

## Warwickshire Joint Audit and Standards Committee Report Summary

**Meeting Date: 22<sup>nd</sup> January 2025**

**Subject: Treasury Management Mid-Year Review 2024/25**

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### **Purpose of the Report:**

To inform Members of the Committee of the 2024/25 mid-year position on the treasury management activities of Warwickshire Police in accordance with the CIPFA Code of Practice on Treasury Management.

### **Recommendation:**

The Committee is asked to consider and comment on the Treasury Management Mid-Year Review for 2024/25 before its final consideration by the Warwickshire Police and Crime Commissioner.

### **Background:**

Warwickshire Police adopts the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The PCC's Treasury Management Strategy for 2024/25 was approved by the Police & Crime Commissioner following scrutiny at a Joint Audit Standards Committee (JASC) meeting in March 2024, via a formal decision notice, published on the OPCC website. The PCC through the delegations to the force has borrowed and invested moderate 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 risk remains central to the PCC's Treasury Management Strategy.

Treasury risk management by the PCC is conducted within the framework of the CIPFA Code which requires the PCC to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This

report fulfils the PCC’s legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

## Executive summary

The Mid-Year review of Treasury Management activities covers two aspects: financing capital expenditure and cash flow management / investments. This report will consider each of these elements in turn.

### 1.0 Financing Capital Expenditure

- 1.1 The Police and Crime Commissioner’s (PCC) capital expenditure is mainly financed by a combination of capital receipts, direct revenue financing, contributions from cash balances (reserves), and borrowing. In recent years, borrowing has mainly been “internal borrowing” i.e. utilisation of surplus cash balances, however due to the level of the Capital Programme in 2024/25, short-term borrowing of £5m will be needed in the second half of the year. Levels of long-term borrowing have reduced by £1.5m during the first half of 2024/25 due to the maturity of existing loans; at some point, when rates are favourable, these maturing external loans will need to be replaced with new PWLB borrowing.
- 1.2 The PCC carries long-term debt in respect of borrowing to finance capital expenditure. The PCC currently holds 2 categories of loans from the Public Works Loan Board (PWLB), totalling £13.9m, as detailed below:

#### Warwickshire PWLB as at 30 September 2024

No of Loans	Loan Type	Shortest end date	Longest end date	Interest Rate from	Interest Rate to	Principal @ 30/09/24 £m
4	Annuity	2030	2035	4.5%	4.95%	6.6
6	E.I.P	2025	2029	2.1%	5%	7.3

### 2.0 Cash flow management and Investments

- 2.1 This is the control of the PCC’s cash balances held in bank accounts and the temporary investment of surplus funds.
- 2.2 The investment strategy for the PCC is to obtain the best available return consistent with the cash flow requirement and his Treasury Management Strategy. This strategy states that the security of the cash balance being invested is of primary importance, followed by the liquidity, before considering the return on the investment (yield). This is known as the SLY principle – Security, Liquidity, Yield.
- 2.3 This focus on the security of the investment is addressed by maintaining a list of acceptable counterparties. This list is maintained throughout the year and is supported by alerts from Link Group who provide Treasury Management advice on a regular basis and respond to immediate alerts to credit rating changes.

- 2.4 It remains a time of some uncertainty and nervousness and the OPCC are aware of several Local Authorities falling into some financial difficulties over the past year or so. Our Treasury advisers have advised not to take out any new investments with certain LAs falling into this category, although it should be noted that there are statutory protections in place in respect of LA to LA borrowing, namely that the borrowing Authority can borrow from the PWLB to repay principal funds to the lender. The OPCC has continued to take a prudent approach to safeguard the PCC's cash first and foremost.
- 2.5 Following the increases in the Bank of England Base Rate (Bank Rate) throughout 2022 and 2023 and despite the two rate cuts during 24/25, the rates on offer from both the UKDMO and Local Authorities are still very attractive for investments, and we have continued to take advantage of these, where cashflow allows, during 2024.
- 2.6 As a result of being active in placing investments this financial year along with the higher interest rates available, investment interest received to 30 September 2024 was around £150k, compared to a full year budget for 2024/25 of £200k; we are currently forecasting investment income of at least £300k for the financial year.
- 2.7 The PCC has ceased to use the Santander call account and instead has adopted a facility provided by Link, called Agency Treasury Services (ATS), that allows fixed deposits to be made with a panel of banks. Currently £1m is invested @ 4.83% with Standard Chartered Bank in their Sustainable product via the ATS facility; this matures on 20 December 2024. This facility enables us to meet good treasury practice of spreading funds between different banking institutions when required and complies with the PCC's Treasury Strategy. We will also look at using Money Market Funds during the second half of 2024/25 to increase the spread of funds whilst offering greater liquidity than a fixed term deposit.
- 2.8 The risk to the security of investments is also mitigated by using a range of money market brokers. The extent to which different brokers have been used during the six-month period to the 30 September is as follows.

<b>Broker</b>	<b>Number of Investments</b>
Tullet Prebon	3
Tradition	1
Direct Deals (UKDMO)	22
Imperial Trading (ITS)	5
<b>Total</b>	<b>31</b>

- 2.9 The PCC has also set limits for each counterparty in order to contain any exposure to potential loss. These limits were set out in the Treasury Management Strategy 2024/25 in March 2024.

### **3.0 Investment Position at 30 September 2024**

- 3.1 As at 30 September 2024, the PCC had total investments of £18.5m, as follows:

Counterparty	£m	Average rate %
UKDMO	1.0	4.94
Local Authorities (4 @ £3m each; 1 @ £2m)	14.0	5.20
Standard Chartered Sustainable (via ATS)	1.0	4.83
Lloyd's Bank	2.5	4.90

#### 4.0 Bank Rate and impact on borrowing and investments

4.1 The Bank of England reduced Bank Rate in August from 5.25% to 5%, and again in November to 4.75%, as a result of lower rates of inflation. The market is generally forecasting Bank Rate to reduce slowly during 2025 to around 4% as inflation is currently still higher than the Bank's target of 2%.

4.2 With existing borrowing being at fixed rates and investments being at variable rates (sometimes fixed for short periods), investment interest receivable will be much higher than budgeted (see 2.6 above), with interest on borrowing remaining constant. However, if new borrowing were required during 2024/25 this is likely to be at a much higher rate than has been available during the past few years; due to the relatively high level of the capital programme (current forecast is spend of c.£11m), short-term borrowing has been required in December 2024 until July 2025. Short-term borrowing to address temporary cashflow deficits is occasionally required at various times throughout the year but usually only for a few days at a time.

#### 5.0 Conclusion

5.1 Treasury management update reports (outturn and mid-year) will be presented to future Joint Audit and Standards Committee meetings to keep members updated on treasury management activity.