

**Devon and Cornwall Police Authority**

**15 July 2005**

Open for the purposes of FOI

Report of the Treasurer

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**Treasury Management Report 2004-05**

**Recommendation:**

**That the report be noted.**

**Introduction**

1. All organisations have temporarily surplus funds from time to time as income and expenditure varies during the year. In addition, successful organisations maintain some balances against unforeseen events and accumulate reserves against known future spending needs. Devon and Cornwall Police Authority is no different. The key is to use these temporary funds productively to earn income whilst keeping risk to an acceptable minimum. The Authority has a Treasury Management Strategy to achieve this.
2. The Police Authority approved the Treasury Management Strategy for 2004-05, incorporating the Investment Strategy required by the Office of the Deputy Prime Minister, at their meeting in February 2004. This report updates Members on performance during the year against the approved strategy. Some Prudential Indicators set by the Authority relate to treasury management activities. Performance against these Prudential Indicators is included in the outturn report elsewhere on this agenda.
3. Treasury Management update reports were presented to the Resources Committee on a quarterly basis during the year for monitoring purposes.

**Investment Strategy**

4. The Investment Strategy involved investing temporarily surplus funds with two external fund managers, with day to day cash balances being managed by Devon County Council. The fund managers were set parameters for types of investments to be undertaken, identified as specified and non specified. The characteristics of a specified investment include that the investment needs to be in sterling, must be for a duration of less than one year and counterparties must carry a favourable risk rating. Non specified investments, predominantly for our purposes, tend to be in longer dated government gilts.

5. The fund managers were set a benchmark for net returns on investments which they were expected to achieve, this being the 7 day LIBID rate. This is the rate of return that can be achieved on the London interbank market for cash deposits of 7 days, averaged over the year. Devon County Council tend to deposit funds on a short term basis in accordance with the cash flow requirements of the Authority. Returns on these deposits are monitored, but they are not measured against the benchmark.

6. Performance measures for the fund managers included the following:

- Rate of Return for 2004-05

	%	Notional Profit (£)
Benchmark	4.60	n/a
Manager A	4.73	20,000
Manager B	4.60	0

- Rate of Return Since Inception May 2001

	%	Notional Profit (£)
Benchmark	16.86	n/a
Manager A	17.46	83,000
Manager B	17.23	33,000

- Each manager stayed within the parameters established for non specified investments throughout the period

7. No changes were made to the capital sums allocated to the external fund managers during the year. Returns made on investments were reinvested by the fund managers on behalf of the Authority.

### Return on Investments

8. Investment income is used to support the revenue budget and to help keep council tax lower than would otherwise be the case. Total investment income for the year, including returns from Devon County Council, was over £1.7 million. This was well in excess of the original budget, which was revised subsequently during the year. There were two primary reasons for this:

- The average return on investments during the year was 4.64%, set against a budgeted return of 4%. This reflects the increase in base rates since the budget was set, rising from 4% at the start of the financial year to 4.75% in August 2004.
- The Authority held higher than anticipated cash balances during the period, largely because spending had been slower than anticipated when the budget was set.

## **Borrowing**

9. The approved capital programme envisaged borrowing of £4 million during 2004-05 to support expenditure. In the event, only £2 million was borrowed due to slippage on some capital schemes. Little short term borrowing was undertaken during the year, due to the level of cash balances maintained.
10. The Authority set an authorised limit for debt of £29.4 million, incorporating both long and short term borrowing. In the event, the maximum level of borrowing undertaken during the year was £13 million.

## **Conclusion**

11. Treasury management policies throughout the year have operated in accordance with the approved strategy. Overall, the strategy has proved successful. The external fund managers have equalled or exceeded the set benchmark. Returns from investments in excess of the original budget have enabled the Authority to set aside funds for future service commitments (see outturn report). Long term borrowing requirements have been tailored to match spending against the capital programme, so that unnecessary borrowing has not been undertaken. This has been supplemented by continued excellent support from Devon County Council and sound working relationships with Barclays Bank.
12. Ongoing monitoring arrangements have operated throughout the year to ensure adherence to the approved strategy.

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