

PFCC Decision Report

Report reference number: 137-22

Classification: Official

Title of report: Treasury Consultancy 2022/23 – Arlingclose

Area of county / stakeholders affected: Countywide

Report by: Matt Tokley, Head of Corporate Accounting

Chief Officer: DCC Andrew Prophet

Date of report: 12 August 2022

Enquiries to: Matt Tokley, Head of Corporate Accounting

1. Executive Summary

Treasury Management is the management of the PFCC's cash flows, borrowing and investments, and the associated risks. The complexity of the issues involved means that the PFCC, as well as the majority of public sector organisations, has regularly sourced treasury advisory sources from sector specialists. In recent years this has been provided by Arlingclose, which provides a similar service for a large amount of fellow police forces and local authorities.

Since 2019, discussions have been underway to progress a new procurement tender for these services, and this exercise is now due to commence later in 2022, in the form of a 7F-wide procurement process. This will enable new contractual arrangements to be in place by 1st April 2023. Discussions have subsequently been undertaken with individual forces as to whether the materiality of the contract value merits a full procurement exercise, and alternative arrangements are also being explored for 2023/24 onwards.

It is therefore proposed to renew the Arlingclose contract for 2022/23, to ensure treasury advisory services are in place until such a time that the new contract has been awarded, either via the 7F procurement route or agreed local arrangements.

2. Recommendations

The PFCC is recommended to extend the Arlingclose contract for the period 1st April 2022 to 31st March 2023, based on a fee of ██████ (an increase of ██████ compared to the preceding year).

Thereafter, the PFCC will either (a) recognise the 7F contract award relating to treasury advisory services, with the winning bidder commencing this contract from 1st April 2023 onwards (subject to a separate approval process), or (b) undertake a local procurement exercise in accordance with the PFCC's contract standing orders, to ensure best value is achieved from the market.

3. Background to the Proposal

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). In addition, 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.

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 liabilities as they fall due. If not immediately needed, any surplus monies are invested in low-risk counterparties in order to earn interest. The PFCC is also required to assess accurately the financing requirement of their capital investment plans, and the level of borrowing required for that expenditure.

4. Proposal and Associated Benefits

The services provided by the treasury advisors will supplement the PFCC's in-house treasury management function through the provision of specialist advice which is enriched by high frequency contact with relevant financial institutions and their regulators, and frequent consideration of wider economic trends. The supplier will provide advice to the PFCC to enable them to manage their investment portfolio in accordance with the relevant statutory frameworks and local investment strategy, with the purpose of maximising returns under the agreed risk profile within the current version of the Treasury Management Strategy. This advice will include up to date market rates and details of the full range investment products available on the market.

The supplier will provide advice to the PFCC by assisting with the development of a borrowing strategy to raise external debt in the future based on the needs of the organisation, primarily the overarching Capital Programme and earmarked reserves projections. The supplier will advise the PFCC on borrowing and refinancing options over the short to medium term financial period, including an analysis of central government, local government and external funding options.

5. Options Analysis

The importance of treasury management for the PFCC, in respect of both its statutory and operational obligations, means that it is not recommended that the PFCC progresses without access to specialist treasury management advice, in addition to in-house resources. This requirement is especially notable based on the subsequent medium-term financial period where an external borrowing requirement will arise and the PFCC will need to consider their options carefully, particularly considering the revised version of the Prudential Code and the related requirements contained therein.

In respect of alternative options rather than simply extending the Arlingclose contract, these are not seen as worthwhile or proportionate based on the fact of the upcoming tender which has been proposed, and / or the local arrangements which will nevertheless encompass a formal procurement exercise. It therefore makes sense to continue with the current supplier (Arlingclose) for the 2022/23 financial year and agree the permanent provider of these services thereafter.

6. Consultation and Engagement

This paper has been prepared in consultation with the Chief Financial Officer to the PFCC, and the Chief Finance Officer to the Chief Constable.

7. Strategic Links

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

8. Police Operational Implications

Treasury Management 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 extension of the Arlingclose contract for the duration of the year will equate to a one-off cost of ████████, as set out in the recommendations (section 2).

10. Legal Implications

Treasury Management activity is undertaken based on 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 decision to approve the extension of the Arlingclose contract will mean that the Corporate Finance team is supported in its treasury management processes and has readily available and timely access to specialist advice to support investment and borrowing decisions taken over the duration of the 2022/23 financial year.

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 information received from Arlingclose is based on market-based criteria and advice, with no sector bias or discrimination towards specific markets or counterparties.

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. This is a potential area of interest which the PFCC will continue to explore in the future.

13. Risks and Mitigations

There are many risks to consider in respect of treasury management, notably financial risks but also credit risk, market risk and operational risk. Arlingclose will work closely with the PFCC 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 Arlingclose in respect of any new risks which are deemed to be potential strategic threats.

14. Governance Boards

The services provided by Arlingclose have been referenced in all treasury management reports presented to the PFCC's boards, most recently the Strategic Board on 16th June 2022.

15. Links to Future Plans

This proposal links into and aligns with the Treasury Management Strategy as well as 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 2022/23 Treasury Management Strategy (encompassing the Investment and Capital Strategy documents), and the Treasury Management Outturn report 2021/22.

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

All financial figures to be redacted due to commercial sensitivity and forthcoming tender

Date redaction carried out: 3 October 2022

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: 29 September 2022

I do not agree the recommendations to this report because:

.....
.....
.....

Sign:

Print:

PFCC/Deputy PFCC

Date signed: