

## PFCC Decision Report

**Report reference number:** 118-23

**Classification:** Official

**Title of report:** Treasury management consultancy contract 2023/24

**Area of county / stakeholders affected:** Countywide

**Report by:** Matt Tokley, Head of Corporate Accounting

**Chief Officer:** DCC Andrew Prophet

**Date of report:** 29<sup>th</sup> June 2023

**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.

In accordance with the complexity and materiality of the work involved, and the dynamic financial environment in which the organisation operates, the PFCC uses a specialist treasury management advisor to assist with the development of appropriate investment and borrowing strategies, supplementing the PFCC's in-house treasury management function with the provision of specialist advice. This is enriched by high frequency contact with relevant financial institutions and their regulators as well as frequent consideration of wider economic trends.

### 2. Recommendations

The PFCC has used Arlingclose to provide treasury consultancy services for a number of years. Based on the very limited number of specialist advisors in this sector, and to benefit from the continuity of working with a firm which has a thorough understanding of the PFCC's treasury management issues and related risks, particularly with an upcoming period of significant change in the cash structure of the organisation, it is recommended to extend the Arlingclose contract for a further year (1<sup>st</sup> April 2023 – 31<sup>st</sup> March 2024).

The quote received from Arlingclose is the 2022/23 contract price (£13,665) + RPI. Therefore, based on the February 2023 RPI rate of 13.8% the 2023/24 contract price will be £13,665.00 + £1,885.77 = £15,550.77.

### **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 is 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, amongst other things, 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.

The PFCC has an average investment portfolio of between £10m and £55m depending on the time of year. There are no current external borrowings, with a capital financing requirement of approximately £17m (as at March 2023).

### **4. Proposal and Associated Benefits**

The proposal seeks to formalise the current arrangements in place for Arlingclose to undertake treasury management consultancy services on behalf of the PFCC, extending these arrangements up to the end of March 2024.

The range of work undertaken by treasury consultants will encompass (but is not limited to) the following:

1. To provide advice to the PFCC to enable it to manage its investment portfolio in accordance with the relevant statutory frameworks and local investment strategy, with the purpose of maximising returns under the PFCC's agreed risk profile. This advice will include up to date market rates and details of the full range of investment products available in the market.
2. To provide advice to the PFCC on developing an external borrowing strategy to raise external debt in the future, and to advise the PFCC on borrowing and refinancing options. Advice on a borrowing strategy and borrowing / refinancing options should include, but not be limited to, short term debt, long term debt, leasing options, analysis of related capital expenditure programmes, and financing resources already available, monthly reports and analyses on interest rate forecasts for borrowing.
3. To provide monitoring reports on the investment strategy, including amounts invested and interest paid, as well as benchmarking performance against similar entities.
4. To provide regular reports and briefings on the domestic and global economic outlook and its impact on the PFCC's treasury management operations and strategy, including a short, medium and long-term interest rate forecast, and changes to the PFCC's risk outlook.
5. To brief the PFCC on the implications of any changes to statutory, regulatory, case law or best practice guidance issued in relation to treasury management in the public

sector, at the earliest opportunity, and in time to take appropriate action. In particular, provide advice on associated treasury management accounting issues likely to change in accounting bodies, primarily CIPFA. The frequency will depend on the changes made to the accounting rules.

6. To meet at least half-yearly with the client for a treasury review meeting at the client's premises or online.
7. To give immediate notice to the client if exceptional events arise, or are likely to arise, or have happened, which might a) prevent the contractor from meeting their responsibilities under the contract, or b) potentially have a material financial impact on the client, for example an external event which prevents any rate of interest from being paid on money market deposits or a banking failure – for example, indications of possible failure by banks.
8. To provide statutory treasury management templates required of the PFCC, meeting all statutory and best practice guidance, and in advance of the year concerned, including:
  - Annual Treasury Management Strategy
  - Treasury Management Practices and Prudential Indicators
  - Capital Strategy
  - Investment Strategy
  - Annual and Half Yearly Treasury Management Review
9. To provide credit worthiness reports on investment counterparties, including provision of prudent parameters, utilising information from one or more leading UK credit rating agencies.

In 2021, the 7 Force Procurement team looked at the feasibility of a multi-force tender for treasury management consultancy services. At this point, due to various local arrangements in place and their end dates, it was agreed that the project would be put on hold until summer 2022 to help align some of the forces.

In 2022, three of the seven forces opted to retain local bespoke arrangements, bringing into question whether there was a material justification for continuing with the collaborative tender approach. The options were set out as follows:

- 1) Continue with current practice and arrange their own local agreements, ensuring compliance with local force standing orders (i.e. obtaining three quotations).
- 2) Collaborate and run a mini competition on a framework (potentially via direct award)
- 3) Run an open tender exercise for all providers. Generally, for a contract of this size, with established frameworks, the open tender was not deemed to be the preferred route, as it is also the lengthiest.

The consensus from the forces was to go with option 1. For the PFCC, there were two main factors of consideration – quality of service and materiality. Arlingclose is a valued treasury advisor for the majority of police forces in England, with a demonstrable expertise in their sector. Furthermore, the lack of quality alternatives in the market (one or two other known participants only) and relative immateriality of the annual costs involved indicated that a lengthy procurement exercise would not be best value for the PFCC. As a result, options 2 and 3 were discounted at this point.

The preferred option is therefore to continue to adopt a local procurement approach for treasury consultancy services and, based on the three months of time which have already elapsed for 2023/24, formally extend the current Arlingclose contract for the duration of the current financial year, with a view that other quotations are sought prior to the 2024/25 financial year commencing to ascertain continued best value going forward.

It should also be noted that the Essex County Fire and Rescue Service continues to contract directly with Arlingclose. Bearing in mind the closer links Essex Police and the Essex County Fire and Rescue Service are looking to make with their respective treasury strategies, it would also make sense to have the same treasury advisor to ensure consistency of approach / advice.

## **5. Options Analysis**

These are fully set out in section 4.

## **6. Consultation and Engagement**

This paper has been prepared in consultation with the Chief Financial Officer for the PFCC.

## **7. Strategic Links**

This 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**

Treasury management relates to the adequate funding of all operational activity across the force, ensuring that issues in respect of lack of money do not inhibit 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 would normally be available.

## **9. Financial implications**

The financial implications of proceeding with this extension will be a cost of £15,550.77, encompassing a 13.8% rise from the 2022/23 equivalent price, based on the February 2023 RPI position. This cost will be met from existing funding provision from the Treasury Performance Fees budget (644001/EPC11M2A).

## **10. Legal implications**

Approval of this decision report will assist with ensuring the PFCC continues to satisfy 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**

There are no material staffing issues which impact on this decision.

## **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 used during treasury management activity are selected based upon their financial viability and risk profile, solely based on market-based criteria and advice from the PFCC's treasury management consultants.

### **13. Risks and Mitigations**

The risks, particularly financial risks relating to treasury management processes, including credit risks, market risks and operational risks, are set out within the report. The underlying goal 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 are reviewed on a regular basis with advice sought from the PFCC's treasury management advisors on any new risks which are deemed to be of strategic importance.

### **14. Governance Boards**

Non-applicable.

### **15. Links to Future Plans**

This links to the PFCC's Treasury Management Strategy.

### **16. Background Papers and Appendices**

Non-applicable.

**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: 20 July 2023

Chief Finance Officer

Sign: 

Print: Janet Perry

Date: 23 August 2023

**Publication**

Is the report for publication?

YES	<input checked="" type="checkbox"/>
NO	<input type="checkbox"/>

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	<input type="checkbox"/>	2. Of Appendix?	YES	<input type="checkbox"/>
	NO	<input checked="" type="checkbox"/>		NO	<input checked="" type="checkbox"/>

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: Jane Gardner

**Deputy PFCC**

**Date signed: 24 August 2023**

I do not agree the recommendations to this report because:

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

Sign:

Print:

**PFCC/Deputy PFCC**