



## Cumbria Office of the Police, Fire and Crime Commissioner Report

**Title:** Treasury Management Activities 2023/24 Quarter 4 (January to March 2024) and Annual Report 2023/24

### Strategic Business Board 21 May and JAC Meeting 26 June 2024

#### Purpose of the Report

The purpose of this paper is to report on the Treasury Management Activities (TMA), which have taken place during the period January to March 2024, in accordance with the requirements of CIPFA's Code of Practice on Treasury Management.

TMA are undertaken in accordance with the Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) approved by the Commissioner in February each year.

#### Recommendations

The Commissioner is asked to note the contents of this report.

JAC Members are asked to note the contents of this report. The report is provided as part of the arrangements to ensure members are briefed on Treasury Management and maintain an understanding of activity in support of their review of the annual strategy.

#### Economic Background

Investment returns picked up throughout the course of 2023/24 as central banks, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is predicting a first cut in Bank Rate in either June or August 2024.

By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in May 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the CPI measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages, and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.

## TM Operations and Performance Measures

The Commissioners day to day TMA are undertaken in accordance with the TMSS. The TMSS establishes an investment strategy with limits for particular categories of investment and individual counterparty limits within the categories.

**Outstanding Investments:** As at 31 March 2024 the total value of investments was **£5.126m** and all were within TMSS limits.

The chart below shows the outstanding investments at 31 March by category.

Category	Category Limit (£m)	Investments at 31 Mar (£m)	Compliance with Limit
1 - Banks Unsecured	20	1.846	Yes
2 - Banks Secured	20	0.000	Yes
3 - Government (inc LA)	10	0.000	Yes
4 - Registered Providers	10	0.000	Yes
5 - Pooled Funds	15	3.280	Yes
<b>Total</b>		<b>5.126</b>	

A full list of the investments that make up the balance of £5.126m is provided at **Appendix A**.

**Investment Activity:** During quarter 4 a total of 5 investments with a combined value of £16.460m were made within TM categories 1-3 (banks unsecured, banks secured and Government). In addition to these there were regular smaller investments in category 5 (money market pooled funds).

**Non-specified investments:** The TMSS sets a limit for investments with a duration of greater than 364 days at the time the investment is made (known as non-specified investments), this limit is £5m. At 31 March the Commissioner had no investments meeting this description.

**Investment Income:** The base budget for investment interest receivable in 2023/24 was set at £400k based on the interest rate predictions at the time. The actual income achieved against this target was £1.009m. This was as a result of the numerous base rate rises throughout the year as shown in the table below:

Date	Increase	Rate
23/03/2023	-	4.25%
11/05/2023	0.25%	4.50%
22/06/2023	0.25%	5.00%
03/08/2023	0.25%	5.25%

The average return on investments during quarter 4 was 5.28%. As a measure of investment performance, the rate achieved on maturing investments of over 3 months in duration would normally be compared with the average BOE base rate for the period of the investment.

**Cash Balances:** The aim of the TMSS is to invest surplus funds and minimise the level of un-invested cash balances.

The actual un-invested cash balances for the period January to March are summarised in the table below:

	Number of Days	Average Balance	Largest Balance
Quarter 4		£	£
Days In Credit	91	80,997	316,951
Days Overdrawn	0	0	0

There were a number of occasions where the bank balance exceeded the target balance of £7.5k as the practice of sweeping smaller balances daily into the liquidity select account was halted in August 2021. The time taken to perform and verify the transfers outweighed the lost interest from holding higher balances in the main fund. Both the main fund and liquidity select account are held at the Commissioners main bank (the NatWest) so there was no change to the risk profile.

The overnight balance of £316k occurred in January 2024, seized cash was received into the PFCC's main fund account late in the afternoon, after the money market funds had closed. The funds were held overnight as they are not guaranteed as cleared until the next working day.

**Loan Activity:** There were no external loans in place on the 31 March 2024.

## Prudential Indicators

In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators which determine if the TMSS meets the requirements of the Prudential Code in terms of *Affordability, Sustainability and Prudence*.

An analysis of the current position with regard to those prudential indicators for the financial year 2023/24 is provided at **Appendix B**. The analysis confirms that the Prudential Indicators set for 2023/24 have all been complied with.

## Annual Report on Treasury Management Operations 2023/24

**Treasury Strategy:** In February 2023 the Commissioner approved the 2023/24 Treasury Management Strategy Statement (TMSS). The TMSS incorporated the investment and borrowing strategies for the 2023/24 financial year. The investment strategy approved for 2023/24 was largely the same as had been adopted for the previous year. The limits for each category of investment were based on the relative security of each class of financial institution and a percentage of the estimated balances, which would be available for investment during the year.

In relation to borrowing, the Commissioner has an underlying need to borrow funds to finance the capital programme, which is measured by the Capital Financing requirement (CFR).

The CFR at the start of 2023/24 amounted to £21.468m (including £3.964m relating to the PFI agreement for Workington BCU HQ) leaving a £17.504m exposure to external borrowing at some time in the future, which is presently being covered by the use of internal funds (reserves).

The closing CFR for 2023/24 is £20.799m, of which £3.700m relates to the PFI thereby leaving a £17.099m exposure to the requirement to undertake external borrowing at some point.

During 2023/24 the Commissioner has maintained this strategy of using cash balances, arising primarily from reserves, to meet the cash flow commitments and was not therefore compelled to borrow.

Long term borrowing rates were high during 2023/24 and the core advice from Link Asset services was to reappraise any capital expenditure plans/profiles, and internally borrow for any financing, or use short dated borrowing, this advice will remain until the long term rates reduce.

The provision of treasury management advice services is through a contract with Link Asset Services Ltd.

The Commissioner, in consultation with the treasury advisors continues to look for the most opportune time to undertake any longer term borrowing to fund the capital financing requirement.

### Key Statistics

Principal:

Number of investments placed during 2023/24 was 89 (99 in 2022/23).

Value of investments placed during 2023/24 was **£157.714m** (£162.728m in 2022/23).

Of these investments made, 87 were to external counterparties and as such will have attracted a £10 transfer fee per transaction. The transfer to the NatWest Liquidity Select account for overnight money is classed as an inter-account transfer' as the NatWest holds the Commissioner's main bank account. This type of transfer is free although we do pay a small fee to access the internet banking site.

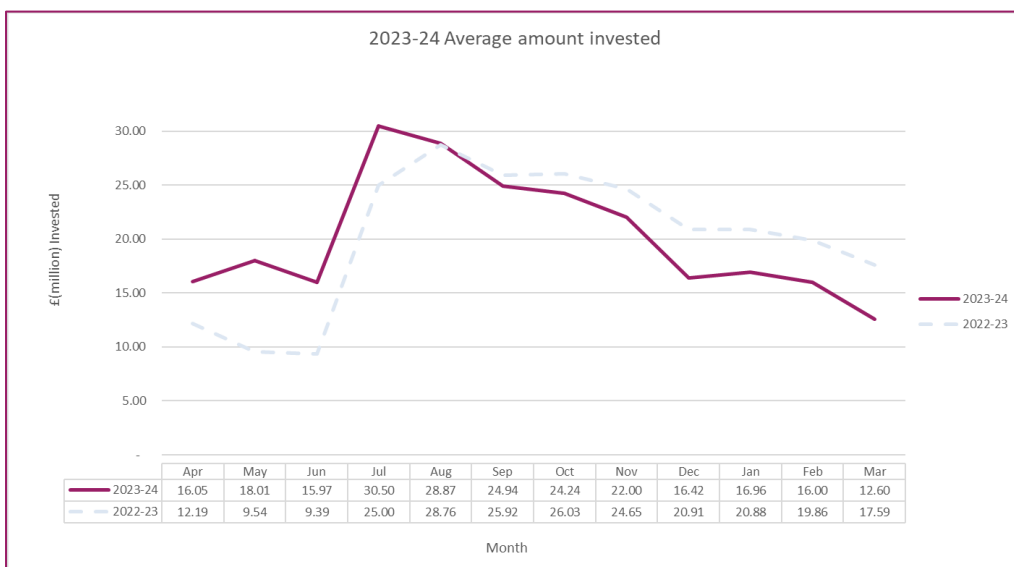
The **average** daily investment balance during 2023/24 was **£20.242m** (£20.082m in 2022/23).

The **highest** daily investment balance in 2023/24 was **£34.129m** (£29.197m in 2022/23)

The **lowest** daily investment balance in 2023/24 was **£5.126m** (£4.764m in 2022/23).

A detailed breakdown of the closing balance invested as at 31 March 2024 is provided at **Appendix A**.

The level of cash reserves available to invest has followed the same pattern as seen in previous years. Following the introduction of the Home Office Police Pensions Grant in 2007/08, there has been an annual spike in investments in July, when the majority of the grant is received, followed by a gradual decline in balances as pension payments are made throughout the remainder of the year.

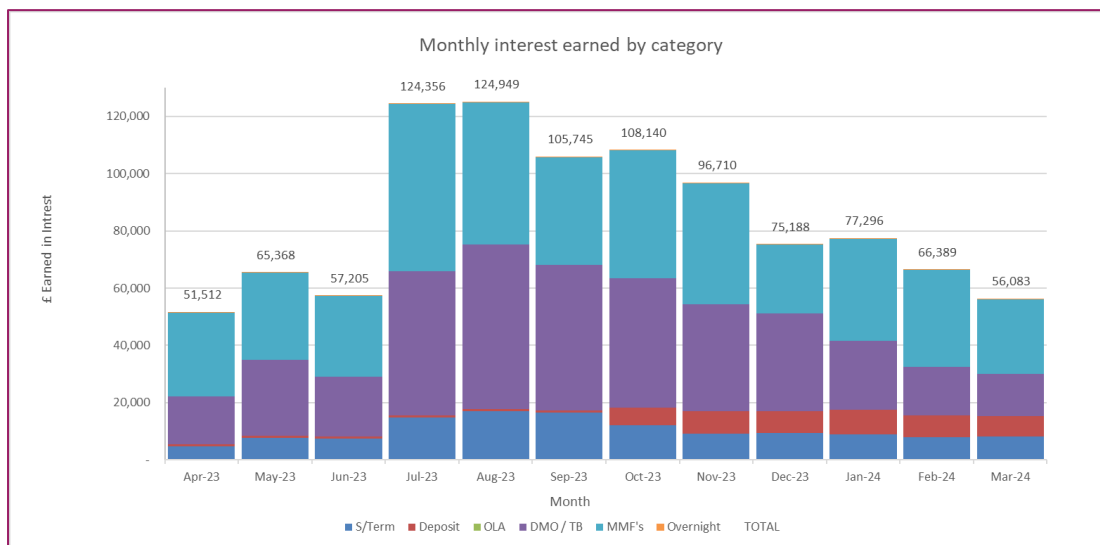


This chart illustrates the monthly average amounts invested during 2023/24 (with monthly comparatives for 2022/23).

### Key Statistics

#### Interest:

A total of £1.009m was earned in 2023/24 (£437k in 2022/23) from the Commissioner's treasury management activities and can be broken down as follows:



This chart illustrates the monthly interest receipts during 2023/24 by category of investment

The average return on investments for 2023/24 was 4.97% (2.17% in 2022/23). The base rate started the year at 4.25 % and was increased 3 times towards the end of the financial year as follows:

Date	Increase	Rate
23/03/2023	-	4.25%
11/05/2023	0.25%	4.50%
22/06/2023	0.25%	5.00%
03/08/2023	0.25%	5.25%

The rate has been held at 5.25% since August 2023, it is expected that rates will start to reduce during 2024.

The table above shows the outturn on investment interest as £1.009m for 2023/24 which is considerably above the £400k base budget. The base budget was set when interest rates were 3% and still volatile. In each quarterly treasury management activities report the latest expected outturn has been reported, namely, June £750k, September £750k and December £950k.

The latest forecasts estimate that rates will reduce to 4.5% by the end of the financial year although the economy is still volatile, and this is the current forecast.

**Treasury Operations - Investments:** As discussed above the aim of the Treasury Management Strategy is to invest surplus cash and minimise the level of un-invested cash balances, whilst limiting risks to the Commissioner’s funds.

Actual un-invested balances for 2023/24 for the Commissioner’s main bank account are summarised in the table below:

	Number of Days	Average Balance	Largest Balance
2023/24		£	£
Days In Credit	362	62,657	586,071
Days Overdrawn	3	0	(112,602)

The largest credit and overdrawn balances occurred during quarter 2.

Only one occurrence where the credit balance was higher than within normal operating levels. In September 2023 £573k of seized cash was received into the PFCC's main fund account late in the afternoon, after the money market funds had closed. The funds were held overnight as they are not guaranteed as cleared until the next working day.

The account was overdrawn once whereby an error was made calculating the grant income due & the late arrival of precepts from Cumbria's two local authorities. The error was noticed later in the afternoon by which time it was too late to call funds back. A new account has since been set up with Lloyds bank, which allows money to be called back up until 4pm to help minimise this particular risk in the future.

### Treasury Operations – Borrowing:

No borrowing activities were carried out during 2023/24.

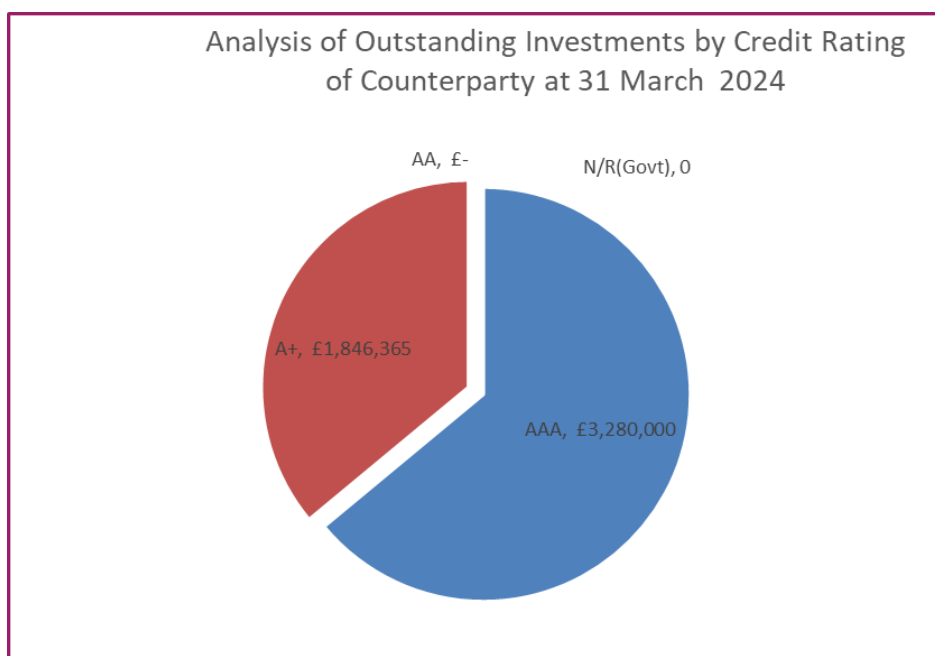
### Compliance with Prudential Indicators

All treasury related Prudential Indicators for 2023/24, which were set in February 2023 as part of the annual Statement of Treasury Management Strategy, have been complied with. Further details can be found at **Appendix B**

## Appendix A

### Investment Balance at 31 March 2024

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
<b>Category 1 - Banks Unsecured (Includes Banks &amp; Building Societies)</b>							
Lloyds Bank	A+	31/03/2024	On Demand	N/A	5.14%	1,836,365	1,836,365
NatWest (Liquidity Select Acc)	A+	31/03/2024	On Demand	O/N	1.45%	10,000	10,000
						<b>1,846,365</b>	<b>1,846,365</b>
<b>Category 2 - Banks Secured (Includes Banks &amp; Building Societies)</b>							
None							<b>0</b>
<b>Category 3 - Government (Includes HM Treasury and Other Local Authorities)</b>							
None							<b>0</b>
<b>Category 4 - Registered Providers (Includes Providers of Social Housing)</b>							
None							<b>0</b>
<b>Category 5 - Pooled Funds (Includes AAA rated Money Market Funds)</b>							
Goldman Sachs	AAA	Various	On demand	O/N	5.170%	3,280,000	3,280,000
						<b>3,280,000</b>	<b>3,280,000</b>
<b>Total</b>						<b>5,126,365</b>	<b>5,126,365</b>



Note – The credit ratings in the table & chart relate to the standing as at 31 March 2024, these ratings are constantly subject to change.



# Appendix B

## Prudential Indicators 2023/24

Treasury Management Indicators		Result	RAG	Prudential indicators		Result	RAG
<p><b>The Authorised Limit</b></p> <p><i>The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not be sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit under section 3(1) of the Local Government Act 2003.</i></p>	<p>TEST - Is current external borrowing within the approved limit</p>	YES		<p><b>Ratio of Financing Costs to Net Revenue Stream</b></p> <p><i>This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meet financing costs.</i></p>	<p>TEST - Is the ratio of capital expenditure funded by revenue within planned limits</p>	YES	
<p><b>The Operational Boundary</b></p> <p><i>The operational boundary represents and estimate of the most likely but not worst case scenario it is only a guide and may be breached temporarily due to variations in cash flow.</i></p>	<p>TEST - Is current external borrowing within the approved limit</p>	YES		<p><b>Net Borrowing and the Capital Financing Requirement</b></p> <p><i>This indicator is to ensure that net borrowing will only be for capital purposes. The Commissioner should ensure that the net external borrowing does not exceed the total CFR requirement from the preceding year plus any additional borrowing for the next 2 years.</i></p>	<p>TEST - Is net debt less than the capital financing requirement</p>	YES	
<p><b>Actual External Debt</b></p> <p><i>It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investment rates compared to the costs of borrowing.</i></p>	<p>TEST - Is the external debt within the Authorised limit and operational boundary</p>	YES		<p><b>Capital Expenditure and Capital financing</b></p> <p><i>The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2023/24.</i></p>	<p>TEST - Is the current capital outturn within planned limits</p>	YES	
<p><b>Gross and Net Debt</b></p> <p><i>The purpose of this indicator is to highlight a situation where the Commissioner is planning to borrow in advance of need.</i></p>	<p>TEST - Is the PFCC planning to borrow in advance of need</p>	NO		<p><b>Capital Financing Requirement</b></p> <p><i>The CFR is a measure of the extent to which the Commissioner needs to borrow to support capital expenditure only. It should be noted that at present all borrowing has been met internally.</i></p>	<p>TEST - Is the capital financing requirement within planned limits</p>	YES	
<p><b>Maturity Structure of Borrowing</b></p> <p><i>The indicator is designed to exercise control over the Commissioner having large concentrations of fixed rate debt needing to be repaid at any one time.</i></p>	<p>TEST - Does the PFCC have large amounts of fixed rate debt requiring repayment at any one time</p>	NO					
<p><b>Upper Limit for total principal sums invested for over 365 Days</b></p> <p><i>The purpose of this indicator is to ensure that the Commissioner has protected himself against the risk of loss arising from the need to seek early redemption of principal sums invested.</i></p>	<p>TEST - Is the value of long term investments within the approved limit</p>	YES					