

Joint Audit & Standards Committee

TREASURY MANAGEMENT MID-YEAR REVIEW 2022/2023

Warwickshire Police and Crime Commissioner as at the end of September 2022

1.0 Background

- 1.1 Warwickshire Police and Crime Commissioner fully complies with the requirements of The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice (COP) on Treasury Management 2009.
- 1.2 The Treasurer has delegated the daily actions of treasury management to the Director of Finance of the Force and relevant staff within the new Warwickshire Police Finance Department.

2.0 Mid-Year Review of Treasury Management Activities

- 2.1 The Mid-Year review of Treasury Management activities covers two aspects; funding capital expenditure and cash flow control and investment. This report will consider each of these elements in turn.

3.0 Financing Capital Expenditure

- 3.1 Over recent years the Police and Crime Commissioner's capital expenditure had been financed by Home Office Grant, capital receipts and contributions from cash balances and there had been no need for long term external borrowing. However due to the level of the Evolve programme in 2021/22, long-term PWLB borrowing of £10m was taken out in March 2022. There has been no further borrowing required for the period 1 April 2022 to 30 September 2022.
- 3.2 The Police and Crime Commissioner carries long-term debt in respect of borrowing to finance capital expenditure. The Commissioner currently holds 3 categories of loans from the Public Works Loan Board (PWLB), totalling £18.9m, as detailed below:

Warwickshire PWLB as at 30th September 2022

No of Loans	Loan Type	Shortest end date	Longest end date	Interest Rate from	Interest Rate to	Principal @ 30/09/22 £m
1	Maturity	2024	2024	4.5%	4.5%	0.3
4	Annuity	2030	2035	4.5%	4.95%	7.8
11	E.I.P	2023	2029	1.85%	6.125%	10.8

4.0 Cash flow control and Investments

- 4.1 This is the control of the Commissioner's income and expenditure balances held in bank accounts and the temporary investment of surplus funds.
- 4.2 The investment strategy for the Commissioner is to obtain the best available return consistent with the cash flow requirement and his Treasury Management Strategy. This strategy states that the security of the cash balance being invested is of primary importance before the return on the investment.
- 4.3 This focus on the security of the investment is addressed by maintaining a list of acceptable borrowers. This list is maintained on a daily basis and is supported by alerts from Arlingclose who provide Treasury Management advice on a regular basis and respond to immediate alerts to credit rating changes. During this time advice from Arlingclose is not to invest for longer than 35 days with non-UK banks on their counterparty list.

It remains a time of some uncertainty and nervousness and the OPCC office are aware of several Local Authorities falling into some financial difficulties recently and Arlingclose have advised not to take out any new investments with certain LAs falling into this category. The OPCC has continued to take a prudent approach to safeguard the PCC's cash first and foremost.

It remains difficult to invest smaller amounts of funding as many LA's often look for at least £5m over a longer term deposit. However, following the increases in the Bank of England Base Rate (Bank Rate) throughout 2022, the rates on offer from the UKDMO are more attractive for shorter-term investments and we have regularly taken advantage of these since the summer.

As a result of being more active in placing investments from the second quarter of 2022/23 onwards combined with the higher interest rates available, investment interest earned to 30 September 2022 was around £50k.

The Santander call account has also been used during the year to invest funds when we have reached the £5m limit with Lloyds. However, with the Account being instant access the rates of interest on offer aren't always very high and indeed have not risen as quickly following the Bank Rate increases as the UKDMO rates or indeed the rates on the Lloyds' current account. The Santander account does enable us to meet good treasury practice of spreading funds between different banking institutions, and complies with the Commissioner's Treasury Strategy.

- 4.4 The risk to the security of investments is also mitigated by using a range of money market brokers. The extent to which different brokers have been used during the 6 month period to the 30th September is as follows.

Warwickshire

Broker	Number of Loans
Tullet Prebon	0
Tradition	0
Direct Deals (UKDMO)	7
Imperial Trading (ITS)	2
Total	2

- 4.5 The Commissioner has also set limits for each counterparty in order to contain any exposure to potential loss. These limits were set out in the Treasury Management Strategy 2022/23 in March 2022.

5.0 Position at 30th September 2022

- 5.1 As at 30th September 2022, the Commissioner had £5m invested with the UKDMO for short periods at rates around 1.9% as well as a 6 month deposit with Thurrock Council for £2m @ 1.67% that was invested on 6 July 2022. Shortly after this investment was made, Arlingclose issued advice recommending that Authorities do not invest funds with Thurrock due to their financial situation. We were re-assured by Arlingclose that Thurrock would be able to access PWLB funding to repay all of their short-term borrowing and the £2m was repaid in full, plus the originally agreed interest, on 6th December 2022. No further investments will be made with Thurrock Council.

Bank Rate – The Bank of England base rate (Bank Rate) increased throughout 2022 as the Bank continued to try to tackle the rising levels of inflation. By the end of September 2022, the Bank Rate had risen to 2.25% (from 0.25% in January 2022) and at the time of writing this report (January 2023) is currently at 3.5% with a further increase expected in February 2023. With existing borrowing being at fixed rates and investments being at variable rates, it is forecast that additional interest will be earned this year. However, if new borrowing is required during 2023/24 this is likely to be at a much higher rate than has been available during the past few years.

6.0 Conclusion:

Treasury management update reports (outturn and mid-year) will be presented to future Joint Audit and Standards Committee meetings to keep members updated on treasury management activity.