



west midlands
police and crime
commissioner



AGENDA ITEM 07

**JOINT AUDIT COMMITTEE
5 December 2024**

**2024/25 TREASURY MANAGEMENT UPDATE
REPORT TO 30 SEPTEMBER 2024**

1. PURPOSE OF REPORT

- 1.1 This report updates members on recent Treasury Management activity, in line with recommended best practice and the revised CIPFA Code of Practice for Treasury Management. The report provides a summary of macroeconomic factors and also an update of the Police and Crime Commissioner's (PCC) position. It is a mid-year report for the 2024/25 financial year.
- 1.2 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 PCC and their 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.
- 1.3 This report has been written with support from the PCC's external treasury management advisors, LINK Treasury Services.

2. BACKGROUND

- 2.1 The PCC operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 2.2 The second main function of the treasury management service is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer term cash flow planning to ensure the PCC can meet its capital spending plan. This management of longer term cash may involve arranging

long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet PCC risk or cost objectives.

- 2.3 Accordingly, treasury management is defined as:
“The management of the PCC’s borrowing, investments and 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.”

3. ECONOMIC UPDATE & INTEREST RATE FORECASTS

- 3.1 The economic update below will influence how interest rates will move which will impact the rate at which the PCC can borrow and invest money.
- 3.2 The Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC voted to reduce the Bank Rate by 0.25 percentage points to 4.75% at its meeting on 6 November 2024.
- 3.3 Chancellor Rachel Reeves presented the Autumn Budget in October, with the accompanying Office for Budget Responsibility report noting that it would raise growth and inflation in the near-term (compared to its previous forecast from March) but that higher rates would then tend to slow but not reduce economic growth through the remainder of the current five-year parliament. The proposals would loosen fiscal policy relative to previous plans but also included significant tax raises, to help support day-to-day spending and the rebuilding of public services. This, alongside longer-term investment plans, would be supported by an additional £142bn of additional borrowing during the current parliamentary session.
- 3.4 UK real gross domestic product (GDP) is estimated to have grown by 0.5% in April to June 2024, revised down from a first estimate increase of 0.6%. Headline GDP growth is expected to fall back to its recent underlying pace of around 0.25% per quarter over the second half of the year. The MPC judges that the labour market continues to loosen, although it appears relatively tight by historical standards.
- 3.5 CPI inflation in the UK was 1.7% in the 12 months to September 2024, down from 2.2% in August. The largest downward contribution mainly came from air fares and motor fuels, which more than offset the largest upside influence from food and non-alcoholic beverages.
- 3.6 Based on the evolving evidence, a gradual approach to removing policy restraint remains appropriate. The MPC will continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further.
- 3.7 The Bank of England is concerned that inflation could rise again this year to around 2.5%, before coming back down next year. The Bank is wary of cutting rates too quickly before inflation is under control. As inflation fell to 1.7%, this means that inflation is below the target of 2%, although the Bank of England does expect it to increase slightly in the coming months. The Bank of England has stated that it will not hesitate to raise interest rates again if inflation starts to accelerate higher.

Interest rate forecasts

3.8 Link Group, provided the following interest rate forecasts on 24 October 2024:

Forecasts	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Bank Rate*	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00
5 year PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90
10 year PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00
25 year PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40
50 year PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	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.

4. ANNUAL INVESTMENT STRATEGY

4.1 The Treasury Management Strategy Statement (TMSS) for 2024/25 was approved by the PCC in February 2024. The PCC's Annual Investment Strategy which is included in the TMSS outlines the PCC's investment priorities as "security of capital, liquidity and yield" in that order.

4.2 The best possible return on investments will be pursued but only to the extent that this is consistent with the proper levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods of up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach which includes daily credit rating updates.

4.3 Due diligence is undertaken for all investments made including those with Local Authority bodies. A summary of the investments/cash position held at 30/09/2024 is shown below:

Investment	£m
Instant Access	17.3
Money market Funds	40.0
Investments	135.0
Property Fund	5.0
Total	197.3

4.4 A full list of investments held as at 30 September 2024 is shown in **Appendix 1**. This is high because the PCC received the full year's police pensions top up grant of £121m in July 2024, (£97m July 2023).

4.5 The average cumulative interest rate achieved on investments made in the first half of 2024/25 is currently 5.22% which compares with 4.95% for the SONIA rate (Sterling Overnight Index Average).

4.6 The PCC's forecast investment return for 2024/25 is £7m. This is notably higher than budgeted (£3.5m). This is reflected in the forecast.

4.7 MMF's have been utilised by the PCC to increase liquidity in 2024-25. Currently £40m is invested with three MMFs and they are carrying an average rate of return of 4.97%. These investments have no maturity date and are repayable on demand (without any charges or penalties).

4.8 In the first half of the financial year, the £5m investment in the CCLA property fund returned gross dividends of £110k. The fund aims to provide a high level of income and capital growth over the long-term (defined as 5 years). Income will continue to be the key driver of total returns from property. Over the second quarter the fund's total return (taking income and capital together) was +1.4% compared with a return on the comparator benchmark of +1.1% (the comparator benchmark is MSCI/AREF UK Other Balanced Open-Ended Quarterly Property Fund Index which provides an independent view of current market performance and the performance of the funds active within it).

4.9 Investment returns to end of September 2024 (i.e. interest received):

- Investments (Banks, Building Societies and Local Authorities) £2.4m
- Money market funds £1.4m
- Property Funds £110k

4.10 The Natwest current account has also received a good level of interest from April to September this year, £195k at an average rate of 1.26%. During the same period last year, the account received interest of £264k at an average rate of 1.43%. With better cashflow forecasting we have been able to invest surplus cash in other investments with better rates of return.

4.11 There are no breaches to the Treasury Management Statement Strategy to report.

5 PRUDENTIAL INDICATORS

5.1 It is a statutory duty for the PCC to determine and keep under review the affordable borrowing limits that were part of the Prudential Indicators agreed in the Treasury Management Strategy Statement approved in February 2024.

5.2 The Prudential Indicators were not breached during the first 6 months of 2024/25, as shown in the table below:

<i>Prudential Indicator</i>	<i>2024/25 Indicator</i>	<i>Actual to 30/09/24</i>
Capital Financing Requirement (CFR)	£135.1m	£89.1m
Gross Borrowing	£102.3m	£84.5m
Authorised Limit for External Debt	£140m	£84.5m
Operational Boundary for External Debt	£135m	£84.5m
Limit of Fixed Interest Rates based on Net Debt	100%	100%
Limit of Variable Interest Rates based on Net Debt	20%	0%

Maturity Structure of Borrowing Limits	2024/25 Indicator	Actual to 30/09/24
Under 12 Months	25%	3%
12 Months to 2 Years	25%	2%
2 Years to 5 Years	50%	8%
5 Years to 10 Years	75%	0%
10 Years and Above	100%	87%

5.3 All of the PCC's borrowing to date, has been obtained from the PWLB as shown in **Appendix 2**. No additional borrowing is expected to be undertaken in 2024/25.

6 RECOMMENDATIONS

6.1 The Committee is recommended to note the report which complies with the CIPFA Code of Practice for Treasury Management.

Jane Heppel
 Chief Finance Officer
 Police and Crime Commissioner

Peter Gillett
 Director of Commercial Services
 West Midlands Police

Appendix 1

INVESTMENTS AND BALANCES AS AT 30/09/2024

Maturity	Counterparty	Type	Principal (£)	Rate (%)
07-Oct-24	Goldman Sachs	Bank	10,000,000	5.23
21-Oct-24	Blackpool Borough Council	LA	10,000,000	5.15
25-Oct-24	Basildon Borough Council	LA	5,000,000	5.75
01-Nov-24	Coventry Building Society	Bank	15,000,000	4.98
25-Nov-24	Telford & Wrekin Council	LA	10,000,000	5.25
25-Nov-24	Blackpool Borough Council	LA	5,000,000	5.25
25-Nov-24	Wirral MBC	LA	10,000,000	5.0
05-Dec-24	Bradford Metropolitan Council	LA	10,000,000	5.2
17-Dec-24	Dundee City Council	LA	10,000,000	5.0
18-Dec-24	Reading Borough Council	LA	5,000,000	4.8
18-Dec-24	Reading Borough Council	LA	5,000,000	4.8
20-Dec-24	Bradford Metropolitan Council	LA	5,000,000	5.15
20-Dec-24	Falkirk Council	LA	10,000,000	5.15
23-Dec-24	Plymouth City Council	LA	5,000,000	5.0
24-Jan-24	Suffolk County Council	LA	10,000,000	5.25
24-Jan-24	Surrey County Council	LA	10,000,000	5.2
On demand	Money market Fund (MMF's)	MMF	40,000,000	4.97
5 to 10 years	CCLA Property fund	Property	5,000,000	4.25
On demand	NatWest	Instant Access	17,300,000	1.80
	Total		197,300,000	

Appendix 2

BORROWING – AS AT 30 SEPTEMBER 2024

1. LONG TERM EXTERNAL BORROWING - PWLB

Principal	Interest rate	Annual Interest	Start date	Maturity
2,200,000	6.625%	145,750.00	15/10/1997	15/10/2024
2,000,000	6.625%	132,500.00	15/10/1997	15/10/2025
7,000,000	3.990%	279,300.00	30/11/2022	30/11/2027
5,587,000	4.450%	248,621.50	28/06/2006	15/06/2056
8,200,000	4.350%	356,700.00	26/03/2007	01/03/2057
2,000,000	4.875%	97,500.00	03/09/2001	01/09/2061
10,000,000	2.640%	264,000.00	07/12/2018	07/12/2068
10,000,000	2.540%	254,000.00	10/12/2018	10/12/2068
5,000,000	2.370%	118,500.00	12/02/2019	12/02/2069
10,000,000	2.160%	216,000.00	28/03/2019	28/03/2069
15,000,000	1.630%	244,500.00	08/10/2019	08/10/2069
7,500,000	2.070%	155,250.00	14/03/2022	14/03/2072
84,487,000		2,512,621.50		

Average rate of interest payable is 2.97% all of which is at a fixed rate.

2. TEMPORARY EXTERNAL BORROWING

There is currently no short term external borrowing