

**OFFICE OF THE POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE
DECISION RECORD**

Decision Record Number: **24/2013**

Title: **Treasury Management Counterparty Limits**

Executive Summary:

The Home Office will make a Pension Top Up payment of c£30m in the next few days which will leave us with cash balances to invest for a short period that will be difficult to accommodate within existing agreed counterparty limits. Authority is sought to extend the counterparty limits applicable to Bank of Scotland and the Nationwide Building Society from £15m to £17.5m until the end of July 2013 to ensure that investments can be made with organisations with the highest credit ratings.

Commissioner Comments:

The Commissioner clarified the credit ratings with the Deputy Chief Executive and Treasurer and noted that the extension was for a short term.

Decision:

That the counterparty limits in respect of Bank of Scotland and the Nationwide Building Society are increased from £15m to £17.5m until the end of July 2013.

Background Report: Open

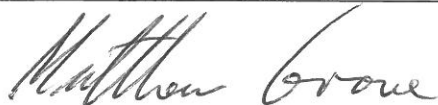
Police and Crime Commissioner for Humberside

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with my code of conduct.

Any such interests are recorded below.

The above decision has my approval.

Signature



Date 03.07.13

**POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE**

SUBMISSION FOR: DECISION

OPEN

Title: Treasury Management Counterparty Limits

Date: 3 July 2013

1. Executive Summary

The Home Office will make a Pension Top Up payment of c£30m in the next few days which will leave us with cash balances to invest for a short period that will be difficult to accommodate within existing agreed counterparty limits. Authority is sought to extend the counterparty limits applicable to Bank of Scotland and the Nationwide Building Society from £15m to £17.5m until the end of July 2013 to ensure that investments can be made with organisations with the highest credit ratings.

2. Recommendation

That the counterparty limits in respect of Bank of Scotland and the Nationwide Building Society are increased from £15m to £17.5m until the end of July 2013.

3. Background

The latest cashflow projections considered at the Investment Review Meeting on 24 June 2013 showed that the receipt of the Pensions Top Up Grant of almost £30m will make it difficult to contain investments within the existing limits for the counterparties with the highest credit quality.

The Treasury Management Strategy Statement (TMSS) refers to the fact that the Treasury Management Practices (TMPs) set out details of the credit scoring mechanism used to determine those counterparties that have the highest credit quality. Investments are currently restricted to the Bank of Scotland and Nationwide due to their status and government links. The latest credit list received from Sector indicates that using the scoring matrix investments could be for up to 6 months in the case of Nationwide and for up to 12 months for Bank of Scotland. In view of the rates of interest that can be earned on short term investments and overnight compared with those for 6 to 12 months it is not intended that money will be lent for more than 3 months.

Whilst it would be possible to lend to other local authorities, they may not be in the market for funds when the investments are required to be made.

The TMSS and TMPS provide for normal market conditions. They also provide for the Deputy Chief Executive and Treasurer and the Chief Constable to determine tighter controls and limits as they see fit in the light of unusual market conditions, including reducing counterparty or duration limits. The cash position until the end of the month is exceptional and temporary. The action proposed in increasing limits rather than reducing them is in keeping with the requirement to adopt a prudent approach by seeking to reduce counterparty risk.

If approved, the arrangement will be formally reported in the annual and mid-year reports required in line with the TMSS.

4. Options

The preferred option is to temporarily increase the counterparty limit for the counterparties referred to in the report which have the highest creditworthiness scores. There are alternatives such as investing with organisations that have lower credit quality or seeking to utilise other facilities such as money market funds.

Investing with counterparties that have a lower credit rating than that set out in the agreed scoring system is not considered a realistic or prudent option. Using money market funds is untested and would increase administration and this is not considered necessary given that the level of cash available is expected to reduce to manageable levels within a very short timescale.

5. Risks

The actions outlined in the preferred option are aimed at minimising counterparty risk by ensuring that those counterparties with only the highest credit rating are used.

6. Financial Implications

The arrangements seek to minimise the financial risk associated with treasury management activity and loss of principal monies invested. Given the low level of interest rates the financial implications in relation to potential loss of interest as a result of using these counterparties are not material.

7. Legal Implications

You have approved the TMSS and TMPS for the year which prescribes the arrangements for assessing the credit worthiness of counterparties and the limits for individual counterparties and classes of counterparties. This report seeks the necessary approval to extend those limits.

8. Equalities Implications

There are no equality implications in the context of this report.

9. Consultation

There are no consultation requirements but the recommendation is based on internal discussions informed by data received from external advisers Sector and other sources. It should be noted that all decisions in respect of investments are for us to determine.

10. Media Information

There are no immediate media issues although the PCC's investment activities could be of interest to the press and media.

Background documents

Investment Review Minutes 24/06/2013

TMSS approved in March 2013

Publication

N/A