PFCC
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 period covered by the previous plan (the months of February to May 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 June 2023, including any amendments to the previously reported June 2023 forecast.

- The amount of expected external borrowing in the period June to August 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 June to August 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 September 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 period. This report therefore covers the actual cashflow position up to the end of May, with the forward position up until the end of August being reviewed for any external borrowing recommendation, including any amendments to the previously reported June forecast.

The requirement for the approval of external borrowing is only when this is for a duration greater than twelve months or where this is either greater than one month in duration and/or for a value greater than £5m. 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 submitted but still to be signed at the time of writing. The Corporate Finance team are therefore still presently undertaking treasury management decisions in accordance with the 2022/23 strategy.

External context

The war in Ukraine continued to keep global inflation above the central bank's targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the first half of 2023 continued to be influenced by the high energy and commodity prices, high inflation and the associated impact on household budgets and spending. UK GDP is expected to remain flat largely reflecting the sharp rise in energy prices weighing on real incomes and household spending. Survey evidence points to a weak outlook for consumption reflecting a further expected increase in energy bills and higher mortgage rates.

CPI inflation is expected to fall, in part as large rises in the price level one year ago drop out of the annual comparison. In addition, the extension in the Spring Budget of the Energy Price Guarantee and the decline in wholesale energy prices will lower the contribution from the household energy bills in respect of CPI inflation. However, food price inflation is likely to fall back more slowly than previously expected with expectations for CPI inflation now to fall back more slowly. CPI inflation remains above the 2% target and, at 10.2% in the first quarter on 2023, was higher than initially projected in February. Inflation is forecast to fall sharply from April, reaching 5.1% by the back end of 2023.

It is anticipated that the labour market will remain relatively tighter in the short term, though there are signs that it is beginning to loosen up. The unemployment rate is predicted to remain below 4% over the latter half of the forecast period. Employment has grown positively in the recent months, consistent with an increase in output growth. The number of people unemployed rose by 0.5% in the early part of 2023.

The Bank of England (BoE) increased the UK base rate by a further 0.25% in May, taking the rate from 4.25% to 4.50%. Arlingclose, the PFCC's treasury advisors, believe that a further increase to 4.75% is expected in June, with rates to then drop during the first quarter of 2024.

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

	Current	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Official Bank Rate													
Upside risk	0.00	0.50	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.50	4.75	4.75	4.75	4.25	3.75	3.50	3.25	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	0.25	0.50	0.50	0.50	1.00	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 May 2023, the actual balance held at bank was £11.56m, 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

	31th January 2023 £m	31st May 2023 £m	Movement £m
Call accounts	2.51	2.51	0.00
Money market funds	5.30	5.50	0.20
Fixed term deposits (including notice accounts)	4.00	3.00	(1.00)
Lloyds current account	0.45	0.55	0.10
Total	**12.26**	**11.56**	**(0.70)**

The investments balance has decreased by £0.70m over the four-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 four-month period from 31/01/23 – 31/05/23 was £14.5m representing an average return of 3.47%. 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 01/02/23– 31/05/23 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	
	February £m	March £m	April	May	Total February to May £m	Actual February to May £m	Variance £m
Opening Position	**0.2**	**0.0**	**1.0**	**0.5**	**0.2**	**0.4**	**0.2**
Expenditure							
Supplier payments	(11.1)	(13.0)	(16.6)	(10.4)	(51.0)	(47.3)	3.7
HMRC payments	(7.2)	(7.1)	(6.9)	(7.1)	(28.3)	(28.9)	(0.6)
Essex LGPS payments	(1.5)	(1.5)	(1.5)	(1.5)	(6.0)	(6.2)	(0.2)
Pensioners payments	(5.5)	(11.0)	(5.5)	0.0	(22.0)	(23.0)	(1.0)
Payroll - uniform	(9.5)	(9.5)	(9.5)	(9.5)	(38.0)	(38.2)	(0.2)
Payroll - staff	(4.5)	(4.5)	(4.6)	(4.6)	(18.2)	(20.2)	(2.0)
	(39.3)	**(46.7)**	**(44.6)**	**(33.0)**	**(163.5)**	**(163.7)**	**(0.2)**
Income							
Council tax precepts	12.4	11.3	8.8	13.3	45.7	45.7	(0.0)
Core government funding	10.5	10.5	9.3	9.3	39.7	42.3	2.6
Other government grants	6.7	6.7	6.8	9.1	29.3	45.9	16.6
VAT reimbursements	1.1	1.7	0.8	0.8	4.3	5.4	1.0
Property sales	0.0	0.0	1.3	1.0	2.3	0.4	(1.9)
Other receipts	4.5	5.5	3.7	5.4	19.0	23.4	4.4
	35.2	**35.6**	**30.6**	**38.8**	**140.3**	**163.0**	**22.7**
Investment activity							
Fixed term investments - new deals	(26.0)	(18.5)	(3.0)	(15.0)	(62.5)	(85.5)	(23.0)
Fixed term investments - repayments	29.0	21.5	4.5	11.0	66.0	86.5	20.5
Money market funds - additions	(12.0)	(13.5)	(8.8)	(19.0)	(53.3)	(61.8)	(8.5)
Money market funds - withdrawals	14.0	21.6	10.4	17.0	63.0	61.6	(1.4)
	5.0	**11.1**	**3.1**	**(6.0)**	**13.2**	**0.9**	**(12.3)**
External borrowing activity							
Short-term external borrowing - receivable	0.0	0.0	10.0	0.0	10.0	4.0	(6.0)
Short-term external borrowing - repayment	0.0	0.0	0.0	0.0	0.0	(4.0)	(4.0)
	0.0	**0.0**	**10.0**	**0.0**	**10.0**	**0.0**	**(10.0)**
Closing Position	**1.09**	**0.13**	**0.19**	**0.36**	**0.19**	**0.55**	**0.36**

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 decrease of £0.36m, after the adjustments referred to in the paragraph above. The main variances were comprised of a decrease in supplier payments of £3.7m offset by additional payments relating to pensioners and payroll of £3.9m.

The supplier payments were lower than forecast due to lower value payment runs made in February, April and May compared to the plan and was in general due to invoices for capital works not submitted due to procurement delays, and associated issues with supplies and slippage in respect of the capital programme. The employee-related variance related to pay award adjustments for staff not reflected in the forecast for February as well as uniform and staff overtime elements relating to the April and May 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 £22.7m increase compared to the forecast plan submitted, mainly relating to a substantial increase in central government funding. £10.5m and £2.1m of this comprised up-front 2023/24 funding for Council Tax Support Grant and Council Tax Freeze Grant respectively, which had initially only been forecast based on one monthly instalment (as per the payment profile from previous years). This was combined with a lack of payment timings information available from central government, which was subsequently sourced. £2.5m was also received in respect of Op Hazel, which also hadn't been forecast. There were further material income variances in respect of £1m special police grant, £0.5m various miscellaneous grants and a £2.6m uplift relating to main police core government grant from the Home Office not reflected in the plan. Other variances comprised £1m VAT reimbursements and £4.5m of miscellaneous income including £2.5m receipts from the Ministry of Justice and £0.5m from Manchester Airport Group. An offsetting reduction of £1.9m related to a shortfall in property sales due to delays in the legal processes for planned disposals in the period, including Harlow MIT.

Table 2 above also encompasses the treasury management activity during the months of February to May reflecting an additional £0.36m of net cash being 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.

<u>Cashflow for quarter to end of August 2023, and onward position for remainder of 2023/24</u>

<u>Table 3 – Cashflow summary (including plan for February – June 2023)</u>

	Cashflow summary up to March 2024			
	February to May (actual) £m	June to August (forecast) £m	September to November (forecast) £m	December to March (forecast) £m
Opening Position	**0.4**	**0.5**	**0.8**	**0.8**
Expenditure				
Supplier payments	(47.3)	(35.2)	(33.1)	(45.6)
Capital - property acquisitions	0.0	0.0	0.0	0.0
HMRC payments	(28.9)	(22.7)	(22.5)	(30.0)
Essex LGPS payments	(6.2)	(4.8)	(4.8)	(6.4)
Pensioners payments	(23.0)	(17.6)	(17.4)	(29.0)
Payroll - uniform	(38.2)	(28.5)	(28.5)	(38.0)
Payroll - staff	(20.2)	(13.8)	(13.8)	(18.4)
	(163.7)	**(122.5)**	**(120.1)**	**(167.3)**
Income				
Council tax precepts	45.7	40.0	41.1	52.1
Core government funding	42.3	31.8	31.7	42.3
Pension top-up grant	0.0	33.4	0.0	0.0
Other government grants	45.9	20.0	16.8	25.5
VAT reimbursements	5.4	4.0	2.2	3.1
Property sales	0.4	0.9	0.2	4.3
Other receipts	23.4	12.2	9.5	12.2
	163.0	**142.2**	**101.6**	**139.4**
Net cashflow surplus/(deficit)	**(0.3)**	**20.2**	**(17.8)**	**(27.2)**
Treasury activity				
Investment balances brought forward	4.1	3.8	24.0	6.2
Net addition to/(reduction of) investment	(0.3)	20.2	(17.8)	(27.2)
Net external borrowings (existing)	0.0	0.0	0.0	0.0
Total net cash and investments	**3.8**	**24.0**	**6.2**	**(21.0)**

The cashflow has been projected forward initially up until the end of August 2023, and then quarterly in the anticipated reporting periods, up to the end of 2023/24. A summary of these figures is presented in Table 3 above.

The actual cashflow position for the most recent period reflected the significant decrease in cash balances, especially during April 2023 when £4m of short-term external borrowing was undertaken to meet this temporary shortfall. The force continued to typically hold a small liquid investments balance (less than £10m) to manage its short-term cashflow commitments during this period.

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 forecast for the end of August 2023 is expected to be in surplus by approximately £24.3m, incorporating the £33.4m Police Officer Pension Scheme (POPS) top-up grant expected in July. It is then anticipated that the cashflow will decrease significantly by the end of November 2023 to approximately £6.4m and subsequently into deficit by the end of the 2023/24 financial year (£21.0m forecast shortfall).

In the previous quarterly TM report submitted there was an expectation of multiple instances of external borrowing required during the period April – June 2023, prior to the receipt of the POPS top-up grant in early July. However, the unexpected upfront payments of the full balance of both the 2023/24 Council Tax Support and Council Tax Freeze grants in April (see section 6) has provided the force with unexpected/additional cash which, together with the other grants received such as the £2.5m for Op Hazel, means that further external borrowing is now no longer likely until the latter half of 2023/24. It should be noted that the cash and investments balances are still forecast to run very low at the end of June/early July, but it is expected that these should be sufficient.

Whilst the total external borrowing required as at the end of 2023/24 is forecast to be £21.0m 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 MiFID II . Therefore, whilst £21.0m of external borrowing would normally be required, the actual forecast is for £31.0m gross external borrowing and £10.0m net investments.

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 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 strategy has not yet been signed).

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 demonstrated in Table 4 below.

Table 4 – External Borrowing Limits

	2023/24 thresholds - as per 2022/23 TMS	2023/24 - Actual to date	Complied (Yes/No)
Authorised limit - total external debt	£50m	£4m	Yes
Operational Boundary - total external debt	£40m	£4m	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 2023/24 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. These will continue to be monitored and reported separately via the capital programme monitoring process, thus keeping these issues clear and transparent as their financial impact grows.

Compliance – Treasury Management Practices (TMP's)

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

Table 5 – TMP's summary

TMP's	TMS 2022/23 Criteria	February to May - 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

	February 2023 to May 2023 - maximum during period	31/05/2023 position	2022/23 TMS - guideline limit	Complied YTD (Yes/No)	Complied - four month period (Yes/No)
UK central government (including DMADF & Treasury Bills)	£12m	£3m	£ unlimited (10 years)	Yes	Yes
UK local government - per authority	£0.0m		£5.0m per authority (5 years)	Yes	Yes
UK local government - total	£0.0m		£ unlimited in total (5 years)	Yes	Yes
Lloyds bank account plc (operational bank account)	£3.42m (overnight only)	£0.55m	£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	£2.5	£5.0m per fund	Yes	Yes
Money market funds (AAA rated) - total	58%	48% (£5.5m)	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. During the period there were two instances where money market funds in total exceeded the agreed 50% threshold, with 58% held in these funds on the 28th February and 53% on the 16th March. In monetary terms this equated to £7.6m and £10.10m 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 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 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 14th June 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 March 2023.