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| **OFFICE OF THE POLICE & CRIME COMMISSIONER**  **OFFICE OF THE CHIEF CONSTABLE** | | |
| **TITLE:** | | **Treasury Management Annual Report 2024/25** |
| **DATE:** | | **3rd September 2025** |
| **TIMING:** | | **Routine** |
| **PURPOSE:** | | **For consideration** |
| **1.** | **RECOMMENDATION** | |
| 1.1 | That the Annual Treasury Management Activity Report and actual Prudential Indicators for 2024/25 are approved. | |
| **2.** | **INTRODUCTION & BACKGROUND** | |
| 2.1  2.2  2.3  2.4  2.5 | Treasury Management is the management of cash flows, banking, money market and capital market transactions and the management of the associated risks, in the pursuit of the optimum performance or return consistent with those risks.  1.2 The Treasury Management Annual Report is a requirement of the Police and Crime Commissioner’s (PCC’s) statutory reporting responsibilities.  The report meets the requirements of both the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The PCC is required to comply with both Codes through Regulations issued under the Local Government Act 2003.  The report covers both Treasury Management activity during 2024/25 and the actual Prudential Indicators for 2024/25.  During 2024/24 the minimum reporting requirements were that the PCC received an annual treasury management strategy in advance of the year, a mid-year update report and an annual report following the year end, describing the actual performance or activity compared to the annual strategy. | |
| **3.** | **ISSUES FOR CONSIDERATION** | |
| **3.1** | **Capital Expenditure and Financing** | |
| 3.1.1  3.1.2 | During each financial year the PCC incurs expenditure on acquiring and enhancing land, buildings, vehicles and other long-term assets. These activities are known as capital expenditure. Such expenditure may either be:   1. Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on borrowing need; or 2. If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.     Actual capital expenditure forms one of the required Prudential Indicators. The table below shows capital expenditure in the respective years and how this was financed. The 2023/24 Estimate of Capital expenditure is as per the Treasury Management Strategy for 2023/24.   |  |  |  |  | | --- | --- | --- | --- | |  | 2023/24 | 2024/25 | 2024/25 | |  | Actual | Estimate | Actual | |  | £m | £m | £m | |  |  |  |  | | **Capital Expenditure** | 10.132 | 19.751 | 11.223 | |  |  |  |  | | Financed by: |  |  |  | | Capital Receipts | 0.301 | 0.000 | 0.000 | | Capital Grants and PIF Grants | 0.000 | 0.178 | 0.000 | | Reserves | 3.586 | 0.000 | 3.868 | | Revenue | 6.245 | 7.573 | 7.355 | |  |  |  |  | | **Unfinanced Capital Expenditure** | 0 | 12.000 | 0 |   The significant reduction in the actual capital expenditure compared to the initial estimate is a result of the Joint Firearms range & the Access Control project expenditure profiles. Also contributing towards this variance is delays in the delivery of several vehicles and the cessation of a major ICT scheme. | |
| **3.2** | **Borrowing Requirement** | |
| 3.2.1  3.2.2  3.2.3  3.2.4 | The PCC’s underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the PCC’s debt position. It represents 2024/25 and any prior years’ capital expenditure which has not yet been financed by revenue or other resources.    Part of the PCC’s treasury activity is to address this borrowing need, either through borrowing from external bodies, or utilising temporary internal cash resources.  Under treasury management arrangements, actual debt can be borrowed or repaid at any time within the confines of the annual Treasury Management Strategy. However, the PCC is required to make an annual revenue charge to reduce the CFR. This statutory revenue charge is called the Minimum Revenue Provision (MRP). The total CFR can also be reduced by:   1. The application of additional capital resources; or 2. Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).   The PCC’s CFR for the year is shown below and represents a key prudential indicator.   |  |  |  |  | | --- | --- | --- | --- | |  | 2023/24 | 2024/25 | 2024/25 | |  | Actual | Estimate | Actual | |  | £m | £m | £m | | Capital Financing Requirement | 0 | 12.000 | 0 | | |
| **3.3** | **Treasury Position** | |
| 3.3.1  3.3.2  3.3.3 | Whilst the PCC’s gauge of their underlying need to borrow is the CFR, the Chief Finance Officer for the PCC can manage the actual borrowing position by either:   1. Borrowing to the CFR amount; 2. Choosing to utilise some temporary internal cash flow funds in lieu of borrowing (under-borrowing); or 3. Borrowing for potential future increases in the CFR (borrowing in advance of need).     The figures in this report are based on the carrying amounts borrowed and invested and therefore reflect those figures disclosed in the Statement of Accounts.  The treasury position at the 31st March 2025 compared with previous year comparators was:   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | 31st March 2024 | | 31st March 2025 | | |  |  | Average |  | Average | |  |  | Interest |  | Interest | |  | Principal | Rate | Principal | Rate | |  | £m | % | £m | % | | Actual Borrowing Position |  |  |  |  | | Fixed Rate Debt | 0 | 0 | 0 | 0 | | Variable Rate Debt | 0 | 0 | 0 | 0 | | Total Debt | 0 | 0 | 0 | 0 | | Underlying Borrowing Requirement (excl. PFI) | 0 |  | 0 |  | | (Over) / Under Borrowing | 0 |  | 0 |  | |  |  |  |  |  | | Actual Investment Position |  |  |  |  | | Fixed Interest Investments | 14.333 | 5.50 | 5.131 | 4.75 | | Variable Interest Investments | 10.132 | 5.01 | 10.576 | 4.86 | | Total Investments | 24.465 |  | 15.707 |  | |  |  |  |  |  | | Cash & Cash Equivalents | 1.893 |  | 1.786 |  | |  |  |  |  |  | | Net Borrowing | (26.358) |  | (17.493) |  | |  |  |  |  |  | | |
| **3.4** | **Prudential Indicators and Compliance Issues** | |
| 3.4.1  3.4.2  3.4.3  3.4.4  3.4.5  3.4.6  3.4.7  3.4.8 | Some of the Prudential Indicators provide either an overview or specific limits on treasury activity and these are shown below:  Gross Borrowing and the CFR  In order to ensure that borrowing levels are prudent over the medium term the PCC’s borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, have exceeded the CFR for 2024/25 plus the expected changes to the CFR over 2025/26 and 2026/27 etc. The table below highlights the PCC’s gross borrowing position against the CFR.   |  |  |  |  | | --- | --- | --- | --- | |  | 2023/24 | 2024/25 | 2024/25 | |  | Actual | Estimate | Actual | |  | £m | £m | £m | | Gross Borrowing (incl. PFI) | 0 | 12.000 | 0 | | External Borrowing (excl. PFI) | 0 | 12.000 | 0 | | Capital Financing Requirement (CFR) | 0 | 12.000 | 0 |   The above table shows that gross debt is exactly the same as the CFR and therefore this prudential indicator has been met.  The Authorised Limit  The Authorised Limit is the ‘Affordable Borrowing Limit’ required by Section 3 of the Local Government Act 2003. The PCC does not have the power to borrow above this level.  The table below demonstrates that during 2024/25 the PCC maintained gross borrowing within the Authorised Limit.  The Operational Boundary  The Operational Boundary is the expected borrowing position during the year. Periods where the actual position is either below or over the Operational Boundary are acceptable subject to the Authorised Limit not being breached.  Maximum Gross Borrowing  This is the Gross Borrowing at the beginning of the financial year.  Average Gross Borrowing  This is the average of the borrowing position at the beginning of the year and the borrowing position at the end of the year.   |  |  | | --- | --- | |  | 2024/25 | |  | £m | | Authorised Borrowing Limit | 12.600 | | Operational Boundary | 12.000 | | Actual Maximum Gross Borrowing Position | 0 | | Average Gross Borrowing Position | 0 | | Estimated Financing Costs as a % of Net Revenue Stream | (0.05%) | | Actual Financing Costs as a % of Net Revenue Stream | (1.09%) |   Actual financing costs as a proportion of Net Revenue Stream  This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the Net Revenue Stream (NRS). For the calculation, NRS equals the Revenue Budget for the year of £173.027m.  Actual Financing costs as a % of NRS is a negative as all external debt was settled in 2016/17. The actual percentage is a negative compared to the estimated value as there was no need to borrow as anticipated in the 2024/25 Treasury Management Strategy. | |
| **3.5** | **Economic Background and Interest Rates** | |
| 3.5.1  3.5.2  3.5.3  3.5.4  3.5.5  3.5.6  3.5.6  3.5.7  3.5.8 | **UK Economy**  During the financial year 2024/25, the UK economy faced several challenges due to persistent inflationary pressures in food and utilities; the ongoing Ukraine-Russia conflict; and the war in the Middle East.  In line with Markets’ expectation, the Bank of England (BoE) cut interest rate during the financial year 202425, but the approach has been cautionary and gradual. The rate cuts were slower than expected.  UK, Eurozone (EZ) and US 10-year yields have all stayed stubbornly high throughout 2024/25. The table below provides a snapshot of the conundrum facing central banks: inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.   |  |  |  |  | | --- | --- | --- | --- | |  | **UK** | **Eurozone** | **US** | | **Bank Rate** | 4.25% | 4% | 4.25%-4.5% | | **GDP** | +0.7%q/q Q4 | +0.6%q/q Q4 | +2.8% in 24/25 | | **Inflation** | 2.8%y/y (Feb) | 2.3%y/y (Feb) | 2.8%y/y (Feb) | | **Unemployment Rate** | 3.9% (Jan) | 6.4% (Feb) | 3.9% (Feb) |   The Bank of England’s Monetary Policy Committee kept Bank Rate unchanged at 4.5% during its March meeting, matching market expectations. Policymakers maintained their wait-and-see approach amid stubbornly high inflation and global economic uncertainties. One member, Swati Dhingra, suggested a 25 bps reduction to 4.25%. The accompanying minutes reiterated that given the medium-term inflation outlook, a gradual and cautious approach to further withdrawal of monetary policy restraint remains appropriate.  The UK economy contracted 0.1% m/m in January, following a 0.4% rise in December, but worse than market expectations of a 0.1% gain. The largest downward contribution came from the production sector which fell 0.9%, after a 0.5% rise in the previous period. Conversely, services expanded 0.1%, after a 0.4% rise in the previous period, led by administrative and support services and wholesale and retail trade. Elsewhere, the UK’s trade deficit declined to £2.64 billion in January, down from £2.82 billion in December, marking the smallest trade gap since September.  The Chancellor's Spring Statement saw fiscal policy tightened by around £9.7bn in 2029-30, reversing around 30% of the 1% loosening that was put in place last Autumn. Moreover, the Office for Budget Responsibility cut its forecasts for 2025 growth by half to 1% while pushing up their expectations for future years.  The Consumer Price Index increased 0.4% m/m in February, rebounding from a 0.1% drop in January and below forecasts of a 0.5% rise. The headline annual rate fell to 2.8% in February, down from 3% in the previous month, matching the BoE’s forecasts. The largest downward contribution came from prices of clothing which declined for the first time since October 2021. In contrast, prices rose faster for transport, restaurants and hotels.  As for equity markets, the FTSE 100 has risen to nearly 8,809 and the data reached an all-time high of 8,809.7 points in Feb 2025 and a record low of 1,010.1 points in Jul 1984.  **USA**  The US economy expanded an annualised 2.4% in Q4 2024, slightly higher than 2.3% in previous estimates, resultant of a downward revision to imports. However, the reading was still below the 3.1% seen in Q3. Personal consumption remained the main driver of growth, while investment in intellectual property products and fixed investment shrank.  The US economy added 151k jobs in February, up from a downwardly revised 125k in January and compared to forecasts of 160k. Employment trended up in health care, financial activities, transportation, warehousing, and social assistance. Meanwhile, federal government employment declined by 10K, already reflecting some of the impact of the Department of Government Efficiency (DOGE) layoffs; although the effects of federal spending cuts and tariffs are expected to weigh more on the labour market in the coming months.  As for inflation, the annual inflation rate in the US eased to 2.8% in February from 3% in January, below forecasts of 2.9%. Away from data releases, the Fed kept the Federal Funds Rate unchanged at 4.25%-4.5% during its March meeting.  **EU**  The annual inflation rate in the Eurozone eased to 2.3% in February, slightly below the preliminary estimates of 2.4% and down from a six-month high of 2.5% in January, as price growth slowed for services and energy. Meanwhile, the core inflation rate, which excludes volatile food and energy prices, fell to 2.6%, its lowest level since January 2022. The EZ economy grew an annualised 1.2% in Q4 2024, surpassing initial estimates of 0.9% and accelerating from a revised 1% growth in the previous quarter. This marked the fastest expansion since early 2023, fuelled by lower borrowing costs  and easing inflationary pressures. Among the bloc’s largest economies, Spain led with a strong 3.5% growth, followed by the Netherlands, France, and Italy. In contrast, Germany, the EZ’s largest economy, remained in contraction, shrinking by 0.2%. | |
| **3.6** | **Investment Position** | |
| 3.6.1  3.6.2  3.6.3  3.6.4 | Investment Policy – The PCC’s investment policy is governed by the Welsh Government, which has been implemented in the annual investment strategy.  Resources – The PCC’s longer term cash balances comprise primarily of revenue and capital resources, although these will be influenced by cash flow considerations. The PCC’s core cash resources were comprised as follows, and these represent the total funds available for investment:   |  |  |  | | --- | --- | --- | |  | 2023/24 | 2024/25 | |  | £m | £m | | General Reserves | 5.500 | 5.500 | | Earmarked Reserves | 15.624 | 11.060 | | Provisions | 1.482 | 2.450 | | Useable Capital Receipts | 0.023 | 1.517 | | Total | 22.629 | 20.527 |   Investments Held by the PCC - The PCC concluded the year with a balance of £15.707m of internally managed funds which compares with a budget assumption of £10.701m as per the annual Treasury Management Strategy.  These internally managed funds received a weighted average return of 4.57% compared to a budget assumption of 4.85%. The comparable performance indicator is the annual average SONIA rate, which was 4.46%. | |
| **3.7** | **Regulatory Framework, Risk and Performance** | |
| 3.7.1  3.7.2 | The PCC’s treasury management activities are regulated by a variety of professional codes, statutes and guidance:   1. CIPFA’s Treasury Management Code of Practice (2021 Edition); 2. CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities; 3. CIPFA Standard of Professional Practice on Treasury Management; 4. The Prudential Code for Capital Finance in Local Authorities (2021 Edition); 5. Local Government Act 2003; 6. Bank of England Non-Investment Products Code (2011); 7. Standing Orders relating to Contracts; 8. Financial Standing Orders, Regulations and Procedures; and 9. The Commissioner’s Manual of Corporate Governance and Scheme of Delegation. 10. Markets in Financial Instruments Directive (MiFiD II).   The PCC complied with all of the above relevant statutory and regulatory requirements which require the PCC to identify and, where possible, quantify the levels of risk associated with their treasury management activities. In particular their adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that their capital expenditure is prudent, affordable and sustainable, and their treasury practices demonstrate a low-risk approach. | |
| **4.** | **NEXT STEPS** | |
| 4.1 | A Treasury Management update report, reviewing performance for the first six months of 2024/25 will be presented to the Joint Audit Committee in December 2025. | |
| **5.** | **FINANCIAL CONSIDERATIONS** | |
| 5.1 | These are detailed in the report. | |
| **6.** | **PERSONNEL CONSIDERATIONS** | |
| 6.1 | There are no staffing/personnel implications arising from this report. | |
| **7.** | **LEGAL IMPLICATIONS** | |
| 7.1 | There are no legal implications arising from this report. | |
| **8.** | **EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS** | |
| 8.1 | This proposal has been considered against the general duty to promote equality, as stipulated under the Strategic Equality Plan and has been assessed not to discriminate against any particular group. | |
| 8.2 | In preparing this report, consideration has been given to the requirements of the Articles contained in the European Convention on Human Rights and the Human Rights Act 1998. | |
| **9.** | **RISK** | |
| 9.1 | Treasury management can never be risk free. In borrowing, the risk is that the PCC incurs a higher interest charge than was necessary and in lending there is the risk of default on repayment and the risk that a better rate of interest could have been achieved from an alternative borrower with acceptable credit status. Adherence to the CIPFA Code of Practice on Treasury Management is best practice in terms of balancing risk and return. | |
| **10.** | **PUBLIC INTEREST** | |
| 10.1 | This is a public document. | |
| **11.** | **CONTACT OFFICER** | |
| 11.1 | Darren Garwood-Pask, Chief Finance Officer. | |
| **12.** | **ANNEXES** | |
| 12.1 | None. | |