposures as at 31st March 2018.



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; however one short-term loan was taken in March as expenditure was greater than anticipated at the end of February.

5.3.13 **CCLA Property Fund:** In July, the Authority placed a £2m investment in the CCLA Property Fund. 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 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.

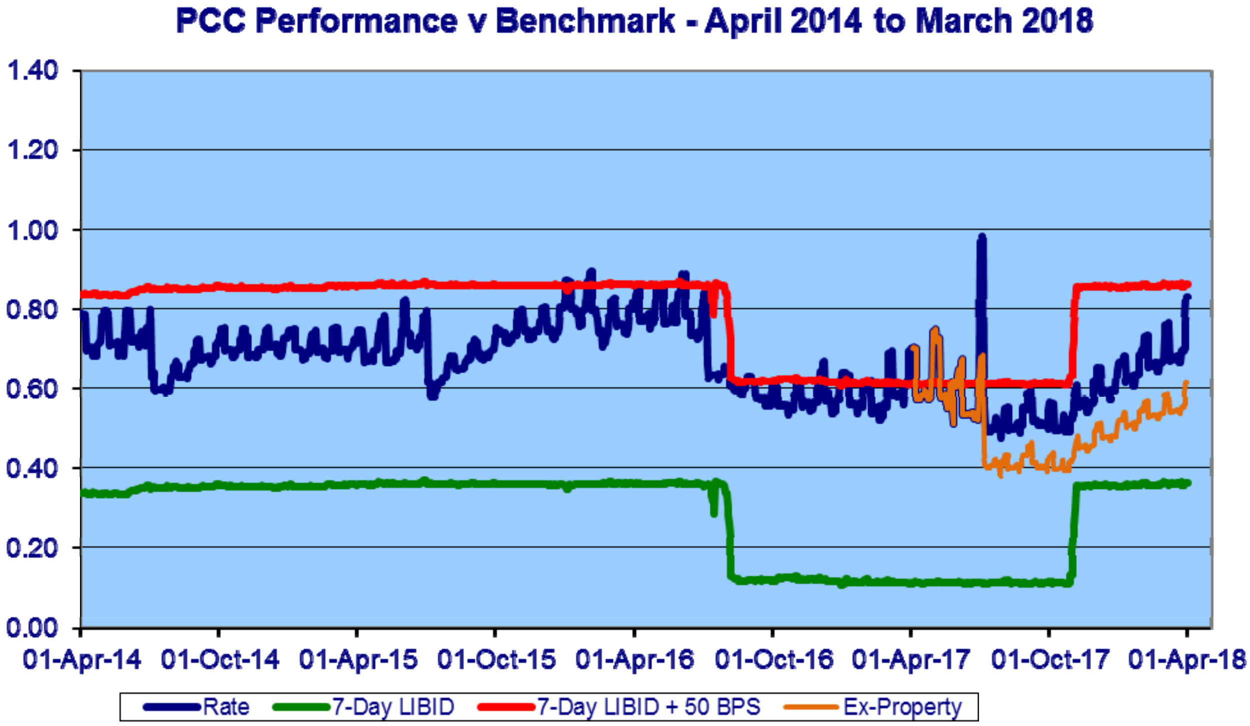
5.3.15 A full risk assessment was undertaken, and identified the main risks as depreciation in market value (there is an instant drop in value due to the bid/offer spread), and loss of liquidity. These are both mitigated by treating the investment as a longer-term hold. By identifying a suitable level 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. In the meantime, the average Property Fund yield of circa 4.43% net, was circa 3.95% above cash yields, and provided approximately £67,000 of income during the year.

5.3.16 **Yield:** The PCC sought to optimise returns commensurate with its objectives of security and liquidity. The November increase in Bank Rate had not been expected by the market as rates for the first half of the year remained minimal. The minutes of the November meeting suggested future rate rises 'of gradual pace and to a limited extent'. However, it was after the February meeting that rates rose proportionately higher during the last 6-weeks of the year. 1-month, 3-month, 6-month and 12-month LIBID rates averaged 0.23%, 0.28%, 0.40% and 0.60% respectively for 2017-18, and at 31st March 2018 were 0.39%, 0.59%, 0.70% and 0.88%. Despite the actual and anticipated rate rises during the year, the 2017-18 average rates for 3-month, 6-month and 12-month LIBID were 0.04%, 0.06%, and 0.10% basis points below those for 2016-17. A table of rates is shown on page 5.

5.3.17 **Excluding Property.** The PCC weighted average return for the year was 0.48%, down from 0.63% for 2016-17. With the benchmark of 7-day LIBID + 50bps averaging 0.71% for the period, the return represents an under-performance of 23bps. Although under target, 0.48% does represent a return 8 basis points above the 6-month LIBID rate and only 12 bps below the 12-month LIBID rate, on a portfolio that averaged between 2.5-5 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 (£51.7m in July 2017). The top-up has particularly distorted returns this year because investment decisions for this majority of funds were made in July 2017 when the outlook for rates was flat at best, with little expectation of the rise in November. The graph also clearly shows improving performance after the rate rise, a typical scenario in a rising rate environment.

5.3.18 **Property Fund.** An investment of £2m was made in the CCLA Property Fund on 29th June 2017. To 31st March it delivered an average net income yield of 4.43%, and £66,770 cash.

5.3.19 **Including Property.** The PCC weighted average return for the year including the CCLA Property Fund was 0.58%, just 0.02% below the average 12-month LIBID rate for the year. The return as at 31st March, when short-term liquid cash was lowest, was 0.83% and just 3 bps below the benchmark of 7-day LIBID + 50bps of 0.86% for that date.



5.3.20 The PCC's cash balances stood at £33.1m as at 31st March 2018, compared to £36.1m held at 31st March 2017. The average daily balance held during the year was £61.1m, a decrease of £1.8m on the previous year.

5.3.21 One hundred and fifty four deposits totalling just over £386m were made during the year, giving an average value of investment at just over £2.39m. Total interest earned amounted to £355,432 a decrease of just £41,923 on the £397,355 earned in 2016-17. The reduction in income is attributable in part to the reduced balances invested, and also the reduced base rate for a greater proportion of the year than in 2016-17.

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 2017-18.

5.4.3 Short-term borrowing was necessary only once during 2017-18, and the £39.8m debt at year-end was well within the stated Prudential limit of £75m. The entire portfolio remained as fixed rate borrowing, whilst the overall rate increased slightly from 3.87% to 3.90%.

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 2018 on the right.

	2017-18 £m	As at 31-03-18 £m
Authorised limit (borrowing only)	75	39.8
Operational boundary (borrowing only)	70	39.8

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 31-03-18
Under 12 months	30%	0%	3.0%
>12 months and within 24 months	30%	0%	9.9%
>24 months and within 5 years	35%	10%	13.8%
>5 years and within 10 years	25%	0%	9.9%
>10 years and within 20 years	30%	0%	22.0%
>20 years and within 30 years	15%	0%	0.0%
>30 years and within 40 years	20%	10%	16.3%
>40 years and within 50 years	35%	15%	25.1%
>50 years and within 75 years	0%	0%	0.0%

	2017-18 £m	As at 31-03-18 £m
Prudential Limit for principal sums invested for periods longer than 364 days	25	2

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 2017.

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 been investing 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 has met 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