

PFCC Decision Report

Report reference number: 031-23

Classification: Official

Title of report:

Treasury Management Strategy 2023/24 (incorporating the Investment Strategy and Capital Strategy)

Area of county / stakeholders affected: Countywide

Report by: Matt Tokley, Head of Corporate Accounting

Chief Officer: DCC Andrew Prophet

Date of report: 31 March 2023

Resubmission date 30 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.

This report comprises three strategies; the Treasury Management Strategy (TMS), which covers the approach to investments and borrowing, and the Investment Strategy which is 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 TMS sets out some proposed changes in respect of investment counterparties and their related limits and thresholds, to ensure the PFCC can continue to manage their cash effectively in respect of liquidity and yield, whilst not increasing its risk profile.

Based on the anticipated force-wide cash position as at 31/3/24, the TMS sets out an estimated external borrowing requirement of circa £22.6m by the end of 2023/24, which the Commissioner is recommended to note. 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. It should be noted that requests for the external borrowing in relation to these estimated figures will be submitted for formal approval within separate in-year reports to the PFCC.

2. Recommendations

The PFCC is recommended to approve the attached strategies which comprise the following three documents:

- The 2023/24 Treasury Management Strategy (TMS)
- The 2023/24 (Commercial) Investment Strategy
- The 2023/24 Capital Strategy

In particular, the PFCC is recommended to note the following:

- An operational boundary of **£35m** (previously set at £40m, a proposed decrease of £5m) for the 2023/24 financial year (representing the early warning level for the maximum amount of external borrowing held at any time during the year, to ensure that the authorised limit is not breached, using a discretionary assessment based on the values set out in the Liability Benchmark in Table 2a of the TMS).
- An authorised limit in respect of external borrowing of **£40m** (previously set at £50m, a proposed decrease of £10m) for the 2023/24 financial year (representing the statutory threshold for the maximum amount of external borrowing which can be held at any time during the year, using a discretionary assessment based on the values set out in the Liability Benchmark in Table 2a of the TMS)
- The revised borrowing and investment counterparty limits and thresholds proposed (as per Table 4 and Table 5 respectively of the TMS).

The PFCC is also requested to note the following:

- A forecast net cash deficit of **£12.6m** for the end of 2023/24, comprising **£10m** investments and **£22.6m** external borrowing.
- Forecast total external debt for the end of the medium-term financial period up to and including 2027/28 of **£71.1m**

As mentioned within the executive summary, the external debt values quoted above are not provided for approval at this stage. During 2023/24 quarterly cashflow forecast reports will be submitted to the PFCC, and it is not until this point that external borrowing decisions will be made, and actual values approved.

The PFCC is also asked to note the ongoing work to align the PFCC's TMS, Investment Strategy and Capital Strategy documents, including investment and borrowing limits, more closely with the Essex County Fire and Rescue Service's.

3. Background to the Proposal

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 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 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 their 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 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 2022/23 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 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. Proposal and Associated Benefits

The strategy documents themselves have been included within the three appendices attached to this report. Such is the amount of detail in the reports that each strategy needs to be viewed in its own context to understand the key points and issues arising.

There are no fundamental changes to the proposed strategies for 2023/24 from the current versions used in the 2022/23 financial year. In particular, for the Investment Strategy, which is focused solely on commercial investments, this remains outside of the PFCC's risk appetite, and has limited content which has been included for compliance purposes. The

PFCC is particularly mindful of the recent CIPFA Prudential Code and Treasury Management Code guidance, which strongly advises that such investments are high risk and that taking out external borrowing for such activities should be forbidden.

The TMS proposes some changes to the limits for money market fund investments. In addition, a strategic pooled fund investment, whereby £5m is placed with the aim of longer-term returns, continues to be included for proposed consideration. It should be noted that this continues to be excluded from the proposed investment options for approval for the time being.

The Capital Strategy has been fully refreshed with the capital investment plans approved as part of the 2023/24 budget setting process, covering the medium-term period up to 2027/28. The statutory external borrowing limits have been updated to tie in with the financing plans for this expenditure. A sub-section of this strategy, containing the Minimum Revenue Provision (MRP) statement, sets out how all the PFCC's borrowing will be repaid to the revenue budget.

5. Options Analysis

The production of these three strategy documents is in accordance with CIPFA best practice guidance and provides a framework by which the PFCC can manage their cash resources (and borrowing requirements where applicable) within the context of their investment plans and shorter-term working capital requirements. Failure to produce such strategies would mean potential shortfalls in cash due to a lack of understanding about its strategic requirements and would also result in the PFCC lending money to higher risk entities which do not comply with the expected minimum credit rating levels that an investment strategy policy incorporates. Ultimately such an approach would threaten the force undertaking its primary duties of policing due to lack of funds.

The PFCC continues to place an emphasis on security and liquidity of funds over yield. Whilst interest rate rises mean that investment opportunities are becoming more attractive, the investment strategy for treasury management purposes continues to place an emphasis on lending to other local authorities, highly rated banks or the UK government. Whilst other investment approaches will continue to be reviewed, some areas such as property-based investments continue to be excluded, particularly as financial derivatives are also not used, which would otherwise mitigate some of the risks arising.

6. Consultation and Engagement

This paper has been prepared in consultation with Chief Officers, the Strategic Head of Performance and Resources for the PFCC, and Arlingclose (the PFCC's treasury management advisors) as well as colleagues from Essex County Fire and Rescue Service in respect of looking to further align the two sets of organisational strategies.

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

The Treasury Management Strategy 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 would normally be available.

9. 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 2023/24, relating to both internal and external issues, and how any problems will be managed and overcome.

10. 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.

11. Staffing implications

The 2023/24 strategy documents have been completed by the Head of Corporate Accounting and the Technical Capital Accountant, with oversight from the Chief Accountant. There have been no significant implications as a result of the work undertaken, nor are there any onward impacts or implications in respect of wider staffing issues based on the content of the papers.

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 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.

13. 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 2023/24 with advice sought from the PFCC's treasury management advisors for any new risks which are deemed to be of strategic importance.

14. Governance Boards

The attached documents were presented to the Chief Officer Group of the Chief Constable on 22nd February 2023, and subsequently to the PFCC's Strategic Board on 1st March 2023.

15. Links to Future Plans

This strategy links into and aligns with 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 periodic treasury management / cashflow reports submitted to the PFCC during 2022/23, including the Month 10 update paper also presented at the 1st March 2023 Strategic Board.

The three main strategy documents are included as appendices, as per the below embedded document.



Treasury
Management Strategy)

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: 1 September 2023

Chief Financial Officer

Sign 

Print Janet Perry 42080681

Date: 02 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.

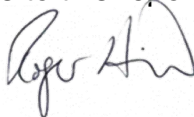
Sign:

Print:

Chief Executive / Chief Finance Officer

Decision and Final Sign Off

I agree the recommendations to this report:

Sign: 

Print: Roger Hirst

PFCC

Date signed: 11/09/2023

I do not agree the recommendations to this report because:

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.....
.....

Sign:

Print:

PFCC/Deputy PFCC

Date signed: