



west midlands
police and crime
commissioner



AGENDA ITEM 07

**JOINT AUDIT COMMITTEE
28 September 2023**

**2023/24 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 2023-24 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.
- 3.2 The Bank of England’s Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 2 August 2023, the MPC voted by a majority to increase Bank Rate by 0.25 percentage points, to 5.25%.
- 3.3 GDP growth has been around 0.2% during the first half of this year. The Bank of England expect a similar growth rate in the near term.
- 3.4 Twelve-month CPI inflation fell from 8.7% in May to 6.8% in July. It remains well above the MPC’s 2% target. Inflation is expected to fall further to 4.9% in Q4, with three quarters of that decline owing to a falling contribution from household gas and electricity bills. The table below includes Link’s forecast, which has been updated following the August MPC meeting.

Interest rate forecasts

- 3.5 Link Group, provided the following interest rate forecasts on 6 September 2023:

Forecasts	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Bank Rate*	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25
5 year PWLB	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60
10 year PWLB	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70
25 year PWLB	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00
50 year PWLB	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80

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 4.00% v LINK at 3.75%.*

- 3.6 There are risks to the forecast including the ongoing conflict with Russia/Ukraine and the threat of a looming recession if interest rates continue to rise.
- 3.7 Although the United Kingdom is expected to avoid a recession this year, the country faces a challenging economic outlook. The energy price shock due to Russia's war in

Ukraine has disrupted the recovery, with growth projected at a modest 0.4 percent in 2023 and 1 percent in 2024.

4 ANNUAL INVESTMENT STRATEGY

- 4.1 The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by the PCC in March 2023. 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.
- 4.2 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.
- 4.3 Due to the increase in Bank of England base rates over the past 6 months the subsequent returns on investments have also increased when compared to 2022/23. The base rate at the beginning of the financial year was 4.25% and rose to 5.25% by August 2023.
- 4.4 Due diligence is undertaken for all investments made including those with Local Authority bodies. A summary of the investments/cash position held at 06/09/2023 is shown below:

Investment	£m
Instant Access	13.0
Money market Funds	60.0
Investments	100.0
Property Fund	5.0
Total	178.0

- 4.5 A full list of investments held as at 6 September 2023 is shown in **Appendix 1**. This is high because the PCC received the full year's police pensions top up grant of £97m in July 2023, as per previous years.
- 4.6 The average cumulative interest rate achieved on investments made in 2023/24 is currently 5.09% which compares with 5.19% for the SONIA rate (Sterling Overnight Index Average).
- 4.7 The PCC's forecast investment return for 2023/24 is £5m. This is notably higher than the budget of £2.5m. This is reflected in the forecast underspend.
- 4.8 MMF's have been utilised by the PCC to increase liquidity in 2023-24. Currently £30m is invested with the CCLA MMF and £30m with the Federated fund (at current rates of 5.11% and 5.24% respectively). These investments have no maturity date and are repayable on demand (without any charges or penalties).
- 4.9 In the first quarter to 30 June 2023, the £5m investment in the CCLA property fund returned gross dividends of £59k. The fund aims to provide a high level of income and capital growth over the long-term (defined as 5 years). Valuations are likely to remain under pressure until investors are confident that the peak of the interest rate cycle has

been reached. Income will therefore continue to be the key driver of total returns from property. Over the quarter the fund's total return (taking income and capital together) was +1.0% compared with a return on the comparator benchmark of +0.3% (the comparator benchmark is MSCI/AREF UK Other Balanced Open-Ended Quarterly Property Fund Index which provides an independent view of current market performance and the performance of the funds active within it).

4.10 Investment returns to end of August 2023 (i.e. interest received):

- Investments (Banks, Building Societies and Local Authorities) £341k
- Money market funds £929k
- Property Funds £59k

The Natwest current account has also received a good level of interest from April to August this year, £264k at a rate of 1.43%. During the same period last year, the account received interest of £20k at an average rate of 0.1%.

4.11 To date, there have been a total of 15 days where the balance of funds in our instant access account with NatWest have breached the amount set out in the treasury management policy of £65m. The total interest lost (based on amounts held over £65m and calculated using the average rate of return) was £7.6k. The primary reason for this is the time taken to arrange suitable investments that meet the levels of risk and return that are commensurate with our risk appetite. To minimise this risk, we produce long term cash forecasts to ensure the days where a breach may occur are kept to a minimum. The Head of Financial Accounting post was vacant until 22 May and we are currently recruiting a Financial Accountant to undertake Treasury Management as part of their role to ensure investments are made on a timely basis and cash is managed efficiently and effectively.

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 2023.

5.2 The Prudential Indicators were not breached during the first 5 months of 2023/24, as shown in the table below:

<i>Prudential Indicator</i>	<i>2023/24 Indicator</i>	<i>Actual to 31/08/23</i>
Capital Financing Requirement (CFR)	£109.2m	£78.5m
Gross Borrowing	£127m	£105.3m
Authorised Limit for External Debt	£140m	£140m
Operational Boundary for External Debt	£135m	£135m
Limit of Fixed Interest Rates based on Net Debt	100%	100%
Limit of Variable Interest Rates based on Net Debt	20%	0%

Maturity Structure of Borrowing Limits	2023/24 Indicator	Actual to 31/08/23
Under 12 Months	25%	1%
12 Months to 2 Years	25%	2%
2 Years to 5 Years	50%	2%
5 Years to 10 Years	75%	7%
10 Years and Above	100%	89%

5.3 All of the PCC's borrowing to date, has been obtained from the PWLB as shown in **Appendix 2**. Two unapplied amounts of borrowing are expected to be applied in 2023/24; £7.5m which is expected to be applied against spend on the Estates Strategy and shorter term borrowing (5 years) of £7m to support the vehicle replacement programme and IT infrastructure. No additional borrowing has been undertaken so far in 2023/24. 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 RECOMMENDATIONS

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

Jane Heppel
Chief Finance Officer
Police and Crime Commissioner

Peter Gillett
Director of Commercial Services
West Midlands Police

Appendix 1

INVESTMENTS AND BALANCES AS AT 06/09/2023

Maturity	Counterparty	Type	Principal (£)	Rate (%)
25-Sep-23	Coventry BS	Bank/Building Society	10,000,000	5.00
25-Sep-23	National Bank of Kuwait	Bank/Building Society	10,000,000	5.22
11-Oct-23	Leeds BS	Bank/Building Society	10,000,000	5.06
13-Oct-23	Leeds BS	Bank/Building Society	10,000,000	5.06
25-Oct-23	Goldman Sachs	Bank/Building Society	10,000,000	5.60
24-Nov-23	Cornwall Council	Local Authority	10,000,000	5.39
24-Nov-23	National Bank of Kuwait	Bank/Building Society	10,000,000	5.82
21-Dec-23	National Bank of Kuwait	Bank/Building Society	10,000,000	5.90
21-Dec-23	Goldman Sachs	Bank/Building Society	10,000,000	5.91
03-Jan-24	Goldman Sachs	Bank/Building Society	10,000,000	5.89
On demand	Money market Fund (MMF's)	MMF	60,000,000	5.18
5 to 10 years	CCLA Property fund	Property	5,000,000	Variable
On demand	NatWest	Instant Access	13,000,000	1.80
	Total		178,000,000	

Appendix 2

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

Principal	Interest rate	Annual Interest	Maturity
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
7,000,000	3.990%	279,300.00	30/11/2027
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
105,287,000		3,340,121.50	

Average rate of interest payable is 3.17% all of which is at a fixed rate.

2. TEMPORARY EXTERNAL BORROWING

There is currently no short term external borrowing