POLICE, FIRE AND CRIME COMMISSIONER FOR ESSEX

Police Fire and Crime Commissioner for Essex
Essex Police Strategic Board

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1. Recommendations

The PFCC is recommended to note the treasury management activity during the previous quarter of 2022/23 (for this period, solely the months of December to January 2023) as well as the onward plan until the end of June 2023.

In respect of external borrowing the PFCC is recommended to note the applicable values below which require approval for the four-month period commencing March 2023, as well as any amendments to the previously reported February 2023 forecast.

- The amount of expected external borrowing in the period of February 2023 *both for durations of less than and greater than twelve months* is unchanged at **£0.0m**.
- The amount of expected external borrowing in the period March to June 2023 *for a duration of less than twelve months* is **£30.0m** (four separate instances adding up to this cumulative value, as per Table 3 and supporting commentary).
- The amount of expected external borrowing in the period March to June 2023 *for a duration of greater than twelve months* is **£0.0m**.

Based on the above external borrowing being short-term only, no decision report has been prepared for this purpose. The amount of expected external borrowing for the remaining period of the 2023/24 financial year will be updated in the next quarterly report, with any applicable decision report submitted to the Strategic Board on 22nd June 2023.

2. Executive Summary

Treasury management activity is reported four times annually, with an additional 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 period. This report therefore covers the actual cashflow position up to the end of January, with the forward position up until the end of June being reviewed for any external borrowing recommendation, including any amendments to the previously reported February forecast.

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 provides an overview of treasury management activity for the force thus complying 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 during the timeframe covered by the report, 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

The 2022/23 TMS was approved at the PFCC's June 2022 Strategic Board, with the related decision report submitted and signed. The Corporate Finance team are therefore now undertaking treasury management decisions in accordance with this approved strategy. Work has now commenced on the 2023/24 TMS which is due to be approved alongside the TM Month 10 report at the 1st March 2023 Strategic Board.

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 November quarterly Monetary Policy Report (MPR) forecasted a prolonged but shallow recession in the UK with the CPI inflation remaining elevated at over 10%. However, the updated economic forecast in the latest Bank of England (BoE) Monetary Policy Report were more optimistic than in November. The BoE envisages the recession to be shorter in duration and less severe, with its outlook for unemployment not as downbeat, with inflation also expecting to fall to 4% by the end of 2023.

The BoE believes inflation has probably peaked in the UK and says "Global consumer price inflation remains high, although it is likely to have peaked across many advanced economies, including in the United Kingdom. Wholesale gas prices have fallen recently, and global supply chain disruption appears to have eased amid a slowing in global demand. Many central banks have continued to tighten monetary policy, although market pricing indicates reductions in policy rates further ahead.

The BoE increased the UK interest rates by a further 0.5% to 4% in February, the highest level in over 14 years as it continues to battle inflation. Arlingclose, the PFCC treasury advisor, believe that a further increase is expected and will peak in March at 4.25%, with the rate forecast to remain at this level for the remainder of 2023.

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

	Current	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25	3.00	3.00	3.00	3.00
Downside risk	0.00	-0.25	-0.25	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

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

On 31st January 2023 the actual balance held at bank was £12.26m, 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

	30th November 2022 £m	31st January 2023 £m	Movement £m
Call accounts	1.01	1.01	0.00
Money market funds	8.00	5.30	(2.70)
Fixed term deposits (including notice accounts)	11.42	5.50	(5.92)
Lloyds current account	0.20	0.45	0.25
Total	**20.63**	**12.26**	**(8.37)**

The investments balance has decreased by £8.37m over the two-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). The average level of investments over the two-month period from 30/11/22 – 31/01/23 was £17.74m representing an average return of 1.72%. This represented a continuation of the appreciative uplift from the previous quarter and a continued rise in investment returns. During this period there was a continued priority of security over yield, primarily with a reliance on the Debt Management Office and money market funds.

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 2022/23, 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 01/12/22– 31/01/23 the planned cashflow movements compared to the actual transactions have been summarised in Table 2 below, which presents the operating expenditure and income variances.

Table 2 – Cashflow – Income and Expenditure

	As per plan			As per cashflow	
	December £m	January £m	Total December to January £m	Actual December to January £m	Variance £m
Opening Position	**0.2**	**0.4**	**0.2**	**0.2**	**(0.0)**
Expenditure					
Supplier payments	(10.4)	(10.2)	(20.6)	(21.5)	(0.9)
HMRC payments	(6.9)	(7.1)	(14.0)	(14.2)	(0.2)
Essex LGPS payments	(1.5)	(1.7)	(3.2)	(3.1)	0.1
Pensioners payments	(11.0)	0.0	(11.0)	(11.1)	(0.1)
Payroll - uniform	(9.0)	(9.0)	(18.0)	(19.0)	(1.0)
Payroll - staff	(4.5)	(4.5)	(9.0)	(10.0)	(1.0)
	(43.3)	**(32.5)**	**(75.8)**	**(78.9)**	**(3.1)**
Income					
Council tax precepts	12.4	12.4	24.7	24.8	0.0
Core government funding	10.5	10.5	21.0	21.1	0.0
Other government grants	6.7	6.7	13.3	14.6	1.2
VAT reimbursements	0.8	0.8	1.5	2.1	0.6
Property sales	0.0	0.0	0.0	0.0	0.0
Other receipts	4.2	4.0	8.2	7.8	(0.4)
	34.5	**34.3**	**68.8**	**70.4**	**1.6**
Investment activity					
Fixed term investments - new deals	(16.0)	(19.0)	(35.0)	(37.5)	(2.5)
Fixed term investments - repayments	21.0	21.0	41.9	43.5	1.6
Money market funds - additions	(15.5)	(16.5)	(32.0)	(30.0)	2.0
Money market funds - withdrawals	19.5	12.0	31.5	32.7	1.2
	9.0	**(2.5)**	**6.4**	**8.8**	**2.3**
External borrowing activity					
	0.0	**0.0**	**0.0**	**0.0**	**0.0**
Closing Position	**0.4**	**(0.3)**	**(0.3)**	**0.4**	**0.8**

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 increase of £3.1m, after the adjustments referred to in the paragraph above. The main variances comprised of an increase for supplier payments of £0.9m, and in excess of £2m additional payments relating to pensioners and payroll.

The supplier payments were higher than forecast due to an increased payment run made in December, relating to pre-Christmas commitments being discharged. The employee-related variance related to pay award adjustments as well as uniform and staff overtime elements due to the December and January bank holidays. 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 £1.6m increase compared to the forecast plan submitted which comprised of a £0.4m reduction relating to miscellaneous receipts, offset by an increase of £1.2m for other government grants and £0.6m relating to VAT refunds. The increase in governments grants included £0.5m of income received for Serious Violence Grip income with the remainder relating to various smaller grants. The variance of £0.4m for miscellaneous receipts was due to a smaller average level of daily customer receipts during the two-month period.

Table 2 above also encompasses the treasury management activity during the months of December to January reflecting an increase of £2.3m 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 to June 2023

The cashflow has been projected forward up until the end of June 2023, with a summary included in Table 3 below. Where two-month periods have been previously reported to the PFCC these continue to be split out separately in the below table.

Table 3 – Cashflow summary (including plan for February – June 2023)

	Cashflow summary & forecast April 2022 to June 2023					
	April to June £m	July to August £m	September to November £m	December to January £m	February to March £m	April to June £m
Opening Position	**0.05**	**0.75**	**0.41**	**0.18**	**(0.15)**	**(11.19)**
Expenditure						
Supplier payments	(35.1)	(24.1)	(31.3)	(21.5)	(19.6)	(36.6)
Capital - property acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
HMRC payments	(21.4)	(14.2)	(21.4)	(14.2)	(14.5)	(21.3)
Essex LGPS payments	(4.4)	(3.1)	(4.4)	(3.1)	(3.2)	(4.5)
Pensioners payments	(16.6)	(11.1)	(16.7)	(11.1)	(16.6)	(16.5)
Payroll - uniform	(26.6)	(17.1)	(28.2)	(19.0)	(19.0)	(28.5)
Payroll - staff	(13.8)	(9.3)	(13.7)	(10.0)	(9.4)	(13.5)
	(117.9)	**(78.9)**	**(115.7)**	**(78.9)**	**(82.2)**	**(120.8)**
Income						
Council tax precepts	33.0	24.8	38.1	24.8	23.8	35.4
Core government funding	48.4	32.2	31.5	21.0	21.1	27.9
Pension top-up grant	0.0	29.0	0.0	0.0	0.0	0.0
Other government grants	8.5	3.1	25.1	14.7	13.2	21.7
VAT reimbursements	5.1	0.7	4.0	2.1	1.6	2.3
Property sales	0.1	0.6	0.3	0.0	1.3	2.0
Other receipts	13.0	6.7	10.9	7.8	8.5	12.9
	108.1	**97.1**	**109.9**	**70.4**	**69.5**	**102.1**
Net cashflow surplus/(deficit)	**(9.7)**	**18.9**	**(5.4)**	**(8.3)**	**(12.8)**	**(29.9)**
Treasury activity						
Investment balances brought forward	18.0	7.5	26.0	20.4	12.3	10.6
Net addition to/(reduction of) investments	(9.7)	18.9	(5.4)	(8.3)	(12.8)	(29.9)
Net external borrowings (existing)	0.0	0.0	0.0	0.0	0.0	0.0
Total net cash and investments	**8.3**	**26.4**	**20.6**	**12.1**	**(0.6)**	**(19.3)**

The actual cashflow position for the first quarter of 2022/23 reflected the significant decrease in cash balances during the period, when short-term external borrowing was undertaken to meet this temporary shortfall. Cash balances improved significantly by the end of August 2022 to £26.4m with balances decreasing to £12.1m by the end of January 2023, with a subsequent further forecast reduction by the end of the 2022/23 financial year. The cashflow position is then forecast to drop further into a deficit position during the first quarter of 2023/24.

The cash position forecast for the end of March 2023 is expected to be in deficit by £0.6m. During April 2023 it is then anticipated that three instances of external borrowing will be required (one amount of £10m, two amounts of £5m) which will sustain the cash position up until the end of June when £10m further cash is forecast to be required. Thereafter, the Police Officer Pension Grant income in early July should improve the cashflow position and enable some of this external borrowing to be repaid.

Based on Table 3 the total external borrowing required as at the end of June 2023 is shown as £19.6m however the PFCC will source an additional £10m during this period to ensure it has sufficient liquid funds available to meet short-term cashflow requirements, with these extra funds invested short-term where appropriate. By holding this minimum value of £10m the PFCC will also meet its requirement to retain the minimum balance of £10m investments in accordance with the Markets in Financial Instruments Directive (MiFID) II legislation. Therefore, whilst £20m of external borrowing would normally be required for the upcoming period, the revised forecast is for £30m to be sourced for short-term durations, no longer than three months.

All other treasury management activity over the coming period will be concentrated on how to best utilise forecast surplus balances, 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.

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 4 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 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, particularly with the significant capital investment programme over the next five years and beyond.

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	December to January - Complied (Yes/No)
Interest rate risk indicator - 1% rise in interest rates (upper limit impact)	(£200,000)	Yes - rate rises to date in 2023/24 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. As can be seen there are no instances where the strategy limits have been breached during the preceding period.

Table 6 – Investment Compliance

	2022/23 - maximum to date	31/01/2022 (end of month 10)	2022/23 guideline limit	Complied YTD (Yes/No)	Complied - months 9 and 10 (Yes/No)
UK central government (including DMADF & Treasury Bills)	£30m	£4m	£ 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)	£0.45m	£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	£1.01m	£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%	43% (£5.3m)	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 December 2022 and January 2023 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

Due to be presented to the Chief Constable's Chief Officer Group on 22nd February 2023.

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 December 2022.