Decision Paper

DECISION : 2020/29	DATE 4TH JANUARY 2021
TITLE: Treasury Management mid-year report 2020/21	
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 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.

Recommendations

The Police and Crime Commissioner is asked to note the report.

Signature

Clive Grunshaw

Police and Crime Commissioner

Date: 25th Janaury 2021

PART I

POLICE & CRIME COMMISSIONER FOR LANCASHIRE

REVIEW OF TREASURY MANAGEMENT 2020/21 Report October 2020

Economic context

The economic situation has been dominated by the impact on the economy of the COVID-19 pandemic. The start of the financial year saw the UK in lockdown which effectively shut down a large proportion of the UK economy; although restrictions were eased in late May and early June. The Office of National Statistics first estimate for GDP in Quarter 2 (April-June) 2020 is estimated to have fallen by a record 20.4%. However, within the figures there was a month on month growth of 2.4% in May and 8.7% in June. Despite the growth in May and June the pace of any economic recovery is very uncertain especially with the potential for further Covid-19 related restrictions.

In response to the economic situation the Bank of England has maintained the Bank Rate at 0.1% while also continuing with an asset purchase programme to help stimulate the economy. Its central forecast is for GDP to continue to recover, supported by substantial fiscal and monetary policy actions. Unemployment is expected to rise significantly, before declining gradually while inflation as measured by the Consumer Prices Index is expected to rise slowly and reach roughly the 2% target in two years' time. However, this forecast assumes that the economic impacts of the Covid-19 pandemic will reduce gradually and that there will be an immediate move to a free trade agreement with the European Union post December 2020.

Arlingclose the council treasury management advisors expects Bank Rate to remain at the current 0.10% level for the foreseeable future and that Gilt yields , which link to the rate the council can borrow from the Public Loans Work Board will remain very low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.

The table below shows Arlingclose, latest forecast for interest rates

Period	Bank Rate	3 month money market	12 month money market	20-year Gilt Rate
Q4 2020	0.1	0.1	0.2	0.6
Q1 2021	0.1	0.1	0.2	0.6
Q2 2021	0.1	0.15	0.25	0.6
Q3 2021	0.1	0.2	0.3	0.65
Q4 2021	0.1	0.2	0.3	0.65
Q1 2022	0.1	0.2	0.3	0.65
Q2 2022	0.1	0.2	0.3	0.7
Q3 2022	0.1	0.2	0.3	0.7
Q4 2022	0.1	0.2	0.3	0.75
Q1 2023	0.1	0.2	0.3	0.75
Q2 2023	0.1	0.2	0.3	0.75
Q3 2023	0.1	0.2	0.3	0.75
Q4 2023	0.1	0.2	0.3	0.75

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 31.3.20
	£m
Capital Finance Requirement	61.773
External borrowing	62.817
Reserves	23.309
Working capital	4.761
Available for investment	28.070
Investments	24.912

The table above shows the investments held were below the available reserves and the level of loans was above the CFR at 31.3.20, due to an additional one year loan being taken from PWLB in March 2020 for liquidity purposes, to cover the unforeseen expenditure resulting from covid-19.

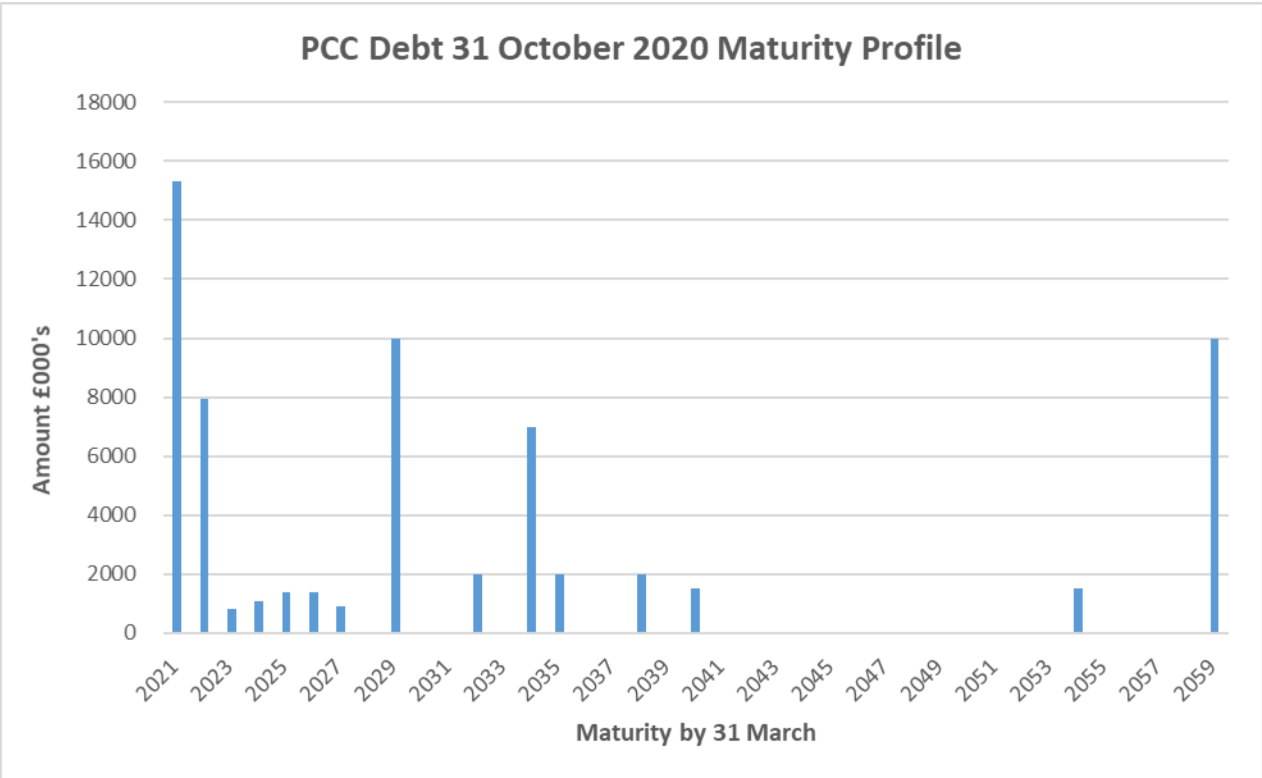
Borrowing

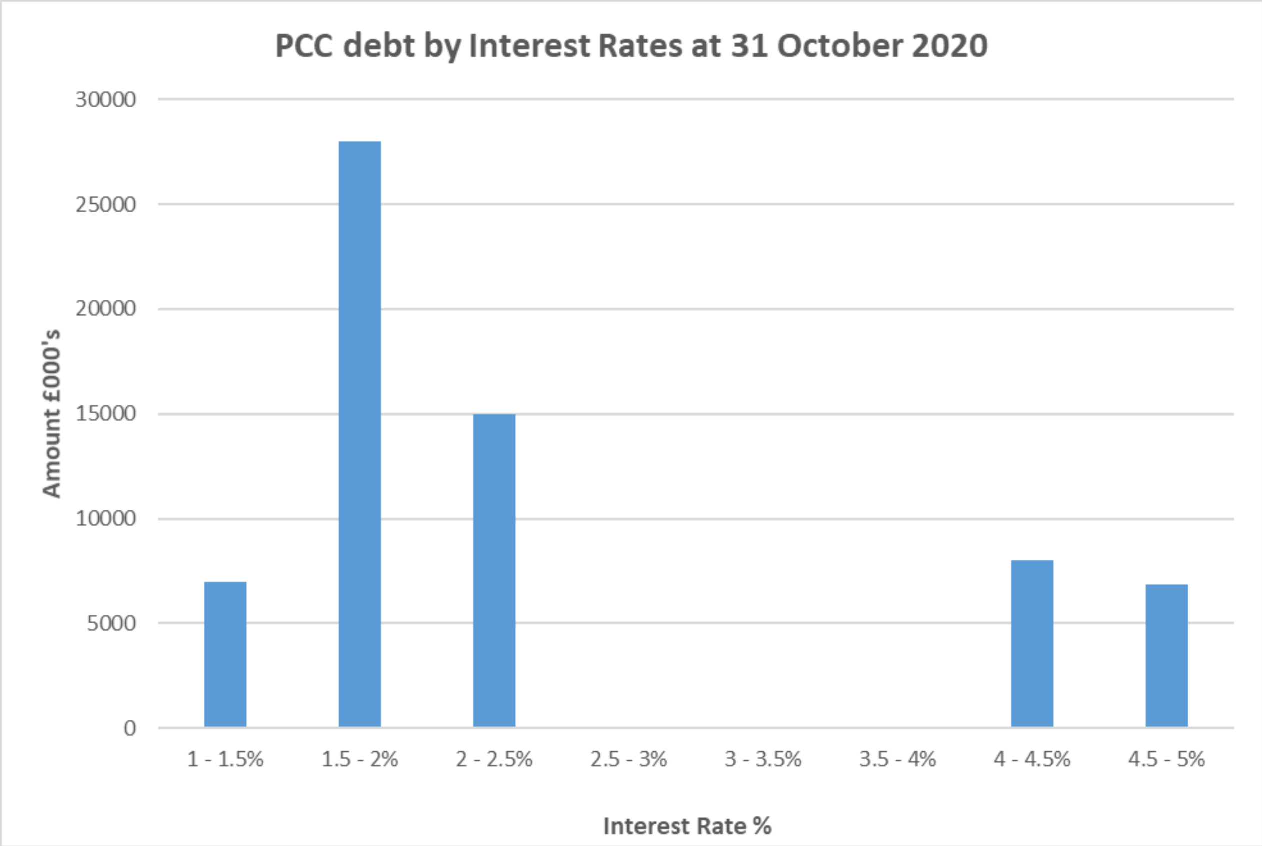
In the medium term the PCC borrows for capital purposes only. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Therefore borrowing decisions are taken in light of anticipated need in terms of changes in the CFR and also short term cash flow projections. The Treasury Management Strategy for 2020/21 anticipated that by 31.3.21 the estimated CFR would be £95.311m.

At 1 April the existing debt consisted of PWLB debt £57.817m and £5m of short term borrowing with other local authorities . Some of this debt will mature during the year and the committed debt at 31.3.21 is £42.479m which is £52.832m less than the anticipated CFR indicating that there is a borrowing requirement in the year.

This borrowing requirement will be met by a mixture of new borrowing and the potential use of internal balances depending upon cash flow forecasts and the cost of borrowing. Therefore as rates fell during the first half of the year two new loans with other local authorities totalling £7m was taken in the first half of the year.

The debt at 31.10.20 is £64.8m with some £15.3m being due to mature by 31.3.21 therefore if no further borrowing was undertaken internal resources of £45.8m will be required. 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 31 October there was a balance of £4.102m in the call account with the average balance invested in LCC for the period being £29.404m.The interest earned on the call balances as at 31 October is £0.017m at an average rate of 0.10%.

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.

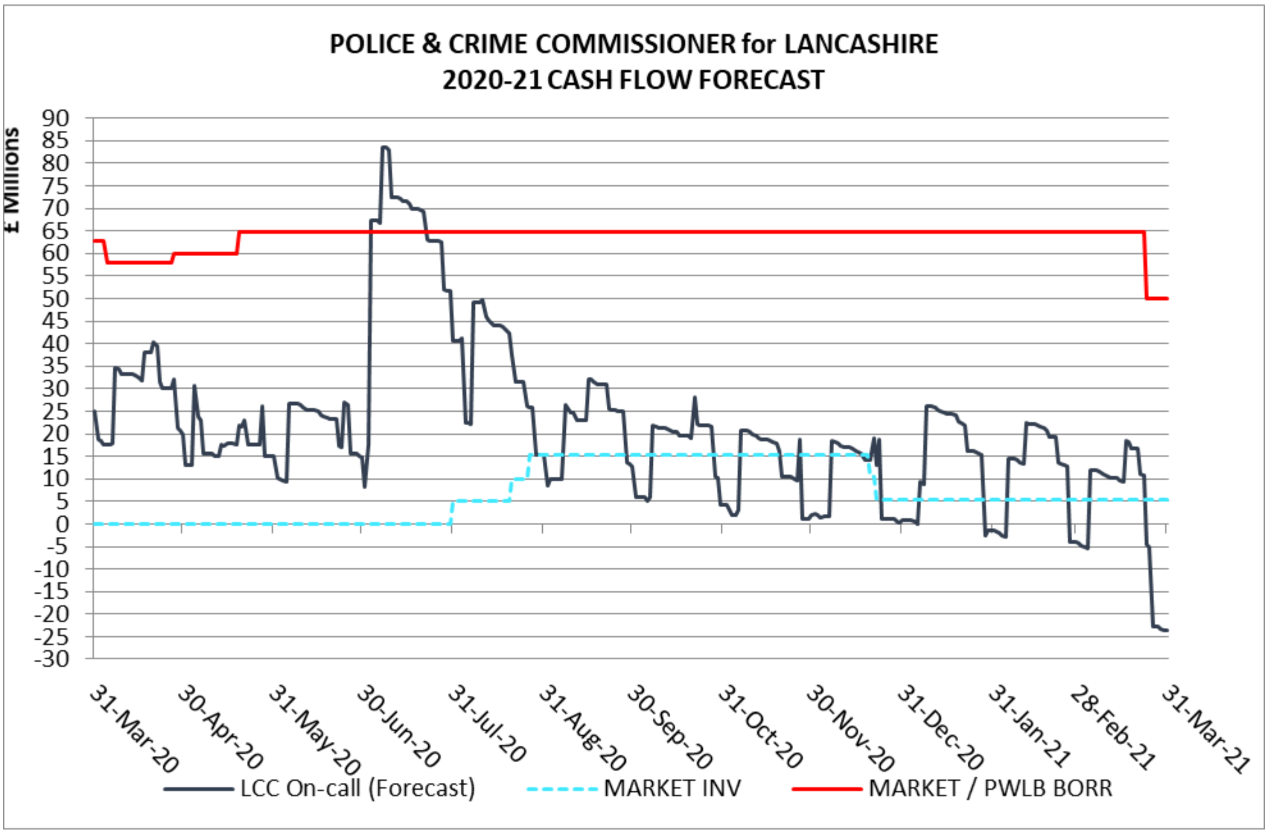
As a result of surplus balances at the beginning of July, due to the large pension top up grant, the PCC invested in £15.350m short term fixed deposits, with other local authories. £10m is due to mature in December 2020 with the remaining £5.350m in August 2021.

The average overall investment balance for the period was £34.982m at an average rate of 0.12% for the period.This is in line with the benchmark 7 day index which averages 0.12 % 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 reducing cash balance which without further market borrowing would be in an overdrawn position of £25m projected 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 2019/20 are shown in the table below alongside the current actual. None of the indicators have been breached over the period.

	2020-21 PIs	Actual at 31.10.20
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	64.8
Other long-term liabilities	5	0
Total	130	64.8
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	64.8
Other long-term liabilities	0.5	0
Total	95.5	64.8

	2020-21 PIs	Actual at 31.10.20
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)	50%	Nil
Maturity structure of debt from 31.3.19	**Upper/ Lower Limits**	**Actual**
Under 12 months	90% / nil	24%
12 months and within 24 months	80% / nil	12%
24 months and within 5 years	85% / nil	5%
5 years and within 10 years	85% / nil	19%
10 years and above	90% / 5%	40%

Revenue Budget Implications

The 2020/21 revenue budget for treasury management activity showed that anticipated expenditure exceeded income by £2.967m. 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**
Minimum revenue provision	1.224	1.224	0.000
Interest Payable	1.835	1.570	-0.265
Interest receivable	-0.092	-0.040	0.052
Net budget	**2.967**	**2.755**	**-0.212**

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 Lancashire Police and Crime Commissioner, this rate was 1.8%. However, following the recent consultation exercise that has been conducted on the use of PWLB borrowing for funding service related capital expenditure, this has resulted in the rate being reduced to 0.8%**.**

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 contained in the report

    c. **Equality considerations**

    There are no Equality comments associated with this paper.

4. **Background Papers**

    CIPFA Treasury Management Code of Practice
    PCC for Lancashire Treasury Management Strategy 2020/21

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	18/02/2021
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   Date 18th February 2021