

## **Joint Audit & Standards Committee**

**14<sup>th</sup> September 2022**

### **TREASURY MANAGEMENT MID-YEAR REVIEW 2022/2023**

**West Mercia Police and Crime Commissioner  
at the end of August 2022**

#### **Executive Summary**

The following report is to inform members of the Joint Audit and Standards Committee of the Treasury Management Performance for 2022/23 as at 31<sup>st</sup> August 2022. This report illustrates West Mercia Police's conformance with our Treasury Management Strategy approved on 28<sup>th</sup> March 2022 along with CIPFA guidance on Treasury Management in Public Services.

The report sets out the performance of West Mercia Police's investments and borrowing performance for the first 6 months of the financial year.

#### **1.0 Background**

- 1.1 West Mercia's Police and Crime Commissioner fully complies with the requirements of The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice (COP) on Treasury Management 2011.
- 1.2 The Treasurer has delegated the daily actions of treasury management to the Chief Finance Officer of the Force and his staff.

#### **2.0 Mid-Year Review of Treasury Management Activities**

- 2.1 The Mid-Year review of Treasury Management activities covers two aspects; funding capital expenditure and cash flow control and investment. The report will consider each in turn.

#### **3.0 Financing Capital Expenditure**

- 3.1 Over recent years the Police and Crime Commissioners' capital expenditure has been financed by Home Office Grants, capital receipts, usable reserves and contributions from cash balances (the latter is known as "internal borrowing") with the remainder funded via external borrowing.

The 22/23 capital programme identifies spend of £30.5m, which will be funded by borrowing of £28.2m. To date, only short-term borrowing has taken place to cover temporary cash flow deficits. As of 31<sup>st</sup> August, slippage has been identified in multiple capital projects which will result in a reduction to the amount West Mercia will need to borrow this financial year.

The precise timing of the requirement to borrow will be decided in light of the West Mercia Police and Crime Commissioner's cash flow and market conditions, although it is expected that this will be during Quarter 3 of 2022/23.

- 3.2 The Police and Crime Commissioner carries long-term debt in respect of borrowing to finance capital expenditure. The Police and Crime Commissioner currently holds six loans from the Public Works Loan Board (PWLB), amounting to £34.027m

**West Mercia PWLB as at 31st August 2022**

Number of Loans	Loan Type	Shortest End Date	Longest End Date	Interest Rate from	Interest Rate to	Loans Outstanding £m
3	Maturity	2024	2048	1.65%	4.45%	15
2	EIP	2031	2039	1.21%	2.01%	9.65
1	ANN	2035	2035	0.98%	0.98%	9.37

Principal on Maturity loans are repaid in full at the end of the loan, with annual payments being “interest-only”; an annuity loan is where the same total amount is repaid each year with the mix of principal and interest varying over time; EIP loans are where an equal instalment of principal is repaid each year, together with a reducing amount of interest.

West Mercia Police have incorporated £1.0m into the 2022/23 revenue budget for to fund interest payments as a result of borrowing activity. As of 31<sup>st</sup> August 2022, West Mercia Police forecast a requirement of £0.8m due to capital slippage along with favourable cash flow resulting in less short term borrowing than planned, therefore achieving £0.2m in savings.

**4.0 Cash flow control and Investment**

- 4.1 This is the control of the Police and Crime Commissioners’ income and expenditure balances held in bank accounts and the temporary investment of surplus funds.
- 4.2 The investment strategy for the Police and Crime Commissioners 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 above the return on the investment.
- 4.3 This focus on the security of the investment is addressed by maintaining a list of acceptable borrowers. This list is maintained on a daily basis and is supported by alerts from Arlingclose who provide Treasury Management advice on a regular basis and respond to immediate alerts to credit rating changes.
- 4.4 The risk to the security of investments is also mitigated by using a range of money market brokers. The use of the brokers during the 6 month period is as follows:

Broker	No. of Loans	Investment Recipient	No. of Loans
Tullet Prebon	3	Local Government	6
Direct Deals (UKDMO)	15	Treasury (UKDMO)	15
Imperial Treasury	2	On-Call Bank Account	1
R P Martin	1	Total	<b>22</b>
Direct Deal Santander	1		
Total	<b>22</b>		

- 4.5 The above investments comply with the Prudential Indicators in that investments are made with security of capital and liquidity of investments being the primary concern. This resulted in frequent investments with UKDMO above Local Authorities. Investment with UKDMO also supports the Commissioner's risk appetite being very low.

The above investments above are all with approved counterparties according to West Mercia Police's Treasury Management Strategy and within the values and terms associated with their credit rating.

## 5.0 Position at 31st August 2022

- 5.1 West Mercia Police had a cash balance of £10.579m as at 31<sup>st</sup> August 2022.

	£m
Investment Account	2.850
Payments Account	4.191
Income Account	0.002
Santander Call Account	2.000
Other	1.536
<b>Total</b>	<b>10.579</b>

This balance is higher than usual due to pension payments totalling £4.75m, due to be paid on 1<sup>st</sup> September 2022. West Mercia's main bank account (HSBC) will hold a balance of £3.8m following the pension payment, along with £2m in the Santander Call Account. This amount is felt reasonable to cover creditor payments that were due on 2<sup>nd</sup> September.

No investments, either short term or long term, were held as at 31<sup>st</sup> August 2022.

During the period from 1st April 2022 to 31st August 2022, the interest received from investments was £46,615.87.

There were no breaches of the Treasury Management code of Practice for West Mercia.

## 5.2 Base Rate

On 4<sup>th</sup> August the Bank of England raised the base rate from 1.25% to 1.75%. As at the 31<sup>st</sup> August 2022 the Bank of England base rate remains at 1.75%. This is a 1% increase from the start of the financial year when the base rate was 0.75%.

The implication of the increase in base rate is two-fold. Firstly, any investments West Mercia Police make are likely to receive higher interest payments. Secondly, any borrowing we undertake will attract a higher interest cost.

The change in interest rates will affect West Mercia Police's revenue budgets in 2023/24 where interest received and interest payable budgets will increase accordingly.

## 6.0 Summary

There is no proposed change in West Mercia Police's Treasury Management Strategy. This report is intended for information only to members of the Joint Audit and Standards Committee.