DECISION: 2022/39	DATE: 5 DECEMBER 2022

TITLE: 2021/22 Treasury Management year-end position

REPORT BY: Steve Freeman, Chief Finance Officer
APPENDIX A REFERS

Executive Summary

This report sets out the Commissioner's borrowing and lending activities during 2021/22. All borrowing and investment activities undertaken throughout the year are in accordance with the 2021/22 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 the outturn position report for 2021/22

Signature

Andrew Snowden

Police and Crime Commissioner

Date: 5th December 2022

2021/22 Treasury Management year-end position

Introduction

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

Economic Overview

There were a number of key economic issues in 2021/22. Initially, the continuing economic recovery from coronavirus pandemic was a dominant feature but as the year progressed concerns about inflation, the potential for higher interest rates and possibility of a future recession were major issues.

The Bank Rate was 0.1% at the beginning of the financial year. Although April and May saw the economy gathering momentum as pandemic restrictions were eased market expectations were that the Bank of England would delay rate rises until 2022. However, the rise in inflation changed the position and saw the Bank Rate increase the rate late in 2021.

UK Consumer Prices Index (CPI) was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. However, a combination of rising global costs, strong demand and supply shortages saw large increases in inflation. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month.

As a response to the increase in inflation the Bank of England made the following increases in the Bank Rate:

- December 2021 increase to 0.25%
- February 2022 increase to 0.5%
- March 2022 increase to 0.75%

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022

The picture seen in the UK was seen in many of the world economies. Both the euro zone and the US have seen increases in inflation and In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months.

The continuing uncertainty has seen gilt yields increase. The costs of authorities borrowing from the Public Loans Work Board are related to the bond yields and therefore the cost of borrowing has increased. For example, for a 10-year PWLB fixed rate loan taken on the 1 April 2021 was at interest rate of 1.7%. An equivalent loan taken on 31 March 2022 was at 2.81%.

Borrowing

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)

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

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 2021/22 Treasury Management Strategy that it was anticipated that there would be a need to borrow up to £37m in 2021/22. During the year capital expenditure of £15.004m was funded as follows:

	£m
Grant and contributions	0.545
Revenue including reserves	9.240
Borrowing	5.219

The use of borrowing to finance capital expenditure in year was less than anticipated at the beginning of the year.

It was against the background of borrowing compared to CFR both now and in future years and cash flow projections 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 Chief Finance Officer in consultation with LCC's treasury management team has constantly reviewed the long term PWLB rates with a view to taking some long-term borrowing to finance the capital programme

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.

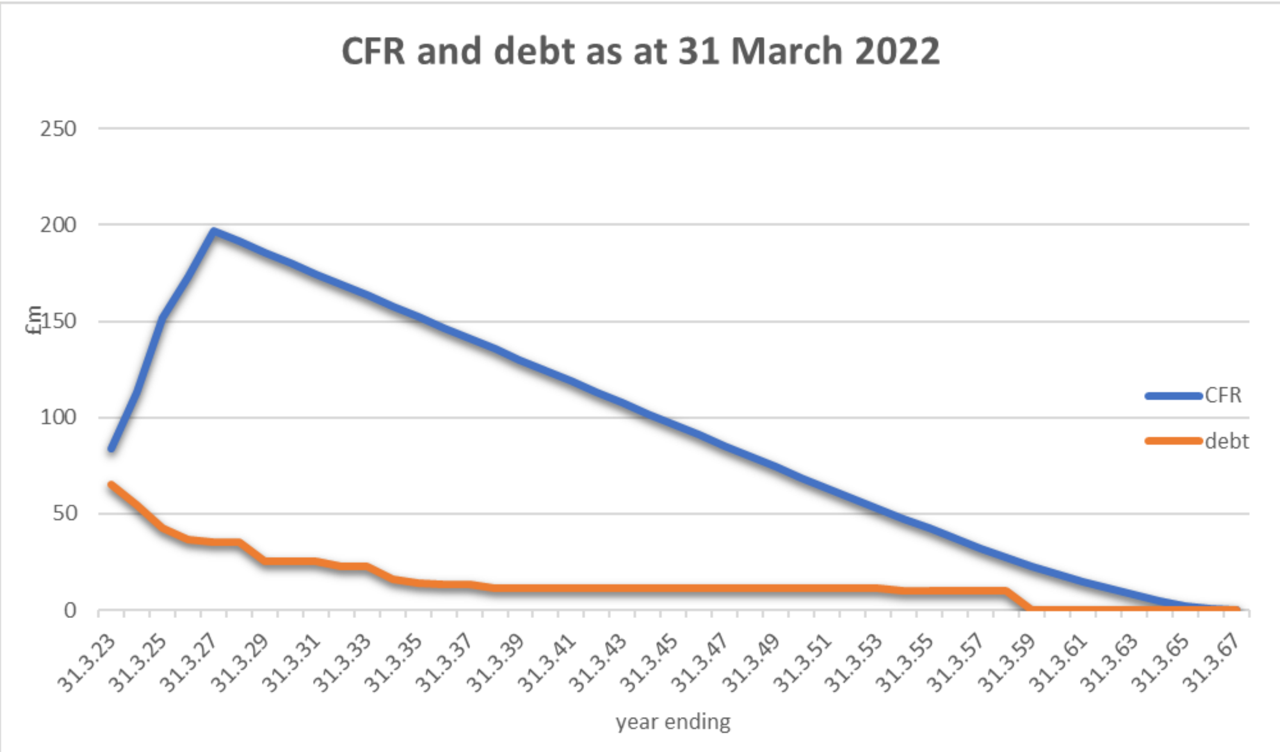
PWLB rates were at low levels, but they do change twice daily. They are monitored to try and ensure best value but the overriding reason for borrowing is need however no new loans were taken out with the option to take short term local authority loans being used in 2021-22. The table below shows the movement in the borrowing in 2021/22

	PWLB	Other	Total
	£m	£m	£m

Outstanding 1st April	42.442	42.000	84.442
Add New borrowing taken	0.000	30.000	30.000
Less Borrowing repaid	-1.026	-42.000	-43.026
Borrowing outstanding 31 March	41.416	30.000	71.416

The table and graph below show that although the CFR was nearly fully funded at 31.3.22 this was partly the result of the short-term borrowing. Debt maturing in 5 years or more accounts for approximately 50 % of the estimated borrowing requirement at 31.3.22. The graph below 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
	2021/22	**2022/23**
CFR Balance 1 April	68.437	72.227
Add expenditure financed from borrowing	5.219	12.902
Less: MRP	-1.429	-1.535
CFR Balance 31 March	72.227	83.594
Known Outstanding borrowing 31 March	71.416	83.537
Financed from cash balances/borrowing requirement	0.811	0.057



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 £1.429m.

As a consequence of existing debt and decisions taken on new debt then total interest payable on borrowing during 2021/22 was £1.276m, which equates to an average interest rate of 1.71% on the average debt outstanding for the year.

Investments

Both the CIPFA Code and the then 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. Throughout the year when investing money, the key aim was to strike an appropriate balance between risk and return.

In order to reduce credit risk to the Authority, Lancashire County Council (credit rating by Moodys Aa3) is the main counterparty for the Authority's investments via the operation of a call account. However, the Treasury Management Strategy does permit investment with other high-quality counterparties including other local authorities.

During the year the total cash held by the Authority has been positive with the highest balance being £81.8m and the lowest £7.6m. For the monies invested with Lancashire County Council the average balance was £34.0m with an average rate of 0.18% earning £0.062m.

In addition to the investment with LCC some fixed term deposits were held. This generated interest earned during the year of £0.009m giving a total investment income of £0.071m at an average rate of 0.21%, which is similar to the Sterling Overnight mid-rate 7-day rate index which averages 0.20% over the same period.

All these investments are made in accordance with the current Treasury Management Strategy and the CIPFA treasury management code of practice.

Cash flow and interest rates continue to be monitored by the 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.

Prudential Indicators

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 2021/22 are shown in the table below alongside the actual outturn position.

	2021-22	**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 t allows sufficient headroom for unusual cash movements		
Borrowing	130.000	71.416
Other long-term liabilities	5.000	0
Total	135.000	71.416
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	71.416
Other long-term liabilities	5.000	0
Total	95.500	71.416

	2021-22	**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	43%
12 months and within 24 months	80% / nil	2%
24 months and within 5 years	85% / nil	5%
5 years and within 10 years	85% / nil	17%
10 years and above	95% / 5%	33%

Financing costs

The following table summarises the net 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	1.684	1.276	Level of borrowing and borrowing rates lower than anticipated
Interest Receivable on call and fixed term investments	(0.257)	(0.071)	Average interest rates were assumed a lot higher in the budget than what was delivered
Minimum Revenue Provision	2.041	1.429	MRP slightly more than budget.
Net financing costs from Treasury Management activities	3.468	2.634	

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

   Sound financial management is key to the delivery of operational policing and therefore supports the delivery of frontline policing as determined by the Police and Crime Plan and the Chief Constable's Strategic Strategy. As part of the overall financial management strategy the treasury management strategy contributes directly to the delivery of sound financial management for the organisation.

2. **Consultation**

   None

3. **Implications**

   a. **Legal**
      There are no legal implications 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.

Officer declaration	Date
LEGAL IMPLICATIONS – As above	
FINANCIAL IMPLICATIONS – As above	
EQUALITIES IMPLICATIONS – As above	
CONSULTATION – As above	
Director to the Office of the Police and Crime Commissioner (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 Angela Harrison……………………………Date 5th December 2022……………**	