



west midlands  
police and crime  
commissioner



**AGENDA ITEM 08**

**JOINT AUDIT COMMITTEE  
29 September 2022**

**2022/23 TREASURY MANAGEMENT UPDATE  
REPORT**

**1. PURPOSE OF REPORT**

- 1.1 This report updates members on recent Treasury Management activity, in line with recommended best practice and the revised CIPFA Code of Practice for Treasury Management. The report provides a summary of macroeconomic factors and also an update of the Police and Crime Commissioner's (PCC) position. It is a mid-year report for the 2022-23 financial year.
- 1.2 It is important to note that financial information contained within this report should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The PCC and their treasury advisers will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this report.
- 1.3 This report has been written with support from the PCC's external treasury management advisors, LINK Treasury Services.

**2. BACKGROUND**

- 2.1 The PCC operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 2.2 The second main function of the treasury management service is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer term cash flow planning to ensure the PCC can meet its capital spending plan. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet PCC risk or cost objectives.

- 2.3 Accordingly, treasury management is defined as:  
 “The management of the PCC’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

### 3. ECONOMIC UPDATE & INTEREST RATE FORECASTS

- 3.1 The economic update below will influence how interest rates will move which will impact the rate at which the PCC can borrow and invest money.

At the August 2022 meeting the Monetary Policy Committee (MPC) increased the Bank Rate for a sixth consecutive meeting, increasing Bank Rate by 50bps to 1.75%, the largest single-meeting rise since 1995. The decision to increase interest rates was supported by all nine members of the MPC, and the commitment to act ‘forcefully’ signalling the possibility of further action was retained.

- 3.2 The increase came amid growing concerns about upside risks for inflation, with the headline CPI rate now forecast to rise above 13% year on year in Q4 of this year. In terms of forecasts, the Bank expects the economy to contract for five successive quarters, from Q4 2022, with GDP predicted to fall by 1.5% in 2023, following a revised GDP growth projection of 3.5% for this year, down from 3.75% previously. In addition to the increase in Bank Rate, the MPC also provided guidance on the next stage of its quantitative tightening strategy.

The Minutes once again confirmed that “the MPC would take the actions necessary to return inflation to the 2% target sustainably in the medium term”, it seems that further interest rate increases are likely over the coming months. Markets think the same with prices ramping higher in the face of economic data and more widespread concerns over inflation and policy outlooks. Markets are still forecasting the heavy-lifting to come near term. Pricing shows a year end position of 3.5% with further increases before May of 2023 taking Bank Rate to 4.25%. The table below includes Link’s forecast, which has been updated following the August MPC meeting.

#### Interest rate forecasts

- 3.3 Link Group, provided the following interest rate forecasts on 12<sup>th</sup> September 2022:

<b>Forecasts</b>	<b>Sep-22</b>	<b>Dec-22</b>	<b>Mar-23</b>	<b>Jun-23</b>	<b>Sep-23</b>	<b>Dec-23</b>	<b>Mar-24</b>	<b>Jun-24</b>
Bank Rate*	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25
5 year PWLB	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90
10 year PWLB	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00
25 year PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30
50 year PWLB	3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00

**KEY:**

*Note: PWLB is the Public Works Loans Board which is the main body through which the PCC borrows money against capital requirements. The rates shown in the table are for interest only loans over different loan periods, with the principal repayable as a lump sum at the end of the loan period.*

\*This is the LINK group forecast for 2 year BoE rates. For comparison, Capital Economics (a leader in providing independent Economic Research) have their 2 year forecast at 3.00% v LINK at 2.25%.

3.4 There are a number of risks to the forecast including the ongoing conflict with Russia/Ukraine, increased inflationary pressures and tensions between US/China/Taiwan. In addition, the possibility of the UK going into recession is seen as high.

#### The balance of risk to the UK

3.5 The overall balance of risks to economic growth in the UK is now to the downside with the risk of going into recession in the next 12 months considered to be significant.

### **4. ANNUAL INVESTMENT STRATEGY**

4.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by the PCC in March 2022. The PCC's Annual Investment Strategy which is included in the TMSS outlines the PCC's investment priorities as "Security of Capital, Liquidity and Yield" in that order.

The best possible return on investments will be pursued but only to the extent that this is consistent with the proper levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods of up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach which includes daily credit rating updates.

4.2 Due to the increase in Bank of England base rates over the past 6 months the subsequent returns on investments have also increased to a meaningful level when compared to 2021/22.

4.3 Due diligence is undertaken for all investments made including those with Local Authority bodies. A summary of the investments/cash position held at 12/09/2022 is shown below:

	£m
Instant Access	72.0
Money market Funds	60.0
Investments	120.0
Property Fund	5.0
<b>Total</b>	<b>257.0</b>

A full list of investments held as at 12 September 2022 is shown in **Appendix 1**. This is high because the PCC received the full year's police pensions top up grant of £83m in July, and the monthly police grant from Government of £43m has been received for September. Also, we are still holding most of the Commonwealth Games grant of £79m received in June to cover overtime to be paid in September, Mutual Aid claims from other Forces and monies payable to the Birmingham Organising Committee. This balance will be utilised between September 22 and March 23.

4.4 The average cumulative interest rate achieved on investments made in 2022/23 is currently 1.64% which compares with 1.69% for the SONIA rate (Sterling Overnight Index Average).

- 4.5 The PCC's expected investment return for 2022/23 of £1.1m is significantly ahead of the budget of £520k.
- 4.6 MMF's have been utilised by the PCC to increase liquidity in 2022-23. Currently £30m is invested with the CCLA MMF and £30m with the Federated fund (at rates of 1.66% and 1.76% respectively). These investments have no maturity date and are repayable on demand (without any charges or penalties).
- 4.7 In the 12 months to 30 June 22 the £5m investment in the CCLA property fund had delivered a total performance of +23.70% when compared to the benchmark of 22.72%. These returns are expected to slow in the current economic climate.
- 4.8 Investment returns to end of August:
- Investments (Banks & Building society) - £150k  
 Money market funds - £195k  
 Property Funds - £52k
- 4.9 There have been regular occurrences of the funds in our instant access account with NatWest having breached the amount set out the Treasury management policy, £65m. The primary reason for this is the lack of suitable counterparties where the levels of risk and return are consummate with our risk appetite.

## 5. PRUDENTIAL INDICATORS

- 5.1 It is a statutory duty for the PCC to determine and keep under review the affordable borrowing limits that were part of the Prudential Indicators agreed in the Treasury Management Strategy Statement approved in March 2022.
- 5.2 The Prudential Indicators were not breached during the first 5 months of 2022/23, as shown in the table below:

<b>Prudential Indicator</b>	<b>2022/23 Indicator</b>	<b>Actual to 31/08/22</b>
Capital Financing Requirement (CFR)	£87.4m	£76.2m
Gross Borrowing	£101.3m	£101.3m
Authorised Limit for External Debt	£125m	£125m
Operational Boundary for External Debt	£120m	£120m
Limit of Fixed Interest Rates based on Net Debt	100%	100%
Limit of Variable Interest Rates based on Net Debt	20%	0%

<b>Maturity Structure of Borrowing Limits</b>	<b>2022/23 Indicator</b>	<b>Actual to 31/08/22</b>
Under 12 Months	25%	3%
12 Months to 2 Years	25%	4%
2 Years to 5 Years	50%	8%
5 Years to 10 Years	75%	8%
10 Years and Above	100%	100%

- 5.3 All of the PCC's borrowing to date, has been obtained from the PWLB as shown in **Appendix 2**. All of the borrowing taken out to date has been applied to finance historic capital spend except for the latest £7.5m which is expected to be applied against spend on the Estates Strategy in 2022/23. No additional borrowing has been undertaken so far in 2022/23. It is anticipated that additional borrowing will be required in line with the Estates Strategy but this will be kept under review against the actual capital spend and receipts in year.

## 6. RECCOMENDATIONS

- 6.1 The Committee is recommended to note the report which complies with the CIPFA Code of Practice for Treasury Management.

Mark Kenyon  
Chief Finance Officer  
Police and Crime Commissioner

Peter Gillett  
Director of Commercial Services  
West Midlands Police

## Appendix 1

**INVESTMENTS AND BALANCES AS AT 12/09/22**

<b>Maturity</b>	<b>Counterparty</b>	<b>Type</b>	<b>Principal</b>	<b>Rate</b>
20-Sep-22	Goldman Sachs	Bank/Building Society	10,000,000	1.37%
23-Sep-22	Leeds Building Society	Bank/Building Society	10,000,000	1.25%
23-Sep-22	Coventry Building Society	Bank/Building Society	10,000,000	1.23%
30-Sep-22	Leeds Building Society	Bank/Building Society	10,000,000	1.27%
13-Oct-22	Leeds Building Society	Bank/Building Society	10,000,000	1.29%
13-Oct-22	Goldman Sachs	Bank/Building Society	10,000,000	1.54%
14-Oct-22	Goldman Sachs	Bank/Building Society	10,000,000	1.54%
21-Dec-22	National Bank of Kuwait	Bank/Building Society	10,000,000	2.15%
29-Dec-22	National Bank of Kuwait	Bank/Building Society	10,000,000	2.18%
05-Jan-23	Coventry Building Society	Bank/Building Society	10,000,000	1.75%
25-Jan-23	National Bank of Kuwait	Bank/Building Society	10,000,000	2.42%
07-Jul-23	Dudley MBC	Local Authority	10,000,000	1.70%
On demand	Money market Fund (MMF's)	MMF	60,000,000	1.71%
5 to 10 years	CCLA Property fund	Property	5,000,000	Variable
On demand	NatWest	Instant Access	72,000,000	0.10%
	<b>Total</b>		<b>257,000,000</b>	

## Appendix 2

**BORROWING – AS AT AUGUST 2022****1. LONG TERM EXTERNAL BORROWING - PWLB**

<b>Principal</b>	<b>Interest rate</b>	<b>Annual Interest</b>	<b>Maturity</b>
580,000	6.125%	35,525.00	31/03/2023
2,420,000	6.125%	148,225.00	31/03/2023
800,000	6.625%	53,000.00	15/10/2023
2,200,000	6.625%	145,750.00	15/10/2024
2,000,000	6.625%	132,500.00	15/10/2025
15,000,000	3.700%	555,000.00	23/01/2051
5,587,000	4.450%	248,621.50	15/06/2056
8,200,000	4.350%	356,700.00	01/03/2057
5,000,000	4.390%	219,500.00	15/08/2058
2,000,000	4.875%	97,500.00	01/09/2061
10,000,000	2.640%	264,000.00	07/12/2068
10,000,000	2.540%	254,000.00	10/12/2068
5,000,000	2.370%	118,500.00	12/02/2069
10,000,000	2.160%	216,000.00	28/03/2069
15,000,000	1.630%	244,500.00	08/10/2069
7,500,000	2.070%	155,250.00	14/03/2072
<b>101,287,000</b>		<b>3,244,571.50</b>	

Average rate of interest payable is 3.2% all of which is at a fixed rate

**2. TEMPORARY EXTERNAL BORROWING**

There is currently no short term external borrowing