**POLICE AND CRIME COMMISSIONER FOR HAMPSHIRE AND HAMPSHIRE CONSTABULARY**

**JOINT AUDIT COMMITTEE – 20 FEBRUARY 2024**

***Treasury Management Strategy and Investment Strategy 2024/25 to 2026/27***

**REPORT OF THE CHIEF FINANCE OFFICER OF THE OFFICE OF THE POLICE AND CRIME COMMISSIONER**

# 1. Purpose

1.1. The Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice (the

CIPFA Code) requires authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of each financial year.

1.2 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.

# 2. Recommendation

2.1. That the Joint Audit Committee notes the recommendations to be made to the Police and Crime Commissioner to be put in place from the date at which she signs the recommendations:

* That the Treasury Management Strategy for 2024/25 and the remainder of 2023/24 is approved; and
* That authority is delegated to the Chief Finance Officer, who in turn discharges this function to Hampshire County Council’s Director of Corporate Operations as agreed in the Service Level Agreement, to manage the Police and Crime Commissioner’s investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

# 3. Introduction

3.1. 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.

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

4.1. The following paragraphs explain the economic and financial background

against which the TMSS is being set.

# Economic background

 4.2. The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the PCC’s treasury management strategy for 2024/25.

 4.3. The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. The November 2023 quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

4.4. Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from 4.6% in the previous month, and in line with the recent trend being lower than expected. The core CPI inflation rate declined to 5.1% from the previous month’s 5.7%, again being lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target and then falling below target during the second half of 2025 and into 2026.

# Credit outlook

4.5 Credit Default Swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Quarter 2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

4.6. On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

4.7. Moody’s revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody’s also affirmed the Aa3 rating in recognition of the UK’s economic resilience and strong institutional framework.

4.8. Following its rating action on the UK sovereign, Moody’s revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

4.9. There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks’ assets.

4.10. However, the institutions on the PCC’s treasury adviser, Arlingclose’s, counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

# Interest rate forecast (December 2023)

 4.11. Although UK inflation and wage growth remain elevated, Arlingclose forecasts that Bank Rate has peaked at 5.25%. The BoE’s Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Quarter 3 2024 to a low of around 3% by early-mid 2026.

4.12. Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events

4.13. A more detailed economic and interest rate forecast provided by Arlingclose is in Annex A.

# 5. Balance Sheet Summary and Forecast

 5.1. On 31 December 2023, the PCC held £19.4m of borrowing and £115.8m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

# Table 1: Balance sheet summary and forecast

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   | **31/03/2****3** **Actual** **£m**  | **31/03/2****4** **Estimate** **£m**  | **31/03/2****5** **Forecast** **£m**  | **31/03/2****6** **Forecast** **£m**  | **31/03/27** **Forecast** **£m**  |
| **Capital Financing** **Requirement**   | **53.7**  | **51.1**  | **85.2**  | **82.1**  | **79.2**  |
| Less: Other debt liabilities\*  |   |   |   |   |  |
| − Leases\*\*  | (2.0)  | (1.1)  | (36.8)  | (35.4)  | (34.1)  |
| **Loans CFR**  | **51.7**  | **50.0**  | **48.4**  | **46.7**  | **45.1**  |
|   |   |   |   |   |  |
| Less: External borrowing\*\*\*:  |   |   |   |   |   |
| − Public Works Loan Board  | (29.7)  | (19.4)  | (19.0)  | (19.0)  | (19.0)  |
| **Total external borrowing**  | **(29.7)**  | **(19.4)**  | **(19.0)**  | **(19.0)**  | **(19.0)**  |
| **Internal borrowing**  | **22.0**  | **30.6**  | **29.4**  | **27.7**  | **26.1**  |
|   |   |   |   |   |  |
| **Less: Balance sheet resources**  | **(131.2)**  | **(114.5)**  | **(88.0)**  | **(57.7)**  | **(50.1)**  |
|   |   |   |   |   |  |
| **New borrowing or (Treasury investments)**  | **(109.2)**  | **(83.9)**  | **(58.6)**  | **(30.0)**  | **(24.0)**  |

\* Leases that form part of the PCC’s debt

\*\* IFRS 16 requires the PCC to change how it recognises its leases from 1 April 2024.

\*\*\* shows only loans to which the PCC is committed and excludes optional refinancing

5.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The PCC’s current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

5.3. The balance sheet resources are expected to reduce over the medium-term as these are used to finance the capital programme, support the delivery of the PCC’s Police and Crime Plan, and to fund investment to deliver the Chief Constable’s operational requirements.

5.4. This use of reserves is predicated on decisions being made based on business cases that have not yet been submitted and on any resultant expenditure being in line with the current capital programme and revenue projections. Consequently, this is a best estimate, and it is likely that the actual spending profile will be different to that assumed and this will have an impact upon the level of reserves shown in Table 1.

5.5. CIPFA’s Prudential Code for Capital Finance in Local Authorities recommends that the PCC’s total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the PCC expects to comply with this recommendation during 2024/25.

# Liability benchmark

5.6. To compare the PCC’s actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

5.7. The liability benchmark is an important tool to help establish whether the PCC is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the PCC must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

# Table 2: Liability benchmark

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   | **31/03/23** **Actual £m**  | **31/03/24** **Estimate** **£m**  | **31/03/25** **Forecast** **£m**  | **31/03/26** **Forecast** **£m**  | **31/03/27** **Forecast** **£m**  |
| Loans CFR  | 51.7  | 50.0  | 48.4  | 46.7  | 45.1  |
| Less: Balance sheet resources  | (131.2)  | (114.5)  | (88.0)  | (57.7)  | (50.1)  |
| **Net loans requirement**  | **(79.5)**  | **(64.5)**  | **(39.6)**  | **(11.0)**  | **(5.0)**  |
| Plus: Liquidity allowance  | 10.0  | 10.0  | 10.0  | 10.0  | 10.0  |
| **Liability benchmark**  | **(69.5)**  | **(54.5)**  | **(29.6)**  | **(1.0)**  | **5.0**  |

 5.8. At the start of the period, 31 March 2023, the PCC had a Loans CFR of £51.7m, external borrowing of £29.7m, balance sheet resources of £131.2m and a negative liability benchmark of £69.5m. The difference of £22m between the CFR and external borrowing is internal borrowing, which is where the PCC has used its own resources to fund its borrowing requirement.

# Graph 1: Liability benchmark

# A graph with a line  Description automatically generated with medium confidence

5.9. The liability benchmark is the lowest level of debt the PCC could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The liability benchmark graph is based on five years of data which explains why the Loans CFR line in Graph 1 continues to reduce past the initial five year period – the diagram assumes that no new capital projects will begin after 2026/27, which is a very unlikely scenario but a reflection of the current horizon for capital expenditure forecasts.

5.10. The PCC expects a negative liability benchmark across the first three years of the forecast period (which cannot be seen on Graph 1) which implies that in the first three years of the forecast the PCC has sufficient balance sheet resources to repay its CFR, meaning that currently there is not a requirement to take on any additional external borrowing.

5.11. After the initial three year period, Graph 1 then indicates a positive liability benchmark in 2026/27, reflecting the forecast balance sheet resources position mapped out in Tables 1 and 2. A positive liability benchmark that extends above the loans lines shows a need to take additional borrowing as the balance sheet resources and current external borrowing combined are not sufficient to meet the CFR. Therefore Graph 1 indicates that from 2027 the PCC’s existing borrowing is forecast to no longer be sufficient to meet the liability benchmark and the PCC may need to source additional external borrowing if it is to meet the full delivery of its capital programme. The PCC will keep the position under review and continue to take advice from Arlingclose on the most appropriate time to borrow if it is required.

# 6. Borrowing Strategy

6.1. The PCC currently holds £19.4m of loans, as part of its strategy for funding previous years’ capital programmes. Although the balance sheet forecast in Table 1 shows that the PCC will maintain a net investment position, it may need to borrow to fund capital expenditure to maintain its long-term and minimum level of investments. The PCC may borrow to pre-fund future years’ requirements, providing this does not exceed the authorised limit for borrowing of £87.5m, but does not currently expect to do so.

6.2. The current capital programme is forecasted to require additional borrowing in the future, and further initiatives may be forthcoming which could increase this need. To ensure the future affordability of the Minimum Revenue Provision (MRP) costs associated with potential borrowing, the PCC has an extra £2m allocated to the MRP revenue budget to allow for the potential of future borrowing being required (which translates to additional borrowing of approximately £30m over 25 years). Should borrowing be required, once timing and details are confirmed, future strategies will be adjusted accordingly. Until there is a need for additional borrowing to be taken out, this £2m set aside for MRP is being utilised on an annual basis as a revenue contribution to capital in support of the overall financing of capital spend.

# Objectives

6.3. The PCC’s chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the PCC’s long-term plans change, is a secondary objective.

# Strategy

6.4. The PCC’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium term to either use internal resources, or to borrow short-term loans instead.

6.5. By internally borrowing, the PCC is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Arlingclose will assist the PCC in regularly monitoring the benefits of this approach against taking on short term external borrowing and the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

6.6. The PCC has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities (including police and crime commissioners) planning to buy investment assets primarily for yield; the PCC’s investment strategy does not support this activity and so will retain its access to PWLB loans.

6.7. The PCC may also arrange forward starting loans during 2024/25, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period (although there are no current plans to do this).

6.8. In addition, the PCC may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

# Sources of borrowing

 6.9. The approved sources of long-term and short-term borrowing are:

* HM Treasury’s PWLB lending facility (formerly the Public Works Loan Board)
* UK Infrastructure Bank Ltd
* any institution approved for investments
* any other bank or building society authorised to operate in the UK
* any other UK public sector body
* UK public and private sector pension funds (except Hampshire Pension Fund)
* capital market bond investors
* retail investors via a regulated peer-to-peer platform
* UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

# Other sources of debt finance

6.10. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

* leasing
* hire purchase
* Private Finance Initiative
* sale and leaseback

# • similar asset backed finance

# Short-term and variable rate loans

6.11. These loans leave the PCC exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators at section 8 of this strategy.

# Debt rescheduling

6.12. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The PCC may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities could arise and the opportunity to reschedule is kept under review.

# 7. Treasury Investment Strategy

7.1. The PCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the PCC’s treasury investment balance has ranged between £62.6m and £157.0m, and as shown in Table 1, investment balances are expected to remain relatively stable initially over the forecast period but reduce in the later years.

# Objectives

7.2. 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 aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

# Strategy

7.3. The PCC aims to continue to hold a diversified investment portfolio, including investments in more secure and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

7.4. At 31 December 2023 approximately 72% of the PCC’s investment balances were invested so that they were not subject to bail-in risk, as they were invested in government investments, strategic pooled funds, and secured bank bonds.

7.5. Of the 28% of investment balances that were subject to bail-in risk at 31 December 2023, 96% was held in overnight money market funds which are subject to a reduced risk of bail-in due to the high level of diversification within these investments, and the remainder was held in overnight bank call accounts for liquidity purposes.

7.6. The PCC made a pension prepayment of £39.47m in April 2023 to prepay its employer’s LGPS pension contributions for the three-year period 2023/24 through 2025/26. By making the payment in advance, the PCC should generate an estimated saving of £2.6m over the period, effectively an interest rate of return of 4.4%.

7.7. Further detail is provided at Appendix B and this diversification represents a continuation of the strategy adopted in 2015/16.

# Business models

7.8. Under the new IFRS 9 standard, the accounting for certain investments depends on the ‘business model’ for managing them. The PCC aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

**Environmental, social and governance factors**

7.9. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors’ decision making, but the framework for evaluating investment opportunities is still developing and therefore the PCC does not currently include ESG scoring or other realtime ESG criteria at an individual investment level. When investing in banks and funds, the PCC will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

# Investments targeting higher returns

7.10. In previous years the PCC earmarked an amount of its cash balances for investments targeting higher yields; these were made from its most stable core balances with the intention that they would be held for at least the medium term, and it was targeted that these investments would achieve a return of at least 4%. This was a successful approach through the period of very low interest rates, as this portfolio achieved higher interest rates than what was being achieved by cash investments and significantly increased the annualised average income return for the total investment portfolio.

7.11. Following the increases in UK Bank Rate the decision was made to subsume the investments targeting higher returns within the long-term investment portfolio as there was no longer a significant difference between the interest rates being achieved by those investments and cash, as short-term interest rates are now comparable with longer term interest rates.

7.12. The PCC will however continue to make use of long-term balances, making investments in longer term investments including local authorities, other asset classes and regions, fixed capital value and pooled funds to mitigate the risk of low interest rates which will affect cash investments when UK Bank Rate is reduced. This diversification also helps to mitigate the risk of overexposure to a single event affecting a specific asset class.

7.13. The PCC continues to invest in pooled funds (although this allocation has reduced over the last 12 months) which enables the PCC to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

7.14. Diversification in itself does not guarantee positive outcomes. The selection of pooled funds is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the PCC’s income returns aims without putting its initial investment at undue risk over the longer term. The PCC is therefore currently invested in pooled funds that specialise in providing income returns to support the revenue budget. As a result of their income focus these funds may not achieve the same capital growth and therefore total return, as other more general investment funds, however they are likely to deliver good income returns for the longer term.

7.15. The investible universe for pooled funds is vast and part of the service provided by Arlingclose as treasury advisers is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.

7.16. Past performance does not guarantee that funds can replicate successful outcomes in future and knowing which funds will perform well is not an exact science. The PCC will therefore continue to conduct its own ongoing review and scrutiny of the performance of its pooled fund investments. The PCC will also discuss these investments regularly with Arlingclose, who provide advice based on regular meetings with representatives from the pooled funds and their own ongoing due diligence on areas such as performance and investment style, strategy and process.

7.17. At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would be realised, since the PCC would avoid selling investments that realised a capital loss. In addition to the risk of realising a capital loss, changes to IFRS 9 mean that capital gains and losses on investments need to be reflected in the revenue account on an annual basis, although there is currently a statutory override in place for local authorities (including police and crime commissioners) that exempts them from complying with this requirement.

7.18. The PCC is aware of the risks involved with investing in pooled funds that hold underlying investments in equities and property. When the PCC began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently £0.24m.

# Investment limits

7.19. The maximum that will be lent to any one organisation (other than the UK Government) will be £18m, which is an increase in comparison to the previous TMSS due to forecast increased investment balances in 2024/25. Table 1 indicates that treasury balances are forecast to reduce over the longer term, however this investment strategy needs to contain investment limits that allow flexibility to manage higher mid-year investment balances as well as to ensure that all of the PCC’s cash can be invested in accordance with this TMSS.

7.20. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in

Table 3.

**Table 3: Investment limits**

|  |  |
| --- | --- |
|   | **Cash limit**  |
| Any single organisation, except the UK Central Government  | £18m each  |
| UK Central Government  | unlimited  |
| Any group of pooled funds under the same management  | £45m per manager  |

# Approved Counterparties

7.21. The PCC may invest its surplus funds with any of the counterparty types in Table 4, subject to the limits shown.

# Table 4: Sector and counterparty limits

|  |  |  |  |
| --- | --- | --- | --- |
| **Sector**  | **Time limit**  | **Counterparty** **limit**  | **Sector limit**  |
| The UK Government  | 30 years  | Unlimited  | N/A  |
| Local authorities & other government entities  | 25 years  | £18m  | Unlimited  |
| Secured investments \*  | 25 years  | £18m  | Unlimited  |
| Banks (unsecured) \*  | 13 months  | £9m  | Unlimited  |
| Building societies (unsecured) \*  | 13 months  | £9m  | £18m  |
| Registered providers (unsecured) \*  | 5 years  | £9m  | £45m  |
| Money market funds \*  | N/A  | £18m  | Unlimited  |
| Strategic pooled funds  | N/A  | £18m  | £90m  |
| Real estate investment trusts  | N/A  | £18m  | £45m  |
| Other investments \*  | 5 years  | £9m  | £18m  |

This table must be read in conjunction with the notes below

# \* Minimum credit rating

7.22. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-/A3. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant known factors including external advice will be taken into account.

7.23. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

# Government

7.24. Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

# Secured investments

7.25. Investments secured on the borrower’s assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

# Banks and building societies (unsecured)

7.26. Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

# Registered providers (unsecured)

7.27. Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

# Money market funds

7.28. Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the PCC will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

# Strategic pooled funds

7.29. Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the PCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period; their performance and continued suitability in meeting the PCC’s investment objectives will be monitored regularly.

# Real estate investment trusts (REITs)

7.30. Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

# Other investments

7.31. This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the PCC’s investment at risk.

# Operational bank accounts

7.32. The PCC may incur operational exposures, for example though current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The PCC’s operational bank account is with National Westminster and aims to keep the overnight balances held in current accounts positive, and as close to £0 as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the PCC maintaining operational continuity.

# Risk assessment and credit ratings

7.33. Credit ratings are obtained and monitored by the PCC’s treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

* no new investments will be made,
* any existing investments that can be recalled or sold at no cost will be, and
* full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

7.34. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

# Other Information on the security of investments

7.35. The PCC understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the PCC’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

7.36. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the PCC will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the PCC’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will likely lead to investment returns falling but will protect the principal sum invested.

# Reputational aspects

7.37. The PCC is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

# Liquidity management

7.38. The PCC has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historical cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the PCC’s medium term financial position (summarised in Table 1) and forecast short-term balances. The Chief Finance Officer will continue to review cashflows and overall reserves and balances throughout the financial year.

7.39. The PCC will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the PCC will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

# 8. Treasury Management Prudential Indicators

8.1. The PCC measures and manages its exposures to treasury management risks using the following indicators.

# Interest rate exposures

8.2. The following indicator shows the sensitivity of the PCC’s current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

# Table 5: Interest rate risk indicator

|  |  |  |
| --- | --- | --- |
|   | **31 December** **2023**  **£m**  | **Impact of +/-1% interest rate change**  **£m**  |
| Sums subject to variable interest rates  |   |   |
| Investment  | 91.8  | +/-0.9  |
| Borrowing  | 0.0  | +/-0.0  |

# Maturity structure of borrowing

8.3. This indicator is set to control the PCC’s exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

# Table 6: Maturity Structure of Borrowing

|  |  |  |
| --- | --- | --- |
|   | **Upper**  | **Lower**  |
| Under 12 months  | 50%  | 0%  |
| 12 months and within 24 months  | 50%  | 0%  |
| 24 months and within 5 years  | 50%  | 0%  |
| 5 years and within 10 years  | 75%  | 0%  |
| 10 years and within 20 years  | 100%  | 0%  |
| 20 years and above  | 100%  | 0%  |

8.4. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

# Principal sums invested for periods longer than a year

8.5. The purpose of this indicator is to control the PCC’s exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

# Table 7: Price risk indicator

#

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | **2024/25**  | **2025/26**  | **2026/27**  | **No** **fixed date**  |
| Limit on principal invested beyond a year  | £45m  | £45m  | £45m  | £5m  |

# 9. Related Matters

9.1. The CIPFA Code requires the PCC to include the following in its TMSS.

# Policy on Use of Financial Derivatives

9.2. In the absence of any explicit legal power to do so, the PCC will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

# Markets in Financial Instruments Directive

9.3. The PCC has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and smaller companies. Given the size and range of the PCC’s treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

# 10. Financial implications

10.1. The budget for investment income in 2024/25 is £2m, whilst the budget for debt interest paid in 2024/25 is £1.276m which is based on the expected fixed interest costs of the current debt portfolio. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

# 11. Other Options Considered

11.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 8.

|  |
| --- |
| **Table 8: Alternative strategies and their implications**  |
| **Alternative**  | **Impact on income and expenditure**  | **Impact on risk management**  |
| Invest in a narrower range of counterparties and/or for shorter times  | Interest income will be lower  | Lower chance of losses from credit related defaults, but any such losses may be greater  |
| Invest in a wider range of counterparties and/or for longer times  | Interest income will be higher  | Increased risk of losses from credit related defaults, but any such losses may be smaller  |
| Borrow additional sums at long-term fixed interest rates  | Debt interest costs will rise; this is unlikely to be offset by higher investment income  | Higher investment balance leading to a higher impact in the event of a default; however longterm interest costs may be more certain  |
| Borrow short-term or variable loans instead of long-term fixed rates  | Debt interest costs will initially be lower  | Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain  |
| Reduce level of borrowing  | Saving on debt interest is likely to exceed lost investment income  | Reduced investment balance leading to a lower impact in the event of a default; however long- |
|  |  | term interest costs may be less certain  |

**Arlingclose Economic and Interest Rate Forecast December 2023**

**Underlying assumptions:**

* UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
* The MPC’s message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank’s last forecasts.
* Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
* Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
* Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC’s attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further ‘second-round’ effects has diminished.
* Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
* Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.
* There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

**Forecast:**

* The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
* The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early mid 2026.
* The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
* Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts.

Periodic volatility is likely.



**Existing Investment & Debt Portfolio Position at 31 December 2023**

# Treasury investment position

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Investments**  | **30/09/23 Balance**   **£m**  | **Net** **movement**   **£m**  | **31/12/23 Balance**   **£m**  | **31/12/23** **Income return**  **%**  | **31/12/23** **Weighted average maturity** **years**  |
| **Short term investments**   |   |   |   |   |   |
| Banks and building societies:  |   |   |   |   |   |
|  - Unsecured  | 5.3  | (4.1)  | 1.2  | 4.42  | 0.01  |
|  - Secured  | 3.6  | -  | 3.6  | 5.44  | 0.01  |
|  - High quality  | 5.0  | (5.0)  | -  | -  | -  |
| Money Market Funds  | 36.5  | (5.0)  | 31.5  | 5.31 |   | 0.01  |
| Government:  |   |   |   |  |   |   |
|  - Local authorities  | 25.5  | 5.0  | 30.5  | 5.49 |   | 0.42  |
|  - Treasury bills  | 18.5  | 1.5  | 20.0  | 5.50 |   | 0.17  |
| **TOTAL**  | **94.4**  | **(7.6)**  | **86.8**  | **5.41** |   | **0.19**  |
|   |   |   |   |  |   |  |
| **Long term investments**   |   |   |   |  |   |  |
| Banks and building societies:  |   |   |   |  |   |   |
|  - Secured  | 5.0  | -  | 5.0  | 4.31 |   | 1.18  |
|  - Supranational  | 9.0  | -  | 9.0  | 4.81 |   | 3.33  |
|  - High quality  | 10.0  | -  | 10.0  | 5.91 |   | 1.92  |
| Registered provider\*  | 0.0  | -  | 0.0  | N/A |   | N/A  |
| Pooled funds:  |   |   |   |  |   |   |
|  - Pooled property\*\*  | 4.0  | -  | 4.0  | 4.76 |   | N/A  |
|  - Pooled equity\*\*  | 1.0  | -  | 1.0  | 6.00 |   | N/A  |
| **TOTAL**  | **29.0**  | **-**  | **29.0**  | **5.14** |  | **2.30**  |
|   |   |   |   |  |   |  |
| **TOTAL INVESTMENTS**  | **123.4**  | **(7.6)**  | **115.8**  | **5.34** |  | **0.72**  |

\* A revolving credit facility of £5m is in place with a registered provider, currently not drawn. This agreement provides the PCC with a non-utilisation fee of 0.30% per annum by reference to the undrawn amounts of the Facility.

\*\* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2023 based on the market value of investments 12 months earlier.

 **Treasury management position**

|  |  |  |
| --- | --- | --- |
|   | **31/12/2023** **Balance** **£m**  | **31/12/2023** **Rate** **%**  |
| External Borrowing:  |   |   |
|  - PWLB  | (19.4)  | (4.25)  |
| Investments:  |   |  |
|  - Total Investments  | 115.8  | \* |   |
| **Net Investments**  | **96.5**  |  |

# Treasury management indicators at 31 December 2023

|  |  |  |  |
| --- | --- | --- | --- |
| **Investment Limits**  | **31/12/23 Actual**  **£m**  | **2023/24** **Authorised Limit**  | **Complied**  |
|  The UK Government  | 20.0  | Unlimited  |   |
| Local authorities & other government entities  | 30.5  | Unlimited  |   |
| Secured investments \*  | 27.6  | Unlimited  |   |
| Banks (unsecured) \*  | 1.2  | Unlimited  |   |
| Building societies (unsecured) \*  | 0.0  | £16m  |   |
| Registered providers (unsecured) \*  | 0.0  | £16m  |   |
| Money market funds \*  | 31.5  | Unlimited  |   |
| Strategic pooled funds  | 5.0  | £39m  |   |
| Real estate investment trusts  | 0.0  | £16m  |   |
| Other investments \*  | 0.0  | £16m  |   |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Debt limits**  | **2023/24** **Maximum** **£m**  | **31/12/23** **Actual** **£m**  | **2023/24** **Operational** **Boundary £m**  | **2023/24** **Authorised Limit**  | **Complied?**  |
| Total debt  | (30.7)  | (19.4)  | (70.5)  | (87.5)  |   |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Maturity structure of borrowing**  | **31/12/23**  **Actual**  | **Upper** **Limit**  | **Lower** **Limit**  | **Complied**  |
| Under 12 months  | 0%  | 50%  | 0%  |   |
| 12 months and within 24 months  | 2%  | 50%  | 0%  |   |
| 24 months and within 5 years  | 0%  | 50%  | 0%  |   |
| 5 years and within 10 years  | 41%  | 75%  | 0%  |   |
| 10 years and above  | 57%  | 100%  | 0%  |   |

|  |  |  |  |
| --- | --- | --- | --- |
| **Long term investments**  | **2023/24** **£m**  | **2024/25** **£m**  | **2025/26** **£m**  |
| Actual principal invested beyond year end  | 24  | 10  | 10  |
| Limit on principal invested beyond year end  | 40  | 40  | 40  |
| Complied  |   |   |   |

**Service Level Agreement**

**Between**

**Police and Crime Commissioner for Hampshire & the Isle of Wight** **and Hampshire County Council**

**for the provision of a Treasury Management Service**

# 1 Definition of service requirement

1.1 The requirement is for the provision of a Treasury Management Service, as specified below, between:

* Hampshire County Council (*HCC*), and
* Office of the Police and Crime Commissioner for Hampshire and the Isle of Wight (*OPCC*)

Referred to in the rest of this document as *the Organisations*.

# 2 Basis of the agreement

2.1 Section 18 of the Police Reform and Social Responsibility Act 2011 empowers the Police and Crime Commissioner to delegate certain functions, which would include treasury management, to another *person*, which includes a *body* such as HCC. The Organisations recognise that combining to jointly discharge certain functions has the potential to make a significant contribution towards their ongoing search for service improvements and the delivery of efficiency savings.

2.2 The OPCC wish to establish arrangements for the delegation of their functions with regard to treasury management. This agreement covers the following functions of capital finance as defined by the Local Government Act 2003[[1].](https://ukc-word-edit.officeapps.live.com/we/wordeditorframe.aspx?new=1&ui=en%2DUS&rs=en%2DUS&wdorigin=OFFICECOM-WEB.START.NEW-INSTANT&wdprevioussessionsrc=HarmonyWeb&wdprevioussession=ac191080-5877-4fd3-b837-08178663543f&wdenableroaming=1&mscc=1&wdodb=1&hid=50C207A1-8043-8000-0974-E2F437BCEC76&wopisrc=https%3A%2F%2Fforcesserip-my.sharepoint.com%2Fpersonal%2Fkaren_williams_hampshire_police_uk%2F_vti_bin%2Fwopi.ashx%2Ffiles%2Fc754fe84273a4d0e9d0e9f0826124790&wdhostclicktime=1706879887766&jsapi=1&jsapiver=v1&newsession=1&corrid=56a28ed7-c69c-48bd-aaf8-a253194d7d25&usid=56a28ed7-c69c-48bd-aaf8-a253194d7d25&sftc=1&cac=1&mtf=1&sfp=1&wdredirectionreason=Unified_SingleFlush&rct=Medium&ctp=LeastProtected#_ftn1) The functions below are taken directly from the Act and the processes to deliver them are covered in this agreement:

* [Control of borrowing](http://www.legislation.gov.uk/ukpga/2003/26/section/2)
* [Duty to determine affordable borrowing limit](http://www.legislation.gov.uk/ukpga/2003/26/section/3)
* [Imposition of borrowing limits](http://www.legislation.gov.uk/ukpga/2003/26/section/4)
* [Temporary borrowing](http://www.legislation.gov.uk/ukpga/2003/26/section/5)
* [Power to invest](http://www.legislation.gov.uk/ukpga/2003/26/section/12)

2.3 No treasury management activity is without risk and the effective identification and management of risk are integral to effective treasury management objectives. This agreement is made on the basis that the OPCC accept the risk for any investment that is lost or reduces in value if those investments are placed in accordance with the agreed treasury management strategies. In the event that HCC do not act in accordance with the agreed strategy, HCC are liable to make good all resultant losses to the OPCC.

# 3 Specification of HCC Responsibilities

3.1 HCC shall provide the following:

1. HCC will produce (and present as necessary) four draft treasury management reports for the OPCC per year:
* A draft treasury management strategy for the forthcoming financial year as part of the budget setting process in January.
* An out-turn report following the financial year end in May/June.
* A first quarter’s monitoring report in July-September (depending on committee dates).
* A mid-year monitoring report in October-December (depending on committee dates).
1. HCC Investments and Borrowing team will manage the OPCC’s cash balance and undertake the investment of surplus cash or sourcing of short-term borrowing in accordance with the agreed treasury management strategy.
2. HCC will arrange for the repayment, refinancing or new long-term borrowing for the OPCC within pre-agreed parameters with the OPCC.
3. The treasury service provided by HCC will at all times be compliant with current statutory legislation, CIPFA’s Prudential Code for Capital Finance in Local Authorities and any other relevant guidance.
4. Appropriate HCC officers from the Investments and Borrowing team are authorised to act as the ‘Treasury dealer’ to invest surplus cash and borrow funds as necessary on behalf of the OPCC.
5. Investments may only be made in instruments issued by those counterparties selected in accordance with the OPCC’s Treasury Management Strategy. Cash will be managed with the aim that a minimum aggregated current account balance is kept positive and as close to zero as possible.
6. The HCC Investments and Borrowing team will open and maintain accounts with the counterparties identified in paragraph 3.1f to invest money in accordance with the strategy to ensure the OPCC’s funds are held in fully segregated accounts.
7. Settlement and recordkeeping – investment payments made with the approved counterparties will be made through the OPCC’s online bank account by HCC Investments and Borrowing team and recorded in a specialist treasury management record keeping system - Logotech. Monthly/quarterly borrowing and lending returns completed by the HCC Investments and Borrowing return and sent to Central Government.
8. Management Information - The following information will be provided to the OPCC:
* Weekly reporting – details of all investments/short-term borrowing made (principal, counterparty, interest rate, date invested and maturity date) and any variation to the aim of keeping the daily cash balance at an aggregated nil balance.
* Year-end reporting – accrued interest due or owed.
* Periodic forecasts for interest earned on investments and due on borrowing as requested.
* Adhoc reports - HCC will respond to adhoc queries from the OPCC staff wherever possible within 5 working days, but there may be occasions when a response will be required by the OPCC the same day. This should be confirmed by the relevant HCC staff at time of receipt of the enquiry.

# 4 Treasury Management Consultant

4.1 HCC contract with a third-party company (currently Arlingclose) for treasury management expertise and consultancy. Through HCC, the OPCC will be able to access the following services from the consultant:

* quarterly investment benchmarking o attendance at the quarterly client meetings held virtually or in Winchester between the consultants and HCC’s Director of Corporate Operations
* economic commentary and other financial sector information.

# 5 The OPCC’s responsibilities

5.1 The OPCC shall provide the following:

1. Strategy – the OPCC will agree the draft strategy reports produced by HCC, with changes made as necessary and present them to their senior officers and members for approval. The OPCC finance officers will contribute to treasury management reports drafted by HCC, including the producing of figures for some prudential indicators.
2. Long-term borrowing – as part of agreeing the treasury management strategy (or at other points throughout the year as necessary) the OPCC will identify any changes required for its long-term borrowing (new borrowing, repayment or restructuring of borrowing) and the parameters within which changes will occur.
3. Cashflow forecast – the OPCC will provide their best estimate of a future cashflow forecast and provide timely updates if there are significant changes.
4. Payments - the OPCC will provide HCC with details of the total value of all BACS payments, including those relating to payroll and pensions transactions on the day the BACS file is submitted for processing.
5. Income - the OPCC will provide HCC with details of the expected grant and tax income at the beginning of each month.
6. CHAPS - the OPCC will advise HCC of the value of any CHAPS payments by 5pm on the day prior to settlement. If an urgent unforeseen payment is to be made then the OPCC should inform HCC to check if there are any treasury management implications.
7. Access to bank accounts – the OPCC will manage and maintain a contract for banking services and escalate any issues that HCC staff pass on as appropriate. the OPCC authorise agreed HCC officers to access the Authority’s bank account information, to make payments on its behalf using the agreed online system and access and maintain investment accounts.
8. **Basis of Charges**
	1. Charges are based on a fixed annual fee for the period 01 April to 31 March and are comprised of the HCC Treasury Management charge and the charge for the Treasury Advisor. HCC Treasury Management charges for each year are as follows below, all charges are subject to VAT.

HCC Treasury Management

 2024/25 £18,000

 2025/26 £25,000

 2026/27 £31,000

 2027/28 onwards £31,000 + inflationary increase

The charges for the Treasury Management advisor for 2024/25 onwards will be subject to the new contract.

* 1. The charge for HCC Treasury Management will be uplifted and an inflationary increase will apply as shown in the table above based on the agreed Local Government pay award for that year. The uplift will apply from the 1 April each year.
	2. Additional services not included in the contract will be charged by agreement between HCC and the OPCC.
	3. The service will be invoiced annually in advance in April each year, following the agreement of that year’s Local Government pay award, for payment within 30 days.

# 7 Quality Assurance Arrangements

7.1 Meetings - HCC Investments & Borrowing team will arrange at least quarterly meetings with the CFO and/or their teams to review the implementation of the treasury strategy, changes for future year’s strategies and delivery of the treasury strategy.

7.2 Compliance - at all times, there must be full compliance with the the OPCC’s Investment strategy which is in line with the CIPFA Code of Practice on Treasury Management. This includes full compliance with the criteria for selecting investment counterparties as defined in the Treasury Management Strategy.

7.3 Internal Audit – Reports and information from HCC’s Internal Auditors will be made available to THE OPCC upon request.

# 8 Duration and Termination

8.1 The terms of this agreement will be fixed until 31 March 2029 after which time either party can cancel this agreement by giving the other party 12 months’ notice in writing.

## Signed on behalf of Hampshire County Council

**……………………………………………………..**

**Position ………………………………………….** **Date ………………….**

## Signed on behalf of Police and Crime Commissioner for Hampshire & the Isle of Wight

**……………………………………………………..**

**Position …………………………….……………**  **Date ………………….**

[[1]](https://ukc-word-edit.officeapps.live.com/we/wordeditorframe.aspx?new=1&ui=en%2DUS&rs=en%2DUS&wdorigin=OFFICECOM-WEB.START.NEW-INSTANT&wdprevioussessionsrc=HarmonyWeb&wdprevioussession=ac191080-5877-4fd3-b837-08178663543f&wdenableroaming=1&mscc=1&wdodb=1&hid=50C207A1-8043-8000-0974-E2F437BCEC76&wopisrc=https%3A%2F%2Fforcesserip-my.sharepoint.com%2Fpersonal%2Fkaren_williams_hampshire_police_uk%2F_vti_bin%2Fwopi.ashx%2Ffiles%2Fc754fe84273a4d0e9d0e9f0826124790&wdhostclicktime=1706879887766&jsapi=1&jsapiver=v1&newsession=1&corrid=56a28ed7-c69c-48bd-aaf8-a253194d7d25&usid=56a28ed7-c69c-48bd-aaf8-a253194d7d25&sftc=1&cac=1&mtf=1&sfp=1&wdredirectionreason=Unified_SingleFlush&rct=Medium&ctp=LeastProtected#_ftnref1)<http://www.legislation.gov.uk/ukpga/2003/26/contents>

# TM charge (ex. Advisors)

2023/24 £11,600

2024/25 £18,000

Fee proposal

2025/26 £25,000

2026/27 £31,000

2027/28 onwards £31,000 + inflationary inc.