

Joint Audit & Standards Committee

22nd January 2024

TREASURY MANAGEMENT MID-YEAR REVIEW 2023/2024

**West Mercia Police and Crime Commissioner
at the end of December 2023**

Executive Summary

The following report is to inform members of the Joint Audit and Standards Committee of the Treasury Management Performance for 2023/24 as at 31st December 2023. This report illustrates West Mercia Police's conformance with our Treasury Management Strategy approved on 22nd March 2023 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 9 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 Director of Commercial Services (S.151) of the Force and his staff.
- 1.3 On 3rd August 2023, the Bank of England raised the base rate from 5.00% to 5.25%. As at the 31st December 2023, the Bank of England base rate remains at 5.25%. This is a 1% increase from the start of the financial year when the base rate was 4.25%.

The implication of the increase in base rate is two-fold. Firstly, any investments West Mercia Police make are likely to receive higher interest repayment. Secondly, any borrowing we undertake will attract a higher interest cost. The change in interest rates have affected West Mercia Police's revenue budgets in 2024/25 where interest received and interest payable budgets were increase accordingly.

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 23/24 capital programme identified planned spend of £39.59m, which was estimated to be funded by cash balances or borrowing of £37.95m. West Mercia has seen its ability to fund capital expenditure from internal cash resources reduce significantly over the past 4 years. There is an increasing need to external borrow to ensure that there is sufficient cash resources available to meet both revenue and capital spend. This exposes West Mercia to the impact of higher interest rates.

During 2023/24, 2 separate amounts of long term borrowing have been taken out with PWLB, 1 x £10m 5year Maturity loan at 4.87% taken out in November, and 1 x £10m 13 year EIP loan at 4.37% taken out in December on the advice of ArlingClose. Additional short-term borrowing has also taken place to cover temporary cash flow deficits.

As of 31st December, slippage in West Mercia Police's capital programme been identified across multiple projects, which has resulted in a reduction to the amount West Mercia will need to borrow this financial year.

The precise timing of the requirement to borrow is reviewed in conjunction with the West Mercia Police and Crime Commissioner's cash flow forecast and market conditions, although it is expected that additional long term borrowing will be during Quarter 4 of 2023/24.

- 3.2 The Police and Crime Commissioner carries long-term debt in respect of borrowing as it no longer has the ability to fund capital expenditure from internal sources. The Police and Crime Commissioner currently holds nine loans from the Public Works Loan Board (PWLB), amounting to £62.550m

West Mercia PWLB as at 31st December 2023

Number of Loans	Loan Type	Shortest End Date	Longest End Date	Interest Rate from	Interest Rate to	Loans Outstanding £m
4	Maturity	2024	2048	1.65%	4.87%	25
4	EIP	2025	2039	1.21%	4.37%	28.8
1	ANN	2035	2035	0.98%	0.98%	8.75

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 has a mix of Maturity and EIP borrowing in order to manage the cost of borrowing against the need to fund the borrowing, to negate the potential downsides that interest rates change in the future and to avoid constantly repaying large sums on maturity via additional further borrowing. A significant amount of borrowing is based on West Mercia Police's assets having a useful life of 10 years.

West Mercia Police have incorporated £1.46m into the 2023/24 revenue budget to fund interest payments as a result of borrowing activity, an increase of £555,000 on 2022/23.

As of 31st December 2023, West Mercia Police forecast a requirement of £1.53m due to borrowing being taken out slightly earlier than planned due to favourable interest

rates, after taking advice from our Treasury Management advisors, ArlingClose. The additional cost of borrowing earlier than required is more than offset by additional interest receivable as a result of investing this money back into the market short term, to come back when cashflow deficits are forecasted.

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 9 month period is as follows:

Broker	No. Loans
Direct Deals (UKDMO)	22
Imperial Treasury	5
BCG	3
Total	30

Investment Recipient	No. Loans
Local Government	8
Treasury (UKDMO)	22
Total	30

- 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.

West Mercia Police comply with all prudential code limits as set out in our Treasury Management Policy.

5.0 Position at 31st December 2023

- 5.1 West Mercia Police had a cash balance of £2.427m as at 31st December 2023.

	£m	
Investment Account	0.000	
Payments Account	(4.262)	
Income Account	5.060	

Santander Call Account	0.000	
Other	1.629	
Total	2.427	

This balance is lower than usual due to pension payments totalling £5.068m leaving the account that day, which is why the payments account shows an overdrawn status, with money sat in the income account to cover this. An automatic movement between the income account and payments account happens overnight to ensure no overdraft situation occurs.

3 investments with local authorities totalling £15.0m were held as at 31st December 2023, 1 maturing on 22nd January 2024 and 2 maturing on 28th March 2024.

During the period from 1st April 2023 to 31st December 2023, the interest received from investments was £609,505. Interest from the above 3 investments with local authorities will also contribute an additional £297,740. The total forecasted interest receivable for 2023/24 is £935,000.

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

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.