

Decision ID:

**PCCDJ**

**000647**

**2022**

## **Decision title**

### **Treasury Management Strategy and Investment Strategy 2022/23 to 2024/25**

#### **Executive summary**

The attached Treasury Management Strategy and Investment Strategy 2022/23 to 2024/25 was considered by the Joint Audit Committee on 10 February 2022.

The report fulfils the Office of the Police and Crime Commissioner's (OPCC) legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The document sets out the strategy to be adopted by the Police and Crime Commissioner (PCC) for the management of its treasury cash flows, investments and borrowing, including the appropriate mitigation of associated risks.

The strategy is updated on an annual basis to reflect the PCC's financial plans for the subsequent 3 years and the latest advice from the PCC's treasury management advisor, Arlingclose Ltd, as well as any changes in reporting requirements.

The Joint Audit Committee were asked to note the report and recommendations, and to make any observations; the Joint Audit Committee were content and no additional observations were made.

The recommendations to agree the Treasury Management Strategy and delegate authority to the Chief Finance Officer to manage investments and borrowing in line with the strategy now require agreement by the PCC.

The macroeconomic environment has reduced the interest rates that the PCC can expect to receive on investment balances. Arlingclose have recently forecast that the Bank of England's Bank Rate will rise to 1.0% during 2022, however this is an extremely low rate of interest by comparison to historical rates. They also continue to advise a cautious approach to bank deposits due to the potential risk for bank losses to be greater than expected when government and central bank support starts to be removed.

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There has not, however, been a need to significantly change the PCC's treasury management strategy as a result of the macroeconomic environment.

In terms of the borrowing strategy, the advice from Arlingclose continues to be that it is more effective to use internal borrowing than take on new external borrowing, however this will continue to be kept under review. It should also be noted that PWLB loans are no longer available to local authorities (including police and crime commissioners) planning to buy investment assets primarily for yield; however the PCC intends to avoid this activity in order to retain its access to PWLB loans.

When looking at the investment strategy, the CIPFA Code requires the PCC to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return (yield) and the PCC plans to continue to hold a diversified portfolio of investments that provide security and liquidity as well as the opportunity to achieve higher yields where appropriate, particularly through its investments in pooled property, equity and multi-asset funds. The PCC continues to intend to hold these pooled investments for the longer term.

Within this overall strategy for investments, several adjustments have been made to ensure that the PCC can invest effectively and achieve its treasury management objectives. The changes of significance are detailed below.

The strategy includes an increase in the maximum amount that will be lent to any one organisation (other than the UK government) from £11m to £13m (Table 5 of the report). This change also then impacts the associated sector and counterparty limits (Table 6). These investment limits are reviewed and amended as required on an annual basis, using recommendations from Arlingclose as the basis for setting limits to ensure appropriate diversification. This change reflects the higher overall balances that are expected to be held over the coming year.

The strategy also includes an increase in the limit to principal invested beyond a year (Table 9) from £15m to £20m. Whilst overall balances are expected to be increased, this will allow the PCC to allocate more of the portfolio to longer-term investments and so should benefit from more beneficial interest rates which are generally applied to longer term investments.

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All limits and compliance with the Treasury Management Strategy are monitored daily by the Chief Finance Officer (CFO) and the Treasury Management team to ensure that investments limits are adhered to and any breaches would need to be reported. The CFO will update the PCC if required on a monthly basis on any emerging issues in relation to the strategy.

In addition, on an ongoing basis Arlingclose monitor all approved counterparties and no counterparty is utilised unless it has been cleared for use by Arlingclose. As part of this ongoing due diligence, Arlingclose will when necessary (based on their risk assessment) suspend access to certain counterparties or reduce the maximum recommended investment durations. These restrictions are documented alongside the other relevant limits in decision sheets used by the CFO and Treasury Management team in the approval of any new investments.

It is proposed that the updated Treasury Management Strategy is approved. This includes the incorporation of the changes described above, which have been made based on advice from the PCC's treasury management advisor, Arlingclose, for the reasons set out above. The new strategy will be implemented from the date on which it is approved by the PCC, therefore it will apply for the remainder of 2021/22 and will supersede the strategy previously agreed. It will also then apply for the 2022/23 financial year until next reviewed and approved by the PCC.

## **Recommendation**

### **The Police and Crime Commissioner (PCC):**

1. Approves the Treasury Management Strategy for 2022/23 and the remainder of 2021/22, as set out in the attached report to the Joint Audit Committee.
2. Delegates authority to the Chief Finance Officer to manage the Police and Crime Commissioner's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.
3. Notes that the Chief Finance Officer has agreed to prepay one year's Pension Fund employer contributions on 1 April 2022 to benefit from savings of circa £265,000, subject to cash flow considerations.

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## **Statement on publication**

This Decision Record and supporting Decision Request documentation is suitable for publication.

## **Police and Crime Commissioner approval**

I hereby **approve** the recommendation above.

Signature:



Name:

**Donna Jones**

Police and Crime Commissioner for Hampshire & Isle of Wight

Date:

21-Feb-22

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**Decision title:**

**Treasury Management Strategy and Investment Strategy 2022/23 to 2024/25**

**Requester details:**

Requester: Andrew Lowe

Role title: Chief Finance Officer

**1 Summary**

The attached report sets out the Treasury Management Strategy and Investment Strategy 2022/23 to 2024/25

**2 Recommendation**

1. That the Treasury Management Strategy for 2022/23 and the remainder of 2021/22 is approved; and
2. That authority is delegated to the Chief Finance Officer to manage the Police and Crime Commissioner's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.
3. Notes that the Chief Finance Officer has agreed to prepay one year's Pension Fund employer contributions on 1 April 2022 to benefit from savings of circa £265,000, subject to cash flow considerations.

**3 Strategic context**

Treasury management is the management of the Police and Crime Commissioner's (PCC) cash flows, borrowing and investments, and the associated risks. The PCC has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the PCC's prudent financial management.

Treasury risk management at the PCC is conducted within the framework of the CIPFA Code which requires the PCC to approve a Treasury

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Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the PCC's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

#### **4 Options appraisal**

Not applicable; the PCC must agree a Treasury Management Strategy

#### **5 Timescales**

The Treasury Management Strategy for 2022/23 should be approved prior to the commencement of the 2022/23 financial year.

#### **6 Financial and resourcing implications**

<b>Total cost</b>	<b>Not applicable</b>
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#### **Funding allocation in each financial year**

Covered within existing resourcing requirements.

#### **Funding source - Capital and Revenue**

Covered within existing resourcing requirements.

#### **7 Communications and engagement implications**

Publication as a decision notice

#### **8 Legal implications**

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 (the CIPFA Code) requires a PCC to determine their Treasury Management Strategy Statement (TMSS) before the start of each financial year.

This report fulfils the Office of the Police and Crime Commissioner's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

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## **9 Risks and mitigation**

The CIPFA Code requires the PCC to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The PCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The PCC has engaged Arlingclose to provide independent external Treasury advice to the CFO, ensuring that appropriate advice is considered in terms of the overall Treasury strategy. This advice is ongoing, ensuring that investment, liquidity and borrowing options and decisions take account of up to date professional advice which covers the prevailing economic climate and the risks to be considered.

## **10 Strategic policing requirement**

The Treasury Management Strategy is in support of the strategic policing requirement.

## **11 Equalities**

Not applicable.

## **12 Data Protection implications**

Not applicable.

## **13 Publication status**

Suitable for Publication.

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## **14 Personnel consulted**

The following personnel were consulted on the Decision Request.

**Table 1 - Personnel consulted**

<b>Role</b>	<b>Organisation</b>	<b>Confirmation of consultation</b> (insert 'Yes' if applicable)
Chief Executive	OPCC	Yes
Joint Audit Committee	OPCC(HCC)	Yes

OPCC- Office of the Police and Crime Commissioner

HCC – Hampshire County Council

## **15 Appendices**

The attached report sets out the Treasury Management Strategy and Investment Strategy 2022/23 to 2024/25

## **16 Background papers**

Not applicable.