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**POLICE AND CRIME COMMISSIONER (PCC) FOR LINCOLNSHIRE  
REQUEST FOR DECISION**

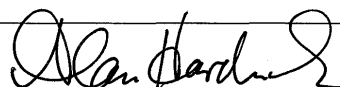
REF: 020/2013  
DATE: 28 June 2013

<b>SUBJECT</b>		<b>FINANCIAL GOVERNANCE REPORT 2012/13</b>
REPORT BY	FORCE CHIEF FINANCE OFFICER (FCFO)	
CONTACT OFFICER	TONY TOMLINSON, FCFO TELEPHONE 01522 558187	
<b>EXECUTIVE SUMMARY AND PURPOSE OF REPORT</b> To present the Financial Governance Report 2012/13 for the Police and Crime Commissioner for Lincolnshire.		
RECOMMENDATION	<i>That the Financial Governance Report 2012/13 appended to this report be approved.</i>	

**POLICE AND CRIME COMMISSIONER FOR LINCOLNSHIRE**

I hereby approve the recommendation above, having considered the content of this report.

Signature:



Date: 28/06/13

**A. NON-CONFIDENTIAL FACTS AND ADVICE TO THE PCC**

**A1. INTRODUCTION AND BACKGROUND**

1. The purpose of the Financial Governance report is to provide details of those Financial and Procurement activities required under Financial and Contract Regulations to be reported on an annual basis.
2. The report is broken down into the following sections:
  - Insurance Services
  - Debt Recovery
  - Treasury Management
  - Procurement
3. The report was presented at the Resource Governance meeting on 24<sup>th</sup> May 2013, for agreement and noting. It is now incorporated into this decision request to recognise that it has been received and to make the Financial Governance Report available.

## **A2. LINKS TO POLICE AND CRIME PLAN AND PCC'S STRATEGIES/PRIORITIES**

4. The Financial Governance Report provides monitoring information on financial and procurement activities, allowing the Police and Crime Commissioner to monitor and review the use of resources.

## **B. FINANCIAL CONSIDERATIONS**

These have been included in the Financial Governance Report.

The cost of insurance in 2012/13 is detailed within the report; this will be subject to review at the renewal in November. As there is an excess policy operated, there is an Insurance Reserve. At 31<sup>st</sup> March 2013, this amounted to £0.75 million.

Treasury Management is a crucial aspect of financial management, with the objective of maximising returns but with limited or no risk. The services of a treasury management advice specialist were commenced in the year, at an annual cost of £7k.

## **C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS**

The Police Act 1996 and the Code of Practice on Financial Management requires the Chief Finance Officer to advise the PCC on the safeguarding of assets, including risk management and insurance. Implementation of the arrangements is delegated to the Force.

Under Section 14 of the Police Act 1996, the PCC is required to set up and is responsible for the Police Fund. All money received must be paid into this fund and all expenditure met from it. The Secretary of State has issued a statutory code of practice under Section 39 of the 1996 Act. This recommends that day to day responsibility for financial management should be delegated to the Chief Constable within the scope of Standing Orders and Financial Regulations. Nonetheless, the Chief Finance Officer has a specific duty under the Code of Practice on Financial Management "to secure treasury management including loans and investments". However, for operational reasons, the Chief Finance Officer has delegated the daily management of loans and investment work to the Force Chief Finance Officer, this work is undertaken by the Strategic Partner with a daily authorisation process undertaken to ensure all of the activities are approved.

## **D. PERSONNEL AND EQUALITIES ISSUES**

There are no direct personnel, equal opportunities or diversity issues arising from consideration of this report.

## **E. REVIEW ARRANGEMENTS**

The Financial Governance Report is the detail of the necessary annual review of financial and procurement activities against strategies and regulations. A Financial Governance Report is also produced at the half year.

**F. RISK MANAGEMENT**

The PCC's insurance arrangements form a key part of the overall approach to risk management. The levels of retained excess held on policies are designed to balance risk and the cost to the revenue budget of insurance provision. This equation will be reviewed as part of the tendering process for the insurance cover.

The PCC and Force Risk Registers include sections on the Treasury Management activities; regular control and operational reviews are undertaken.

**G. PUBLIC ACCESS TO INFORMATION**

Information in this form along with any supporting material is subject to the Freedom of Information Act 2000 and other legislation. Part 1 of this form will be made available on the PCC's website within one working day of approval. However, if release by that date would compromise the implementation of the decision being approved, publication may be deferred. An explanation for any deferment must be provided below, together with a date for publication.

<p><b>Is the publication of this form to be deferred? No</b></p> <p><b>If Yes, for what reason:</b></p>  <p><b>Until what date:</b></p>
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Any facts/advice/recommendations that should not be made automatically available on request should not be included in Part 1 but instead on the separate part 2 form.

<p><b>Is there a part 2 form? No</b></p> <p><b>If Yes, for what reason:</b></p>    
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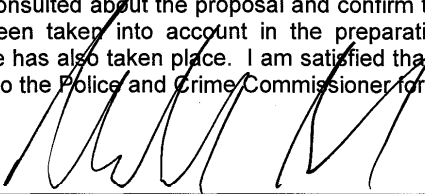
**ORIGINATING OFFICER DECLARATION**

	Tick to confirm
Originating Officer: CC's Chief Finance Officer recommends this proposal for the reasons outlined above.	✓
Financial advice: The PCC's Chief Finance Officer has been consulted on this proposal.	✓
The CC's Chief Finance Officer has been consulted on this proposal.	✓
Monitoring Officer: The PCC's Monitoring Officer has been consulted on this proposal	✓
Chief Constable: The Chief Constable has been consulted on this proposal	✓

**OFFICER APPROVAL**

**Chief Executive**

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. Consultation outlined above has also taken place. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lincolnshire.

**Signature:**  **Date:** 28/6/13

*NOT PROTECTIVELY MARKED*

**RESOURCES GOVERNANCE MEETING : 24 MAY 2013**

**ITEM No: 6**

**TITLE: FINANCIAL GOVERNANCE REPORT 2012/13**

**A. FINANCIAL GOVERNANCE COVERING DOCUMENT**

A.1. The purpose of this report is to provide details of those Financial and Procurement activities required under Financial and Contract Regulations to be reported on an annual basis.

A.2. This report is broken down into the following four sections:

- Insurance Services (section 1)
- Debt Recovery (section 2)
- Treasury Management (section 3)
- Procurement (section 4)

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## 1. INSURANCE SERVICES

1.1. The Police and Crime Commissioner's (PCC) insurance cover was subject to competitive tender under EU rules in the Autumn of 2009, in order that new arrangements could commence on 1<sup>st</sup> November 2009, for a three year period with an option to extend the contract for two further individual years. We are in the first year of extension and intend to extend for a second year, looking to invite competitive tenders for insurance services from 1<sup>st</sup> November 2014. A national insurance framework has been established which will be assessed for utilisation prior to the tendering process being commenced. Contracts were awarded to the following main providers.

- Property - Zurich Municipal
- Business Interruption - Zurich Municipal
- Computer - Zurich Municipal
- Public /Employers Liability - Zurich Municipal
- Fidelity Guarantee - Zurich Municipal
- Motor Fleet - Zurich Municipal
- Personal Accident and Travel - Risk Man. Partners (AIG)
- Engineering including Inspection - Risk Man. Partners (AIG)

1.2. The following table provides an analysis of the cost of insurance for the insurance year 2012/13:

COST	
Type of Cover	2012/13 £'000
Multi Liability Policy	106.8
Motor	55.8
Fidelity Guarantee /	7.8
Engineering / Travel	8.0
Property & Business Int.	57.5
<b>Total</b>	<b>235.9</b>

1.3. It should be noted that these figures refer to the premiums payable for the annual period of insurance (1<sup>st</sup> November to 31<sup>st</sup> October). The premiums have remained consistent as Zurich were unable to offer any further reductions due to the low level of premiums originally tendered. The rates have been held by Zurich, for the duration of the time they have held the risk, since being appointed in 2009.

1.4. A summary of the cover provided under each policy is set out at Appendix A.

- 1.5. Insurance cover is provided for the Office of the PCC as well as Police Officers, Support Staff and members of the Special Constabulary. Volunteers are also covered.
- 1.6. In terms of advice, claims handling and renegotiations of premiums, the Authority's brokers, Hendersons Insurance Brokers Limited, are utilised.
- 1.7. As claims are dealt with retrospectively Gallagher Bassett will continue to act as the administrators for Risk Management Partners in settling claims prior to 1<sup>st</sup> November 2009. There are currently 8 claims being administered by Gallagher Bassett with a combined reserve of approximately £310k. Zurich utilise their own in house provision for claims from this date onwards.

#### **Claims History**

- 1.8. The following tables summarise the claims experience over the period from October 2001 to 30<sup>th</sup> April 2013 the latest period for which figures are available. These show the amount of claims paid and outstanding. It should be noted that since the commencement of the Zurich contract small Public Liability claims are handled in Force and are not included in these figures. Year to date figures are included for the current year.
- 1.9. In the tables below the Sum of Net paid column relates to the actual amount paid out in respect of claims, the Sum of Remaining Reserve represents the estimate of the amount still to be paid in respect of claims, with the Sum of Total Experience therefore being the total cost of the claims.

#### **Computer Claims**

- 1.10. Only one claim has been made historically:

<b>Policy Year</b>	<b>Total Cost £'000</b>
1 <sup>st</sup> October 2001 – 30 <sup>th</sup> September 2002	-
1 <sup>st</sup> October 2002 – 30 <sup>th</sup> September 2003	-
1 <sup>st</sup> October 2003 – 30 <sup>th</sup> September 2004	59.4
1 <sup>st</sup> October 2004 – 30 <sup>th</sup> September 2005	-
1 <sup>st</sup> October 2005 – 30 <sup>th</sup> September 2006	-
1 <sup>st</sup> October 2006 – 30 <sup>th</sup> September 2007	-
1 <sup>st</sup> October 2007 – 30 <sup>th</sup> September 2008	-
1 <sup>st</sup> October 2008 – 31 <sup>st</sup> October 2009	-
1 <sup>st</sup> November 2009 – 31 <sup>st</sup> October 2010	-
1 <sup>st</sup> November 2010 – 31 <sup>st</sup> October 2011	-
1 <sup>st</sup> November 2011 – 31 <sup>st</sup> October 2012	-
1 <sup>st</sup> November 2012 – 30 <sup>th</sup> April 2013	-

### Employers Liability Claims

Policy Year	Number of Claims	Sum of Net paid £'000	Sum of Remaining Reserve £'000	Sum of Total Experience £'000
1 <sup>st</sup> Oct 2001 – 30 <sup>th</sup> Sept 2002	3	32.5	-	32.5
1 <sup>st</sup> Oct 2002 – 30 <sup>th</sup> Sept 2003	4	111.8	-	111.8
1 <sup>st</sup> Oct 2003 – 30 <sup>th</sup> Sept 2004	9	108.5	-	108.5
1 <sup>st</sup> Oct 2004 – 30 <sup>th</sup> Sept 2005	8	28.9	33.0	61.9
1 <sup>st</sup> Oct 2005 – 30 <sup>th</sup> Sept 2006	6	83.7	-	83.7
1 <sup>st</sup> Oct 2006 – 30 <sup>th</sup> Sept 2007	7	293.1	-	293.1
1 <sup>st</sup> Oct 2007 – 30 <sup>th</sup> Sept 2008	10	215.9	-	215.9
1 <sup>st</sup> Oct 2008 – 31 <sup>st</sup> Oct 2009	5	101.6	1.9	103.5
1 <sup>st</sup> Nov 2009 – 31 <sup>st</sup> Oct 2010	8	35.9	30.1	66.0
1 <sup>st</sup> Nov 2010 – 31 <sup>st</sup> Oct 2011	6	28.0	43.0	71.0
1 <sup>st</sup> Nov 2011 – 31 <sup>st</sup> Oct 2012	9	-	89.2	89.2
1 <sup>st</sup> Nov 2012 – 30 <sup>th</sup> April 2013	1	-	7.5	7.5
<b>Total</b>	<b>76</b>	<b>1,039.9</b>	<b>204.7</b>	<b>1,244.6</b>

### Public Liability Claims

Policy Year	Number of Claims	Sum of Net paid £'000	Sum of Remaining Reserve £'000	Sum of Total Experience £'000
1 <sup>st</sup> Oct 2001 – 30 <sup>th</sup> Sept 2002	24	18.9	-	18.9
1 <sup>st</sup> Oct 2002 – 30 <sup>th</sup> Sept 2003	45	47.4	-	47.4



1 <sup>st</sup> Oct 2003 – 30 <sup>th</sup> Sept 2004	36	36.5	20.0	56.5
1 <sup>st</sup> Oct 2004 – 30 <sup>th</sup> Sept 2005	31	26.8	-	26.8
1 <sup>st</sup> Oct 2005 – 30 <sup>th</sup> Sept 2006	51	70.8	-	70.8
1 <sup>st</sup> Oct 2006 – 30 <sup>th</sup> Sept 2007	35	37.8	40.0	77.8
1 <sup>st</sup> Oct 2007 – 30 <sup>th</sup> Sept 2008	4	12.9	76.8	89.7
1 <sup>st</sup> Oct 2008 – 31 <sup>st</sup> Oct 2009	2	1.8	46.7	48.5
1 <sup>st</sup> Nov 2009 – 31 <sup>st</sup> Oct 2010	37	47.6	23	70.6
1 <sup>st</sup> Nov 2010 – 31 <sup>st</sup> Oct 2011	27	20.1	-	20.1
1 <sup>st</sup> Nov 2011 – 31 <sup>st</sup> Oct 2012	41	16.9	125.3	142.2
1 <sup>st</sup> Nov 2012 – 30 <sup>th</sup> April 2013	7	-	71.1	71.1
<b>Total</b>	<b>340</b>	<b>337.5</b>	<b>402.9</b>	<b>740.4</b>

#### Motor Claims

- 1.11 All insurance matters relating to motor vehicle accidents are processed by Hendersons on behalf of the PCC. Insurance cover is provided for damage to third parties. The PCC is self-insured in respect of accidental damage to police vehicles as the premiums for comprehensive insurance would be far in excess of the cost of repairs.

Policy Year	Number of Claims	Sum of Net paid £'000	Sum of Remaining Reserve £'000	Sum of Total Experience £'000
1 <sup>st</sup> Oct 2001 – 30 <sup>th</sup> Sept 2002	49	94.3	-	94.3
1 <sup>st</sup> Oct 2002 – 30 <sup>th</sup> Sept 2003	53	35.3	-	35.3
1 <sup>st</sup> Oct 2003 – 30 <sup>th</sup> Sept 2004	40	161.1	-	161.1
1 <sup>st</sup> Oct 2004 – 30 <sup>th</sup> Sept 2005	50	60.2	-	60.2
1 <sup>st</sup> Oct 2005 – 30 <sup>th</sup> Sept 2006	51	144.2	-	144.2
1 <sup>st</sup> Oct 2006 – 30 <sup>th</sup> Sept 2007	38	77.9	-	77.9

1 <sup>st</sup> Oct 2007 – 30 <sup>th</sup> Sept 2008	50	73.9	-	73.9
1 <sup>st</sup> Oct 2008 – 31 <sup>st</sup> Oct 2009	61	166.3	91.6	257.9
1 <sup>st</sup> Nov 2009 – 31 <sup>st</sup> Oct 2010	34	104.0	23.4	127.4
1 <sup>st</sup> Nov 2010 – 31 <sup>st</sup> Oct 2011	50	79.2	9.1	88.3
1 <sup>st</sup> Nov 2011 – 31 <sup>st</sup> Oct 2012	39	65.2	30.5	95.7
1 <sup>st</sup> Nov 2012 – 30 <sup>th</sup> April 2013	16	4.2	30.0	34.2
<b>Total</b>	<b>531</b>	<b>1,065.8</b>	<b>184.6</b>	<b>1,250.4</b>

#### Other Policies

- 1.12 In the last five years, there have been no claims on the other policies held by the PCC.

#### Review of Settlements

- 1.13 To comply with Financial Regulations, it is required that Resource and Governance are notified of the following occurrences in the financial year:
- Settlements made in excess of £25k,
  - Ex gratia payments in excess of £10k and
  - The position in respect of claims estimated at over £50k.
- 1.14 It has been determined that no settlements have been made in excess of £25k, one payment has been made in excess of the £10k ex gratia limit at £25k current ongoing claims with a reserve in excess of £25k consist of four Public Liability claims with reserves between £40k and £80k and three Employer Liability between £26k and £33k.

**SUMMARY OF INSURANCE COVER**

**EMPLOYERS LIABILITY - Excess £264,781 each loss  
- Limit of Indemnity £40,000,000**

The Force is covered in respect of legal liability for claims for bodily injury, illness, disease or death suffered by any person under a contract of service or apprenticeship with the Force when the injury etc. arises out of or in the course of their employment. Cover includes legal costs and expenses of the Force. Cover is based on the salary budget of the PCC.

Principal extensions to the cover provided are:

- Contractual Liability
- Indemnity to Principal
- Cross Liabilities
- Unsatisfied Court Judgements/Awards
- Health and Safety at Work Act
- Canteen, Social, Sports and Welfare Organisation, First Aid, Fire and Maintenance of Force premises.

**PUBLIC AND PRODUCTS LIABILITY - Excess £264,781  
- Limit of Indemnity £40,000,000**

Cover provides indemnification in respect of legal liability for claims arising from death/injury/disease or loss/damage to property arising in connection with the functions of a PCC. This includes claims for unlawful arrest and false imprisonment, covers all legal costs and expenses recoverable by the claimant together with all costs incurred by the Force.

Principal extensions to the cover provided are:

- Indemnity to Principal
  - Acts of Sub Contractors
  - Loss of or damage to employees', members' or visitors' property or vehicles and property in the custody or control of the Force.
  - Sports and welfare facilities, fire and first aid services
  - Personal indemnity to any employee
  - Joint Insured/Cross Liability Clauses
  - Damage to temporarily occupied premises
  - Wrongful arrest and assault
  - Malicious Prosecution
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- Punitive and Exemplary damages
- Defective Premises Act 1972
- Lifts, Cranes and Steam Pressure Vessels

**OFFICIALS INDEMNITY - Excess £264,781 each loss**  
**- Limit of Indemnity £2,000,000**

Indemnification of any loss arising from claims made in respect of any wrongful act committed in the course of the business of the PCC including costs and expenses incurred.

Principal extensions to the cover provided are:

- Libel and Slander
- Consumer Protection Act
- Data Protection Act 1984
- Option to reinstate Indemnity Limit
- Discovery Clause Extension
- Exclusion of non statutory duties performed for a fee
- Legal defence costs

**PROPERTY - Excess £5,000 each loss**

Cover is provided from any loss arising from fire, lightning, aircraft, explosion and storm.

Principal extensions to the cover provided are:

- Money cover
- Goods in Transit/Outside Storage
- Automatic Reinstatement of Sums Insured
- Public Authority Clause
- Capital Additions Clause
- Adjustment clause - Annual Declaration
- Workmen's clause
- Interest of all persons in Properties
- Interest of various lessors of equipment
- £2,500 for the personal effects of:

any employee  
any other visitor

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**BUSINESS INTERRUPTION - Excess as insured under other parts of the policy**

Business interruption is cover for loss arising from fire, lightening, aircraft, explosion and storm damage to the value of £11.75 million.

Principal extensions to the cover provided are:

- Public Utilities
- Denial of Access
- Infectious / Contagious disease
- Auditors Fees / Accountants Charges
- Payment on Account
- Material Damage Provision Waiver
- Automatic Reinstatement

**PROFESSIONAL INDEMNITY - Excess £264,781 each loss**

Indemnity for any sum that the Force is legally liable to pay arising from any claims made during the period of insurance as a direct result of the negligence in the conduct or execution of non statutory activities and duties carried out for a fee.

Principal extensions to the cover provided are:

- Automatic Reinstatement of loss
- Mitigation Costs
- Loss of Documents
- Self Employed Persons

**MOTOR FLEET - Excess £259,844 each loss**

Third party cover is provided for any vehicle that is owned by the Force, hired or leased to it or borrowed by it.

Principal extensions to the cover provided are:

- Full cover for any non-police vehicle temporarily in the custody or control of a police officer or whilst such a vehicle is being used for police purposes.
  - Claims arising out of the deliberate acts of drivers
  - Employees vehicle used on police business
  - Use of vehicle on the skid pan
  - Towing of trailers/disabled vehicles
  - Unauthorised movement of vehicles
-

**AVIATION - Excess £500 each loss**

Cover is provided for aircraft owned or operated by other persons/organisations and chartered/leased to the Force limited to "top up" their own insurance.

**FIDELITY GUARANTEE - Excess £20,000 each loss**

Cover is provided up to a limit of £15.0 million for named posts in the Force and PCC and £1.5 million for any other employee. Strong internal control systems are used as evidence to limit the premium on this policy.

Principal extensions to the cover provided are:

- Auditors' fees/Professional Accountants charges
- Automatic Reinstatement of loss

**ENGINEERING INSPECTION - Excess None**

This is not a standard insurance policy. It provides for a statutory inspection of engineering equipment to minimise the potential liability to the PCC.

**PERSONAL ACCIDENT - Excess None**

Cover is provided for accidental death or bodily injury to support staff and volunteers, excluding special constables.

A scale of benefits applies, which is dependent upon the severity of the injury to the individual.

**BUSINESS TRAVEL - Excess None**

Cover is provided for members, police officers and support staff up to a maximum of £1,000 for property losses where bodily injury is sustained and a maximum of £500 where it is not. This policy also covers medical expenses outside of the UK.

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## **2. DEBT RECOVERY**

All Divisions and Departments complete a debtor's invoice request form as soon as practicable following the occurrence of a debt. This form provides details of the specific debt, which is then entered into the financial system (eFinancials).

The financial system produces an invoice that is forwarded immediately to the debtor. Debtors are informed on the invoice that payment should be submitted to the Finance Department at Headquarters within 30 days. Debtors are encouraged to pay by BACS rather than cheque or cash whenever possible, thus reducing processing costs and improving security.

All requests for invoices received should be raised within 7 days.

The Force raises invoices for a variety of reasons, but only a small proportion relate to transactions of a "commercial" nature.

The majority of the number and value of invoices are to public bodies (other police forces, local authorities and Central Government Departments) and relate to the recovery and recharge of incurred costs. These amounts are raised as required and fluctuate greatly between different points in the year. For example, the quarterly recharge to Humberside Police Authority for Police Pensions contributions (pre 1974), increases the amount raised at that point in time (approximately £200k per quarter).

- 2.6 The Force engages the services of a Debt Collection Agency who work alongside staff to recover difficult outstanding debts. The Agency receive a fee based on their successfully recovery of debts. They are able to call on the services of Tracing Agents and Legal support. Whilst this service has further enhanced the debt recovery activities of the Force only as small number of debts have been recovered.
- 2.7 During the financial year 2012/13 1,261 invoices and credit notes were raised with a net total value of £4.8 million (including VAT where applicable).

### **Credit Control**

- 2.8 The Finance Department operate the following credit control procedures:
- Monthly statement of accounts issued to each Debtor
  - Overdue invoices are referred to CCI on a monthly basis
  - Targets and indicators are used to monitor performance
  - Monthly review of performance by management

### **Debt Outstanding at 31<sup>st</sup> March 2013**

- 2.9 The following table shows the amount of debt outstanding at the end of the last financial year.
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Type of Debtor	£'000	% Total debt
Individuals	11.3	3
Companies	39.7	11
Public Bodies	314.0	86
<b>Total Outstanding</b>	<b>365.0</b>	<b>100</b>

2.9 This table shows the age profile of the outstanding invoices

	Up to 30 days	30 – 60 days	60 – 90 days	Over 90 days	Total
<b>Amount Outstanding £'000</b>	301.7	1.0	15.0	47.3	<b>365.0</b>
<b>%</b>	82.7	0.3	4.1	12.9	

#### Performance

2.10 The hard work of the Exchequer Officers has resulted in a consistent performance in debt recovery. The performance regarding debt overdue between financial years can be seen from the graph at Appendix A.

2.11 A key target of performance is the continued low level of debt over 90 days. The majority of the invoices falling into this category are subject to challenge/query by the debtor or has been passed to the Debt Recovery Agent. The graph attached at Appendix B shows the progress made over the last five financial years.

#### Debt Write Off

2.12 A Bad Debt review is performed in September and March each financial year to assess the current debts for possible write off. Once the review has been carried out a list of potential bad debts is set for authorisation to the appropriate officer as per the delegation of authorities.

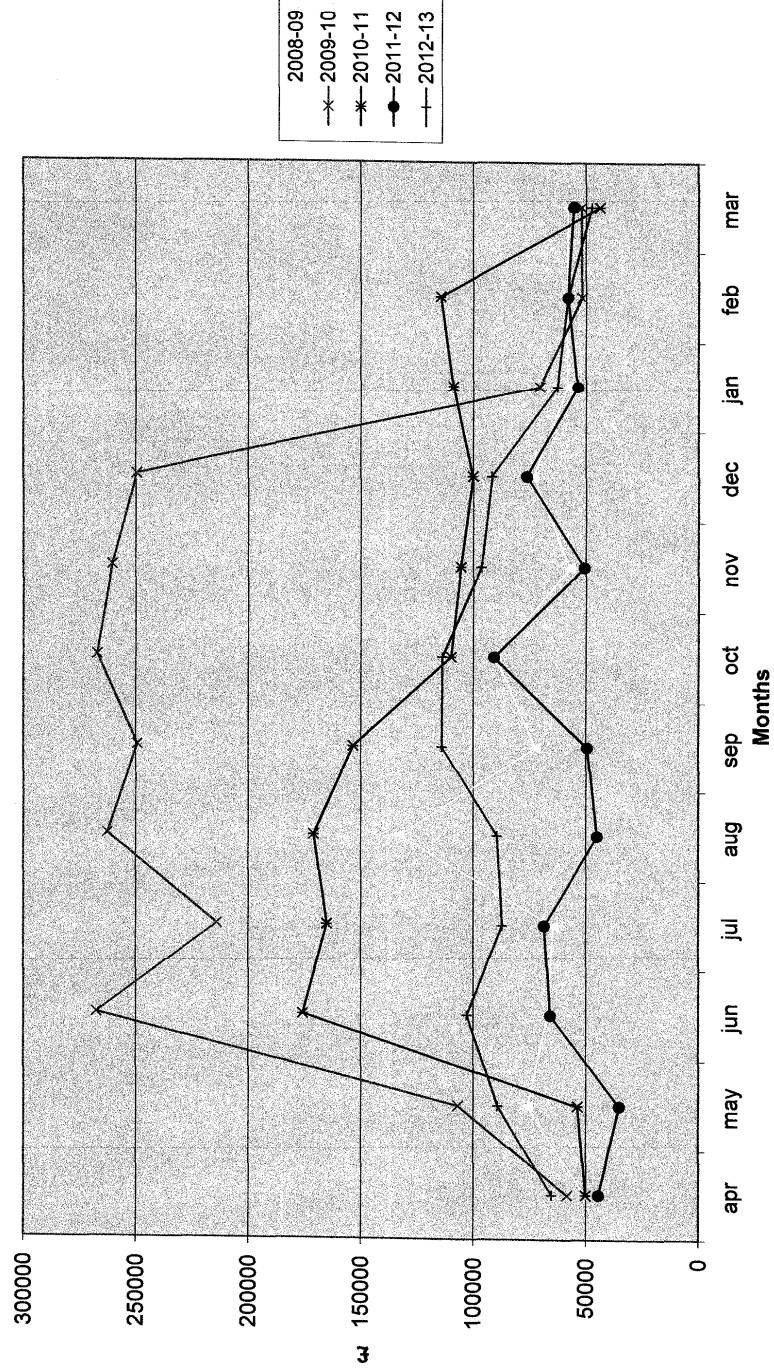
2.13 Debts, which were raised in the financial year 2012/13, are charged back to their respective cost centre, while previous year's outstanding invoices are charged to the bad debt provision. The debt write off summary is shown below:

Debt Written Off	Write off total £	Number of invoices
Pre 2012 invoices	25,924.83	75
2012/13 invoices	3,296.51	47

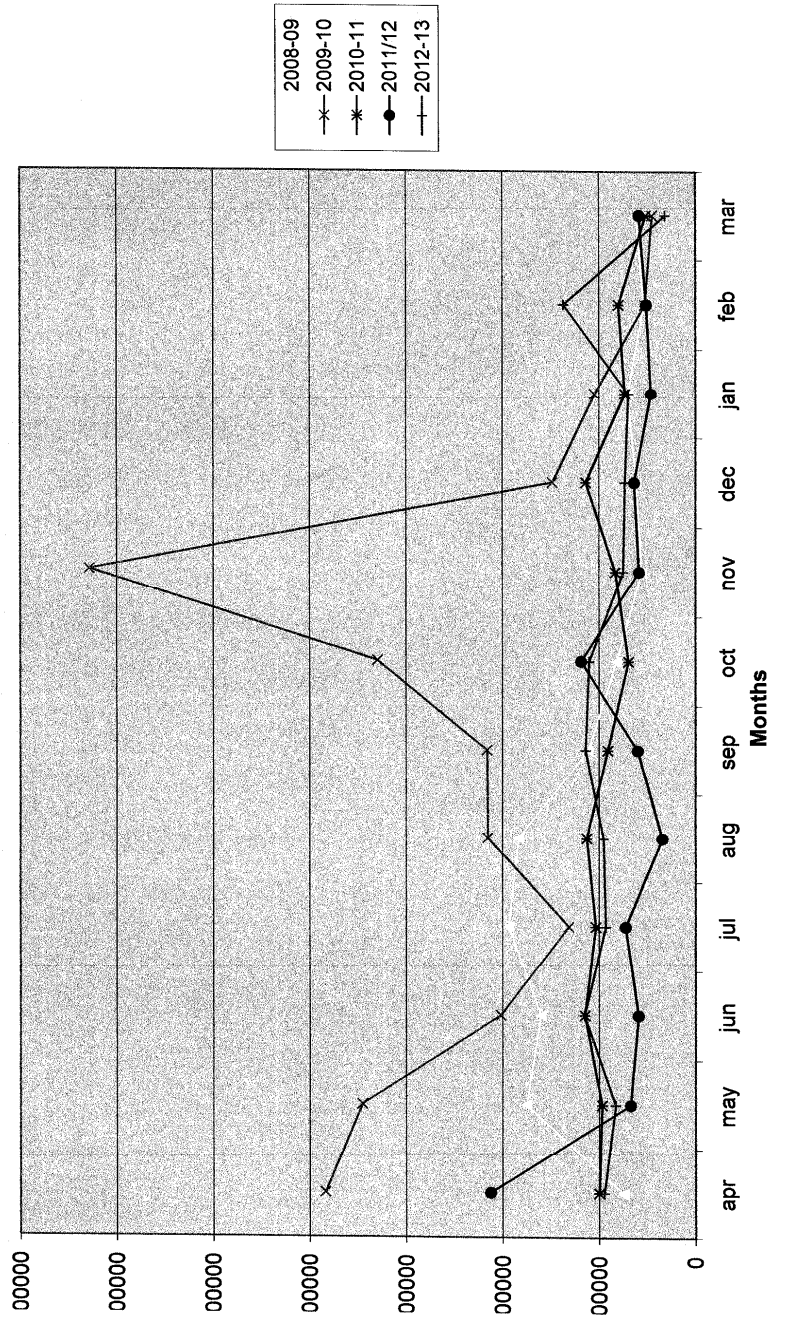


- 2.14 Debts are approved for write off in accordance with financial regulations; there was a larger than average monetary amount written off in pre 2012 invoices. This in the main relates to invoices for legal court costs which have been awarded to Lincolnshire Police but have proved unrecoverable. There are twelve such invoices totalling £19,343.74.
- 2.15 The largest individual debt written off was for the amount of £2,915.75 in respect of an individual. The debt related to awarded court costs as per 2.14.
- 2.16 Bad debt relief on the VAT element was reclaimed where applicable.
-

Appendix A: Lincolnshire Police- Trade Debt over 90 days



Appendix B: Lincolnshire Police- Trade Debt overdue



## 3. Annual Treasury Management Review 2012/13

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### 3.1 Introduction

This Police and Crime Commissioner is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2012/13. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2012/13 the minimum reporting requirements were that the Police and Crime Commissioner should receive the following reports:

- an annual treasury strategy in advance of the year (Police Authority 24/02/2012)
- a mid-year treasury update report (Finance and Performance Committee 04/10/2012)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on the Resource Governance Committee for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Police and Crime Commissioner's policies.

This Resource Governance Committee also confirms that it has complied with the requirement under the Code to scrutinise treasury management reports.

Sector have provided a specialist treasury management advice service since 1 November 2012, covering:

- Strategic advice
- Investment advice
- Debt management advice
- Interest rate forecasting
- Technical support
- Benchmarking comparisons
- And training and attendance at meetings to provide independent assurance on treasury management issues.

The relationship is working well and we now need to carry forward the ground work conducted to achieve the strategies.

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### 3.2 The Economy and Interest Rates

The financial year 2012/13 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2012/13 was that Bank Rate would start gently rising from quarter 4 2014. However, economic growth in the UK was disappointing during the year due to the UK austerity programme, weak consumer confidence and spending, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the European Union (EU). The UK coalition Government maintained its fiscal policy stance against a background of warnings from two credit rating agencies that the UK could lose its AAA credit rating. Key to retaining this rating will be a return to strong economic growth in order to reduce the national debt burden to a sustainable level, within the austerity plan timeframe. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £50bn in July to a total of £375bn. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation fell from 3% at the start of the year to end at 2.8% in March, with a fall back to below 2% pushed back to quarter 1 2016. The EU sovereign debt crisis was an ongoing saga during the year with first Greece and then Cyprus experiencing crises which were met with bailouts after difficult and fraught negotiations.

**Gilt yields** oscillated during the year as events in the ongoing Eurozone debt crisis ebbed and flowed, causing corresponding fluctuations in safe haven flows into / out of UK gilts. This, together with a further £50bn of QE in July and widely expected further QE still to come, combined to keep PWLB rates depressed for much of the year at historically very low levels.

**Deposit rates.** The Funding for Lending Scheme, announced in July, resulted in a flood of cheap credit being made available to banks and this has resulted in money market investment rates falling sharply in the second half of the year. However, perceptions of counterparty risk have improved after the ECB statement in July that it would do "whatever it takes" to support struggling Eurozone countries. This has resulted in some return of confidence to move away from only very short term investing.

### 3.3 Overall Treasury Position as at 31 March 2013

At the beginning and the end of 2012/13 the Police and Crime Commissioner's treasury position was as follows:

Facility	1 March 2012 Annual	31 March 2013 Annual
<b>Total debt</b>	<b>£20.3m</b>	<b>£18.5m</b>
<b>CFR</b>	<b>£20.1m</b>	<b>£23.6m</b>
<b>Over / (under) borrowing</b>	<b>£0.2m</b>	<b>£(5.1)m</b>
<b>Total investments</b>	<b>£19.0m</b>	<b>£10.3m</b>
<b>Net debt</b>	<b>£1.3m</b>	<b>£8.2m</b>

### 3.4 The Strategy for 2012/13

The expectation for interest rates within the strategy for 2012/13 anticipated low but rising Bank Rate (starting in quarter 4 of 2014) with similar gradual rises in medium and longer term fixed borrowing rates over 2012/13. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

The actual movement in gilt yields meant that PWLB rates fell during the first quarter of the year to historically low levels. This was caused by a flight to quality into UK gilts from EU sovereign debt, and from shares, as investors became concerned about the potential for a Lehman's type crisis of financial markets if the Greek debt crisis were to develop into a precipitous default and exit from the Euro. During the second and third quarters, rates rose gradually and agreement of a second bail out for Greece in December saw the flight to quality into gilts reverse somewhat, as confidence rose that the Eurozone crisis was finally subsiding. However, gilt yields then fell back again during February and March as Eurozone concerns returned, with the focus now shifting to Cyprus, and flight to quality flows into gilts resumed. This was a volatile year for PWLB rates, driven by events in the Eurozone which oscillated between crises and remedies.

### 3.5 The Borrowing Requirement and Debt

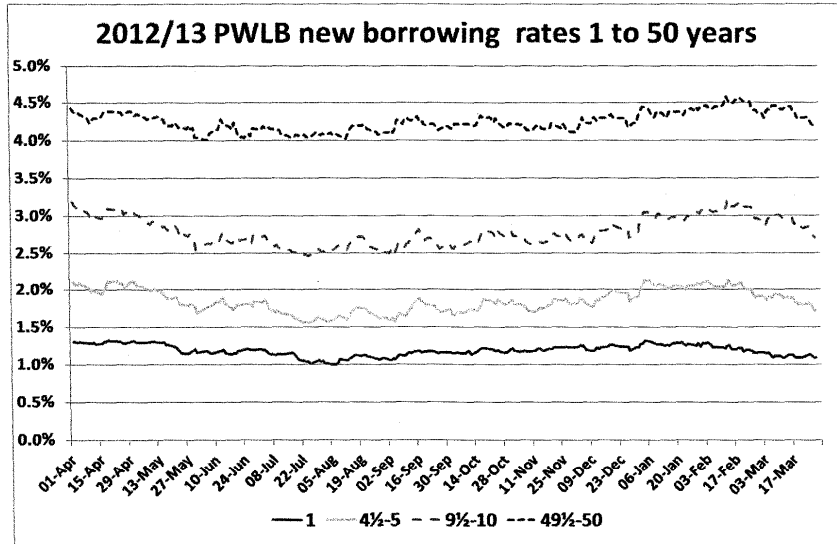
The Police and Crime Commissioner's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	2011/12	2012/13	2013/14
Total CFR (£m)	20.1	27.8	23.6

The provisional capital outturn for 2012/13 is £8.2m against a revised programme of £12.6m.

### 3.6 Borrowing Rates in 2012/13

**PWLB borrowing rates** - the graph below shows how PWLB rates remained close to historically very low levels during the year.



### 3.7 Borrowing Outturn for 2012/13

#### Borrowing

Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

#### Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

#### Repayments

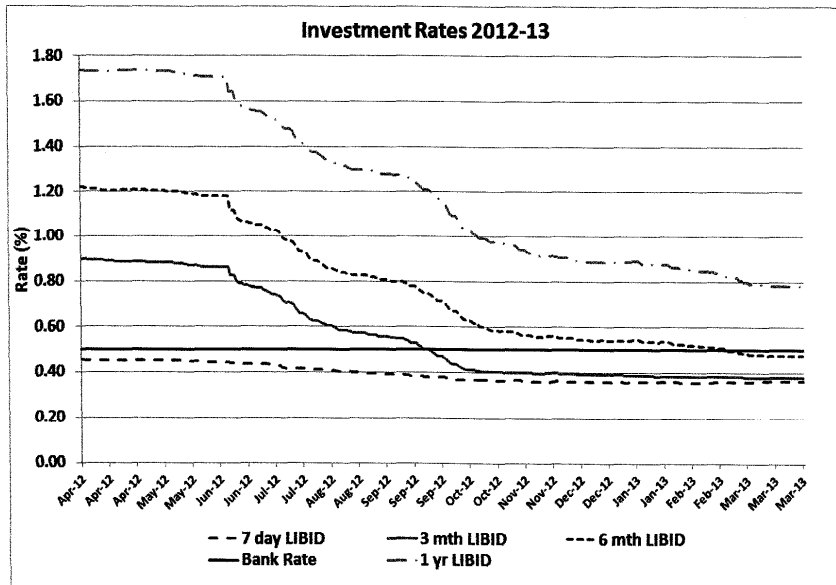
During the year principal of £1.8m was repaid on PWLB loans. The outstanding debt has an average interest rate of 4.1% and an average remaining life of 18 years. Interest payments totalled £796k.

#### Savings

In 2012/13 there is an underspending on capital financing charges of £334k. This reflects the proposals in the Treasury Management Strategy in relation to the Minimum Revenue Provision i.e. the appropriate charge to the revenue budget for the repayment of debt.

### 3.8 Investment Rates in 2012/13

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for four years. Market expectations of the start of monetary tightening were pushed back during the year to early 2015 at the earliest. The Funding for Lending Scheme resulted in a sharp fall in deposit rates in the second half of the year.





### 3.9 Investment Outturn for 2012/13

**Investment Policy** – the Police and Crime Commissioner’s investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by the Police Authority on 24 February 2012. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Police and Crime Commissioner had no liquidity difficulties.

**Investments held by the Police and Crime Commissioner** - the Police and Crime Commissioner maintained an average balance of £16.5m of internally managed funds. The internally managed funds earned an average rate of return of 0.8%. The comparable performance indicator is the average 7 day LIBID rate, which was 0.519%. This compares with a budget assumption of £8.6m investment balances earning an average rate of 1.75%. Interest receipts during the year were £132k.

During the year, no investments were outstanding with counterparties that were not on the PCC’s approved list and no loans were invested for longer than the duration limits in place.

The ability to place with the Co-op and Santander was lost in 2012/13 as their Fitch ratings dropped, leaving only four on call accounts to place funds with.

During the year the UK had its AAA sovereign rating downgraded to AA+ by one of the ratings agencies, which was followed by a second agency in the new year. The Treasury Management Strategy allows for the continuity of investment in UK banks, with further changes in the UK sovereign rating to trigger reviews.

There have been no deviations in the year to the standing delegation issued to G4S setting out the guidelines to which they should work, allowing the outsourced finance team to carry out day to day routine activities.

In the financial year 2012/13 there has only been one instance where the account was overdrawn for one night. The additional charges were recouped from the bank that made the error.

## Appendix 1: Prudential and Treasury Indicators

During 2012/13, the Police and Crime Commissioner complied with his legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicator	2012/13 Actual (£'000)	2012/13 OMBUDH (£'000)	2011/12 Actual (£'000)
Capital expenditure	4,244	12,500	8,244
Capital Financing Requirement:	20,108	27,755	23,633
Net borrowing	1,253	9,499	8,199
External debt	20,253	18,499	18,499
Investments (under 1 year)	19,000	9,000	10,300

**Net borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term the Police and Crime Commissioner's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Police and Crime Commissioner is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2012/13 plus the expected changes to the CFR over 2013/14 and 2014/15 from financing the capital programme. This indicator allows the Police and Crime Commissioner some flexibility to borrow in advance of its immediate capital needs in 2012/13.

It should be noted that this indicator is changing to compare gross borrowing to the CFR with effect from 2013/14; this is expected to provide a more appropriate indicator.

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Police and Crime Commissioner does not have the power to borrow above this level. The table below demonstrates that during 2012/13 the Police and Crime Commissioner has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Police and Crime Commissioner during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

2012/13	
Authorised limit	£32m
Maximum gross borrowing position	£20.3m
Operational boundary	£30m
Average gross borrowing position	£19.4m
Financing costs as a proportion of net revenue stream	2.17%

Ratio of financing costs to net revenue stream	31 March 2012 actual	2012/13 original limits	31 March 2013 actual
Financing costs to net revenue stream	2.32%	2.18%	2.17%

Incremental impact of capital investment decision	31 March 2012 actual	2012/13 original limits	31 March 2013 actual
Increase in Police and Crime Commissioner tax (band D) per annum	£1.10	£(0.79)	£(0.91)

TABLE 1	31 March 2012 Principal	31 March 2013 Principal
Fixed rate funding:		
-PWLB	£19.9m	£18.1m
Variable rate funding:		
-Transferred debt	£0.4m	£0.4m
<b>Total debt</b>	<b>£20.3m</b>	<b>£18.5m</b>
<b>CFR</b>	<b>£20.1m</b>	<b>£23.6m</b>
<b>Over/ (under) borrowing</b>	<b>£0.2m</b>	<b>£(5.1)m</b>
<b>Total investments</b>	<b>£19.0m</b>	<b>£10.3m</b>
<b>Net debt</b>	<b>£1.3m</b>	<b>£8.2m</b>

The maturity structure of the debt portfolio was as follows:

	31 March 2012 actual	2012/13 original limits	31 March 2013 actual
Under 12 months	£2.2m	£1.9m	£1.9m
12 months and within 24 months	£1.9m	£1.5m	£1.5m
24 months and within 5 years	£3.9m	£3.1m	£3.1m
5 years and above	£12.2m	£12.0m	£12.0m

## Appendix 2: Investment List as at 31 March 2013

Sector	Country	Company	Investment Type	Investment Value	Interest Rate	Maturity Date	Counterparty	Investment Level
Blue		Bank of Scotland Plc	Call	4,000,000	0.75%	Call	A	0.000%
Orange		HSBC Bank Plc	Call	100,000	0.25%	Call	AA-	0.000%
Green		Barclays Bank Plc	Call	2,200,000	0.60%	Call	A	0.000%
Blue		National Westminster Bank Plc	Call	4,000,000	0.50%	Call	A-	0.000%
		<b>Total Investments</b>		<b>10,300,000</b>	<b>0.61%</b>			<b>0.000%</b>

#### **4. PROCUREMENT**

- 4.1. The Strategic Procurement Unit (SPU) seek to secure best value in all aspects of procurement through the delivery of a professional procurement service to the Force. During 2012/13, the SPU comprised a total of 3 staff, two of who are fully MCIPS qualified with the third member making good progress towards full qualification.
  - 4.2. This service provided covers but is not limited to, provision of advice to officers and staff on a wide range of procurement issues and regulations, tenders/mini competitions, award of contracts and implementation of the most suitable procurement arrangements and requirements to meet operational and support service needs. In 2012/13 the unit awarded 27 contracts for Lincolnshire Police with a total value of £1.874 million, with 6 of them being awarded under Lincolnshire Police/PCC standard terms and conditions. These contracts are detailed in Appendix C.
  - 4.3. From the award of these contracts it is estimated that savings totalling just over £7k have been achieved in 2012/13.
  - 4.4. In addition Lincolnshire Police utilise many government/police and local authority collaborative/framework arrangements for a wide range of goods and services. It is estimated up to around 100 arrangements have been utilized to a greater or lesser degree. Spend on these arrangements varies year to year dependant on revenue/capital requirements but is estimated to be as a minimum in excess of £2 million pounds per annum. The SPU has been instrumental in the "adoption" of many of these arrangements
  - 4.5. During the year, 5 contracts were required to be awarded without formal competition comprising a total value of £346k. A description of these contracts together with justification from the user department is given in Appendix D.
  - 4.6. There were no Contracts awarded to a Provider with other than the lowest price during 2012/13.
  - 4.7. The Unit was has been heavily involved in the Third Party Contract/Due Diligence /Novation exercise since early 2012.
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**STRATEGIC PROCUREMENT UNIT  
CONTRACTS AWARDED 1/4/2012 TO 31/3/2013**

<b>Award Date</b>	<b>File Reference</b>	<b>Description</b>
05/04/2012	4198	Extension of Police Pension Administration
12/04/2012	4313	Extension to provision of temporary agency staff to Lincolnshire Police
12/04/2012	4274	Renewal of NMIS Support
18/04/2012	4321	Renewal of THEMIS Subscription 14/5/12 - 13/5/13
24/04/2012	4280	Renewal of Oracle (SUN) Server Support from 01/04/12
25/04/2012	4181	Hire of Covert Vehicles from 01/04/2012
08/05/2012	4286	Furniture for FCR Project
04/07/2012	4341	Symantec NetBackup & Backup Exec Licences
25/07/2012	4348	Upgrade to PINS 4
31/07/2012	4342	Refurbishment of Boston Police Station
17/09/2012	4357	Extension of Financial & Personal Data Services Contract - National TVP Framework
26/09/2012	4033	Patrol Body Armour - EM/WM mini competition-MOU
01/10/2012	4371	Legal Services Contract under the MPS Framework
19/11/2012	4382	<del>Renewal</del> of LANDESK 18/11/12 to 17/11/13
19/11/2012	4403	Renewal of Oracle Licence Support for period 24/11/12 - 23/11/13
27/11/2012	4395	Improvements to Boston Police Station Custody
11/12/2012	4412	Substance Misuse Testing for period 07/03/2013 to 06/03/2014
12/12/2012	4414	Second Extension to Local Confidence surveys 01/04/13 - 31/03/14
02/01/2013	4365	Extension of Body Armour for Firearms Officers

<b>Award Date</b>	<b>File Reference</b>	<b>Description</b>
01/02/2013	4385	Business Travel Contract 20/01/13 to 31/08/15
04/02/2013	4415	First Extension of the Utility Vests Contract 01/02/2013 - 31/01/2014
11/02/2013	4427	Extension of First Aid Training
14/02/2013	4440	Home Office Contributions for Various Systems 01/04/13 to 31/03/14
28/02/2013	4443	Extension of IAM Managed Service Contract 01/12/14 to 30/11/18
15/03/2013	4458	Extension to Police Pension Administration 01/04/13 - 31/03/14
19/03/2013	4452	Extension of Temporary Agency Staff 01/04/2013 - 30/09/2013
26/03/2013	4373	Hire of Covert vehicles from 01/04/13
<b>TOTAL</b>	<b>27</b>	<b>1.874 million</b>

**STRATEGIC PROCUREMENT UNIT  
EXCEPTIONAL PURCHASE ACTION  
CONTRACTS AWARDED 1/4/12 TO 31/3/13**

**EXCEPTIONAL PURCHASE ACTION/TEMPLATE APPROVAL DOCUMENTATION HAS BEEN COMPLETED FOR EACH OF THE CONTRACTS  
BELOW IN ORDER TO JUSTIFY NOT SEEKING FORMAL COMPETITION**

<b>Award Date</b>	<b>File Reference</b>	<b>Contract Value £'000</b>	<b>Provider &amp; Description</b>	<b>User Justification as detailed in the Exceptional Purchase Action Form</b>	<b>Department</b>
29/03/2012	4272	109	APD COMMUNICATIONS Renewal of Cortex Support	Single source provider of current system. Contract planned for Novation. Extended by LPA to formalise and maintain a service whilst G4S review contract requirements	ICT
24/04/2012	4280	14	Q ASSOCIATES LTD Renewal of Oracle (SUN) Server Support from 01/04/12	Contract planned for Novation. Extended by LPA to formalise and maintain a service whilst G4S review contract requirements	ICT
25/04/2012	4181	52	THRIFTY CAR HIRE Hire of Covert Vehicles from 01/04/2012	Technical and operational benefits due to covert nature of requirement	Operations Support
26/03/2013	4373	52	THRIFTY CAR HIRE Hire of Covert vehicles from 01/04/13	Technical and operational benefits due to covert nature of requirement	Operations Support
<b>TOTAL</b>	<b>4</b>	<b>227</b>			