



**DECISION: 2021/27**

**DATE: 10 JANUARY 2022**

**TITLE: Treasury Management position, 30 November 2021**

**REPORT BY: Steve Freeman, Chief Finance Officer**

**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 an in-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 and endorse the position as at 30 November 2021.

**Signature**

**Police and Crime Commissioner**

**Date: 10<sup>th</sup> January 2022**

## PART I

**POLICE & CRIME COMMISSIONER FOR LANCASHIRE****Treasury Management position report - 30 November 2021****Economic context**

The treasury management activities are taken within the context of the current and forecasted economic position. In general, the economy has seen growth in the financial year with Gross domestic product (GDP) growing by 5.5% in the second calendar quarter of 2021. This was followed by first estimates for Q3 2021 which suggest that GDP increased 1.3% on the previous quarter, but this was below market and Bank of England expectations for a 1.5% rise.

The most recent Labour Force Data shows that the labour market continues to recover. The three months to September 2021 show a quarterly increase in the employment rate, while the unemployment rate decreased; with the UK unemployment rate being estimated at 4.3%.

A key feature of recent economic position has been the increase in inflation. UK CPI for October 2021 rose to 4.2% year on year. This compares to the July figure which was 2%. There has been much debate on whether the increase is transitional in nature. In the Bank of England MPC report in November CPI inflation is now expected to peak at around 5% in April 2022 before falling back especially as the impact of increases in energy prices and demand pressures reduce.

The Bank of England (BoE) held Bank Rate at 0.10% in November 2021 and maintained its Quantitative Easing programme at £895 billion. With the increasing inflation there has been an increasing market expectation of an increase in interest rates in December. In its October forecast Arlingclose the council treasury management advisors expect Bank Rate to remain at the current 0.10% level until next year with a projected increase from June 2022.

The table below shows the Arlingclose forecast,

Period	Bank Rate	3 month money market	12 month money market	20-year Gilt Rate
Q4 2021	0.10	0.10	0.30	1.40
Q1 2022	0.10	0.15	0.35	1.40
Q2 2022	0.25	0.35	0.50	1.40
Q3 2022	0.25	0.20	0.35	1.40
Q4 2022	0.25	0.40	0.55	1.35
Q1 2023	0.25	0.45	0.60	1.35
Q2 2023	0.50	0.60	0.75	1.30

Q3 2023	0.50	0.65	0.80	1.30
Q4 2023	0.50	0.65	0.80	1.30
Q1 2024	0.50	0.60	0.75	1.30
Q2 2024	0.50	0.60	0.75	1.30
Q3 2024	0.50	0.60	0.75	1.30
Q4 2024	0.50	0.60	0.75	1.30

## 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 31.3.21
	£m
Capital Finance Requirement	68.437
External borrowing	84.442
Reserves	23.359
Working capital	(5.346)
Available for investment	18.013
Investments	28.282

The table above shows that the level of loans was above the CFR at 31.3.21 and subsequently the investments held were above the available reserves. This situation arose as the use of borrowing to finance capital expenditure in year was less than anticipated. However, much of the borrowing was short term therefore it was expected that borrowing would be within the CFR early in the financial year.

## 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 also short term cash flow projections. The Treasury Management Strategy for 2021/22 anticipated that by 31.3.21 the estimated CFR would be £93.665m.

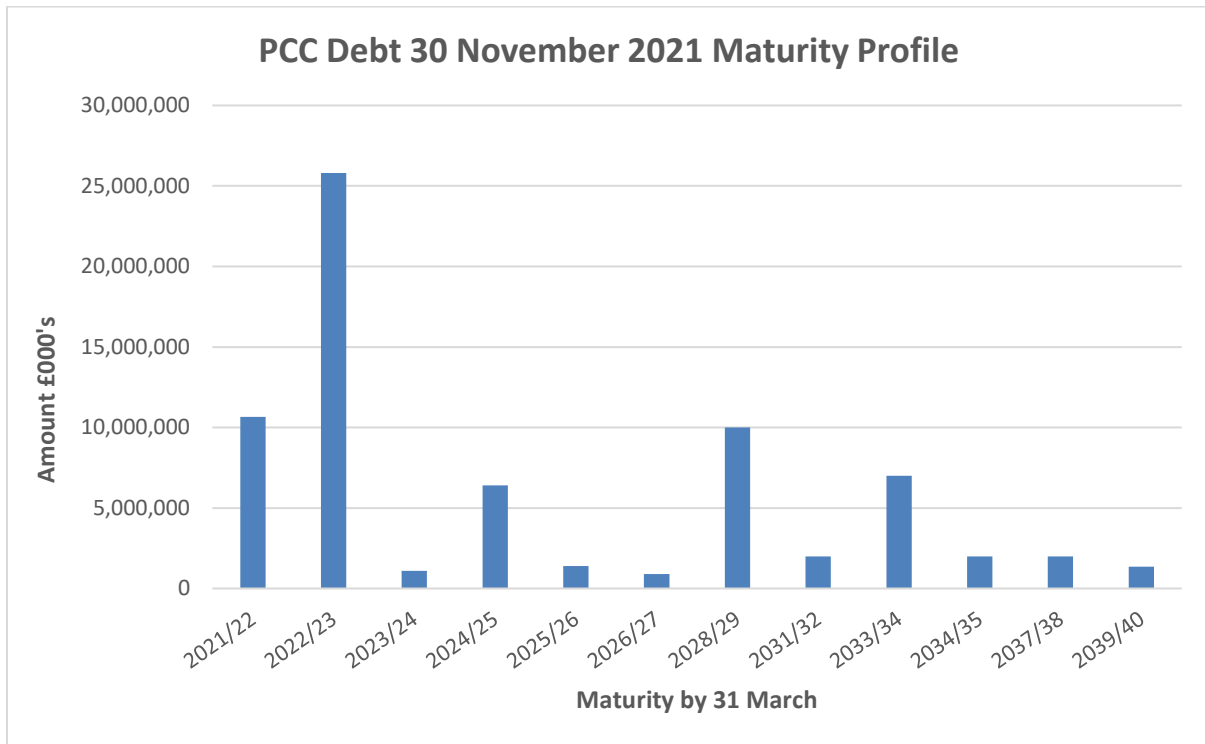
At 1 April the existing debt consisted of PWLB debt £42.442m and £42m of short term borrowing with other local authorities. All of these other local authorities will mature

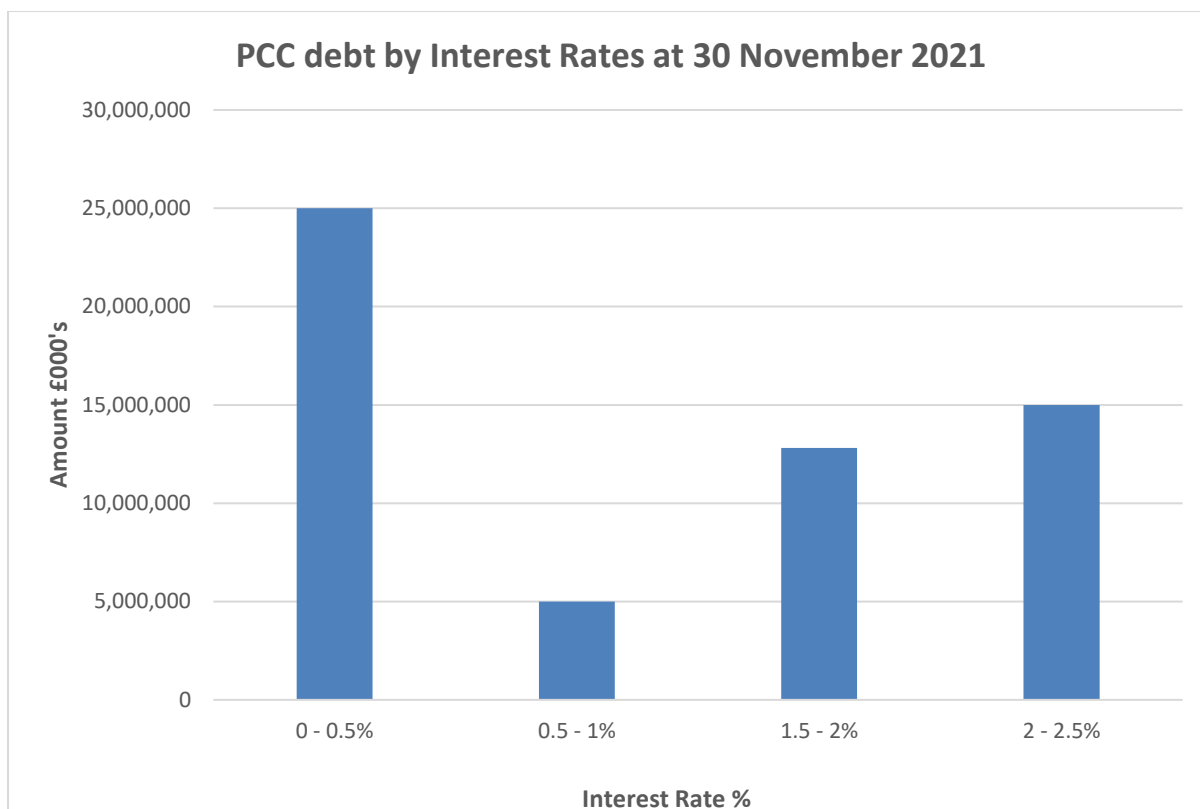
along with some PWLB maturities in year. During the period up to 30 November, two new loans with other local authorities totalling £15m were taken out.

The debt as at 30 November 21 is £67.104m with additional borrowing already taken in early 2022 and further loans of £10.688m being due to mature by 31.3.22.

The committed debt at 31.3.22 is £71.417m which is more in line with the revised CFR figure of £74.336m, which has been amended due to the reduction in capital spend in year.

The charts below show the current maturity profile of the Commissioner's borrowings, along with an analysis of the debt by interest rate.





## 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.

At 30 November there was a balance of £30.212m in the call account with the average balance invested in LCC for the year being £34.946m. The interest earned on the call balances as at 30 November is £0.023m at an average rate of 0.10%.

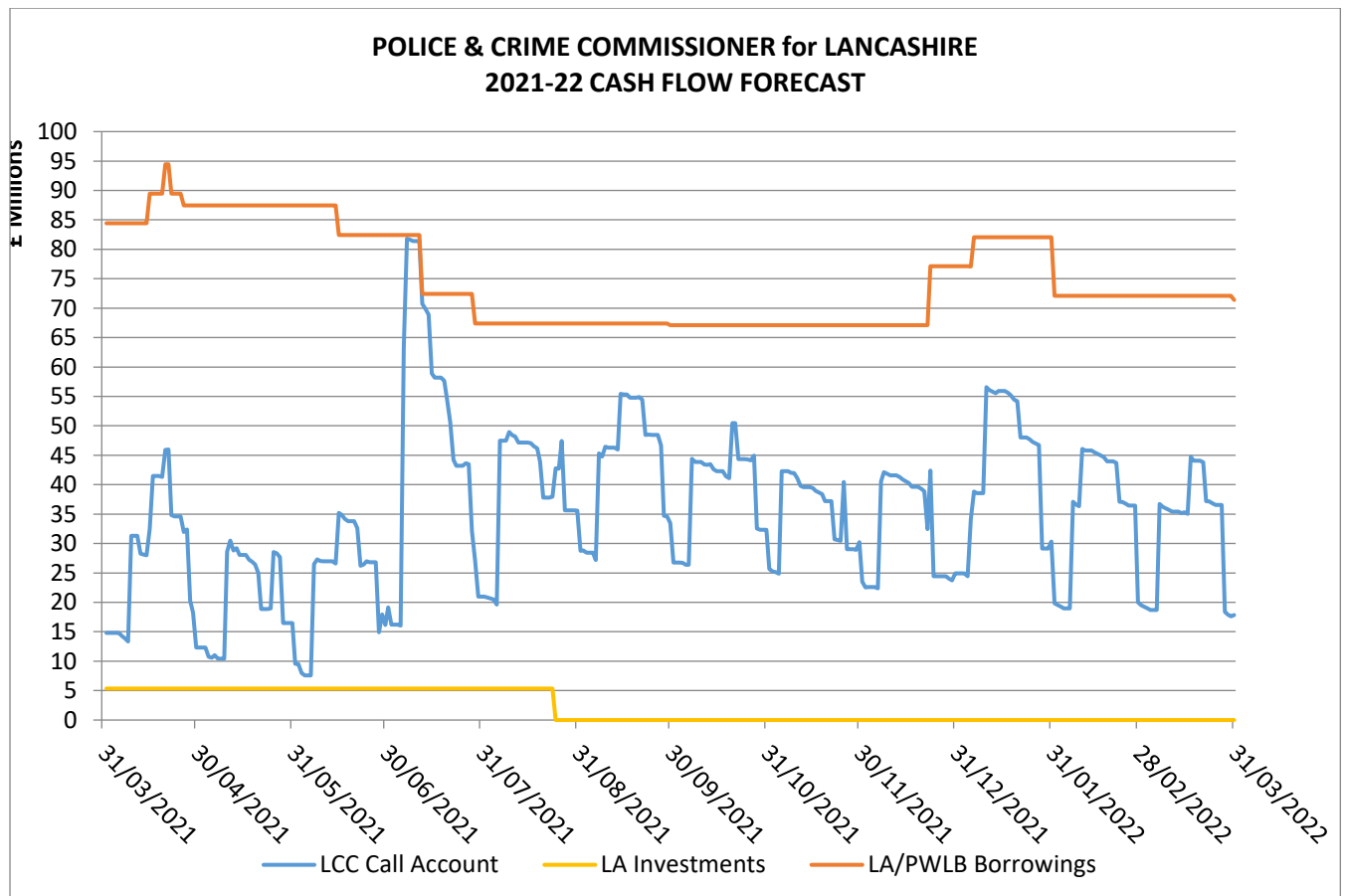
There was also a fixed investment taken out during 2020/21 to take advantage of excess cash. This investment matured in August 2021 and earned £0.008m this year at a rate of 0.40%.

The average overall investment balance for the period was £38.946m at an average rate of 0.14% for the period. This is comparable with the benchmark 7 day index which averages 0.14% over the same period.

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 projected cash position of £17m at year end.

## 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 2021/22 are shown in the table below alongside the current actual. None of the indicators have been breached over the period.

	<b>2021-22 PIs</b>	<b>Actual at 30 Nov 21</b>
Adoption of the CIPFA Code of Practice for Treasury Management		Adopted
Authorised limit for external debt		£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	125	67.1
Other long-term liabilities	5	0
Total	130	67.1
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 Authority's current plans		
Borrowing	95	67.1
Other long-term liabilities	0.5	0
Total	95.5	67.1

	<b>2021-22 PIs</b>	<b>Actual at 30 Nov 21</b>
<b>Upper limit for fixed interest rate exposure</b>		
Borrowing	100%	100%
Investments	100%	Nil
<b>Upper limit for total principal sums invested for over 364 days (per maturity date)</b>	50%	Nil
<b>Maturity structure of debt from 31.3.21</b>	<b>Upper/ Lower Limits</b>	<b>Actual</b>
Under 12 months	90% / nil	16%
12 months and within 24 months	80% / nil	24%
24 months and within 5 years	85% / nil	6%
5 years and within 10 years	85% / nil	16%
10 years and above	90% / 5%	39%

### Revenue Budget Implications

The 2021/22 revenue budget for treasury management activity showed that anticipated expenditure exceeded income by £2.833m. Taking into account the activity in the year and estimated cash-flow for the remainder of the year the latest forecast is shown below:

	2021/22	2021/22	2021/22
	Budget	Forecast	Variance
	£m	£m	£m
MRP	1.406	1.352	-0.054
Interest payable	1.684	1.275	-0.409
Interest receivable	-0.257	-0.039	0.218
Net budget	2.833	2.588	-0.245

### **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.



**1. Links to the Police and Crime Plan**

**2. Consultation**

**3. 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.


**4. Background Papers**

None

**5. Public access to information**

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

Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made available on request should not be included in Part 1 but instead on the separate Part 2 form.

<b>Officer declaration</b>	<b>Date</b>
<b>LEGAL IMPLICATIONS – As above</b>	
<b>FINANCIAL IMPLICATIONS – As above</b>	 10.01.2022
<b>EQUALITIES IMPLICATIONS – As above</b>	
<b>CONSULTATION – As above</b>	
<b>Director to the Office of the Police and Crime Commissioner (Monitoring Officer)</b>	
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 10 <sup>th</sup> January 2022	