POLICE, FIRE AND CRIME COMMISSIONER FOR ESSEX

Police Fire and Crime Commissioner for Essex
Essex Police Strategic Board

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1. Recommendations

Chief Officers are recommended to note the treasury management activity during the previous quarter of 2022/23 (for this period, solely the months of September to November 2022) as well as the onward plan for the remainder of the year.

In respect of external borrowing requirements Chief Officers are recommended to note that there are no applicable values to approve for the upcoming three-month period commencing December 2022, and thus no decision report is recommended to the PFCC for this purpose. For clarity:

- The amount of expected external borrowing in the period December 2022 to February 2023 is **£0.0m**.

- The amount of expected external borrowing in the remaining period of the 2022/23 financial year (March 2023) is **£3.0m** (as per Section 7, Table 3). This position will be updated in the next quarterly report, and a corresponding decision report submitted to the Strategic Board on 1st March 2023.

2. Executive Summary

Treasury management activity is reported four times annually, with two quarterly updates as well as the half-year outturn report and the full year outturn report. This report is now being presented to the PFCC's Strategic Board, rather than to the Performance and Resources Scrutiny Board, to facilitate the opportunity for the recommendation of a decision to be made in respect of any external borrowing requirement for the following three-month period. The report therefore covers the actual cashflow position up to the end of November, with the forward position for December to March being reviewed for any external borrowing recommendation.

The requirement for the approval of external borrowing is only when this is for a duration greater than twelve months. Where the external borrowing is less than twelve months in duration but for a period greater than one month and for a value greater than £5m, the PFCC's Chief Financial Officer will be informed retrospectively at the earliest opportunity.

This report covers the treasury management activity for the current quarter covering months September to November 2022/23 in compliance with The Chartered Institute of Public Finance and Accountancy (CIPFA) code of Practice on Treasury Management. This report provides an overview for how the PFCC's cash balances have been managed over the last three months, whether there have been any deviations to the Treasury Management Strategy (TMS) and what investments and borrowings, where applicable, have been undertaken.

3. Background

Internal governance

It should be noted the 2022/23 TMS was approved at the PFCC's June Strategic Board, and the related decision report has now been signed off. The Corporate Finance team are therefore now undertaking treasury management decisions in accordance with this approved strategy. Work will soon commence on the 2023/24 TMS which is due to be submitted to the Strategic Board in March 2023.

External context

The economic recovery since the pandemic continues to be a challenge with Russia's invasion of Ukraine and the current high inflation continuing to dampen both global and UK economic growth. The short to medium term outlook for UK is looking bleak with the economy already experiencing recessionary conditions with business activity and household spending falling. Due to the tighter monetary and fiscal policy alongside the high inflation rises in energy and fuel prices, the recession is not expecting to ease and continues to add pressure on household finances. In addition, the demand for labour remains strong and the supply of an adequately resourced workforce continues to decline thus influencing the demand for higher wage growth which could prolong higher inflation.

According to the Office for the Budget Responsibility (OBR) the latest increase of £55 billion tax rises announced by the Chancellor combined with squeezes on spending is expected to cause household income to fall by 7% in real terms. Consumer Price Inflation (CPI) rose to another 40 year high in October 2022, hitting an annual rate of 11.1%. and forecast inflation is expected to average 11.1% up to March 2023. The Bank of England (BoE) Monetary Policy Committee (MPC) increased the official base rate by 0.75% to 3% in November and further increases are expected in December to 3.5%, peaking at 4.25% by June 2023.

Arlingclose Interest Rate Outlook for the remainder of 2022/23 and beyond

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00

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

On 30th November 2022 the actual balance held at bank was £20.63m, relating to income and expenditure from its revenue and capital activities. The investment portfolio held which comprises this balance is presented in Table 1.

Table 1 – Investments

	31st August 2022 Actual £m	30 November 2022 Actual £m	Movement £m
Call accounts	1.01	1.01	0.00
Money market funds	7.50	8.00	0.50
Fixed term deposits (including notice accounts)	17.45	11.42	(6.03)
Lloyds current account	0.40	0.20	(0.21)
Total	**26.37**	**20.63**	**(5.74)**

The investments balance has decreased by £5.74m over the three-month period. Typically, the annual cashflow cycle peaks in the second quarter when the Police Officer Pension Top Up Grant is received from the Home Office. Thereafter, the position declines in the second half of the year (September – March) with an external borrowing expectation being forecast in the latter.

The average level of investments over the three-month period from 01/09/22 – 30/11/22 was £26.75m representing an average return of 1.28%. This represented a continuation of the appreciative uplift from the previous quarter and a more positive level of return than that seen for the majority of the last 1-2 years. Whilst investment returns picked up there was a continued priority of security over yield in the PFCC's TMS, a reliance on the Debt Management Office and money market funds, and limited involvement in respect of wider investment routes.

The PFCC is provided with a monthly plan of anticipated cashflow transactions for the coming month. Where there are significant differences the Corporate Accounting team will liaise with the PFCC to ensure revised plans are put in place. An example of this is where a counterparty holding Essex Police funds has a credit rating change which is not permissible within the current TMS. With effect from month 7, a one-page graphical treasury management summary is now included within the monthly budget monitoring report sent to both Chief Officers and the PFCC. This includes summarised information relating to the previous month cash management performance, as well as cashflow forecasts for the remainder of the year. Any other variances, including timing fluctuations and differences between actuals to estimates, are covered within this reporting mechanism. For the period 1/9/22– 30/11/22 the planned cashflow movements compared to the actual transactions have been summarised in Table 2 below and presents the operating expenditure and income variances.

Table 2 – Cashflow – Income and Expenditure

	As per plan				As per cashflow	
	September £m	October £m	November £m	Total September to November £m	Actual September to November £m	Variance £m
Opening Position	**0.4**	**0.1**	**2.5**	**0.4**	**0.4**	**0.0**
Expenditure						
Supplier payments	(12.8)	(12.5)	(10.3)	(35.6)	(31.4)	4.2
HMRC payments	(5.8)	(6.8)	(6.6)	(19.2)	(20.4)	(1.2)
Essex LGPS payments	(1.5)	(1.5)	(1.5)	(4.5)	(4.4)	0.1
Pensioners payments	(11.0)	0.0	(5.5)	(16.5)	(16.7)	(0.2)
Payroll - uniform	(8.5)	(9.5)	(9.0)	(27.0)	(28.7)	(1.7)
Payroll - staff	(4.5)	(4.7)	(4.5)	(13.7)	(13.9)	(0.2)
	(44.1)	**(34.9)**	**(37.4)**	**(116.4)**	**(115.4)**	**1.0**
Income						
Council tax precepts	12.4	14.0	11.7	38.1	38.2	0.0
Core government funding	10.5	10.5	10.5	31.6	31.6	0.0
Other government grants	6.7	6.8	6.7	20.1	23.8	3.7
VAT reimbursements	1.7	0.8	0.8	3.2	4.0	0.8
Property sales	0.0	0.0	0.0	0.0	0.3	0.3
Other receipts	6.3	4.9	5.7	17.0	12.0	(5.0)
	37.6	**37.1**	**35.4**	**110.1**	**109.9**	**(0.2)**
Investment activity						
Fixed term investments - new deals	(24.0)	(21.5)	(18.0)	(63.5)	(56.0)	7.5
Fixed term investments - repayments	30.0	21.5	18.0	69.5	62.0	(7.5)
Money market funds - additions	(22.0)	(11.0)	(16.0)	(49.0)	(39.5)	9.5
Money market funds - withdrawals	22.5	9.5	16.0	48.0	39.0	(9.0)
	6.5	**(1.5)**	**0.0**	**5.0**	**5.6**	**0.6**
External borrowing activity						
	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Closing Position	**0.4**	**0.8**	**0.5**	**(0.9)**	**0.5**	**1.4**

The opening position represents the current account balance held with Lloyds. In respect of why the monthly opening positions do not match to the previous month's closing balances this is because each of the plans are undertaken in isolation and by the time the next month's plan is produced the actual opening position will be available rather than having to use the previous month estimate.

The overall variance for actual expenditure in the period compared to estimated values was a net reduction of £1m, after the adjustments referred to in the paragraph above. Supplier payments made up the bulk of the main variance of £4.2m, less than expected compared to the forecast due to lower payment runs during September and October. Other variances totalled to a net increase of £3.3m comprising of higher payments to HMRC of £1.2m and £2.0m relating to increased payroll costs compared to the forecast offset by a small reduction of £0.1m for Essex LGPS payments. It should be noted that the forecast for HMRC contributions and payroll costs can vary month to month, depending on ad-hoc or one-off contributions being made, which distort the regular level of payments for serving officers and staff.

In respect of receipts, there was an overall £0.2m decrease compared to the forecast plan submitted which comprised a £5m reduction relating to miscellaneous receipts, offset by an increase of £3.7m for other government grants, £0.3m relating to sale of property and £0.8m relating to VAT refunds. The £5m variance related to a delay of £2.2m for Counter Terrorism (CTIU) income and a shortfall of £0.9m relating to Stansted Airport policing activity. The remaining variance represented a reduction of £1.9m due to a smaller average level of daily receipts. The increase in government grants included monies received from the Home Office relating to the Pay Award Special Grant of £1.6m in October and Op Hazel Grant of £1.5m in November, and net smaller grants of £0.6m.

For the months of September to November there has been no significant deviation to the investment approach adopted by the PFCC with similar financial instruments used during this period. Table 2 above also encompasses the treasury management activity during the months of September to November reflecting an increase of £0.6m of net cash retained compared to the plan. The forecast total cash and investments are included in each monthly plan to the PFCC in addition to cashflow movements.

Cashflow – remainder of 2022/23

The cashflow has been projected forward for the remainder of the financial year, with a summary included in Table 3 further below.

The actual cashflow position for the first quarter reflects the significant decrease in cash balances during this period, when short-term external borrowing was undertaken to meet this temporary shortfall. Cash balances improved significantly during the second quarter to £26.2m, with a subsequent decrease forecast over the second half of the financial year.

Based on the approved 2022/23 Capital Programme and related investment plans, external borrowing is forecast for this year and the subsequent medium-term period, with a direct impact on treasury management processes and the force cashflow. The cash position forecast for the end of March 2023 is expected to be in deficit by £3m, reflecting the capital investment required in 2022/23 as well as the diminishing resources available to fund this.

Table 3 – Cashflow plan for 2022/23 (April 2022 – March 2023)

	Cashflow summary & forecast - 2022/23			
	April to June £m	July & August £m	September to November £m	December to March £m
Opening Position	**0.05**	**0.75**	**0.4**	**0.3**
Expenditure				
Supplier payments	(35.1)	(25.1)	(31.4)	(53.2)
Capital - property acquisitions	0.0	0.0	0.0	0.0
HMRC payments	(21.4)	(14.2)	(20.4)	(26.2)
Essex LGPS payments	(4.4)	(3.0)	(4.4)	(5.8)
Pensioners payments	(16.6)	(11.1)	(16.7)	(27.5)
Payroll - uniform	(26.6)	(17.1)	(28.9)	(34.0)
Payroll - staff	(13.8)	(9.2)	(13.7)	(18.0)
	(117.9)	**(79.7)**	**(115.4)**	**(164.6)**
Income				
Council tax precepts	33.0	24.8	38.1	48.4
Core government funding	48.4	32.2	31.6	42.0
Pension top-up grant	0.0	29.0	0.0	0.0
Other government grants	8.5	3.1	24.9	25.8
VAT reimbursements	5.1	0.8	4.0	3.2
Property sales	0.0	0.7	0.3	2.7
Other receipts	12.2	7.3	10.9	15.1
	107.2	**97.8**	**109.9**	**137.2**
Net cashflow surplus/(deficit)	**(10.6)**	**18.8**	**(5.2)**	**(27.1)**
Treasury activity				
Investment balances brought forward	18.0	7.4	26.2	24.2
Net addition to/(reduction of) investments	(10.6)	18.8	(2.0)	(27.1)
Net external borrowings	0.0	0.0	0.0	0.0
Total net cash and investments	**7.4**	**26.2**	**24.2**	**(3.0)**

Treasury management activity will be concentrated on how to best utilise the forecast surplus balances during the remainder of the year, with the focus on achieving a reasonable return on investments whilst keeping enough of the PFCC’s portfolio in liquid instruments, ensuring that short-term cashflow commitments can be managed and covered when required. Additional opportunities will continue to be explored in relation to new call accounts as well as semi-liquid instruments such as treasury bills, which offer a fixed term maturity date as well as an option to sell on the secondary market.

As Table 3 confirms external borrowing is anticipated in 2022/23 to support investment plans, however this estimate excludes any element required to meet short-term cashflow requirements, with these extra funds invested short-term where appropriate. This value would typically be up to £10m in short-term available cash. By holding this minimum value of £10m the PFCC would also not be expected to require any further action to retain the minimum balance of £10m investments in accordance with the Markets in Financial Instruments Directive (MiFID) II legislation.

5. Risks and Mitigations

Compliance – Prudential Indicators

Throughout the reporting period the PFCC has concentrated on its compliance with its investment strategy as well as borrowing requirements in accordance with the CIPFA Prudential Code. In summary the PFCC's treasury management activities undertaken to date in 2022/23 have complied with both the CIPFA Code of Practice, the Prudential Code, and the PFCC's 2022/23 TMS.

Gross Debt

The PFCC is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In accordance with statutory guidance a lower 'operational boundary' is also set as a warning level should debt approach the affordable borrowing limit. Compliance with the authorised limit and operational boundary key prudential indicators for the year to date in 2022/23 are demonstrated in Table 9 below.

Table 4 – External Borrowing Limits

	2022/23- TMS	2022/23 - Actual (to date)	Complied (Yes/No)
Authorised limit - total external debt	£30m	£0m	Yes
Operational Boundary - total external debt	£20m	£0m	Yes

The other prudential indicators within the TMS are as follows:

- Estimates of Capital Expenditure
- Estimates of Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- Proportion of Financing Costs to Net Revenue Stream

The above indicators are regularly reported to the PFCC and thus this information has therefore not been re-produced here, with compliance accepted in each case. For financing costs the 2022/23 forecasts for minimum revenue provision (MRP) and interest payable currently remain immaterial based on expected costs and net revenue stream, and are not deemed to be a key risk. These will continue to be monitored however as interest rates rise and potentially greater risks emerge.

Compliance – Treasury Management Practices (TMP's)

Compliance for the PFCC's TMP's across the previous three months are set out in the table below.

Table 5 – TMP's summary

TMP's	TMS 2022/23 criteria	September to November - Complied (Yes/No)
Interest rate risk indicator - 1% rise in interest rates (upper limit impact)	(£200,000)	Yes - rate rises to date in 2022/23 have not breached TMS limits
Interest rate risk indicator - 1% fall in interest rates (upper limit impact)	£200,000	N/A - no interest rate reductions in period
Minimum credit rating for counterparty investments	A	Yes
Gross bank account overdraft facility availability	£10m	Yes
Net bank account overdraft facility availability	£1m	Yes - no breach to TMS limits
Minimum amount of investment portfolio held in call accounts and money market funds	Lower of £10m or 50% of total investments	Yes
Limit on principal invested beyond one year (non-government)	£5m	Yes - no investments made beyond one year in duration
Maturity structure of (external) borrowing	Various	Yes - external borrowing in accordance with TMS maturity structure to end of period

Investment Counterparties & Strategy Compliance

Compliance with the approved investment counterparties list is demonstrated in Table 6. There are no instances where strategy limits were breached during the second quarter.

Table 6 – Investment Compliance

	2022/23 - maximum to date	30/11/2022 (end of month 8)	2022/23 guideline limit	Complied YTD (Yes/No)	Complied - months 6,7 and 8 (Yes/No)
UK central government (including DMADF & Treasury Bills)	£30m	£9.9m	£ unlimited (10 years)	Yes	Yes
UK local government - per authority	£5.0m		£5.0m per authority (5 years)	Yes	Yes
UK local government - total	£5.0m	£0.0m	£ unlimited in total (5 years)	Yes	Yes
Lloyds bank account plc (operational bank account)	£3.8m (overnight only)	£0.20m	£10.0 maximum (overnight) - when next day liabilities due (£1m max otherwise)	Yes	Yes
UK financial institutions (between A and AAA, fixed-term investments)	£1.5m	£1.5m	£2.0m per counterparty (1 year)	Yes	Yes
UK financial institutions (between A and AAA, liquid investments)	£1.0m	£1.0m	£5.0m per counterparty	Yes	Yes
Money market funds (AAA rated) - per fund	£5.0m		£5.0m per fund	Yes	Yes
Money market funds (AAA rated) - total	55%	39% (£8m)	50% of total investments	No * (see commentary)	Yes

The above compliance limits and thresholds reflect the updated criteria included in the 2022/23 TMS. As a result of this, there were no breaches in the months of September, October and November 2022 as the strategy reflected a more manageable approach to investments, during this period. Furthermore, only money market funds demonstrate a year-to-date breach based on both the previous and current year TMS criteria. During the first quarter there were two instances where money market funds in total exceeded the agreed 50% threshold, with 52% held in these funds on the 26th of April, and 54.72% on the 27th of May. In monetary terms this equated to £6m and £4m and both instances were corrected on the next working day and related to additional cashflow movements not previously anticipated, tipping this percentage over the guideline threshold.

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 report sets out the financial performance of the PFCC's cash and investments over the preceding three months, as well as the proposed plan in respect of investments, borrowing and cashflow management for the upcoming three months and remainder of the financial year. The document sets out the key factors impacting on treasury management decision making, relating to both internal and external issues, and how any problems will be managed and overcome.

8. Legal Implications

Regular reporting of treasury management performance 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 report 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 are no onward resourcing issues which are impacted as a result of this report.

10. Equality and Diversity Implications

There are no significant issues in this report relating to equality, diversity or human rights. All proposed counterparties used for treasury management activity in the current financial period are 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 process of treasury management ensures the adequate funding of all operational activity across the force, ensuring that issues in respect of lack of cashflow 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 Constable's Chief Officer Group on 14th December 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 papers are the CIPFA Treasury Management Code and the CIPFA Prudential Code (both refreshed in 2021), together with the 2022/23 Treasury Management Strategy (encompassing the Investment and Capital Strategy documents), and the previous quarterly treasury management/cashflow report submitted to the PFCC's Strategic Board in September 2022.