

## PFCC Decision Report

**Report reference number:** 079-24

**Classification:** OFFICIAL

**Title of report:** Treasury Management Strategy 2024/25 (incorporating the (Commercial) Investment Strategy and Capital Strategy)

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

**Report by:** Matt Tokley – Chief Accountant

**Date of report:** 17<sup>th</sup> April 2024

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### 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 investments and borrowing approach, the (Commercial) Investment Strategy, which is primarily focused on commercial-orientated investments, and 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 their 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 £26.7m by the end of 2024/25, 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 the formal approval of the external borrowing in relation to these estimated figures is not included within the recommendations of this report and will be submitted for formal approval within separate in-year reports to the PFCC office as required.

## 2. Recommendations

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

- The 2024/25 Treasury Management Strategy (TMS)
- The 2024/25 (Commercial) Investment Strategy
- The 2024/25 Capital Strategy

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

- An operational boundary of **£30m** (previously set at £45m, a proposed decrease of £15m) for the 2024/25 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 2 of the TMS).
- An authorised limit in respect of external borrowing of **£40m** (previously set at £50m, a proposed decrease of £10m) for the 2024/25 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 2 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 **£16.7m** for the end of 2024/25, comprising **£10m** investments and **£26.7m** external borrowing
- Forecast total external debt for the end of the medium-term financial period up to and including 2028/29 of **£73.4m**

## 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 are 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 2021 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 its 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 remain outside of the PFCC's risk appetite, and therefore this strategy 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 advise that such investments are high risk and that taking out external borrowing for such activities is forbidden. This approach is unchanged from the 2023/24 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 strategies that each 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 2024/25 from their 2023/24 equivalents but the strategies have been fully updated to take account of the revised medium-term forecasts, as per the 2024/25 precept setting papers presented to the Police, Fire and Crime Panel in February 2024. This has resulted in updated forecasts for debt across the next five years, including external borrowing estimates, which have also driven the proposed changes to the operational boundary and authorised limit thresholds, as included in the Recommendations section above. There are also some other areas to be aware of for the TMS and Capital Strategy where updates have been made, which are summarised below.

### Treasury Management Strategy

- Approval for borrowing – new paragraph included within the introductory section explaining that separate approval is still required for specific instances of external borrowing in the year (e.g. when certain criteria is met, as set out elsewhere within the TMS)

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- Borrowing thresholds per counterparty – these have now been removed following discussion with the PFCC’s treasury advisors (Arlingclose) e.g. where there is no risk to the PFCC as borrower so no requirement to have counterparty-specific limits
- Borrowing options – two additional borrowing options included (UK Infrastructure Bank Ltd and retail investors) as per Arlingclose’s refreshed recommended list
- £10m recommended minimum balance for MiFID compliance – new paragraphs added confirming a) that the PFCC will not undertake external borrowing to solely meet this requirement, and b) that the PFCC demonstrates their compliance via a calculation of their *average* cash and investments balance across the year
- Investment Strategy – secured investments threshold increased from £2m to £5m, again based on low risk to the PFCC for these types of investments (based on Arlingclose advice)

### Capital Strategy

- Operational boundary – default position now applied for this to always be £10m less than the authorised limit for the year concerned
- Exceeding the authorised limit – additional narrative added explaining the governance process required should the authorised limit be breached
- Previous Table 7 ‘Treasury Management Investments’ (and supporting paragraphs) now removed for 2024/25 as these duplicate data already included elsewhere within the TMS and Capital Strategy

## 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 their 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 Chief Financial Officer and Strategic Head of Performance & Resources for the PFCC, and Arlingclose (the PFCC’s treasury advisors).

## **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 TMS 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 strategies set 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 documents set out the key factors which will affect treasury management decision making during 2024/25, relating to both internal and external issues, and how any problems will be managed and overcome.

## **10. Legal implications**

Approval of the TMS (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**

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 paper.

## **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 (ESG), 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 limited portfolio of counterparties available in this sector which would comply with the criteria set out within these strategies.

## **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 2024/25 with advice sought from the PFCC's treasury management advisors in relation to any new risks which are deemed to be of strategic importance.

#### **14. Governance Boards**

Presented to the Chief Officer Group of the Chief Constable on 3rd April 2024, and subsequently presented to the PFCC's Extraordinary Strategic Board on 22nd April 2024. Some subsequent amendments agreed with the Chief Financial Officer and Strategic Head of Performance & Resources for the PFCC for the version presented to the latter, have been separately agreed with the Deputy Chief Constable.

#### **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 2023/24 Treasury Management Strategy (encompassing the Investment and Capital Strategy documents), and the periodic treasury management / cashflow reports submitted to the PFCC during 2023/24.

The three main strategy documents are included as appendices in the covering report, 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: 14 May 2024

Chief Financial Officer

Sign:



Print: Janet Perry

Date: 25 June 2024

**Publication**

Is the report for publication?

YES

NO

If ‘NO’, please give reasons for non-publication (Where relevant, cite the security classification of the document(s). State ‘None’ if applicable)

N/A

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

2. Of Appendix?

YES

NO

NO

If ‘YES’, please provide details of required redaction:

N/A

Date redaction carried out: .....

**Treasurer / 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/Treasurer**

**Decision and Final Sign Off**

I agree the recommendations to this report:

**Sign:**  .....

**Print:** ...Roger.Hirst.....

**PFCC**

**Date signed:** 25/06/2024 .....

I do not agree the recommendations to this report because:

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

**Sign:** .....

**Print:** .....

**PFCC/Deputy PFCC**

**Date signed:** .....