

ORIGINATOR: PCC CHIEF FINANCE OFFICER

PAPER NO: AC24/32

SUBMITTED TO: AUDIT COMMITTEE – 4th December 2024

SUBJECT: MID-YEAR TREASURY MANAGEMENT MONITORING REPORT 2024/25

SUMMARY:

1. This report presents the mid-year treasury management monitoring report for 2024/25 in line with CIPFA's Code of Practice on Treasury Management and the PCC's 2024/25 Investment and Treasury Management Strategy.
2. This report provides information on the treasury management activities of the PCC for the period 1st April 2024 to 30th September 2024.
3. Borrowing has not exceeded the Operational Boundary Limit or the Authorised Limit for External Debt set in the 2024/25 Investment and Treasury Management Strategy during the above period.
4. An approved Counterparty list has been maintained in line with the Investment and Treasury Management Strategy and there have been no credit rating downgrades that have resulted in counterparties being removed from the list during the above period.

RECOMMENDATION:

1. The Audit Committee are invited to note the contents of this report.

Mid-Year Treasury Management Report 2024/25

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Sector (the Code), requires that the PCC receives a mid-year review of treasury activities in addition to the forward looking annual investment and treasury strategy and backward looking annual treasury report. The Annual Investment and Treasury Strategy for the current year (2024/25) was approved by the PCC on 12 January 2024.
- 1.2 The PCC operates a balanced budget, which broadly means income receivable during the year will cover expenditure payable and any planned movement on reserves. 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 maximising investment return.
- 1.3 The second main function of the treasury management service is the financing 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 operations. 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 the PCC's risk or cost objectives.
- 1.4 As a consequence treasury management is defined as:

“The management of the local authority's 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.”
- 1.5 The PCC has delegated responsibility for treasury management decisions taken within the approved strategy to the PCC's Chief Finance Officer. Day to day execution and administration of investment and borrowing decisions are undertaken by the Constabulary.
- 1.6 The PCC recognises the importance of monitoring treasury management activities, with regular reports being presented to the Audit Committee throughout the year.
- 1.7 This mid-year review details treasury activities for the period 1 April 2024 to 30 September 2024 including; cash balances and cash flow management, investment performance, counterparty management and long-term borrowing/debt management.

2. Cash Balances and Cash Flow Management

- 2.1 The PCC's cash and short-term investment balances support revenue and capital resources, such as general balances and earmarked reserves and the timing differences between the receipt and payment of monies required to meet the cost of PCC services and the capital programme. The average level of cash and short term-investment balances in the year to date totals £44.6m.
- 2.2 Cash and short-term investment balances are managed internally and have been invested in accordance with the PCC's approved Authorised Lending List.
- 2.3 A key objective of cash flow management is to minimise balances held in the PCC's bank accounts in order to ensure that the maximum interest is earned.
- 2.4 The PCC operates seven bank accounts. Cash balances across all seven accounts are aggregated and surplus cash balances are invested on a daily basis.
- 2.5 From 1 April 2024 to 30 September 2024 (excluding investments and repayments), monies received amounts to £127.7m while payments total £112.2m, resulting in an overall increase in cash balances of £15.5m.
- 2.6 By continuing to delay borrowing for capital purposes (Section 5) while at the same time actively managing levels of liquid cash, the PCC on occasions may need to borrow short-term from the money markets to cover daily liquidity. However there has been no short term borrowing in the review period.

3. Investment Performance

- 3.1 In accordance with the Code, it is the PCC's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the PCC's risk appetite.
- 3.2 At the 30th September 2024, the PCC held £45.750m of investments. The profile of these investments is shown below.

Institutional Sector	Liquid £m	Up to 3 months £m	Up to 6 months £m	Up to 9 months £m	Up to 12 months £m
Part Nationalised					
Banks	-	-	-	-	-
UK Banks	5.5	-	-	-	-
UK Banks with a non-UK ultimate parent	0.3	-	18.0	12.0	-
Non-UK Banks	-	-	-	-	-
Building Societies	-	-	-	-	-
Other*	10.0	-	-	-	-
Total	15.8	-	18.0	12.0	-

*Includes: Money Market Funds

3.3 A more detailed investment profile at 30th September 2024 is shown at Appendix 1.

3.4 The average interest rate earned for the year to date is 4.96%.

3.5 Gross interest earned for the period 1st April 2024 to 30th September 2024 was £1.090m.

4. Counterparty Maintenance

4.1 The PCC CFO is responsible for maintaining an Approved Counterparty List in accordance with the criteria as set out in the approved Annual Investment and Treasury Strategy 2024/25. Credit rating information is supplied by our treasury consultants on all active counterparties. Any rating changes, rating watches (notification of a likely change) and rating outlooks (notification of a possible longer-term change) are provided by our treasury consultants immediately they occur. A wide range of market information such as Credit Default Swap prices and share price is also taken into account. The Approved Counterparty List is therefore actively managed on a day-to-day basis and when an institution no longer meets the PCC approved counterparty criteria, it is immediately removed.

- There have been no credit rating downgrades during the period 1st April 2024 to 30th September 2024 that have resulted in counterparties being removed from the authorised counterparty list.

5. Long Term Borrowing/Debt Management

5.1 The PCC undertakes capital expenditure on long-term assets. This activity gives rise to the need to borrow. Part of the PCC's treasury management activity is to address this borrowing need, either through long term borrowing from external bodies (PWLB or commercial banks) or utilising temporary cash resources within the PCC pending long term borrowing.

5.2 In accordance with the approved 2024/25 Investment and Treasury Strategy, the PCC continues to delay new borrowing for capital purposes, using cash balances on a temporary basis to avoid the cost of 'carrying' debt in the short term. Delaying borrowing and running down the level of investment balances also reduces the PCC's exposure to investment counterparty risk.

5.3 At the 30th September 2024, the PCC's external borrowing (debt outstanding, excluding PFI) totaled £5.769m (PWLB)

5.4 The PCC's overall capital financing requirement (excluding PFI & ROU Leases) at 31.3.24 was £14.1m. The projected capital financing requirement at 31.3.25 is approximately £20.5m (based on 2023/24 outturn and 2024-28 MTFP capital projections and associated funding). This represents unfunded capital expenditure for which approved borrowing can be drawn down. The PCC's CFO, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account identified risks.

5.5 The Public Works Loans Board (PWLB) provides a facility to restructure debt, including early repayment of loans and encourages local authorities to do so when circumstances permit. This can result in net savings in overall interest charges. Current circumstances do not suggest that refinancing existing PWLB debt would be economically prudent due to the significant repayment penalties. However prevailing PWLB interest rates continue to be monitored in order to identify repayment opportunities.

5.6 At no point during the period 1 April 2024 to 30 September 2024 has borrowing exceeded either the Operation Boundary Limit or the Authorised Limit for External Debt set in the 2024/25 Investment and Treasury Strategy.

6. Other

6.1 In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities are required to prepare a Capital Strategy which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial and environmental sustainability

A report setting out our Capital Strategy will be included in the Budget and Medium Term Financial Plan 2025/29 which will be presented to the PCC for approval early in 2025.

7 Conclusion

7.1 The Mid-Year Treasury Management Monitoring Report 2024/25 provides information on the Treasury Management activities of the PCC for the period 1st April 2024 to 30th September 2024.

8 Recommendation

8.1 It is recommended that Audit Committee notes the Mid-Year Treasury Management Monitoring Report 2024/25.

Appendix 1

CURRENT INVESTMENTS				
Start	Repay	Borrower	Rate	Amount
05/04/2024	07/10/2024	DBS Bank Ltd	5.24%	£3,000,000
05/04/2024	07/10/2024	Goldman Sachs Intl	5.275%	£5,000,000
15/04/2024	15/10/2024	Goldman Sachs Intl	5.260%	£5,000,000
07/06/2024	09/12/2024	DBS Bank Ltd	5.32%	£7,000,000
15/07/2024	15/01/2025	AI Rayan Bank	5.16%	£6,000,000
15/08/2024	17/02/2025	AI Rayan Bank	4.90%	£4,000,000
06/09/2024	Instant Access	Lloyds Bank	4.88%	£4,000,000
16/09/2024	Instant Access	Barclays Bank	4.00%	£1,500,000
03/07/2024	Instant Access	CCLA	5.00%	£10,000,000
06/07/2021	Instant Access	Santander UK	3.31%	£250,000
				£45,750,000