



**DECISION : 2022/40**

**DATE: 5 DECEMBER 2022**

**TITLE: Treasury Management mid-year report 2022/23**

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

**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 the position for 30 September 2022.

**Signature**

**Andrew Snowden**

**Police and Crime Commissioner**

**Date: 5<sup>th</sup> December 2022**

**Treasury Management mid-year report 2022/23****Economic Overview**

The economic backdrop during the April to September period continued to be characterised by ongoing high inflation and its impact on consumers' cost of living and the expectation of low growth. There is no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy. Subsequently, UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August.

To combat inflation the Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. Current expectations are that the Bank Rate will continue to rise.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%.

The Sterling Overnight Rate (SONIA) averaged 1.22% over the period. SONIA is calculated by the Bank of England based on actual transactions reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

The table below shows the latest forecast for interest rates from Arlingclose:

Period	Bank Rate	3 month money market	12 month money market	20-year Gilt Rate
Q3 2022	2.25	2.25	2.45	4.32
Q4 2022	4.75	4.25	4.45	4.25
Q1 2023	5.00	5.25	5.40	4.25
Q2 2023	5.00	5.25	5.40	4.15
Q3 2023	5.00	5.25	5.40	4.10
Q4 2023	5.00	5.25	5.40	4.00
Q1 2024	5.00	5.25	5.40	3.90
Q2 2024	5.00	5.25	5.40	3.90
Q3 2024	5.00	5.25	5.40	3.80
Q4 2024	4.75	4.75	4.90	3.80
Q1 2025	4.25	4.25	4.40	3.80
Q2 2025	3.25	3.25	3.40	3.80
Q3 2025	3.25	3.25	3.40	3.80

**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
	31.3.22
	£m

Capital Finance Requirement	72.227
External borrowing	71.524
Reserves	25.715
Working capital	(8.185)
Available for investment	17.530
Investments	16.831

The table above shows that the level of loans was below the CFR at 31.3.22 and subsequently the investments held were below the available reserves.

### Borrowing

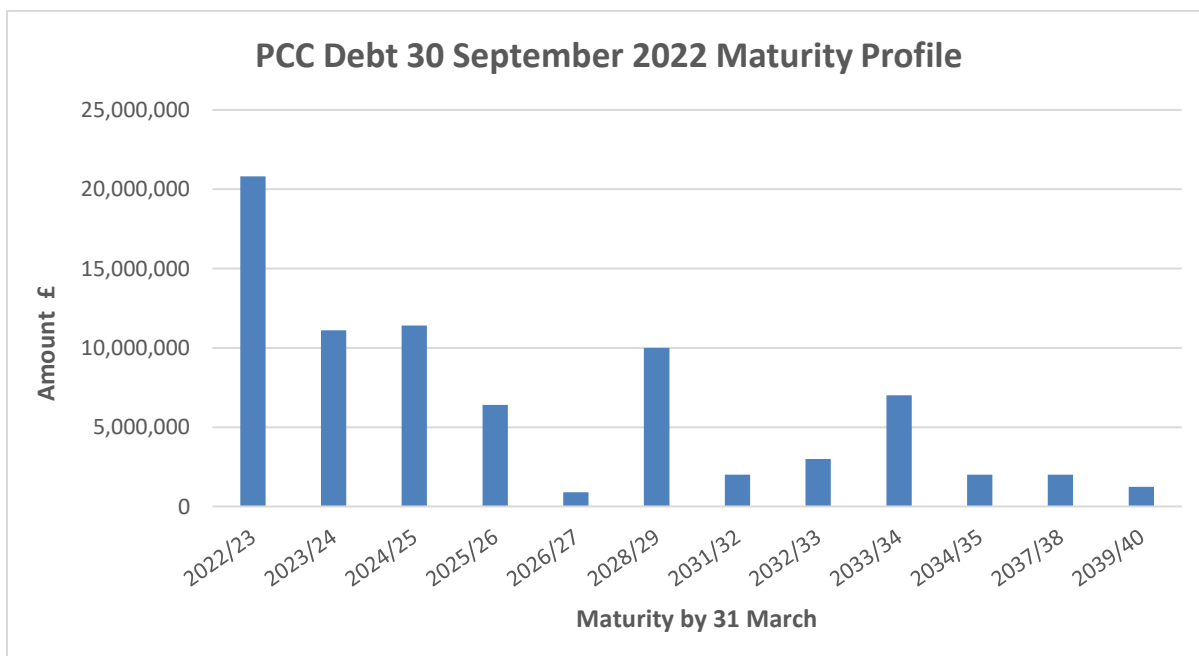
The PCC adheres to CIPFA's Prudential Code and therefore in the medium term any borrowing is for capital purposes only. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Therefore, borrowing decisions are taken in light of anticipated need in terms of changes in the CFR and also short-term cash flow projections. The Treasury Management Strategy for 2022/23 anticipated that by 31.3.23 the estimated CFR would be £85.652m.

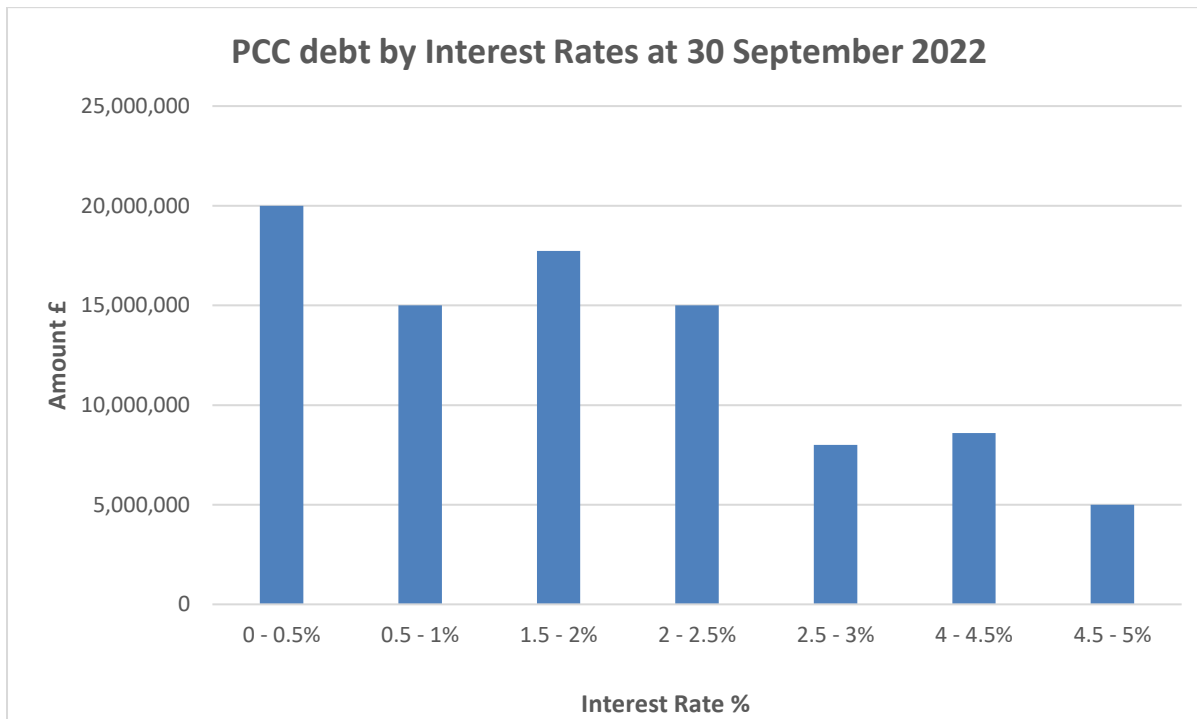
On 1 April the existing debt consisted of PWLB debt £44.417m along with a total of £30m for long term and short term borrowing with other local authorities. £25m of these other local authorities will mature along with some PWLB maturities in year. During the period up to 30 September, three new loans with other local authorities totalling £25m were taken out, to replace the maturing borrowings in the year.

The debt as at 30 September 22 is £88.575m with additional borrowing already taken of £25m for the remainder of the financial year and further loans of £20.804m being due to mature by 31.3.22.

The committed debt at 31.3.23 is £93.537m which is more than the revised CFR figure of £85.652m, but allows for borrowing in advance for cashflow requirements in April 2023 and is within the borrowing limits permitted by CIPFA's Prudential Code .

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 September there was a balance of £47.517m in the call account with the average balance invested in LCC for the year being £41.641m. The interest earned on the call balances as at 30 September is £0.308m at an average rate of 0.67%.

There were also two fixed investments taken out during July 2022 to take advantage of excess cash generated from the pension grant settlement. These investments will mature in October 2022 and January 2023 respectively and earned £0.034m this year at a rate of 1.68%.

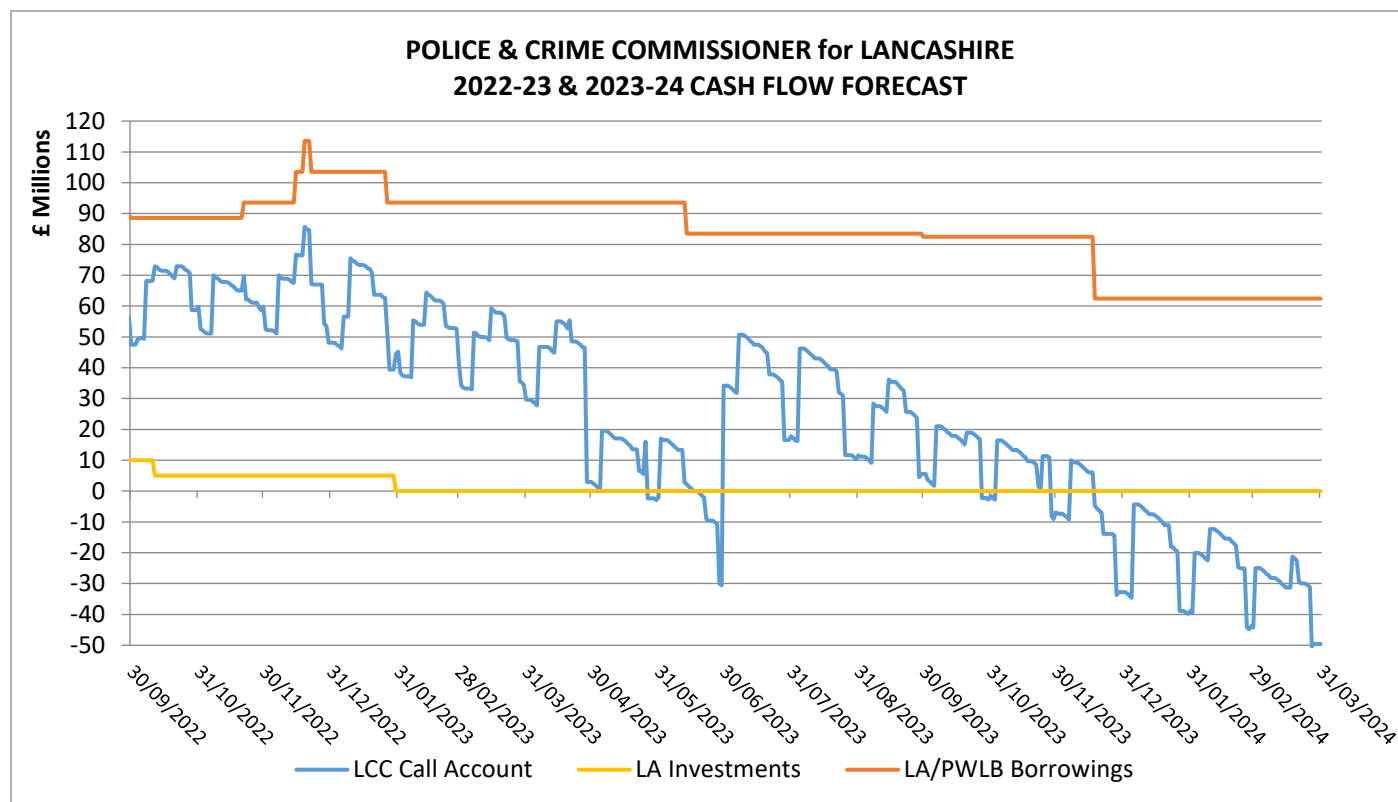
Local Authority/Government	Amount	Interest Rate	Start	Finish
THURROCK COUNCIL	5,000,000	1.47%	11-Jul-22	11-Oct-22
BIRMINGHAM CITY COUNCIL	5,000,000	1.95%	28-Jul-22	30-Jan-23

The average overall investment balance for the period was £45.657m at an average rate of 1.49% for the period. This is favourable when compared with the benchmark 7-day index which averaged 1.30% 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 2022/23 are shown in the table below alongside the current actual. None of the indicators have been breached over the period.

	<b>2022-23 PIs</b>	<b>Actual at 30 Sep 22</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	134	88.6
Other long-term liabilities	5	0
Total	139	88.6
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	105	88.6
Other long-term liabilities	0.5	0
Total	105.5	88.6

	2022-23 PIs	Actual at 30 Sep 22
<b>Upper limit for fixed interest rate exposure</b>		
Borrowing	100%	100%
Investments	100%	100%
<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	50%	Nil
<b>Maturity structure of debt from 31.03.22</b>	<b>Upper/ Lower Limits</b>	<b>Actual</b>
Under 12 months	90% / nil	22%
12 months and within 24 months	80% / nil	13%
24 months and within 5 years	85% / nil	21%
5 years and within 10 years	85% / nil	14%
10 years and above	90% / 5%	30%

### Revenue Budget Implications

The 2022/23 revenue budget for treasury management activity showed that anticipated expenditure exceeded income by £3.013m. Taking into account the activity in the year and estimated cash-flow for the remainder of the year the latest forecast is shown below:

	2022/23	2022/23	2022/23
	Budget	Forecast	Variance
	£m	£m	£m
MRP	1.586	1.535	-0.051
Interest payable	1.684	1.600	-0.084
Interest receivable	-0.257	-0.650	-0.393
Net budget	3.013	2.485	-0.528

### 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**

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 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>	
<b>EQUALITIES IMPLICATIONS – As above</b>	
<b>CONSULTATION – As above</b>	
<p><b>Director to the Office of the Police and Crime Commissioner (Monitoring Officer)</b></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 Angela Harrison.....Date 5<sup>th</sup> December 2022.....</p>	