

PFCC Decision Report

Report reference number: 078-22

Classification (e.g. Not protectively marked/restricted): Official

Title of report: Treasury Management Strategy 2022/23 (incorporating the Investment Strategy and Capital Strategy)

Area of county / stakeholders affected: Countywide

Report by: Matt Tokley, Head of Corporate Accounting

Chief Officer: DCC Andrew Prophet

Date of report: 7 June 2022

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1. Executive Summary

Treasury Management is the management of the PFCC's cash flows, financing borrowing and investments, and the associated risks.

These reports comprise three strategies, the Treasury Management Strategy, which covers investments and the borrowing approach, and the Investment Strategy which is primarily focused on commercial-orientated investments, as well as the Capital Strategy, which covers capital expenditure and financing and the link to external borrowing requirements.

The paper sets out some proposed changes in respect of investment counterparties and their related limits and thresholds, to ensure the PFCC can continue to manage its cash effectively in respect of liquidity and yield, whilst not increasing its risk profile.

The paper sets out an estimated external borrowing requirement of circa £13.5m during 2022/23. This balance encompasses the need to hold a minimum level of £10m liquid cash and investments, to discharge liabilities for short-term cashflow shortages as and when required.

2. Recommendations

The PFCC is recommended to approve the attached reports incorporating the Treasury Management Strategy (TMS), Investment Strategy and Capital Strategy, and to note the revised limits and thresholds proposed.

The PFCC is also asked to note and approve the ongoing work to align the PFCC's TMS, Investment Strategy and Capital Strategy documents, including investment and borrowing limits, with those of the Essex County Fire and Rescue Service. This follows initial discussions with the PFCC's treasury advisors, Arlingclose, on 24th February 2022.

3. Background to the Proposal

Treasury Management Strategy

The PFCC invests substantial 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 financial risks are therefore central to the PFCC's prudent financial management.

Treasury risk management at the PFCC is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the PFCC to approve a treasury management strategy before the start of each financial year. This report fulfils the PFCC's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

One of the main aspects of treasury management is to ensure that cash flow is adequately planned to ensure that cash is available when needed to meet payments when they are due. If not immediately needed, any surplus monies are invested in low-risk counterparties in order to earn interest.

In addition, to ensuring the above issues are managed effectively and the PFCC complies with its legal obligations, the other main purpose of the TMS is to assess the financing requirement of the PFCC's capital investment plans, and the level of borrowing required for that expenditure.

Investment Strategy (Commercial Investments)

The Investment Strategy was introduced in 2019/20, meeting the requirement of statutory guidance issued by the government in January 2018, and focuses on the support of local public services as well as arrangements where investment income earnings are deemed to be the main purpose.

For the 2022/23 financial year, the PFCC has decreed that service investments and commercial investments will not be used. Whilst this paper therefore satisfies the 2018 MHLG Investment Guidance it does not set out any detail or proposed approach in respect of these types of investment. This approach is unchanged from the 2021/22 Investment Strategy.

Capital Strategy

The PFCC has adopted the Chartered Institute of Public Finance and Accountancy's Prudential Code of Practice in the Public Services, which requires the PFCC to approve a capital strategy before the start of each financial year.

The Prudential Code provides a clear set of objectives and a framework within statutory legislation that proposes new capital expenditure be evaluated to ensure that all new capital investment is targeted at meeting the pledges within the PFCC's vision, aims and priorities.

The Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

4. Proposal and Associated Benefits

The strategy documents themselves have been included within the three appendices attached to this report. Such is the amount of detail in the reports that each strategy needs to be viewed in its own context to understand the key points and issues arising.

There are no fundamental changes to the proposed strategies for 2022/23 from the versions used in the 2021/22 financial year. In particular, it should be noted that the Investment Strategy, which focuses solely on commercial investments, remains outside of the PFCC's risk appetite, and has limited content, but has been included for compliance purposes. The PFCC is particularly mindful of the recent CIPFA Prudential Code and Treasury Management Code guidance, which strongly advises that such investments are high risk and that taking out external borrowing for such activities should be prohibited.

The TMS proposes some changes to the limits for money market funds and call account investments. In addition, a strategic pooled fund investment, whereby £5m is placed with the aim of longer-term returns, has also been included for proposed consideration.

The Capital Strategy summarises capital investment plans over the medium-term and the external borrowing limits which will tie into the financing plans for this expenditure. A sub-section of this strategy, containing the Minimum Revenue Provision (MRP) statement, sets out how all of the PFCC's financing and borrowing will be repaid to the revenue budget.

5. Options Analysis

The production of these three strategy documents is in accordance with CIPFA best practice guidance and provides a framework by which the PFCC can manage its cash resources (and financing and borrowing requirements where applicable) within the context of its investment plans and shorter-term working capital requirements. Failure to produce such strategies would mean potential shortfalls in cash due to a lack of understanding about its strategic requirements and could also result in the PFCC lending money to higher risk entities, which would not meet the expected minimum credit rating levels that an investment strategy / policy incorporates. Ultimately such an approach would threaten the force undertaking its primary duties of policing due to lack of funds.

The PFCC continues to place an emphasis on security and liquidity of funds over yield. Whilst interest rate rises mean that investment opportunities are becoming more attractive, the investment strategy for treasury management purposes continues to place an emphasis on lending to other local authorities, highly rated banks or the UK government. Whilst other

investment approaches will continue to be reviewed, some areas such as property based investments continue to be excluded, particularly as financial derivatives are also not used, which would otherwise mitigate some of the risks arising.

6. Consultation and Engagement

This paper has been prepared in consultation with Chief Officers, the Chief Financial Office and Strategic Head of Performance and Resources for the PFCC, and Arlingclose (the PFCC's treasury advisors) as well as colleagues from the Essex County Fire and Rescue Service in respect of looking to align the two sets of organisational strategies further.

7. Strategic Links

The paper concerns the management of the PFCC's cash and investments, which represent the key resources underwriting all of the priorities and workstreams identified within the Police and Crime Plan.

8. Police operational implications

The Treasury Management Strategy oversees the adequate funding of all operational activity across the force, ensuring that issues in respect of lack of money do not inhibit any policing operations as and when required. The use of call accounts and money market funds as instantly callable deposits that can be drawn down at short notice means that additional monies for urgent operational activity are always available.

9. Financial implications

The Strategy sets out the proposed plan in respect of investments, financing, borrowing and cashflow management for the financial period, including the counterparties and types of financial instruments which will be used. The document sets out the key factors which will affect treasury management decision making during 2022/23, relating to both internal and external issues, and how any problems will be managed and overcome.

10. Legal implications

Approval of the Treasury Management Strategy (and related strategies contained therein) satisfies the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP guidance, the CIPFA Treasury Management Code and CLG investment guidance.

11. Staffing implications

The 2022/23 strategy documents have been completed by the Head of Corporate Accounting and the Technical Capital Accountant, with oversight from both the Chief Accountant and the PFCC's Chief Financial Officer. There have been no significant implications as a result of the work undertaken, nor are there any onward impacts or implications.

12. Equality, Diversity and Inclusion implications

There is no significant impact of this decision report in respect of issues relating to equality, diversity or human rights. All proposed counterparties to be used for treasury management activity in the financial period have been selected based upon their financial viability and risk

profile, based on market-based criteria and advice from the PFCC's treasury management consultants, Arlingclose. One of the key growth areas in treasury management is ethical / socially responsible investing, which seeks to provide both financial return as well as participation in positive social change. Whilst this is a potential area of interest of the PFCC for the future, it is not actively being focused on due to the current risk levels involved.

13. Risks and Mitigations

The risks, particularly financial risks relating to treasury management processes, including credit risk, market risk and operational risk, are set out within the report. The underlying steer of the strategy is to produce a treasury management plan which has an optimum balance of risk and reward, with yield secondary to the key issues of security and liquidity. Any subsequent changes in both the macro and micro financial environments which the PFCC operates within will be reviewed on a regular basis during 2022/23 with advice sought from the PFCC's treasury management advisors for any new risks which are deemed to be of strategic importance.

14. Governance Boards

The proposals contained within this report were originally presented to the Chief Officer Group of the Chief Constable on 23rd February 2022, with this revised version presented to Chief Officers on the 1st June 2022, and subsequently due to be presented to the PFCC's Strategic Board on 16th June 2022.

15. Links to Future Plans

This strategy links into and aligns with the Capital Programme for the PFCC, which is part of the Medium-Term Financial Strategy (MTFS).


16. Background Papers and Appendices


The key background papers are the CIPFA Treasury Management Code and the CIPFA Prudential Code (both refreshed in 2021), together with related papers presented previously to the PFCC, including the 2021/22 Treasury Management Strategy (encompassing the Investment and Capital Strategies), and the quarterly treasury management / cashflow reports submitted to the PFCC during 2021/22, including the recent Treasury Management Outturn report 2021/22.

The three main strategy documents are included as appendices to the covering report.

Report Approval

The report will be signed off by the PFCC's Chief Executive and Chief Finance Officer prior to review and sign off by the PFCC / DPFCC.

Chief Executive / M.O. Sign: 
Print: P. Brent-Isherwood
Date: 14 June 2022

Chief Finance Officer Sign: 
Print: Janet Perry
Date: 25 July 2022

Publication

Is the report for publication? YES NO

If 'NO', please give reasons for non-publication (Where relevant, cite the security classification of the document(s). State 'None' if applicable)

None

If the report is not for publication, the Chief Executive will decide if and how the public can be informed of the decision.

Redaction

If the report is for publication, is redaction required:

1. Of Decision Sheet? YES NO 2. Of Appendix? YES NO

If 'YES', please provide details of required redaction:

N/A

Date redaction carried out:

Chief Finance Officer / Chief Executive Sign Off – for Redactions only

If redaction is required, the Treasurer or Chief Executive is to sign off that redaction has been completed.

Sign:

Print:

Chief Executive / Chief Finance Officer

Decision and Final Sign Off

I agree the recommendations to this report:

Sign: 

Print: Roger Hirst

PFCC

Date signed: 3 August 2022

I do not agree the recommendations to this report because:

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Sign:

Print:

PFCC/Deputy PFCC

Date signed: