**POLICE AND CRIME COMMISSIONER FOR HAMPSHIRE AND ISLE OF WIGHT CONSTABULARY**

**JOINT AUDIT COMMITTEE – 21 May 2024**

*Annual Treasury Outturn Report 2023/24*

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

1. **Purpose**
	1. The Police and Crime Commissioner for Hampshire and Isle of Wight (PCC) has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice (the CIPFA Treasury Management Code), last updated in 2021. The CIPFA Treasury Management Code requires the PCC to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2023/24.
2. **Recommendation**
	1. It is recommended that the Joint Audit Committee considers the report and makes observations as appropriate.
3. **Executive Summary**
	1. The PCC has adopted the CIPFA Treasury Management Code which requires the PCC to approve, as a minimum, treasury management semi-annual and annual outturn reports.
	2. This report includes the requirement in the CIPFA Treasury Management Code 2021, mandatory from April 2023, of reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the PCC’s normal Outturn Report.
	3. The PCC’s treasury management strategy was most recently updated and approved by the PCC in March 2024. 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 risk are therefore central to the PCC’s treasury management strategy.
	4. Treasury management in the context of this report is defined as: “The management of the organisation’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.”
	5. This annual report sets out the performance of the treasury management function during 2023/24, to include the effects of the decisions taken and the transactions executed in the past year.
	6. Overall responsibility for treasury management remains with the PCC. No treasury management activity is without risk and the effective identification and management of risk are therefore integral to the PCC’s treasury management objectives.
	7. All treasury activity has complied with the PCC’s Treasury Management Strategy and Investment Strategy for 2023/24, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the PCC’s treasury advisers, Arlingclose.
	8. In complying with its duties to determine affordable borrowing limit, local authorities (including police and crime commissioners) must have regard to CIPFA’s Prudential Code of Capital Finance in Local Authorities (the Prudential Code) which includes the requirement to produce and have approved a Capital Strategy, a summary document covering capital expenditure and financing, treasury management and non-treasury investments. The PCC’s most recent Capital and Investment Strategy, complying with CIPFA’s requirement, was approved by the PCC in March 2024.
4. **External Context**
	1. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2023/24.

**Economic background**

* 1. UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February 2024, but was still above the Bank of England’s (BoE) 2% target at the end of the period.
	2. The UK economy entered a technical recession in the second half of 2023. Over the 2023 calendar year GDP (gross domestic product) growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Quarter 1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.
	3. Having begun the financial year at 4.25%, the BoE’s Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023. This rate was maintained to March 2024.
	4. In the February 2024 Monetary Policy Report the BoE’s expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in the second half of 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices; these effects would hold inflation slightly above target for much of the forecast horizon.
	5. Following this MPC meeting, the County Council’s treasury adviser, Arlingclose, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in the second half of 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

**Financial markets**

* 1. Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October 2023 they started declining again before falling sharply in December 2023 as falling inflation and central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January 2024 that inflation was stickier than expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 0.5%+ higher than when it started.

**Credit review**

* 1. In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.
	2. Credit default swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders’ CDS ended the period at similar levels to those seen in early 2023.
	3. Heightened market volatility is expected to remain a feature, at least in the near term and, CDS levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the PCC’s counterparty list recommended by Arlingclose remain under constant review.
1. **Local Context**
	1. At 31 March 2024, the PCC had net investments of £111.25m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) as it is the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income, while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1.

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| --- | --- | --- | --- |
| **Table 1: Balance sheet summary** | **31/03/23Balance£m** | **Movement£m** | **31/03/24Balance£m** |
| CFR | 53.74 | (2.68) | 51.06 |
| External borrowing\* | (29.87) | 10.52 | (19.43) |
| **Internal borrowing** | **23.86** | **7.85** | **31.63** |
| Less: Balance sheet resources | (130.85) | (12.11) | (142.96) |
| **Net investments** | **(106.99)** | **(4.26)** | **(111.33)** |

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

* 1. Table 1 shows that during 2023/24 the PCC’s CFR has decreased by £2.68m which reflects the Minimum Revenue Provision (MRP) set aside during the year to repay previous borrowing, and no new capital expenditure funded from borrowing taking place in 2023/24.
	2. CFR is financed by external and internal borrowing. External borrowing is made up of external loans, and in the PCC’s case, these have been secured via the Public Works Loan Board (PWLB), whilst internal borrowing is where the PCC borrows from its own cash balances. During 2023/24 the PCC’s external borrowing reduced by £10.52m due to the repayment of Treasury Management borrowing. This reduction in external borrowing in combination with the reduction in CFR led to internal borrowing increasing by £7.85m in 2023/24.
	3. There is the potential that new external borrowing may be required in future years to fund capital expenditure commitments (albeit that the existing capital programme is fully funded), and the Chief Finance Officer will work closely with Hampshire County Council’s Investments and Borrowing team and treasury advisors Arlingclose to ascertain at what point it would be prudent to take out additional borrowing should a borrowing need arise.
	4. The costs associated with the underlying need to borrow externally to fund planned expenditure are factored into the budget in the form of MRP and interest costs, and provisional numbers have also been built into the Medium Term Financial Strategy for potential new borrowing in future years. The capital programme is reviewed annually, and capital financing requirements are recalculated as necessary.
	5. During the year Balance Sheet resources have increased by £12.1m as a result of balances transferred to reserves, including the over-achievement of investment income compared to budget by £4m in 23/24 and the receipt of £4m of reward grants at year end for achieving enhanced officer headcount numbers.
	6. The PCC’s strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. This has meant that internal funds have been utilised in lieu of taking on external borrowing debt. The treasury management position as at 31 March 2024 and the change during the year are shown in Table 2.

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| --- | --- | --- | --- | --- |
| **Table 2: Treasury management summary** | **31/03/23Balance£m** | **Movement£m** | **31/03/24Balance£m** | **31/03/24Rate%** |
| Long-term borrowing | (29.35) | 10.35 | (19.00) | 4.24 |
| Short-term borrowing | (0.35) | - | (0.35) | 4.88 |
| **Total borrowing** | **(29.70)** | **10.35** | **(19.35)** | **4.25** |
| Long-term investments | 15.09 | 8.91 | 24.00 | 5.40 |
| Short-term investments | 25.02 | 15.50 | 40.52 | 5.26 |
| Cash and cash equivalents | 66.80 | (33.51) | 33.29 | 5.19 |
| **Total investments** | **106.91** | **(9.10)** | **97.81** | **5.27** |
| **Net treasury management investments** | **77.21** | **1.25** | **78.46** |  |

Note: the figures in Table 2 are taken from the balance sheet in the PCC’s statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments, and therefore differ from Table 1.

* 1. The increase in net investments of £1.25m shown in Table 2 is as a result of can the early repayment of £10m of borrowing which was funded from cash balances during 2023/24. No new loans were secured in 2023/24. Further details are provided in the Borrowing Strategy and Activity and Treasury Investments Activity sections of this report.
	2. The overall level of investments provides significant financial resilience for the PCC, albeit that the majority of the reserves are ringfenced and set aside for specific purposes; the expectation is that reserves will be drawn down significantly over the next few years, particularly to support the capital programme, major equipment purchase, IT infrastructure and device replacement, Operation Magenta and to fund inflation pressures.
1. **Borrowing Update**
	1. CIPFA’s 2021 Prudential Code is clear that local authorities (including police and crime commissioners) must not borrow to invest primarily for financial return and that it is not prudent for the authority to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.
	2. The PCC has not invested in assets primarily for financial return or that are not primarily related to the functions of the PCC. It has no current plans to borrow to invest primarily for commercial return in 2023/24 and so is currently unaffected by the changes to the Prudential Code.
	3. Further, the PCC has and may continue to invest in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the PCC’s surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the PCC’s aim of protecting reserves from high inflation.
	4. The PCC is a net investor and expects a negative liability benchmark up to and including 2026/27, meaning that there is not currently a requirement to undertake new borrowing either internally or externally. It is expected that a forecast reduction in balance sheet resources will result in a positive liability benchmark as at 31 March 2027, however the liability benchmarking will be at or below the current level of external borrowing (after the recent repayment), which indicates that no further borrowing will be necessary in the forecast period.
2. **Borrowing Strategy and Activity**
	1. As outlined in the treasury strategy, the PCC’s chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the PCC’s long-term plans change being a secondary objective. The PCC’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
	2. Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields fell in late 2023, by December 2023 they had returned to the lows previously seen in April earlier that year , before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.
	3. At 31 March 2024 the PCC held £19.35m of loans (a decrease of £10.35m from 31 March 2023) as part of its strategy for funding previous years’ capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

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| **Table 3: Borrowing position** | **31/03/23Balance£m** | **Net movement£m** | **31/03/24Balance£m** | **31/03/24Weighted average rate%** | **31/03/24Weighted average maturity(years)** |
| Public Works Loan Board | (29.70) | 10.35 | (19.35) | 4.25 | 9.31 |
| **Total borrowing** | **(29.70)** | **10.35** | **(19.35)** | **4.25** | **9.31** |

Note: the figures in Table 3 are from the balance sheet in the PCC’s statement of accounts but adjusted to exclude accrued interest.

* 1. With the changing interest rate environment, the potential to repay existing PWLB debt in line with the treasury management strategy (so switching between external PWLB debt and internal borrowing) to provide a long-term interest rate saving has been reviewed.
	2. The market environment and in particular PWLB loan repayment rates were such that in August 2023 the repayment of a portion of PWLB debt became a realistic option. £10m of PWLB debt, with an average date to redemption of 13.5 years, was repaid in Quarter 2 of 2023/24 to take advantage of favourable redemption rates in accordance with advice taken from Arlingclose, securing an interest rate saving of 4.42% for the 13.5 years.
	3. It is important to note that the underlying need to borrow has not reduced, and that this is a treasury management decision to switch between external PWLB debt to ‘internal borrowing’ (in lieu of investing the £10m cash, external debt has been repaid to effectively secure a ‘risk free’ interest saving/return of 4.42% for 13.5 years).
	4. The PCC’s chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty 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.
1. **Treasury Investment Activity**
	1. The CIPFA Treasury Management Code now defines treasury management investments as investments that arise from the organisation’s cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
	2. The PCC holds invested funds representing income received in advance of expenditure plus balances and reserves held. During the year, the PCC’s investment balances have ranged between £62.6m and £157.0m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4.

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| **Table 4: Treasury investment position** | **31/03/23 Balance** | **Net movement** | **31/03/24****Balance** | **31/03/24Income return** | **31/03/24Weighted average maturity** |
|  | **£m** | **£m** | **£m** | **%** | **(years)** |
| **Short term investments**  |  |  |  |  |  |
| Banks and building societies: |  |  |  |  |  |
| * Unsecured
 | 6.34 | 1.94 | 8.28 | 4.90 | 0.09 |
| * Secured
 | - | 5.00 | 5.00 | 4.31 | 0.94 |
| * High quality bonds
 | - | 5.00 | 5.00 | 5.03 | 0.70 |
| Money market funds | 65.48 | (40.45) | 25.03 | 5.24 | 0.01 |
| Government: |  |   |   |  |  |
| * Local authorities
 | 7.00 | 18.50 | 25.50 | 5.50 | 0.37 |
| * Treasury bills
 | 13.00 | (8.00) | 5.00 | 5.42 | 0.01 |
| **Total** | **91.82** | **(18.01)** | **73.81** | **5.23** | **0.25** |
| **Long term investments**Banks and building societies: |  |  |  |  |  |
| * Secured
 | 5.09 | (5.09) | - | N/A | N/A |
| * Hiqh quality bonds
 | - | 10.00 | 10.00 | 5.91 | 1.68 |
| Registered providers\* | 0.00 | - | 0.00 | N/A | N/A |
| Government: |  |  |  |  |  |
| * Supranational bonds
 | - | 9.00 | 9.00 | 4.81 | 3.09 |
| Pooled funds: |  |  |  |  |  |
| * Pooled property\*\*
 | 4.00 | - | 4.00 | 5.02 | N/A |
| * Pooled equity\*\*
 | 3.00 | (2.00) | 1.00 | 7.06 | N/A |
| * Pooled multi-asset\*\*
 | 3.00 | (3.00) | - | N/A | N/A |
| **Total** | **15.09** | **8.91** | **24.00** | **5.40** | **1.86** |
| **Total investments** | **106.91** | **(9.10)** | **97.81** | **5.27** | **0.64** |

\* Revolving credit facilities totalling £5m are in place with registered providers, currently not drawn. These agreements provide the PCC with an average non-utilisation fee of 0.30% per annum by reference to the undrawn amounts of the facilities.

\*\* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2024 based on the market value of investments at the start of the year.

Note: the figures in Table 4 are from the balance sheet in the PCC’s statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

* 1. The CIPFA Treasury Management Code and government guidance both require the PCC to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the optimum rate of return, or yield. The PCC’s objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside the risk of receiving unsuitably low investment income. The PCC’s Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.
	2. As demonstrated by the liability benchmark in this report, the PCC expects to be a long-term investor and treasury investments therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support services.
	3. Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end of March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period. Money Market Rates also rose and were between 4.5% and 5.3% by the end of March 2024.
	4. £24m that is currently available for longer-term investments is invested in covered bonds and pooled property and equity funds. During the financial year the PCC has increased amounts invested in these instruments due to the forecast treasury investment balances remaining stable over the medium term.
	5. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The PCC invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.
	6. The PCC benchmarks the performance of its internally managed investments (excluding pooled funds) against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include Money Market Funds. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2024 and at the same date in 2023 for comparison.

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| **Table 5: Investment benchmarking (excluding pooled funds)** | **Credit rating** | **Bail-in exposure** | **Weighted average maturity(days)** | **Rate of return** |
| 31.03.2023 | AA- | 74% | 60 | 3.98% |
| 31.03.2024 | AA- | 36% | 289 | 5.27% |
| Police & Fire Authorities | A+ | 69% | 42 | 5.03% |
| All LAs | A+ | 61% | 9 | 5.17% |

* 1. Table 5 shows the average credit rating of the portfolio has remained consistent at AA-, one notch above the average of other clients, whist the PCC has been able to achieve higher returns than average. Bail-in exposure has reduced in comparison to the same time in 2023, as the PCC held a greater investment balance with secured investments such as covered bonds which are not subject to bail in risk. The weighted average maturity of investments was higher in comparison to the position at 31 March 2023 as the PCC held more in long-term balances as a proportion of total investment balances.

**Externally managed pooled funds**

* 1. £4m of the PCC’s investments is invested in externally managed strategic pooled equity and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. In 2023/24 these funds generated an average total return of 1.85%, comprising a 4.95% income return which is used to support services in year, and 1.5% of unrealised capital loss. Over the holding period (just below 10 years), the PCC’s investments in pooled funds have contributed 4.28% income per year on average, which compares favourably in a period where base rates have generally been low.
	2. During 2023/24 after an initial period of caution due to the likelihood of recession, the UK economy fared better than anticipated with a shallow recession, falling inflation and improved consumer confidence providing support for UK equities, with stocks trading at attractive valuations relative to their global peers. The FTSE All-Share was one of the top performing stock markets in September and December 2023. The total return on the FTSE All Share index for the 12 months ending March 2024 was 8.2%.
	3. The market background for commercial property improved marginally in 2023 and was more stable, in contrast to the very challenging backdrop of 2022. Low transactional volumes were a constraint on valuations and made prospective sellers and buyers more cautious. Although many sectors lacked momentum, there was growing confidence in the longer-term outlook as occupier demand and rental markets held up. Industrial and retail warehousing sectors remained strong, but the retail and offices sectors remained weak, the latter continuing to be hindered by low occupancy from hybrid working practices.
	4. Because these 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 medium-to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years and with the expectation that over a three- to five-year period total returns should exceed cash interest rates.
	5. The PCC is aware of the risks involved with investing in pooled funds that hold underlying investments in equities and property. As a result, 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 which equates to 6% of the actual allocation to pooled investments of £4m.
	6. In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31 March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not. The PCC will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.
1. **Financial Implications**
	1. The outturn for debt interest paid in 2023/24 was £1m on an average debt portfolio of £23.01m.
	2. The outturn for investment income received in 2023/24 was £6.1m, (against a budget of £2m) on an average investment portfolio of £117.87m, therefore giving an average yield for the year of 5.2%.
2. **Non-Treasury Investments**
	1. The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the PCC as well as other non-financial assets which the PCC holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).
	2. Investment Guidance issued by DLUHC also broadens the definition of investments to include all such assets held partially or wholly for financial return. The Investment Guidance applies to all authorities defined as local authorities under the Local Government Act 2003, section 23, which includes Police and Crime Commissioners.
	3. This could include the direct purchase of land or property and any such loans and investments will be subject to the PCC’s normal approval processes for revenue and capital expenditure and need not comply with the treasury management strategy. The PCC does not have any existing non-treasury investments.
3. **Consultations**
	1. Following three rounds of consultation, the Department for Levelling Up, Housing and Communities (DLUHC) has published its final consultation response, amendment regulations and revised statutory guidance on Minimum Revenue Provision (MRP). The statutory guidance also incorporates an informal commentary. There are three main changes:

• Local authorities (including police and crime commissioners) cannot exclude any amount of their Capital Financing Requirement (CFR) from their MRP calculation, unless by an exception set out in law.

• Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP, with specific exceptions for capital loans and leased assets.

• For capital loans given on or after 7 May 2024, sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding minus any expected credit loss.

* 1. Changes will take effect from the 2025/26 financial year, except in respect of expected credit losses which take effect from the current 2024/25 year.
1. **Compliance Report**
	1. The PCC CFO confirms compliance of all treasury management activities undertaken during 2023/24 with the CIPFA Treasury Management Code and the PCC’s approved Treasury Management Strategy.
	2. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 6.

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| --- | --- | --- | --- | --- | --- |
| **Table 6: Debt limits** | **2023/24Maximum£m** | **31/03/24 Actual£m** | **2023/24Operational Boundary£m** | **2023/24Authorised Limit£m** | **Complied?** |
| Borrowing | (30.73) | (19.35) | (70.50) | (87.50) |  |
| Other long term liabilities | 0.00 | 0.00 | 0.00 | 0.00 |  |
| **Total debt** | **(30.73)** | **(19.35)** | **(70.50)** | **(87.50)** |  |

* 1. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However this limit was not breached during the financial year.
1. **Treasury Management Indicators**
	1. As required by the 2021 CIPFA Treasury Management Code, the PCC measures and manages the following treasury management prudential indicators.

**Liability benchmark**

* 1. This new indicator compares the PCC’s actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. 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. It 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.

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| **Table 8 – Liability Benchmark** | **31/03/23****Actual** | **31/03/24Actual** | **31/03/25Forecast** | **31/03/26Forecast** |
| Loans CFR | 51.70 | 49.30 | 47.60 | 46.00 |
| Less: Balance sheet resources | (131.20) | (134.60) | (117.80) | (91.30) |
| Net loans requirement | **(79.50)** | **(85.30)** | **(70.20)** | **(45.30)** |
| Plus: Liquidity allowance | 10.00 | 10.00 | 10.00 | 10.00 |
| Liability benchmark | **(69.50)** | **(75.30)** | **(60.20)** | **(35.3)** |
| Existing borrowing | **29.90** | **19.30** | **8.90** | **8.660** |

* 1. The PCC is a net investor and as the above table and below graph shows, the PCC expects a negative liability benchmark across the forecast period, meaning that these is no requirement to borrow for the foreseeable future.

**Chart 1: Liability Benchmark**

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**Interest rate exposures**

* 1. The following indicator shows the sensitivity of the PCC’s current investments and borrowing to a change in interest rates.

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| --- | --- | --- |
| **Table 9: Interest rate risk indicator** | **31/03/24Actual****£m** | **Impact of a +/- 1% interest rate change****£m** |
| Sums subject to variable interest rates: |  |  |
| Investment | 53.13 | 0.53 |
| Borrowing | (0.01) | (0.00) |

* 1. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

**Maturity structure of borrowing**

* 1. This indicator is set to control the PCC’s exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 10: Maturity structure of borrowing** | **31/03/24Actual** | **Upper Limit** | **Lower Limit** | **Complied** |
| Under 12 months | 2% | 50% | 0% |  |
| 12 months and within 24 months | 0% | 50% | 0% |  |
| 24 months and within 5 years | 0% | 50% | 0% |  |
| 5 years and within 10 years | 62% | 75% | 0% |  |
| 10 years and within 20 years | 36% | 100% | 0% |  |
| 20 years and above | 0% | 100% | 0% |  |

**Long-term Treasury Management Investments**

* 1. 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 prudential limits on the long-term treasury management limits are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Table 11: Long-term Treasury Management Investments** | **2023/24** | **2024/25** | **2025/26** | **No fixed date** |
| Actual principal invested beyond year end | £24m | £10m | £10m | £5m |
| Limit on principal invested beyond year end | £45m | £45m | £45m | £5m |
| Complied |  |  |  |  |

* 1. Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.