west midlands police and crime commissioner

Agenda Item 11

JOINT AUDIT COMMITTEE
4th September 2024

TREASURY MANAGEMENT OUTTURN REPORT 2023-24

1. PURPOSE OF REPORT

1.1 To present the annual treasury outturn report for 2023-24, in line with recommended best practice and the revised CIPFA Code of Practice for Treasury Management 2021.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) definition of treasury management is: 'The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

1.3 It is important to note that financial information contained within this report should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Commissioner and his treasury advisers will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this report.

1.4 This report has been written with support from the PCC's external treasury management advisors, LINK Treasury Services.

2. RECOMMENDATIONS

2.1 The Board is recommended to formally note the treasury management outturn position for 2023/24.

3. ECONOMIC UPDATE

3.1 The economic update below is from Link Treasury Services. Interest rate movements will impact the rate at which the PCC can borrow and invest money.

3.2 The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target. This helps to sustain growth and employment. At its June meeting, the MPC voted to keep the Bank rate at 5.25% for a seventh consecutive time.

3.3 GDP growth has been around 0.3% during the first half of this year. The Bank of England expect a similar growth in the near term.

4. PRUDENTIAL INDICATORS

4.1 Interest Rate Exposure

4.1.1 Twelve-month CPI inflation fell from 6.5% in May 2023 to 4.2% in May 2024. It remains above the MPC's 2% target. Inflation is expected to fall further to 2% in the coming months, due to energy prices being lower than they were a year ago. The table below includes Link's forecast, which has been updated following the June MPC meeting.

4.1.2 Link Group, provided the following interest rate forecasts on 26 June 2024:

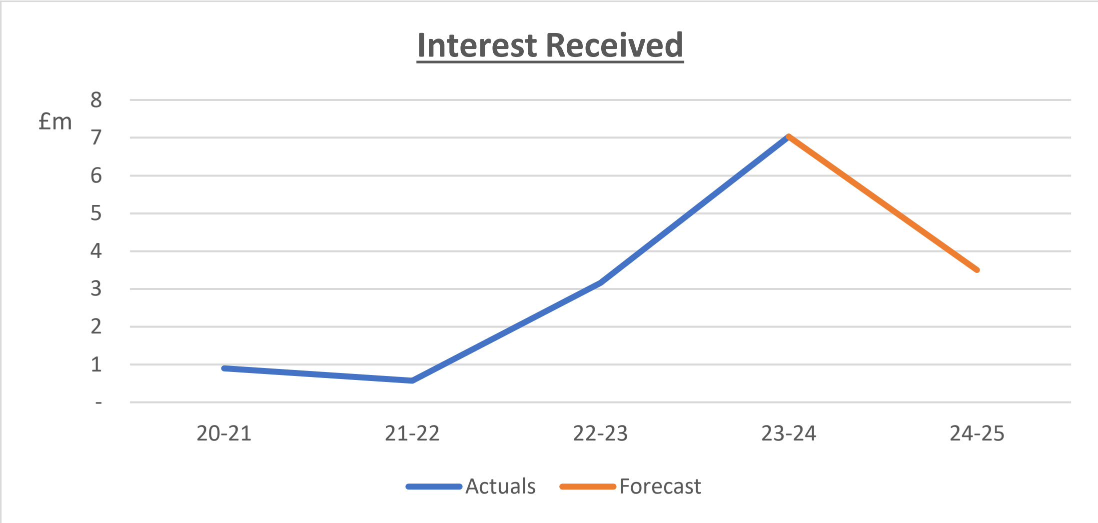
Forecasts	***Jun-24***	***Sep-24***	***Dec-24***	***Mar-25***	***Jun-25***	***Sep-25***	***Dec-25***	***Mar-26***
Bank Rate*	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25
5-year PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90
10-year PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10
25-year PWLB	5.30	5.20	5.00	4.70	4.70	4.50	4.40	4.40
50-year PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20

Note: PWLB is the Public Works Loans Board which is the main body through which the PCC borrows money against capital requirements. The rates shown in the table are for interest only loans over different loan periods, with the principal repayable as a lump sum at the end of the loan period.

**This is the LINK group forecast for 2-year BoE rates. For comparison, Capital Economics (a leader in providing independent Economic Research) have their 2-year forecast at 3.00% v LINK at 3.25%.*

4.1.3 The UK swiftly exited its latest recession in 2024. Growth is predicted to build throughout 2024 due to falling inflation, higher consumer spending and anticipated reductions in interest rates.

4.1.4 The table below shows the interest received on investments made, over the last 4 years with the forecast for the current year 2024-25. The forecast assumes interest rates that have been provided by Link Group and the planned investment is based on our long term cashflow forecast which is reviewed regularly.



Note – Excludes CCLA Property Fund

4.1.5 All interests are received on the basis of using only fixed rate investments as per our Treasury Management Strategy.

4.2 External Debt 2023-24

4.2.1 Since April 1986, the Police Authority had been incurring long term debt from the Public Works Loans Board (PWLB) to finance major capital expenditure. All the borrowing was transferred to the Commissioner in November 2012.

4.2.2 Borrowing at the 31 March 2024 was £84.5m, all at fixed rates and repayable over various periods up to 2072.

4.2.3 The Commissioner has the capacity to undertake variable rate borrowing (up to 20% of the total debt portfolio) should the need arise or to take advantage of fixed rates to fund identified need.

4.2.4 One loan matured during 2023/24 totalling £0.8m at 6.625%. A further two loans were also repaid earlier in March 2024 amounting to £20m. No new loans were taken out during the year.

4.2.5 The average rate of interest payable on debt during the year was 3.17%. Link Asset Services, the Commissioner's treasury advisors continue to advise on debt restructuring to enable the Commissioner to take advantage of opportunities to reduce the overall cost of debt, set in the context of the financial constraints and markets. There was an opportunity this year to repay some of the loans at a discount which led to repayment of the 2 loans reducing the overall debt from £104.5m to £84.4m.

4.2.6 The table below shows the level of borrowing and the average interest rate payable.

Public Works Loan Board (PWLB) Borrowing

Loan Type	Borrowing £'m		Average Interest Rates %	
	31/03/23	**31/03/24**	**2022-23**	**2023-24**
Fixed	105.3	**84.4**	3.20	3.17
Variable	0.0	**0.0**	0.0	0.0
Total	**105.3**	**84.4**	**3.20**	**3.17**

4.2.7 Appendix A shows the maturity profile of the Loan portfolio as at 31 March 2024.

4.3 Investments 2023-24

4.3.1 Any surplus funds have been invested on a daily basis. The PCC uses an investment benchmark to assess the investment performance of its investment portfolio of Sterling overnight Index average (SONIA).

4.3.2 Average interest earned on fixed term investments up to the end of March 2024 is 5.71%. The SONIA rate to mid-Jan averages 5.19%. The returns over the year have been at a good level compared to this benchmark. Interest received for the 2023-24 financial year was £7m, which was in excess of the forecast of £5m (excluding the property fund). However, it must be remembered that the primary objective of the PCC's treasury management strategy is security and liquidity so it is these factors that will be pursued ahead of yield.

4.3.3 As at the end of 31 March 2024, the Commissioner had £70m invested with a range of maturity dates between instant access and one year, and a further £5m with CCLA property fund with no maturity date.

4.3.4 All of the Commissioner's investments are with UK based entities. The split of these investments is as follows and detailed in Appendix B.

- 33% Money Market Funds (MMF's)
- 60% Local Authorities,
- 7% CCLA

The Commissioner has held no investments with foreign banks, all money market funds are UK based funds.

4.3.5 MMF's have been used to hold up to £60m throughout 2023-24 as they provide liquidity as well as yield rates which are reviewed daily. Two MMF's are currently held, with a third potentially being explored. The counterparty limits on the current MMF's is £30m. This has generated £2.6m of additional income in the 2023-24 financial year.

4.3.6 Based on market information provided by Link Asset Services, the counterparty list has been fully reviewed to reflect: current market conditions, credit ratings of sovereign nations, and the impact of Government support for the banking sector. The group and individual limits (£65m) for the part government owned institutions (National Westminster Bank, Royal Bank of Scotland) remained the same as in 2023-24. NatWest group are the bankers for the PCC and any uninvested funds reside here. During 2023-24 there were 3 months where the cash held in the NatWest account exceeded £65m as outlined in the table below. This was due to peaks in grant payments received and the timing of making suitable investments. No further breaches of the TMSS were noted within the year. The counterparty list and limits can be found in Appendix C.

Month	Days in breach
April	5
June	8
July	2

4.3.7 Similarly, all Local Authorities are eligible for inclusion on the counter party list because ultimately, they have the support of the national government. However, during 2020/21 it became known that some Local Authorities issued Section 114 notices, effectively stating they cannot balance the budget for the year and placing a freeze on any non-essential spending. (It should be noted that the repayment of investments falls outside the scope of this as it is a legal obligation). As a result of this, additional due diligence is now carried out on any Local Authority investments to ensure that investments are secure and to avoid any adverse publicity.

4.3.8 If institutions now fall below the set criteria they have been removed from the list and added if they become eligible.

4.3.9 The day to day work of Treasury Management is carried out in the Finance Department with oversight from the Director of Commercial Services. The Treasury Management Strategy is therefore managed using appropriate delegations and periodic management reporting to the Director of Commercial Services and the Commissioner's CFO. This will continue for the next financial year.

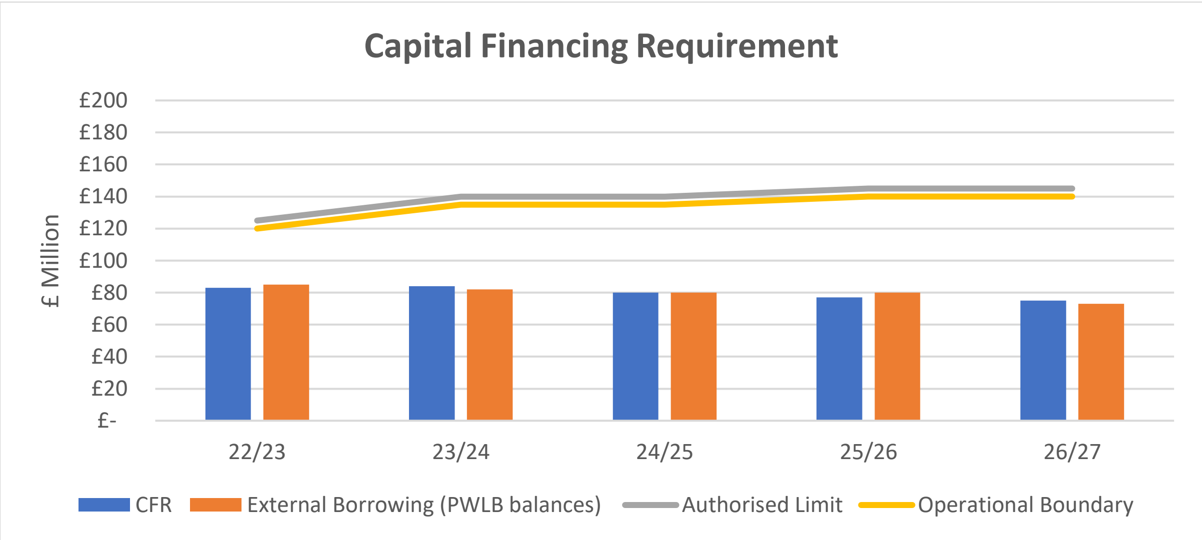
4.4 Capital Financing Requirement 2023/24

4.4.1 The Capital Financing Requirement (CFR) is the historic underlying need to borrow for capital expenditure. It builds up over time and expresses how much of historic capital expenditure, allowing for having used other sources of funding such as capital receipts, grant and revenue contributions, requires financing through other means, i.e. borrowing. The CFR increases when unfinanced expenditure is incurred and decreases when provision is made to repay that debt (through MRP). MRP is the statutory annual revenue charge which sets aside an amount from annual funding which broadly matches the indebtedness to each asset's usable life. In doing so, this charges the economic consumption of capital assets as they are used up in the provision of services.

	31-Mar-24 £'m	31-Mar-25 £'m	31-Mar-26 £'m	31-Mar-27 £'m	31-Mar-28 £'m
Capital Financing Requirements	*82.9*	*83.6*	*80.3*	*77.1*	*75.3*
Existing Borrowing	**105.3**	**84.5**	**82.3**	**80.3**	**80.3**
Repayments	-20.8	-2.2	-2	0	-7
New Borrowing	0	0	0	0	0
Net External Borrowing	**84.5**	**82.3**	**80.3**	**80.3**	**73.3**
(Over)/Under Borrowed	**(1.6)**	**1.3**	**0**	**(3.2)**	**2.0**

4.4.2 Borrowing can be either undertaken internally or externally. Internal borrowing occurs when MRP has been set aside to repay borrowing but that borrowing is not yet due to be repaid, leaving a cash balance available to temporarily apply to other capital spend. However, external borrowing may also be needed for new capital expenditure and be taken as external loans.

4.4.3 These loans are used to finance capital expenditure, which means the acquisition or improvement of assets: land, buildings, ICT infrastructure. Therefore, although there is an increased liability on the balance sheet in terms of borrowing this is offset by an increase in the value of assets to be utilised in the provision of services.



4.4.4 The table above shows how the CFR is expected to change over the period of the MTFP and shows that the PCC is currently in a slightly 'overborrowed' position (£1.6m). This is because the current loan of £7.5m was not fully applied previously, with only £3.5m being applied in 2023-24. Going forward, the remaining £4m has now forecasted to be applied in 2024-25, which has brought the CFR in line with the net external borrowing.

4.4.5 The forecast for 2026-27 shows a move towards a slight overborrowed position but this reverts back after the maturity of a £7m loan.

APPENDIX A

Loan maturity profile as at 31 March 2024

Maturity Date	Loan amount	Interest rate	Annual int. payable
15/10/2024	2,200,000	6.625%	145,750
15/10/2025	2,000,000	6.625%	132,500
30/11/2027	7,000,000	3.990%	279,300
15/06/2056	5,587,000	4.450%	248,621
01/03/2057	8,200,000	4.350%	356,700
01/09/2061	2,000,000	4.875%	97,500
07/12/2068	10,000,000	2.640%	264,000
10/12/2068	10,000,000	2.540%	254,000
12/02/2069	5,000,000	2.370%	118,500
28/03/2069	10,000,000	2.160%	216,000
08/10/2069	15,000,000	1.630%	244,500
14/03/2072	7,500,000	2.070%	170,250
TOTAL	**84,487,000**		**3,302,122**

APPENDIX B

Investments as at 31 March 2024

INVESTMENTS AS AT 31/03/24				
Maturity	**Borrower**	**Principal (£)**	**Rate (%)**	**Type**
08-Apr-24	Doncaster City Council	**5,000,000**	5.55	Local Authority
22-Apr-24	Great Yarmouth Borough Council	**5,000,000**	6.30	Local Authority
25-Apr-24	Dorset Council	**10,000,000**	5.55	Local Authority
25-Apr-24	Surrey County Council	**5,000,000**	5.55	Local Authority
25-Apr-24	Bournemouth, Christchurch and Poole Council	**5,000,000**	6.00	Local Authority
03-May-24	Suffolk County Council	**5,000,000**	5.55	Local Authority
03-May-24	Fife Council	**5,000,000**	5.55	Local Authority
25-Oct-24	Basildon Borough Council	**5,000,000**	5.75	Local Authority
Instant	Money Market Fund CCLA	**10,000,000**	variable	
Instant	Money Market Fund Federated	**15,000,000**	variable	
5 to 10 years	CCLA	**5,000,000**	variable	Property Fund

APPENDIX C

External Investments - Approved Counterparty List and Limits 2023-24

LOCAL AUTHORITIES	LIMIT for each LA	
	£m	PERIOD
All Local Authorities**	30	1 year+
Banks and building societies (exc. RBS Group)	30	<1 year
RBS Group (Natwest and Royal Bank of Scotland)	65	<1 year
Bank of England (DMADF)	100	1 year+
Money Market Funds	30	Instant access

** Local authorities may be subject to lower limits throughout the year if they are deemed to be under severe financial stress.