




DECISION : 2021/15	DATE: 29 SEPTEMBER 2021
TITLE: 2020/21 Treasury Management year-end position	
REPORT BY: Steve Freeman, Chief Finance Officer	
Executive Summary This report sets out the Police and Crime Commissioner's (PCC) borrowing and lending activities during 2020/21. All borrowing and investment activities undertaken throughout the year are in accordance with the 2020/21 Treasury Management Policy and based on anticipated spending and interest rates prevailing at the time.	
Recommendation The Police and Crime Commissioner is asked to note and endorse the outturn position report	
Signature  Police and Crime Commissioner	
Date: 30-9-21	

2020/21 Treasury Management year-end position

1. Introduction

1.1. In accordance with the CIPFA Treasury Management Code of Practice (2011) and to ensure oversight of treasury management activity, the Commissioner receives regular updates on treasury management issues including a mid-year report and a final outturn report. Investment and borrowing decisions are taken in the light of long-term borrowing requirements, the estimated level of reserves and actual and estimated cash-flow. Consideration is also given to various risks and ensuring compliance with the Prudential Indicators. Decisions are taken in the light of current and forecasted economic information. Therefore, this report provides information on:

- An economic overview for the year
- Borrowing activity during the year
- Investment activity during the year
- Comparison to the Prudential Indicators

2. Economic Overview

2.1. The coronavirus pandemic dominated 2020/21. The start of the financial year saw lockdowns which caused economic activity to grind to a halt in many countries including the UK. The Bank of England (BoE) cut Bank Rate from 0.75% to 0.1% in March 2020 and it remained at this level throughout the 2020/21 financial year. The UK government also provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime. The Gross Domestic Product (GDP) figures for the financial year are:

	GDP Q on Q change %	GDP year on year %
2020 Q2	-19.5	-21.4
2020 Q3	16.9	-8.5
2020 Q4	1.3	-7.3
2021 Q1	-1.5	-6.1

2.2. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year.

2.3. The UK government's response included the furlough scheme which has protected many jobs. Despite this unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment

rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago.

- 2.4. The year also saw an agreement on a Brexit trade deal. It was agreed only a few days before the 31st December 2020 deadline.
- 2.5. Inflation has remained low over the 12-month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' (Office of National Statistics) preferred measure of CPIH (Cost Price Index including Housing) which includes owner-occupied housing was 0.7% year/year (1.0% expected).
- 2.6. A similar economic picture has occurred in various economies. The USA saw growth collapsing at an annualised rate of 31.4% in Q2 before rebounding by 33.4% in Q3 and then a further 4.1% in Q4. The USA's recovery has been fuelled by three major pandemic relief stimulus packages totalling over \$5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. In Europe, the European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.
- 2.7. The gilt yields which are a key determinant of borrowing costs for local authorities fluctuated in line with the economic conditions. For example, the 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

3. Borrowing

- 3.1. Long term borrowing has been, or is taken, to fund the investment in assets which has been incurred via the Capital Programme. The overall need to borrow for capital purposes is shown by the capital financing requirement (CFR)
- 3.2. In considering the borrowing undertaken by the PCC consideration was given in relation to:
 - The need to borrow as indicated by the CFR and cash-flow forecasts
 - The cost of borrowing both in the immediate year and future years
 - Risk of liquidity, in other words will the cash be available when required
- 3.3. The PCC has in recent years undertaken a policy of utilising the cash balances to fund capital programme expenditure and some of the borrowing that was taken has been of short duration. Therefore, it was reported in the 2020/21 Treasury Management Strategy that it was anticipated that there would be a need to borrow up to £50m in 2020/21. During the year capital expenditure of £18.074m was funded as follows:

	£m
Grant and contributions	1.068
Revenue including reserves	9.186
Borrowing	7.820
	18.074

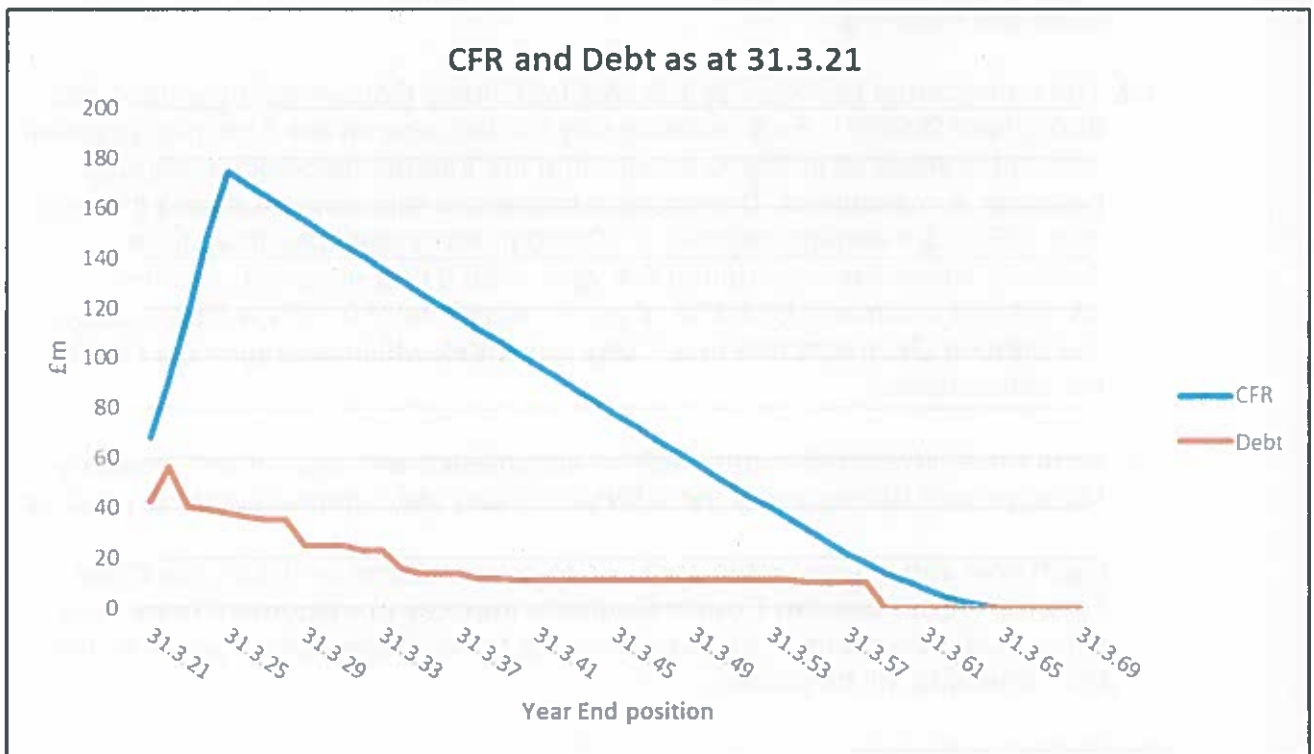
- 3.4. The use of borrowing to finance capital expenditure in year was less than anticipated at the beginning of the year.
- 3.5. It was against the background of long-term borrowing need and cash flow projections showing low balances that decisions on borrowing were made. Using short term borrowing is a cost-effective option in the year, as short-term rates are usually cheaper than long term. This however may not be the case in the longer term as the necessary replacement loans may be cost more as interest rates rise or liquidity becomes scarcer. Therefore, the PCC's Chief Finance Officer in consultation with Lancashire County Councils' treasury management team has constantly reviewed the long term (Public Works Loans Board (PWLB) rates with a view to taking some long term borrowing to finance the capital programme
- 3.6. Consequently, during the year there has been a mixture of long and short-term borrowing held. The long-term loans have been with the PWLB while short term loans have been taken with other local authorities.
- 3.7. PWLB rates are at historically low levels but they do change twice daily. They are monitored to try and ensure best value but the overriding reason for borrowing is need however no new loans were taken out with the option to take short term local authority loans being used in 2020-21. The table below shows the movement in the borrowing in 2020/21

	PWLB	Other	Total
	£m	£m	£m
Outstanding 1 st April	57.854	5.000	62.854
Add New borrowing taken	0.000	60.000	60.000
Less Borrowing repaid	-15.413	-23.000	-38.413
Borrowing outstanding 31 March	42.442	42.000	84.442

- 3.8. The table and graph below show that although the CFR was fully funded at 31st of March 2021 (31.03.21) this was partly the result of the short-term borrowing. The table below illustrates that the long-term debt accounts for less than 50 % of the estimated borrowing requirement at 31.3.21 while the graph demonstrates that the PCC still has a long term need to borrow to fund its expenditure on assets. Long term rates will continue to be monitored and

further loans may be taken; however, the cost in year of any new loan compared to using available cash will be taken into account.

	Actual	Estimated
	2020/21	2021/22
CFR Balance 1 April	61.773	68.437
Add expenditure financed from borrowing	7.820	24.484
Less: MRP	-1.156	-1.406
CFR Balance 31 March	68.437	91.515
Known Outstanding borrowing 31 March	84.442	56.417
Financed from cash balances/borrowing requirement	(16,005)	35.098



Note: The Capital Financing Requirement (CFR) is a measure of the accumulated capital expenditure not yet financed either by capital resources or the annual charge made to revenue to repay the debt; referred to as the minimum revenue provision (MRP). During the year the MRP charged was £1.156m.

3.9. As a consequence of existing debt and decisions taken on new debt then total interest payable on borrowing during 2020/21 was £1.601m, which equates to an average interest rate of 2.16% on the average debt outstanding for the year.

4. Investments

- 4.1. Both the CIPFA Code and the DCLG Guidance require the PCC to invest funds prudently, and to have regard to the security and liquidity of 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 receiving unsuitably low investment income. However, interest rates continued to be low in 2020/21 with the Bank of England base rate being 0.1% throughout the year.
- 4.2. As referred to earlier in the report the cash-flow policy has been to minimise the borrowing which reduces the resources available for investment. Therefore, a call account is an appropriate arrangement for the PCC. In order to reduce credit risk to the PCC, Lancashire County Council (credit rating by Moodys Aa3) is the main counterparty for the PCCs investments. The Treasury Management Strategy does include other high-quality counterparties and one short term fixed investment was undertaken when balances were high.
- 4.3. The call account provided by Lancashire County Council paid the base rate throughout 2020/21. Each working day the balance on the Authority's current account is invested in this to ensure that the interest received on surplus balances is maximised. The average balance in this account during the year was £36.513m earning interest of £0.030m. There was also fixed term deposits interest earned during the year of £0.017m generating a total investment income of £0.047m at an average rate of 0.13%, which is above the Sterling Overnight mid-rate 7 day rate index which averages 0.11% over the same period.
- 4.4. All of these investments are made in accordance with the current Treasury Management Strategy and the CIPFA treasury management code of practice.
- 4.5. Cash flow and interest rates continue to be monitored by the PCC's Chief Finance Officer and the County Council's treasury management team, and when cash flow permits, and rates are felt to be at appropriate levels further term deposits will be placed.

5. Prudential Indicators

- 5.1. In order to control and monitor PCC for Lancashire treasury management functions, a number of prudential indicators are determined against which performance may be measured. The indicators for 2020/21 are shown in the table below alongside the actual outturn position.

	2020-21	Actual
Adoption of the CIPFA Code of Practice for Treasury Management	Adopted	Adopted
Authorised limit for external debt	£m	£m
A prudent estimate of total external debt, which allows sufficient headroom for unusual cash movements		
Borrowing	125.000	84.442
Other long-term liabilities	5.000	0
Total	130.000	84.442
Operational boundary for external debt		
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 PCC's current plans		
Borrowing	95.000	84.442
Other long-term liabilities	5.000	0
Total	95.500	84.442

	2020-21	Actual
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	0%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£300m	0
Maturity structure of debt	Upper/ Lower Limits	Actual
Under 12 months	90% / nil	51%
12 months and within 24 months	80% / nil	1%
24 months and within 5 years	85% / nil	5%
5 years and within 10 years	85% / nil	13%
10 years and above	90% / 5%	30%

6. Financial Implications

6.1. The following table summarises the Financing costs for the PCC, comparing actual with budget:

	Budget	Actual	Reason for variance
	£m	£m	
Interest Payable on PWLB loans, debt management expenses and transferred debt	1.835	1.601	Level of borrowing and borrowing rates lower than anticipated with
Interest Receivable on call and fixed term investments	(0.092)	(0.047)	Cash balances held in year higher than anticipated
Minimum Revenue Provision	1.224	1.156	MRP lower due to slippage on capital programme
Net financing costs from Treasury Management activities	2.967	2.711	

7. Links to the Police and Crime Plan

7.1. The PCC is charged with providing an efficient and effective police force. Sound financial management is key to the delivery of this requirement. As part of the overall financial management strategy effective Treasury Management activity contributes directly to the delivery of sound financial management for the organisation.

8. Consultation

8.1. N/A

9. Implications

a. Legal

There are no legal comments associated with this paper.

b. Financial

The financial implications are shown in the report.

c. Equality considerations


There are no Equality comments associated with this paper.

10. Background Papers

10.1. Treasury Management Strategy 2020/21, <https://www.lancashire-pcc.gov.uk/transparency/financial-information/financial-strategy/>

11. Public access to information

11.1. Information in this form is subject to the Freedom of Information Act 2000 and other legislation.

Officer declaration	Date
LEGAL IMPLICATIONS – As above	
FINANCIAL IMPLICATIONS – As above	30.9.21
EQUALITIES IMPLICATIONS – As above	
CONSULTATION – As above	
<p>Director to the Office of the Police and Crime Commissioner (Monitoring Officer)</p> <p>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.</p> <p>Signature..........Date.....30-9-21.....</p>	

