

**Police Fire and Crime Commissioner for Essex
Essex Police Strategic Board**

Title of Report / Agenda Item	Treasury Management Strategy 2022/23 (encompassing the Capital Strategy and Investment Strategy documents)
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Chief Officer	DCC Prophet
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Date Approved by Essex Police Finance Department	30 th May 2022

1. 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.

2. Executive Summary

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

These reports comprise three strategies, the TMS itself, which covers investments and borrowing approach, the Investment Strategy which 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 £11.8m 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.

This version of the TMS has been fully updated since the initial version of the paper was drafted, when it was originally intended that this would be presented to the March Strategic Board. The key changes since that version are set out within the strategy documents themselves (e.g. the appendices to this report) however in summary they comprise two key themes. Firstly, a proposed process by which external borrowing is approved by the PFCC office during the year has been set out, and this will no longer be restricted to the authorised limit simply being approved as part of the Capital Strategy. Secondly, some further amendments have been made, particularly around investment criteria, to more closely align the TMS to the Essex Fire equivalent strategy.

3. Background

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 document 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 forthcoming 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 to 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. Options and analysis (to include proposals, benefits, alternatives)

The three strategy documents are lengthy with a lot of detail and complex information included. Based on an assessment by the Head of Corporate Accounting it is felt that incorporating aspects of the strategy documents into the body of this report would not be conducive to understanding the key issues and points contained with the strategies, as well as how the proposed changes fit into the wider treasury management framework.

Please therefore refer to the appendices which presents the three proposed strategy documents for 2022/23 for formal approval.

5. 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.

6. Links to the Police and Crime Plan

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.

7. Financial Implications

The Strategy sets out the proposed plan in respect of investments, borrowing and cashflow management for the upcoming 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.

8. 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.

9. Staffing Implications

The completion of the 2022/23 strategy documents has been completed by the Head of Corporate Accounting and the Technical Capital Accountant, with oversight from both the Chief Accountant and the PFCC's Section 151 Officer. There have been no significant implications as a result of the work undertaken, nor are there any onward impacts or implications.

10. Equality and Diversity Implications

There is no significant impact of this decision sheet in respect of issues relating to equality, diversity or human rights. All proposed counterparties to be used for treasury management activity in the forthcoming 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.

11. 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 does 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.

12. Governance Boards

Originally presented to the Chief Officer Group of the Chief Constable on the 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 the 16th June 2022.

13. Future Plans (long-term strategic direction)

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

14. List of 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 Strategy documents), 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 embedded into this report (see below).



TMS suite of reports
2022-23 (appendices)