Public/Non-Public*	
Report to:	**PCC**
Date of Meeting:	**29th November 2022**
Report of:	**Mark Kimberley**
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Agenda Item:	**N/A**

Treasury Management Interim Report 2022/23 as at 31st October 2022.

1. Purpose of the Report

The purpose of this report is to provide the PCC of the performance monitoring of the 2022/23 Prudential Code Indicators, and to advise of a revised level of the Authorised Limit and Operational Boundary, following a breach of the current limits on 14th October 2022.

Regular reporting of Treasury activity is required in line with the Treasury Management Strategy, and this report meets these requirements. The PCC should note that reporting of in year treasury management activity does not appear to have taken place since 2020-21.

Attached at Annex A is an updated and revised Treasury Management Strategy for 2022-27 for approval.

2. Recommendations

2.1 Recommendation 1
It is recommended that the contents of the report are noted, especially in respect of the reasons for the breach of the Authorised limit.

2.2 Recommendation 2
It is recommended that the updated Treasury Management Strategy at Annex A is approved.

2.3 Recommendation 3
It is recommended that this report is forwarded to the Joint Independent Audit Committee for their review and comment.

3. Reasons for Recommendations

3.1 To update the PCC on the Treasury Management activities in compliance with the Treasury Strategy.

4. Background

The Organisation is required by regulations issued under the Local Government Act 2003 to report on its Prudential Code indicators and treasury activity. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

4.1 For 2022/23 the minimum reporting requirements are that the PCC should receive the following reports:

- An Annual Treasury Strategy in advance of the year (the TMSS was approved by the PCC in February 2022, Decision Record 037).
- A Mid-Year Treasury Update Report (this report).
- An Annual Review following the end of the year describing the activity compared to the Strategy. (this is planned for May 2023).

In accordance with best practice, regular updates on treasury activity are also provided to the PCCs CFO.

4.2 The regulatory environment places responsibility on the PCC for the review and scrutiny of treasury management policy and activities, this duty is supported by further review by the Joint Independent Audit Committee (JIAC). This report provides details of the position at 31st October 2022 and highlights compliance and non-compliance with the approved Strategy.

4.3 A non-compliance breach has been identified the reasons for this and recommendations for change are detailed in the next section of the report.

5. Breach of Operating and Authorised Limits

5.1 The Chief Constable's Chief Financial Officer (CFO) on the 25th October in reviewing current treasury management activity identified that on the 14th October additional short-term borrowing of £6m for cash flow purposes was undertaken. This resulted in total borrowing (both long term and short) being £75.9m, this therefore took us above both the operational limit £70m and authorised limit £75m – prior to this date no known breach had occurred.

5.2 The Chief Constables CFO immediately notified the OPCC (email to PCC's CFO 25th October 2022) and instigated changes to the monitoring systems to ensure measurement of these limits is more prominent in our daily borrowing and lending decisions. The need to revise the Treasury Strategy with increased limits to ensure treasury operations are within approved levels was also discussed between the two CFO's. It was also noted at this time that it was likely that some modest net additional borrowing will be required during the remainder of the current financial year.

5.3 The Chief Constables CFO was satisfied that decisions made in respect of treasury management have been made in line with usual operational activity and that the breach position did not arise out of any change to required budgets both revenue and capital, and as such did not give additional concerns as to the financial stability of the organisation.

5.4 It should be noted that the operational and authorised limits as part of the last treasury management strategy refresh were significantly reduced from £95m and £105m respectively to the current levels of £70m and £75m respectively. This was done a time of change in the structure of the OPCC's office with the current Chief Constables CFO operating in a joint CFO role for a temporary basis. At this time of change there was concern about how much these limits were above current and projected CFR amounts (approx. £70m), again at a time that the CFR calculation was under significant scrutiny by the external auditor. A reduction in the limits was, at the time seen as a prudent move. In hindsight, the reduction of £30m did not give sufficient room to manage what became a rapidly changing treasury management activity, with movement from a higher-than-expected cash positive situation requiring significant investments in a very slow and stable treasury marketplace, to a very short-term borrowing situation in an upward interest rate spiralling market due to changing Central Government economic policies.

5.5 In addition, our cashflows have been impacted negatively by a higher than budgeted for Pay award, affecting Police Officer, Police Staff and Pension payments as well as the impact of inflation on other Supplies and Services (these have added in excess of £5m to our outgoing cash outflows since June 22). Although, additional investment income and careful management of the Forces operational budgets has meant that expected outturn for 2022-23 remain in line with the budget.

5.6 In June 22 (when markets were significantly calmer than now) we had a much higher than anticipated pension grant payment of £54m at a time when our liquid investments were at authorised maximums (3 x £15m). Given market situations at this time, and to avoid having large volumes of cash not earning any return, we entered into several larger (up to £8m) individual investments, which although less than 12 months, many are not repaid this calendar year and some go into the next financial year (in all short term investments currently total over £60m).

5.7 Again with hindsight some cash could have been retained and the breach would have been avoided but this would have reduced investment income and left large amounts of cash (greater than £8m) with our bank earning minimal interest – which in itself would have been in conflict with the principals of our investment strategies. As stated above treasury management decision were made as to be expected and the breach has arisen because of the artificially low limits that were approved for the 2022-23 Strategy. Although without the unexpected cashflow changes a breach situation would have been unlikely to have occurred.

5.8 The breach of limits therefore are a culmination of a range of circumstance and decisions that individually were made with the right intentions but collectively has resulted in the current breach situation.

6. Treasury Activity

6.1 Investments

At the beginning of the year the prolonged period of low return on investments prevailed with the Bank of England interest rate being maintained at historically low levels and the treasury strategy stated that investment returns were expected to remain low. The Authority generally has a net positive short term investment position as a result of timing differences of grants and other income being received in advance of expenditure. This is especially true in June when the Pension grant is received from Government.

Due to improved budget monitoring, maximising performance reward grants in respect of the uplift programme, an underspend against the 2021-22 budget, greater success in bidding for Government Grants, a much higher pension grant as a result of the increase in Police Officer numbers as well as those reaching retirement age the organisation has significantly larger cash funds that previous years. Markets were still very flat at this time, and although interest rates had begun a modest climb, it was difficult to find investment counterparties compliant with our counterparties list. As a result, to make returns and protect against counterparty risk greater value investments for longer, albeit less than 12 months, periods were made. This position will result in an additional £0.5m of earned interest.

The Commissioner held £74.4m of investments as at 31st October 2022 (£33.4m at 31 March 2022) and the weighted investment portfolio yield for the first seven months of the year is 1.31% against the original benchmark of 0.10% (now proposed to be amended to 1.3%)

Temporary Investment	**Position @ 01-04-22 £m**	**Investments made £m**	**Investments withdrawn £m**	**Position @ 31-10-22 £m**
Banks	(0.394)	(8.000)	0.519	(7.875)
Building Societies	0.000	0.000	0.000	0.000
Local Authorities	(29.000)	(48.000)	13.000	(64.000)
LVNAV	(4.000)	(160.455)	161.950	(2.505)
Total Short Term Investments	**(33.394)**	**(216.455)**	**175.469**	**(74.380)**

Other Investments:	**Position @ 01-04-22 £m**	**Investments made £m**	**Investments withdrawn £m**	**Position @ 30-10-22 £m**
Fixed Term Investment	(29.000)	(56.000)	13.000	(72.000)
Variable Term Investment	(4.394)	(160.455)	162.469	(2.380)
	(33.394)	**(216.455)**	**175.469**	**(74.380)**

Proportion of Fixed Term Investment held	96.80%
Proportion of Variable Term Investment held	3.20%

One of the investment types employed by the Commissioner is Low Volatility Net Asset Value Funds (LVNAV). These are used because they are highly rated (AAA), and they work by spreading the investments over a wide range of high quality counterparties that would be unavailable at the levels of investment monies available. This approach also helps to eliminate risk whilst maintaining liquidity.

They also have the advantage of being easy to manage via an online platform and are liquid to meet cash flow demands. Currently 3 are being utilised and at certain times of the year the deposit capacity has been insufficient at a time when alternative institutions of sufficient calibre are reducing or have very low interest rates, a 4th Counterparty is therefore in the process of being used, and the revised Treasury Strategy includes higher deposit amounts. Fixed term investments tend to be with other local authorities which are also considered to be low risk. The interest rate on current account balances with Barclays is zero.

The limits in the investment policy for LVNAVs are for £12m, and £15m with the consent of the Chief Constables CFO. On an increasing number of occasions, the Chief Constables CFO has agreed to temporarily increase this limit to the £15m maximum. In the first half year when cash surpluses are at their highest there has been 17 days when an LVNAV fund balance has been over £12m and up to £15m.

No other approved limits have been exceeded.

6.2 Investment Counterparty criteria

The Commissioner's investment policy has regard to Department for Levelling Up, Housing and Communities (DLUHC) and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sector Guidance Notes ("the CIPFA TM Code"). The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks, prompts a low-risk strategy. Therefore, the Commissioner's investment priorities in order of importance will be security, liquidity and return.

The maximum exposure to the investment markets in the year to date was 11th July 2020, when £105.8m (a a result of Police Grant, Top-Up Grant, Pensions Grant and Precept) was placed within the markets.

6.2 Creditworthiness policy

The Chief Constables CFO will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Commissioner for approval as necessary. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits, the table below is the current list used during the reporting period covered by this report. There are no changes to the counterparty list proposed, although revised value limits are included in the revised Treasury Management Strategy for approval at Annex A.

	Fitch Long Term Rating (or equivalent)	Value Limit	Time Limit
Banks 1 Higher Quality	AAA	£5m	1 year
Banks 1 Medium Quality	AA-	£5m	1 year
Banks 1 Medium/Lower Quality	A	£4m	6 months
Banks 1 Lower Quality	A-	£3m	3 months
Banks - Part Nationalised	N/A	£5m	1 year
Limit 3 Category – Commissioners Banker (not meeting Banks 1)	AA	£5m	1 day
UK Govt – DMADF	AAA	Unlimited	6 months
Local Authorities	N/A	£5m - £8m	1-2 years
Low Volatility Net Asset Value Fund	AAA	£12m - £15m	liquid
Ultra Short Dated Bonds	AAA	£3m - £5m	liquid

6.3 Borrowing

The Capital Financing Requirement (CFR) for 2022-23 is estimated to be £70m. The CFR denotes the underlying need to borrow for capital purposes. If the CFR is positive monies may be borrowed (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and level of reserves. The table below shows activity on borrowings to 31st October 2022.

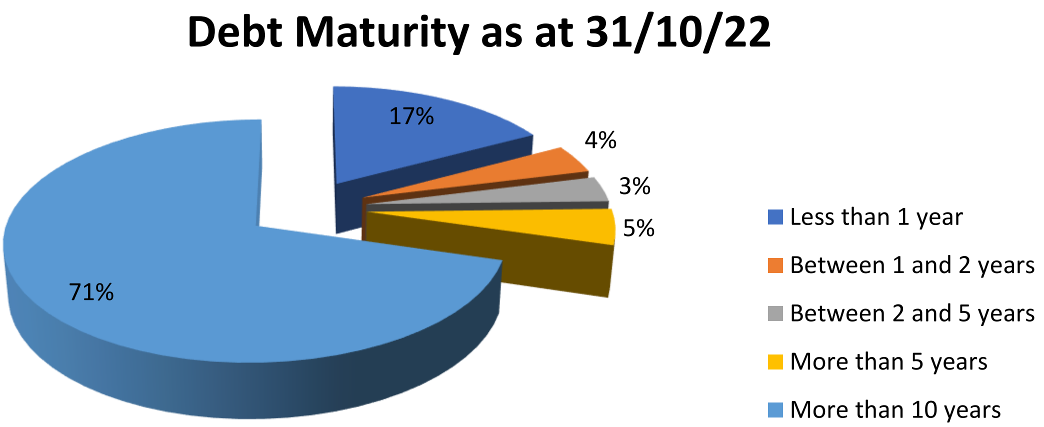
	Position @ 01-04-22 £m	Loans taken £m	Loans repaid £m	Position @ 31-10-22 £m
Long Term Borrowing				
PWLB	56.870	0.000	(0.549)	56.321
LOBO	3.500	0.000	0.000	3.500
Local Authorities	2.000	0.000	(2.000)	0.000
Total Long Term Borrowing	62.370	0.000	(2.549)	59.821
Temporary Borrowing				
Local Authorities	8.000	28.000	(20.000)	16.000
Banks & Other Institutions	0.000	0.000	0.000	0.000
Total Temporary Borrowing	8.000	28.000	(20.000)	16.000
Total Borrowing	**70.370**	**28.000**	**(22.549)**	**75.821**

By the year end it is anticipated that there will be external borrowing of £70.6m compared to the current CFR of £70m, £80m being the recommended limit in this report.

The actual amount borrowed and the timing thereof is at the judgement of the Chief Constables CFO with due regard to market conditions. There has been no PWLB or other long-term borrowing in 2022/23 up to 31st October 2022 but it is expected some additional borrowing will be undertaking during the remainder of the financial year.

PWLB rates varied within a relatively narrow range between April and June but this position moved significantly during the second quarter of the year. The 50-year PWLB target rate for new long-term borrowing is now 5.0% a significant rise from the previous position of 2.30%.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%



7. Review of Minimum Revenue Provision Policy Statement

7.1 Introduction

The Organisation repays each year part of the accumulated capital spend (CFR) through a revenue charge (MRP). An additional voluntary payment may also be made (VRP). The MRP can be calculated in various ways but the overarching principles are that the repayment must be prudent and affordable.

7.2 The Stated Policy

The existing policy was approved by The Commissioner and is as follows:

The Commissioner will set aside an amount for MRP each year, which is deemed to be both prudent and affordable. This will be after considering statutory requirements and relevant guidance from DLUHC

Repayments included in annual PFI or finance leases are applied as MRP.

It is considered that this policy is both prudent and affordable, therefore no changes are proposed.

8. Human Resources Implications

8.1 There are no immediate Human Resource implications arising from this report.

9. Equality Implications

9.1 There are no equality implications arising from this report.

8 Risk Management

8.1 There are no risk implications arising from this report.

9 Policy Implications and links to the Police and Crime Plan Priorities

9.1 There are no policy implications arising from this report.

10 Changes in Legislation or other Legal Considerations

10.1 There are no changes in legislation or other legal considerations that are relevant to this report.

11 Details of outcome of consultation

11.1 Not applicable.

12. Appendices

12.1 Annex A – Updated Draft Treasury Management Strategy 2022-2027.

13. Background Papers

13.1 Finance Working Papers