



## DECISION PAPER


<b>DECISION: 2019/39</b>	<b>DATE: 17<sup>TH</sup> DECEMBER 2019</b>
<b>TITLE: Treasury Management mid-year report 2019/20</b>	
<b>REPORT BY: Steve Freeman, Chief Finance Officer</b>	

### Executive Summary

In accordance with the CIPFA Treasury Management code of practice and to strengthen oversight of the PCC's treasury management activities, the PCC will receive updates on treasury management issues including a mid-year report. This report provides information on treasury management activity that has been undertaken in the current financial year and reports on the overall performance against the agreed strategy and prudential indicators.

### Recommendation

The Police and Crime Commissioner is asked to note the report

Signature	
Police and Crime Commissioner	
Date	17 <sup>th</sup> December 2019.

## **PART II**

### **1. Background and Advice**

### **2. Links to the Police and Crime Plan**

### **3. Consultations**

### **4. Implications:**

#### **a. Legal**

There are no legal comments associated with this report

#### **b. Financial**

The Financial implications are contained in the report

#### **c. Equality Impact Assessment**

There are no Equality comments associated with this paper.

#### **d. Data Protection Impact Assessment**

### **5 Risk Management**

### **6. Background Papers**

CIPFA Treasury Management Code of Practice  
PCC for Lancashire Treasury Management Strategy 2019/20

### **7. Public access to information**

#### **Chief Executive Officer (Monitoring Officer)**

I have been informed about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lancashire.

Signature..........Date.....17.12.19.....

## PART I

### TREASURY MANAGEMENT 2019/20 Mid-Year Report

#### **Economic Overview**

The economic situation continues to be dominated by the uncertainty arising from the unknown impact of the UK's withdrawal from the European Union and the trade dispute between the worlds' two largest economies namely the USA and China. Despite this, the first quarter of 2019 showed relatively strong growth of 0.5% (1.8% year on year). However, it was considered that this was partly due to stockpiling ahead of the expected date for leaving the European Union and was followed by a contraction of 0.2% in the second quarter.

#### Outlook for Interest Rates

The uncertainty in the economy has influenced the forecast interest rates. The Bank of England has in recent times raised expectations of gradual increases in interest rates and this has been reflected in interest rate forecasts. Recent forecasts though have reduced this expectation. In their May forecast Arlinglose, the council's treasury advisers, were forecasting that the bank rate would see a 0.25% increase in March 2020 and September 2020. However, with the prevailing economic situation they have changed the forecast to reflect no change in the Bank Rate for the foreseeable future. However, there are risks to this forecast, which could see rates moving in either direction.

Recent economic data has suggested that weaker economic growth has occurred, and is anticipated to continue, globally. One of the consequences of this together with the political uncertainty has been that Gilt yields have been volatile over the period and they have fallen to historically low levels. For example the 20 year Gilt yield fell from 1.35% to 0.88% from the end of June to the end of September

The table below shows Arlinglose, latest forecast for interest rates

Period	Bank Rate	3 month money market	12 month money market	20-year Gilt Rate
Q4 2019	0.75	0.75	0.85	0.95
Q1 2020	0.75	0.75	0.85	1.00
Q2 2020	0.75	0.75	0.85	1.05
Q3 2020	0.75	0.75	0.85	1.10
Q4 2020	0.75	0.75	0.85	1.15
Q1 2021	0.75	0.75	0.85	1.15
Q2 2021	0.75	0.75	0.85	1.15
Q3 2021	0.75	0.75	0.85	1.15
Q4 2021	0.75	0.75	0.85	1.15
Q1 2022	0.75	0.75	0.85	1.15
Q2 2022	0.75	0.75	0.85	1.15
Q3 2022	0.75	0.75	0.85	1.15
Q4 2022	0.75	0.75	0.85	1.15

#### **Treasury Management position and Policy**

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 treasury management activity is influenced both by the position at the beginning of the year and the plans in year. The position at the start of the financial year is summarised in the Table below:

	Balance 31.3.19
	£m
Capital Finance Requirement	61.228
External borrowing	66.954
Reserves	31.160
Working capital	2.991
Available for investment	34.151
Investments	35.487

The table above shows that the level of loans was above the CFR at 31.3.19 and the investments held are above the available reserves. However, this was a temporary position as the borrowing includes £20m of short-term loans, which matured early in 2019/20.

### **Borrowing**

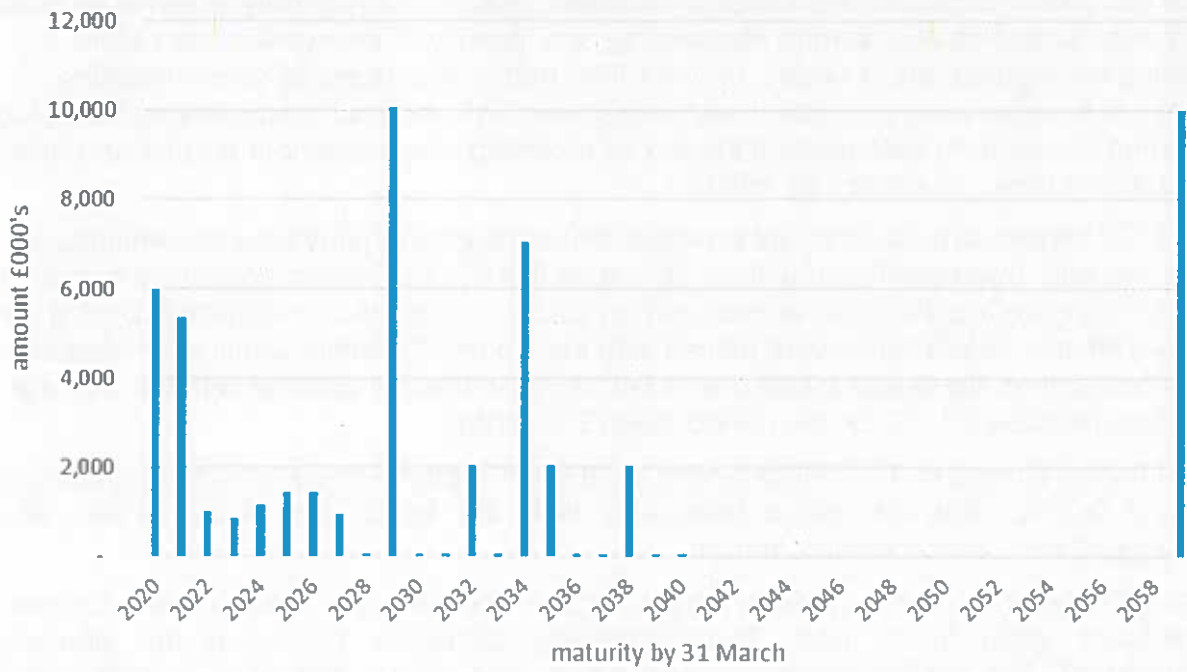
In the medium term the PCC borrows for capital purposes only. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Therefore, borrowing decisions are taken in light of anticipated need in terms of changes in the CFR and short-term cash flow projections. The Treasury Management Strategy for 2019/20 anticipated that by 31.3.20 the estimated CFR would be £76.671m.

At 1 April, the existing debt consisted of PWLB debt £40.954m of which £1.1m matured in 2019/20 and £20m of short-term borrowing with other local authorities, which matured in April 2019. Therefore, the committed debt at 31.3.20 was £39.854m, which was £36.817m less than the anticipated CFR giving a potential borrowing requirement.

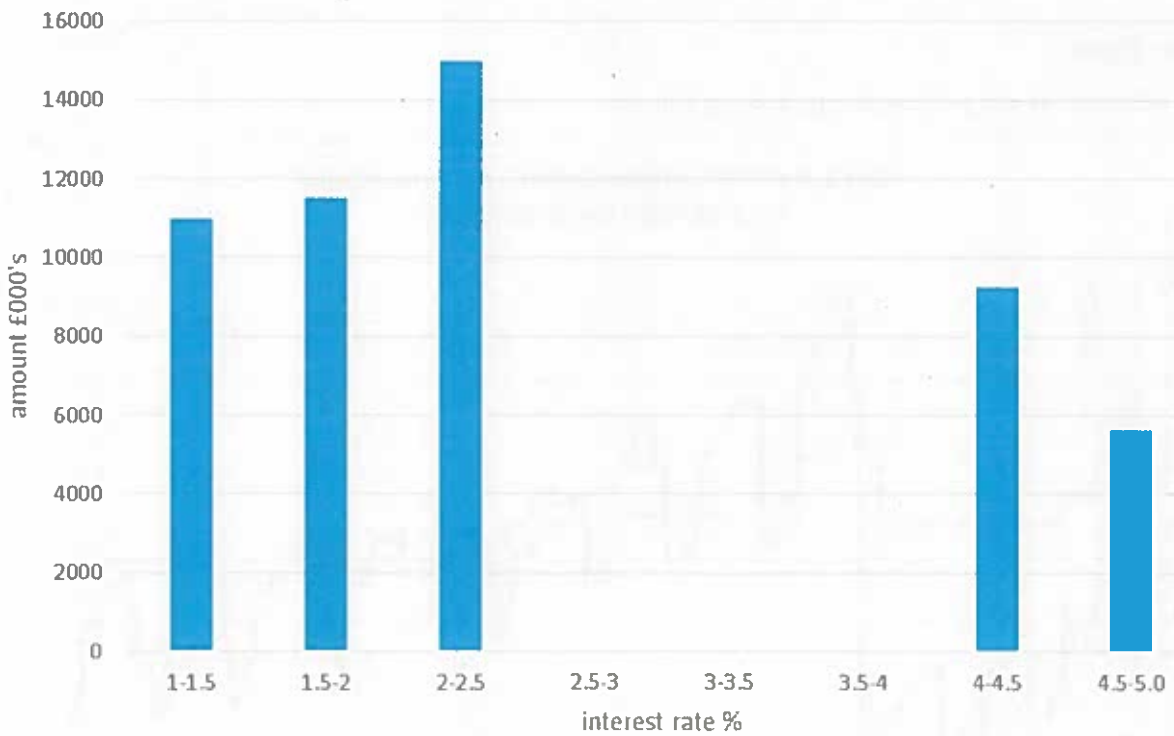
The Commissioner has generally funded capital expenditure and maturing borrowing from internal resources; hence the borrowing requirement. However, the position is constantly reviewed and as PWLB, rates fell during the first half of the year a new loan of £1.5m was taken in the first half of the year.

Therefore, the debt at 30.9.19 is £52.354m. The following charts show the current maturity profile of the Commissioner's borrowings, along with an analysis of the debt by interest rate.

PCC debt 30 September 2019 maturity profile



PCC debt by interest payment at 30 September 2019



## Investments

Both the CIPFA Code and the MHCLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority'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 low investment returns and having the value of reserves eroded by inflation.

The PCC invests in a call account provided by Lancashire County Council, which pays the base rate. Each working day the balance on the PCC's Current Account is invested in this to ensure that the interest received on surplus balances is maximised. During the period, all new investments were placed with the County Council via this arrangement. At 30th September, there was a balance of £40.427m in the call account with the average balance invested in LCC for the period being £39.010m.

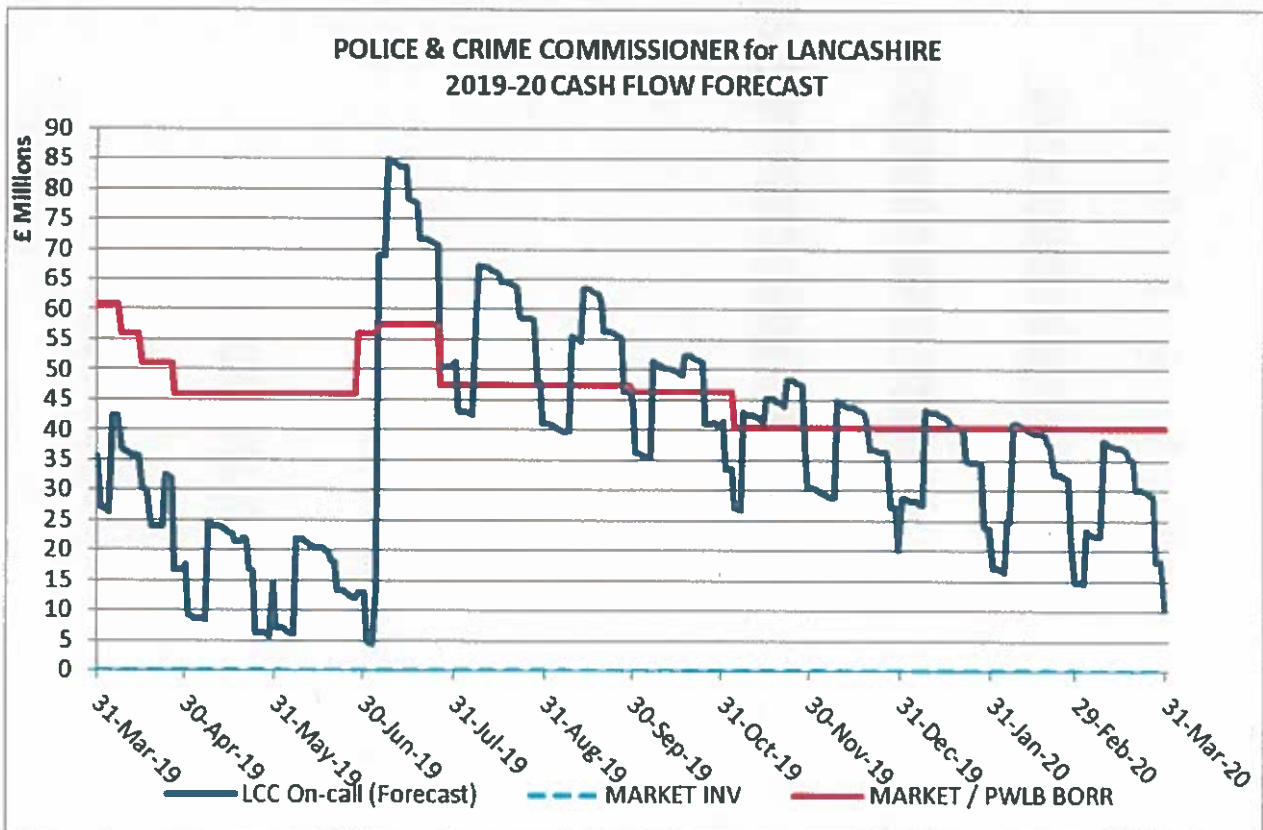
The interest earned on the call balances as at 30th September is £0.147m at an average rate of 0.75%. This compares favourably with the benchmark 7-day index, which averages 0.69% over the same period.

The opportunity to fix investments longer term to generate additional interest income is dependent upon future cash flows including decisions taken on the borrowing requirement. The section below provides information on the cash flow to date and the estimated cash flows to the end of the year. This shows a reducing cash balance which without the market borrowing would be in an overdrawn position.

Latest interest rate would indicate that to exceed the amount received from the call account a fixed term deposit in excess of 3 months would be required.

## Cash Flow

The estimated cash flow totals are as follows:



This graph shows the total cash level held by the Authority. There is a regular pattern as cash is bolstered by precept receipts each month followed by falls as expenditure is incurred. The large cash injection from the low point at the beginning of July is the pensions top up grant.

### Prudential Indicators

In order to control and monitor PCC's treasury management functions, a number of prudential indicators are determined against which performance may be measured. The indicators for 2019/20 are shown in the table below alongside the current actual. None of the indicators have been breached over the period.

	2019-20 Pls	Actual at 30.9.19
<b>Adoption of the CIPFA Code of Practice for Treasury Management</b>	Adopted	Adopted
<b>Authorised limit for external debt</b>	£m	£m
A prudent estimate of total external debt, which does not reflect the worst case scenario, but allows sufficient headroom for unusual cash movements		
Borrowing	78.000	52.354
Other long-term liabilities	1.000	0.000
Total	79.000	52.354
<b>Operational boundary for external debt</b>		
A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the Authority's current plans		
Borrowing	75.000	52.354
Other long-term liabilities	0.500	0.000
Total	75.500	52.354

	2016-17 Pls	Actual at 30.9.19
<b>Upper limit for fixed interest rate exposure</b>		
Borrowing	100%	100%
Investments	100%	0
<b>Upper limit for total principal sums invested for over 364 days (per maturity date)</b>	50%	Nil
<b>Maturity structure of debt from 31.3.19</b>	<b>Upper/ Lower Limits</b>	<b>Actual</b>
Under 12 months	90% / nil	11%
12 months and within 24 months	80% / nil	10%
24 months and within 5 years	85% / nil	6%
5 years and within 10 years	85% / nil	27%
10 years and above	90% / 5%	46%

## Revenue Budget Implications

The 2019/20 revenue budget for treasury management activity showed that anticipated expenditure exceeded income by £2.309m. Taking into account the activity in the year and estimated cash-flow for the remainder of the year the latest forecast is shown below:

	Budget	Forecast	Variation
	£m	£m	£m
Interest Payable	1.446	1.366	-0.080
Minimum revenue provision	1.110	1.082	-0.028
Interest receivable	-0.257	-0.306	-0.049
Transferred debt	0.010	0.010	0
Net budget	2.309	2.152	-0.157

## Regulatory Updates

A key source for long-term borrowing is the PWLB. The PWLB lending is offered at a fixed rate above the gilt yields. For most authorities, which qualify for the certainty rate, including the Police and Crime Commissioner for Lancashire, this rate was 0.8%. In recent months, gilt yields and therefore loan rates have fallen to record low levels and as a result local authority borrowing from the PWLB has risen. In response to this, HM Treasury announced on the 9th October that it was increasing the margin above gilts by 1%. Therefore for an authority which qualifies for the certainty rate then the interest rate on any new PWLB loan is 1.8% above the gilt yield rather than 0.8%.

This change does not have an immediate impact for the commissioner as recent loans taken have resulted in a positive cash flow forecast. However, as outlined in the report there is a long-term borrowing requirement therefore if it is deemed necessary to undertake long-term borrowing then consideration will have to be given as to whether there are suitable alternatives to PWLB financing.

## Business Risk Implications

The Treasury Management strategy is designed to minimise the PCC for Lancashire's financial risk associated with investment decisions, whilst maximising the return on any investments made. As such, the adoption of the CIPFA's Code of Practice on Treasury Management and the monitoring arrangements in place ensure that any risks faced by PCC are managed.

However, it must be acknowledged that there will always be a balance between risk and return and hence the strategy does not completely eliminate the risk of any further default on investments in the future.