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 period covered by the previous plan (the months of April to August 2023) as well as the onward plan up until the end of March 2024.

In respect of external borrowing the PFCC is requested to note the applicable values below which require approval for the three-month period commencing September 2023.

- The amount of expected external borrowing in the period September to December 2023 for a duration of less than twelve months is **£0.0m** (as per section 7 of this report).

- The amount of expected external borrowing in the period September to December 2023 for a duration of greater than twelve months is **£0.0m** (as per section 7 of this report).

Based on the above external borrowing forecasts for the upcoming quarter, there is no requirement for a decision report to be prepared alongside this paper. 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 next PFCC Strategic Board in December 2023.

2. Executive Summary

Treasury management (TM) 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 three-month period. This report therefore covers the actual cashflow position up to the end of August, with the forward position up until the end of December being reviewed for any external borrowing recommendation.

The requirement for the approval of external borrowing is only when this is long-term (greater than one year), or short-term (less than one year) but exceeding either £5m in value or one month in duration. For all other instances of external borrowing 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 2023/24 TMS was approved at the PFCC’s March 2023 Strategic Board, with the related decision report being signed off in September 2023. The Corporate Finance team have therefore been undertaking treasury management decisions in accordance with the 2022/23 TMS during the period where the 2023/24 strategy remained approved.

External context

The global economy is expected to remain restrained in the near term with the headline inflation in the Euro area and United States continuing to fall, primarily reflecting lower energy prices, but inflation remains above central banks targets in part reflecting the strength of services inflation. Alongside weak Chinese domestic inflation, global inflationary is expected to continue to ease. Many central banks have continued to tighten policy, and implied paths for policy rates are higher than in May.

Global gross domestic product (GDP) is projected to grow by 0.5% in Q2 of 2023 increasing to 1.8% by Q4. This still remains lower than the pre-pandemic average. Inflation in the Euro area and the US has been declining due to lower energy prices while the UK’s inflation remains above target, primarily driven by service inflation. In response to these concerns, central banks including the Bank of England (BoE) have tightened monetary policy. Market-implied expectations for policy rates in the US, Euro area, and the UK have risen since May, signalling anticipated higher interest rates.

In late 2022, the UK’s GDP growth turned positive, with a three-month average growth rate about 0.1% in the period since. However, these growth rates were affected by strikes, mainly in the public sectors, as well as an additional bank holiday in May. Adjusting for these factors, the underlying growth was closer to 0.25% during this period.

The BoE monetary policy committee (MPC) has indicated that further base rate rises will be required if inflationary pressures persist, and the two CPI data releases prior to the next MPC decision in September will be key, along with the labour market review.

At the August 2023 MPC meeting the base interest rate increased by 0.25% (from 5% to 5.25%) to address the risk from greater inflation. Some key indicators, in particularly wage growth, was significantly on the upside. This implied that the medium-term equilibrium rate of unemployment had risen and that the broader inflationary pressures had crystalised. The recent indicators of slowing activities had to be weighed against the unexpectedly resilient recent performance of the economy. It was deemed too soon to conclude whether the economy was at or near a significant turning point.

The twelve-month CPI inflation remains well above the 2% target, with Q2 2023 inflation averaging 8.4%. Inflation is expected to continue to fall to an average of 6.9% in Q4 2023, declining due to lower energy prices, and core goods price inflation.

<u>Arlingclose Interest Rate Outlook for the remainder of 2023/24 and beyond</u>

	Current	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.25	5.50	5.50	5.50	5.50	5.25	4.75	4.50	4.25	3.75	3.50	3.25	3.00
Downside risk	0.00	-0.50	-0.50	-0.50	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

4. <u>Options and analysis (to include proposals, benefits, alternatives)</u>

On 31st August the actual balance held at bank was £36.40m, relating to income and expenditure from its revenue and capital activities. The investment portfolio held which comprises this balance is presented in Table 1.

<u>Table 1 – Investments</u>

	31th May 2023 £m	31st August 2023 £m	Movement £m
Call accounts	2.51	2.51	0.00
Money market funds	5.50	15.00	9.50
Fixed term deposits (including notice accounts)	3.00	18.43	15.43
Lloyds current account	0.55	0.46	(0.09)
Total	**11.56**	**36.40**	**24.85**

The investments balance has increased by £24.85m over the three-month period principally due to the receipt of the Police Officer Pension Top Up Grant from the Home Office. Typically, the annual cashflow cycle peaks in the second quarter when this 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 three-month period from 01/06/23 – 31/08/23 was £31.69m representing an average return of 4.41%. This represented a continuation of the appreciative uplift from recent months, with a more positive level of return than that seen for the majority of the last 1-2 years. 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, including summarised information relating to the previous month cash management performance, as well as high level 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 01/06/23–31/08/23 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	
	June	July	August	Total June to August (Plan)	Total June to August (Actual)	Variance
	£m	£m	£m	£m	£m	£m
Opening Position	**0.2**	**0.2**	**1.0**	**0.2**	**0.5**	**0.3**
Expenditure						
Supplier payments	(12.2)	(11.6)	(9.5)	(33.2)	(35.6)	(2.4)
HMRC payments	(7.1)	(6.6)	(7.2)	(20.9)	(22.3)	(1.4)
Essex LGPS payments	(1.5)	(1.5)	(1.6)	(4.6)	(4.7)	(0.2)
Pensioners payments	(11.6)	0.0	(6.0)	(17.6)	(17.9)	(0.3)
Payroll - uniform	(9.5)	(9.5)	(9.4)	(28.4)	(28.3)	0.1
Payroll - staff	(4.5)	(4.6)	(4.7)	(13.8)	(14.6)	(0.8)
	(46.3)	**(33.8)**	**(38.3)**	**(118.4)**	**(123.4)**	**(4.9)**
Income						
Council tax precepts	13.3	13.3	13.3	39.9	40.0	0.1
Core government funding	16.1	16.1	16.1	48.3	48.5	0.2
Other government grants	0.0	2.9	0.1	3.0	5.2	2.2
Pension Top Up Grant	0.0	33.4	0.0	33.4	33.4	0.0
VAT reimbursements	2.5	0.8	0.8	4.0	4.6	0.6
Property sales	0.0	0.0	0.9	0.9	0.5	(0.5)
Other receipts	6.7	3.9	3.6	14.2	15.9	1.7
	38.6	**70.3**	**34.7**	**143.6**	**148.1**	**4.4**
Investment activity						
Fixed term investments - new deals	(21.0)	(51.0)	(26.5)	(98.5)	(109.5)	(11.0)
Fixed term investments - repayments	24.0	33.0	33.5	90.5	99.0	8.5
Treasury Bills	0.0	0.0	0.0	0.0	(5.0)	(5.0)
Money market funds - additions	(12.0)	(25.5)	(11.0)	(48.5)	(54.8)	(6.3)
Money market funds - withdrawals	14.4	9.0	8.5	31.9	45.3	13.4
	5.4	**(34.5)**	**4.5**	**(24.6)**	**(24.9)**	**(0.3)**
External borrowing activity						
Short-term external borrowing - receivable	0.0	4.0	0.0	4.0	4.0	0.0
Short-term external borrowing - repayment	0.0	(4.0)	0.0	(4.0)	(4.0)	0.0
	0.0	**(0.0)**	**0.0**	**(0.0)**	**(0.0)**	**0.0**
Closing Position	**(2.1)**	**2.1**	**2.0**	**0.8**	**0.4**	**(0.4)**

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. Also, where forecast amounts are duplicated in subsequent month plans due to not being paid or received when originally anticipated, these have been removed from the original month forecast in Table 2 to ensure a like for like position is presented. Therefore, the overall variance for the period reflected a net reduction in the cash/investments position of £0.4m compared to what the plan assumed, after the adjustments referred to above.

In respect of gross expenditure the main variances to the plan were comprised of an overall increase of £4.9m. Supplier payments made up the bulk of the main variance of £2.4m, including a one-off VAT payment to the Home Office in June relating to centrally delivered services, as well as further material one-off supplier payments in July, offset by some corresponding reductions in August. HMRC payments were £1.4m higher than expected, mainly comprising accounting for tax compliance commitments not included within the original forecast, relating to retiring police officers. The third main element of the increase was payroll, which increased by £0.7m compared to the plan. This included backdated adjustments processed during the period, as well as one-off payments in respect of bank holidays during April and May. Going forward, a refinement of the payroll forecasts has been undertaken to reflect the 7% pay award now confirmed for both officers and staff.

In respect of gross receipts, there was an overall £4.4m net increase compared to the forecast plans submitted, which included some downward but mainly upward variances. For government grants there was a £2.2m surplus compared to the original amount forecast, comprising various one-off grants including those relating to Op Grip, ARIS, violence reduction, domestic abuse, and disclosure and barring. The Op Grip and violence reduction grants comprised £1.2m of this alone. Other/miscellaneous receipts were £1.7m higher than expected, mainly due to ongoing volatility with receipts from Stansted MAG, unexpected income from Kent Police for which payment timings are often uncertain, as well as other Ministry of Justice funding. VAT reimbursements were £0.6m higher than forecast, with the total income of £4.6m including the impact of recovering the centrally delivered services VAT invoice from the Home Office. The negative property sales variance of £0.5m related to a delay in the sale of 28 La Plata Grove originally expected be sold by the end of August, but now delayed until later in the year.

Table 2 above also encompasses the treasury management activity during the months of June to August reflecting an additional £0.3m of net investment activity (e.g. funds going outwards) compared to the plan. The forecast total cash and investments are included in each monthly plan to the PFCC in addition to cashflow movements. In respect of actual treasury activity in the period the PFCC purchased £5m of treasury bills from central government, a flexible financial instrument which offers both reasonable yield and the security of being able to re-sell on the secondary market at short notice should funds be needed back. This deal is due to mature in October.

Cashflow – remainder of 2023/24

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

Table 3 – Cashflow plan for remainder of 2023/24

	Cashflow summary up to March 2024			
	April to May (actual) £m	**June to August (actual) £m**	**September to December (forecast) £m**	**January to March (forecast) £m**
Opening Position	**1.0**	**0.5**	**0.4**	**0.4**
Expenditure				
Supplier payments	(25.2)	(35.6)	(44.9)	(33.2)
HMRC payments	(14.4)	(22.3)	(30.0)	(22.8)
Essex LGPS payments	(3.1)	(4.7)	(6.7)	(5.1)
Pensioners payments	(6.0)	(17.9)	(29.8)	(17.9)
Payroll - uniform	(19.7)	(28.3)	(41.2)	(30.9)
Payroll - staff	(9.5)	(14.6)	(19.9)	(14.9)
	(78.0)	**(123.4)**	**(172.5)**	**(124.7)**
Income				
Council tax precepts	22.1	40.0	54.4	38.7
Core government funding	45.5	48.5	64.7	48.5
Pension top-up grant	0.0	33.4	0.0	0.0
Other government grants	4.4	5.2	4.9	5.6
VAT reimbursements	2.6	4.6	3.0	2.3
Property sales	0.4	0.5	2.9	2.4
Other receipts	9.7	15.9	16.8	14.5
	84.5	**148.1**	**146.7**	**112.0**
Net cashflow surplus/(deficit)	**7.5**	**25.3**	**(25.4)**	**(12.2)**
Treasury activity				
Cash and investments brought forward	5.1	11.5	36.4	10.5
Net addition to/(reduction of) investments	6.4	24.9	(25.8)	(12.8)
Net external borrowings (existing)	0.0	(0.0)	0.0	0.0
Total net cash and investments	**11.5**	**36.4**	**10.5**	**(2.2)**

The actual cashflow position for the most recent period (June-August) reflects the upward increase in cash balances, compared to the preceding period (April-May) when the PFCC had limited cash investment opportunities. It should be noted however that there was one instance of short-term external borrowing in each of the periods, both for £4m, and for less than one week in duration. These deals were undertaken to cover short-term cashflow commitments prior to the receipt of incoming monies to cover the position.

Whilst there were also periods where the total investments balance dropped below £10m, and thus below the recommended minimum amount to be held in accordance with the Markets in Financial Instruments Directive (MiFID) II legislation purposes, the PFCC took an average view of this indicator across the financial year and chose not to externally borrow where it would have been solely just to meet the MiFiD threshold.

The cash and investments position for the end of December 2023 is expected to be in surplus by approximately £10.5m based on current projections, but this is subject to revenue and capital forecasts remaining as currently forecast, with limited amounts of material slippage and/or variances. The updated cashflow forecast encompasses uplifted payroll values to encompass the agreed 7% pay award uplift for both officers and staff, as well as the related Home Office funding, which has been confirmed at £7.4m and will be paid in three instalments over the remainder of the financial year.

It is then anticipated that the cashflow will decrease over the final quarter of the financial year, falling into deficit by the end of March 2024 (£2.2m forecast shortfall). Whilst the total external borrowing required as at the end of 2023/24 is therefore forecast to be £2.2m by this point the PFCC will source an additional £10m 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 £10m the PFCC will also meet its requirement to retain the minimum balance of £10m investments in accordance with MiFID II. Therefore, whilst £2.2m of external borrowing would normally be required, the actual forecast is for £12.2m gross external borrowing and £10.0m net investments.

All other treasury management activity over the coming period will concentrate 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

<u>Compliance – Prudential Indicators</u>

Throughout the reporting period the PFCC has complied 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 2023/24 have complied with both the CIPFA Code of Practice, the Prudential Code, and the PFCC's 2022/23 TMS (on the basis the 2023/24 TMS was signed in September 2023).

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 2023/24 are shown in Table 4 below.

Table 4 – External Borrowing Limits

	2023/24 thresholds - as per 2022/23 TMS	2023/24 - Actual to date (at end of reporting period)	Complied (Yes/No)
Authorised limit - total external debt	£50m	£0m	Yes
Operational Boundary - total external debt	£40m	£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 forecasts for minimum revenue provision (MRP) and interest payable are increasing and these figures will continue to grow steeply over the medium-term period and beyond, becoming a key financial risk for the force. For 2023/24 however, the related forecasts remain manageable based on expected costs and net revenue stream. These forecasts will continue to be monitored and reported separately via the capital programme monitoring process, thus keeping these issues clear and transparent. This will be especially important should interest rates rise further, and greater risks emerge.

Compliance – Treasury Management Practices (TMP’s)

Compliance for the PFCC’s TMP’s across the previous period are shown on the following page.

Table 5 – TMP's summary

TMP's	TMS 2022/23 Criteria	Year to Date - 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 resulted in changes to income which breach 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

	April 2023 to August 2023 - maximum during period	31/08/2023 position	2022/23 TMS - guideline limit	Complied YTD (Yes/No)	Complied during reporting period (Yes/No)
UK central government (including DMADF & Treasury Bills)	£37m	£3m	£ unlimited (10 years)	Yes	Yes
UK local government - per authority	£5.0m		£5.0m per authority (5 years)	Yes	Yes
UK local government - total	£5m		£ unlimited in total (5 years)	Yes	Yes
Lloyds bank account plc (operational bank account)	£4.425m (overnight only)	£0.426m	£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		£2.0m per counterparty (1 year)	Yes	Yes
UK financial institutions (between A and AAA, liquid investments)	£2.54m	£2.5m	£5.0m per counterparty	Yes	Yes
Money market funds (AAA rated) - per fund	£5.0m	£5m	£5.0m per fund	Yes	Yes
Money market funds (AAA rated) - total	52%	41% (£15m)	50% of total investments	No * (see commentary)	Yes

The above compliance limits and thresholds are based on the criteria included in the 2022/23 TMS. Whilst there were no related breaches in the preceding quarter there has been one instance where money market funds in total exceeded the agreed 50% threshold during the financial year to date, with 52% held in these funds on the 24th April. In monetary terms this equated to a total amount held of £6.25m and £23.3m with the excess element corrected on the next working day. This breach related to additional cashflow movements not previously anticipated, tipping this percentage over the guideline threshold. It should be noted that following approval of the 23/24 TMS this threshold will no longer apply going forward, with the revised criteria as follows:

- Investment exposure of no more than 0.5% of the total MMF (if a government MMF then this can be 2%).
- Investment exposure is diversified, as far as practical, over multiple MMF's, with broadly equal exposure to each fund, with no more than 50% of total investments held in one MMF at any time, and a guideline per fund maximum balance in the region of 10% of total investments held at any time.
- Assuming condition 1) is initially met, investments in each MMF are limited to £5m of total investments held at any time.

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 four 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 Chief Accountant and the Technical Capital Accountant, with oversight from both the Head of Finance 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

Presented to/approved by the Chief Constable's Chief Officer Group on 20th September 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 and 2023/24 Treasury Management Strategy suite of reports (encompassing the Treasury Management, Investment and Capital Strategy documents), and the previous quarterly treasury management/cashflow report submitted to the PFCC's Strategic Board in June 2023.