Agenda item:14

Warwickshire Joint Audit and Standards Committee Report Summary

Meeting Date:	**23rd January 2024**
Subject:	**Treasury Management Mid-Year Review 2023/24**
Contact details:	**Mike Kaine**

Purpose of the Report:

To inform Members of the Committee of the 2023/24 mid-year position on the treasury management activities of Warwickshire Police in accordance with the CIPFA Code of Practice on Treasury Management.

Recommendation:

The Committee is asked to consider and comment on the Treasury Management Mid-Year Review for 2023/24 before its final consideration by the Warwickshire Police and Crime Commissioner.

Background:

Warwickshire Police adopts the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Editon* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2023/24 was approved by the Police & Crime Commissioner following scrutiny at a Joint Audit Standards Committee (JASC) meeting in March 2023, via a formal decision notice, published on the OPCC website. The PCC through the delegations to the force has borrowed and invested moderate sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the PCC's treasury management strategy.

Treasury risk management by the PCC is conducted within the framework of the CIPFA Code which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the PCC's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Executive summary

The Mid-Year review of Treasury Management activities covers two aspects: financing capital expenditure and cash flow management and investments. This report will consider each of these elements in turn.

1.0 Financing Capital Expenditure

1.1 The Police and Crime Commissioner's capital expenditure is mainly financed by a combination of capital receipts, direct revenue financing, contributions from cash balances, and borrowing. In recent years, borrowing has mainly been "internal borrowing" ie utilisation of surplus cash balances, 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 long-term borrowing since then, including during the period 1 April 2023 to 30 September 2023. Levels of long-term borrowing have actually reduced during this period due to the maturity of existing loans.

1.2 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 £16.5m, as detailed below:

Warwickshire PWLB as at 30th September 2023

No of Loans	Loan Type	Shortest end date	Longest end date	Interest Rate from	Interest Rate to	Principal @ 30/09/23 £m
1	Maturity	2024	2024	4.5%	4.5%	0.3
4	Annuity	2030	2035	4.5%	4.95%	7.2
8	E.I.P	2023	2029	2.1%	4.88%	9.0

2.0 Cash flow management and Investments

2.1 This is the control of the Commissioner's cash balances held in bank accounts and the temporary investment of surplus funds.

2.2 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.

2.3 This focus on the security of the investment is addressed by maintaining a list of acceptable counterparties. This list is maintained throughout the year and is supported by alerts from Link Group who provide Treasury Management advice on a regular basis and respond to immediate alerts to credit rating changes.

2.4 It remains a time of some uncertainty and nervousness and the OPCC are aware of several Local Authorities falling into some financial difficulties over the past year or so. Our Treasury advisers have advised not to take out any new investments with certain LAs falling into this category, although it should be noted that there are statutory protections in place in respect of LA to LA borrowing, namely that the borrowing authority can borrow from the PWLB to repay principal funds to the lender. The OPCC has continued to take a prudent approach to safeguard the PCC's cash first and foremost.

2.5 Following the increases in the Bank of England Base Rate (Bank Rate) throughout 2022 and 2023, the rates on offer from both the UKDMO and Local Authorities are now very attractive for investments and we have continued to take advantage of these during 2023.

2.6 As a result of being active in placing investments this financial year along with the higher interest rates available, investment interest received to 30 September 2023 was around £153k, compared to a full year budget for 2023/24 of £126k; we are currently forecasting investment income of at least £300k for the financial year.

2.7 The Santander call account has not been used during the year to invest funds as 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 enables us to meet good treasury practice of spreading funds between different banking institutions when required and complies with the Commisioner's Treasury Strategy.

2.8 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.

Broker	**Number of Investments**
Tullet Prebon	2
Tradition	0
Direct Deals (UKDMO)	22
Imperial Trading (ITS)	2
Total	**26**

2.9 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 2023/24 in March 2023.

3.0 Investment Position at 30th September 2023

3.1 As at 30th September 2023, the Commissioner had total investments of £17.3m, as follows:

Counterparty	£m	Average rate %
UKDMO	8.0	5.27
Local Authorities (3 @ £2m each)	6.0	4.68
Lloyd's Bank	3.3	5.15

4.0 Bank Rate and impact on borrowing and investments

4.1 The Bank of England base rate (Bank Rate) continued to increase during 2023 as the Bank continued to try to tackle the high levels of inflation. The rate was at 4.25% at the start of the financial year and by August had risen to 5.25% where it has since remained. The market is generally forecasting Bank Rate to remain at this level until at least the middle of 2024.

4.2 With existing borrowing being at fixed rates and investments being at variable rates (sometimes fixed for short periods), investment interest receivable will be much higher than budgeted (see 2.6 above), with interest on borrowing remaining constant. However, if new borrowing were required during 2023/24 this is likely to be at a much higher rate than has been available during the past few years; currently we are forecasting that no new long-term borrowing will be required until at least Quarter 3 of the 2024/25 financial year. Short-term borrowing to address temporary cashflow deficits is occasionally required at various times throughout the year but only for a few days at a time.

5.0 Conclusion

5.1 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.