

Report of the Chief Finance Officer for the PCC to the Chair and Members of the Cleveland Audit Committee
10th December 2024

Presenting Officer: Michael Porter, PCC Chief Finance Officer

Status: For information

Mid-Year Treasury Management Report

1. Purpose

- 1.1 As part of the agreed Treasury Management Strategy the PCC has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
- 1.2 The PCC is required to receive and approve (as a minimum) three main treasury reports each year. The annual treasury management strategy including the Prudential Indicators (which this Committee received in March) is forward looking, it is the first and most important of the three and includes:
 - Prudential and treasury indicators and treasury strategy (These are appended to this report and will provided at each March Committee)
 - the capital plans, (including prudential indicators).
 - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time).
 - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an Annual Investment Strategy, (the parameters on how investments are to be managed).
 - A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. – **this is this report.**
 - An annual treasury report – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. – this will be reported to the June Committee.
- 1.3 This report provides Members with a copy of the Mid-Year review of Treasury Management in line with our current strategy and reporting timelines.

2. Recommendations

Members are asked to:

- 2.1 Note the contents of the report.
- 2.2 Note that the PCC is operating within all of the prudential indicator limits that were approved at the start of the year and that all Treasury Management limits were also being adhered to.
- 2.3 Note that the cash position is being actively managed and considered as the current forecasts indicate that there is a possibility that the organisation will need to use temporary borrowing towards the end of March-25.

3. Reasons

- 3.1 This report outlines the key elements of the capital and treasury management activity for the period 1st April 2024 to 30th September 2024.
- 3.2 Prudential Indicators are required to be set each year by the Cipfa Prudential code of Practice, and this report measures the performance against these indicators for 2024/25.

Capital Schemes

- 3.3 On 29th February 2024, the former PCC allocated the Force a capital budget of £5,189k for 2024/25 plus £2,340k for schemes that were carried forward from 2023/24 for a total approved in the LTFP of £7,529k.
- 3.4 The monitoring of capital budgets is undertaken monthly and has resulted in 1 additional scheme totalling £7k being added to the programme. In August there were three schemes where budget was returned to the PCC which were the LDC roof at £250k, the LDC Air Conditioning at £29k and part of the furniture replacement programme at £70k. The current approved capital budget is £7,187k.
- 3.5 The capital expenditure up to 30th September 2024 has been reported in detail in the Corporate Financial Monitoring report and is summarised as:

	Annual Revised Budget	Actual Expenditure
	£000s	£000s
Estates Schemes	1,170	699
Equipment Schemes	459	282
ICT Schemes	2,306	587
Fleet Schemes	2,838	421
Other Schemes	414	0
TOTAL	7,187	1,989

There is expected to be a £5k underspend by the end of the financial year.

- 3.6 The Police and Crime Commissioner agreed the Capital Strategy in line with the CIPFA Prudential Code on the 29th February 2024. The capital schemes are in line with the capital strategy.

Treasury Management

- 3.7 Local Authorities' (including Police and Crime Commissioner's) Treasury Management activities are prescribed by the Local Government Act 2003. The Police and Crime Commissioner may borrow or invest for any purpose relevant to its functions, under any enactment, or 'for the purpose of the prudent management of its financial affairs' and is required to agree a Treasury Management Strategy annually which provides a number of prudential indicators that are required to be monitored.
- 3.8 The Police and Crime Commissioner agreed the Treasury Management Policy, the Prudential Indicators and Annual Investment Strategy for 2024/25 in line with the CIPFA Prudential Code on 29th February 2024.

The Treasury Management activity in year is measured in terms of investments, cash balances and borrowing which is detailed below:

Investments and Cash Balances

- 3.9 From 1st April 2024 to 30th September 2024, the PCC made total investments of £142.075m which were invested in accordance with the approved Investment Strategy.
- 3.10 On 30th September 2024, the PCC had a cash balance of £26.9m. This consists of £2.9m with the National Westminster Bank, £15.0m with Aberdeen Standard Liquidity (ASL), £5.0m with Lloyds Banking Group and £4.0m with UK Debt Management Office, again in accordance with the Investment Strategy.
- 3.11 The graph at Appendix A sets out the actual and forecast cash balances for the two quarters of the financial year and shows these in comparison to the previous four years.
- 3.12 The Bank of England Base rate is currently 4.75% which was decreased from 5.25% in August 2024. The current interest rate from NatWest is 1.6% for all investments. The budget for interest receivable in 2024/25 is £1,000k and the actual interest received at the end of Q2 is £727k. We estimate the interest for 2024/25 will be £920k.
- 3.13 Our portfolio of investments in line with the Treasury management policy includes ASL which has a higher rate of return than deposits at NatWest and still provides the flexibility of being on-call.

Borrowing

- 3.14 No new loans have been taken out with the Public Works Loans Board in 2024/25. One repayment of principal for £0.76m was repaid on 12th July 2024. The loan profile is set out in Appendix B.
- 3.15 At 30th September 2024, the PCC had £18.760m of outstanding long-term loans with PWLB. There is also borrowing associated with PFI schemes totalling £14.737m giving a total of £33.497m. The borrowing for both PWLB and PFI schemes is expected to be at the estimated level by 31st March 2025.

3.16 Prudential Indicators

- 3.17 The Prudential Indicators were approved by the PCC for 2024/25 on 29th February 2024. The measurement of actual performance against the individual indicators is measured below.

3.18 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital against the net budgetary requirement. The forecast ratio for 2024/25 is 2.9% which is in line with the actual return for both 2024/25 (3.0%) and 2023/24 (2.8%).

Financing Costs to Net Revenue Streams	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	£000	£000	£000
Minimum Revenue Provision (MRP)	2,637	3,082	3,082
Interest Payable on Borrowing	2,853	2,825	2,825
Interest Receivable	(1,067)	(1,000)	(920)
Financing Costs	4,423	4,907	4,987
Net Revenue Stream	157,226	168,297	168,297
Ratio %	2.8%	2.9%	3.0%

Given that funding for PFI's is dealt with by a separate specific grant then the underlying level of funding that will be set aside to service borrowing (excluding PFI's) in 2024/25 is forecasted to be 0.3% of the Net Revenue Stream and is currently 0.3%.

Financing Costs to Net Revenue Streams (Excluding PFI)	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	£000	£000	£000
Minimum Revenue Provision (MRP)	944	925	925
Interest Payable on Borrowing	556	503	503
Interest Receivable	(1,067)	(1,000)	(920)
Financing Costs	433	428	508
Net Revenue Stream	157,226	168,297	168,297
Ratio %	0.3%	0.3%	0.3%

3.18 Incremental Impact of Capital Investment Decisions on Band D Council Tax

This indicator shows the incremental impact of the additional capital expenditure that is planned in the current programme on the Band D council tax.

Council Tax	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	£000	£000	£000
Band D Impact	(1.87)	(1.86)	0.02
Precept	46,379	(51,579)	(51,579)
Additional Precept received from Precept Increase	(2,978)	(5,200)	(5,200)
Band D Level (£)	290.73	303.73	303.73
Band D increase year on year (£)	15.00	13.00	13.00
%age of precept increase funding capital costs	-12.5%	-14.3%	0.1%

3.19 Level of borrowing to fund the capital expenditure

The level of borrowing required to fund the 2024/25 capital programme is detailed below:

Capital Expenditure	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	£000	£000	£000
Capital Expenditure	5,647	7,536	7,182
PFI Capital Expenditure	1,017	575	575
Total Capital Expenditure	6,664	8,111	7,757
Funded By:			
Gross Borrowing	0	1,402	1,170
PFI Borrowing	0	0	0
Other Capital Resources	6,664	6,709	6,587
%age of Expenditure funded by Borrowing	0.0%	17.3%	15.1%

3.20 The PCC's Borrowing Need (The Capital Financing Requirement)

The Capital Financing Requirement (CFR) measures the PCC's underlying need to borrow for Capital purposes and ensures that borrowing is only undertaken to fund capital assets and not support revenue expenditure.

Capital Financing Requirement	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	£000	£000	£000
Opening Capital Financing Requirement	12,501	12,010	12,010
Supported Borrowing	0	0	0
MRP on Supported Borrowing	(491)	(471)	(471)
Voluntary MRP	0	0	0
Closing Capital Financing Requirement	12,010	11,539	11,539
Unsupported borrowing to fund Capital Expenditure	28,882	30,284	30,284
PFI Borrowing	34,978	34,978	34,978
Total CFR Base on which MRP is calculated	75,870	76,801	76,801
MRP on Unsupported Borrowing- cumulative	(7,684)	(8,138)	(8,138)
MRP on PFI (cumulative)	(19,549)	(21,706)	(21,706)
Total CFR Base for borrowing purposes	48,637	46,957	46,957

The Capital Financing Requirement is expected to be in line with the estimate approved and MRP repayments are made in accordance with regulations.

6.5 Limits to Borrowing Activity

Within the Prudential indicators there are a number of indicators to ensure that the PCC operates its activities within well-defined limits.

For the first of these the PCC needs to ensure that the total borrowing net of any investments does not, except in the short term, exceed the total of the CFR.

Net Borrowing and the Capital Financing Requirement (CFR)	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	£000	£000	£000
Borrowing	19,520	18,760	18,760
Temporary Borrowing	0	0	5,000
PFI Borrowing	15,816	13,659	13,659
Investments	(5,500)	(4,000)	0
Net Borrowing	29,836	28,419	37,419
Total CFR Base for borrowing purposes	48,637	46,957	46,957

The 2024/25 forecasted total net borrowing is less than estimated and is £9,538k below the upper borrowing limit.

There are a further two prudential indicators which control or anticipate the overall level of borrowing. These are:

- The **Authorised Limit** which represents the limit beyond which borrowing is prohibited and needs to be set and revised by the PCC. Borrowing beyond this limit would be ultra vires.
- The **Operational Boundary** which is based on the probable external debt during the year. It includes scope for borrowing for revenue purposes that may be required in the short term during the year.

Authorised Limit for External Debt	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	£000	£000	£000
Borrowing	19,520	18,760	18,760
PFI Borrowing	15,816	13,659	13,659
Provision for Temporary Borrowing	0	7,000	5,000
	35,336	39,419	37,419
Operational Boundary for External Debt	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	£000	£000	£000
Borrowing	19,520	18,760	18,760
PFI Borrowing	15,816	13,659	13,659
Provision for Temporary Borrowing	0	5,000	5,000
	35,336	37,419	37,419

The forecast authorised limit and operational boundary for external debt for 2024/25 is within the approved estimated limits.

6.6 Upper Limits on borrowing

This indicator identifies a maximum level of borrowing that can be made at Fixed and Variable interest rates.

Borrowing	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100
Upper Limit of Variable Rate Exposures	25	25	25

No new loans have been taken out in 2024/25 and all existing loans are at a fixed interest rate.

6.7 Upper Limits on Investments

This indicator identifies a maximum level of investments that can be made at Fixed and Variable interest rates.

Investments	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	%	%	%
Upper Limit on Fixed Interest Rate Exposures	100	100	100
Upper Limit of Variable Rate Exposures	70	70	70

£142.075m of investments have been made from 1 April 2024 to 30 September 2024 with the average split between fixed and variable interest rates being 42% to 58% which is within the 70% upper limit of variable rate exposure.

6.8 Maturity Structure of Debt

These gross limits are set to reduce the PCC's exposure to large fixed rate sums falling due for re-financing within a short timeframe.

Maturity Structure of Debt	2023/24		2024/25	
	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	50%
Over 12 months and under 2 years	0%	50%	0%	50%
Over 2 years and under 5 years	0%	50%	0%	50%
Over 5 years and under 10 years	0%	85%	0%	85%
Over 10 years	0%	100%	0%	100%

The actual maturity structure of debt to date in 2024/25 was under the upper limits.

Actual Maturity Structure of Debt	2023/24		2024/25	
	£000	%	£000	%
Under 12 months	760	4%	0	0%
Over 12 months and under 2 years	760	4%	760	4%
Over 2 years and under 5 years	0	0%	0	0%
Over 5 years and under 10 years	1,500	8%	1,500	8%
Over 10 years	16,500	85%	16,500	88%

6.9 Upper Limit for Sums Invested for a Period of over 364 days

This indicator sets a limit on the level of investments that can be made for more than 364 days.

Principal Sums Invested > 1 year	2023/24	2024/25	2024/25
	Actual	Estimate	Actual
	£000	£000	£000
Maturity Profile	0	2,000	0

There have been no investments to date in 2024/25 for more than 364 days.

- 6.10 Members are encouraged to scrutinise the report and raise any questions/queries that they may have.

7 Implications

7.1 Finance

There are no financial implications arising directly from this report.

7.2 Diversity & Equal Opportunities

There are no diversity or equal opportunities implications arising from this report.

7.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

7.4 Sustainability

There are no sustainability issues arising from this report.

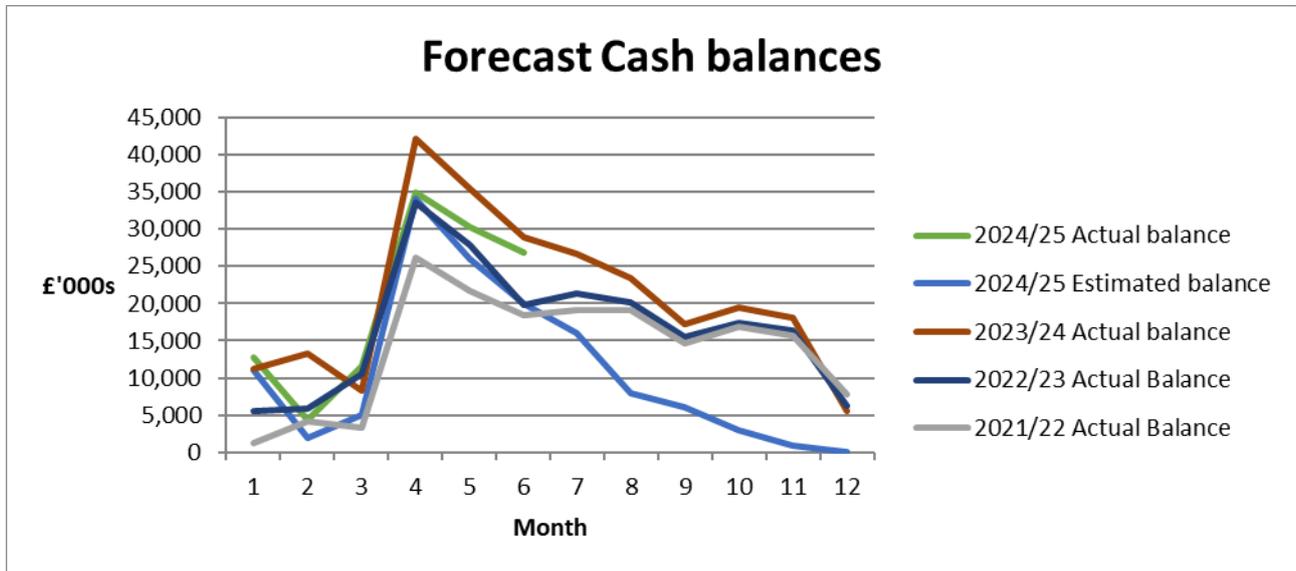
7.5 Risk

There are no risk issues arising from this report.

8 Conclusion

- 8.1 This report provides Members with a mid-year treasury management update including an update on the capital position and prudential indicators, showing that no changes are needed to either limits or policies at this stage.
- 8.2 The report does highlight a potentially challenging cash position towards the end of the financial year but this is being actively managed.

Appendix A – Actual v Forecast Cash Balances



Appendix B – Loan Structure at 30th September 2024.

<u>Loan Number</u>	<u>Lender</u>	<u>Date Loan Taken Out</u>	<u>Amount (£)</u>	<u>Interest rate (%)</u>	<u>Maturity date</u>	<u>2024/25 Annual Interest Charge (£)</u>
505933	PWLB	27/03/2017	0	1.64	12/07/2024	3,517
506868	PWLB	01/02/2018	3,500,000	2.48	01/08/2060	86,800
506976	PWLB	01/03/2018	2,500,000	2.76	01/08/2038	69,000
507161	PWLB	28/03/2018	760,000	2.16	01/08/2025	16,416
507173	PWLB	29/03/2018	3,500,000	2.45	01/08/2052	85,750
507174	PWLB	29/03/2018	1,500,000	2.42	01/08/2030	36,300
507274	PWLB	30/04/2018	3,000,000	2.74	01/08/2045	82,200
519123	PWLB	06/06/2022	4,000,000	3.08	01/08/2042	123,200
<u>18,760,000</u>						<u>503,183</u>