RECOMMENDATION REPORT

DECISION: 2023/37	**DATE: 30 JANUARY 2024**
TITLE: Treasury Management update 2023/24	
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 the update report.

1. Background

1.1. 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.

1.2. The mid-year report for 2023/24 is attached at Appendix 'A' for the consideration of the PCC

2. Links to the Police and Crime Plan

3. Consultation

4. Implications

4.1. Legal

There are no legal comments associated with this paper.

4.2. Financial

The financial implications are shown in the report.

4.3. Equality considerations

There are no Equality comments associated with this paper.

5. Background Papers

5.1. None

6. Public access to information

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

6.2. 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	

Author

Signature Steve Freeman Date 30/1/2024

Sponsor

I have read the above report and confirm this is factually correct.

Signature Steve Freeman Date 30/1/2024

Chief Finance Officer to the Office of the Police and Crime Commissioner

I have read the above report and have considered the financial implications. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lancashire.

Signature Steve Freeman Date 30/1/2024

Chief Executive 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 30/01/2024

Appendix A

PCC for Lancashire – Mid-year review Treasury Management 2023/24

1. Economic Overview

1.1. Treasury management activity is taken within the context of prevailing and forecasted economic conditions. The first half of the year saw the continuation of high levels of inflation. As measured by the CPI, inflation was 10.1% in March 2023. Although the rates have fallen during the year to a level of 6.7% in September this is still above the Bank of England Monetary Policy Committee (MPC) target for inflation of 2 %. In addition to high inflation there continued to be strong wage growth. As a consequence, the MPC have raised the Base rate several times in the year. The rate on the 1 April was 4.25% and this has increased to 5.25% in August.

1.2. Many economic forecasters consider that interest rates have reached a peak with the economy showing signs of low growth and the potential of a recession increasing. However, despite this and the Bank of England's expectation that inflation will continue to fall during the year it is not anticipated that there will be a fall in the Base rates in this financial year with the Bank stating that "we will keep interest rates high enough for long enough to ensure that we achieve our goal" (of meeting its 2% target).

1.3. The forecast from Arlingclose, the treasury adviser to the County Council, is:

	Base rate %	10 year gilt %	20 year gilt %
Current	5.25	4.27	4.67
Dec-23	5.25	4.40	4.65
Mar-24	5.25	4.35	4.60
Jun-24	5.25	4.30	4.55
Sep-24	5.00	4.25	4.45
Dec-24	4.75	4.15	4.35
Mar-25	4.25	4.00	4.25
Jun-25	4.00	3.80	4.20
Sep-25	3.75	3.75	4.20
Dec-25	3.50	3.65	4.20
Mar-26	3.25	3.60	4.20
Jun-26	3.00	3.65	4.20
Sep-26	3.00	3.70	4.20

2. Treasury Management position and Policy

2.1. 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 31.3.23
	£m
Capital Finance Requirement	74.548
External borrowing	93.537
Reserves	29.245
Working capital	3.789
Available for investment	33.034
Investments	44.512

2.2. The table above shows that the level of loans was above the CFR at 31.3.23 and subsequently the investments held were above the available reserves. This position will be remedied by 31st March 24 with the external borrowing being below the CFR figure.

3. Borrowing

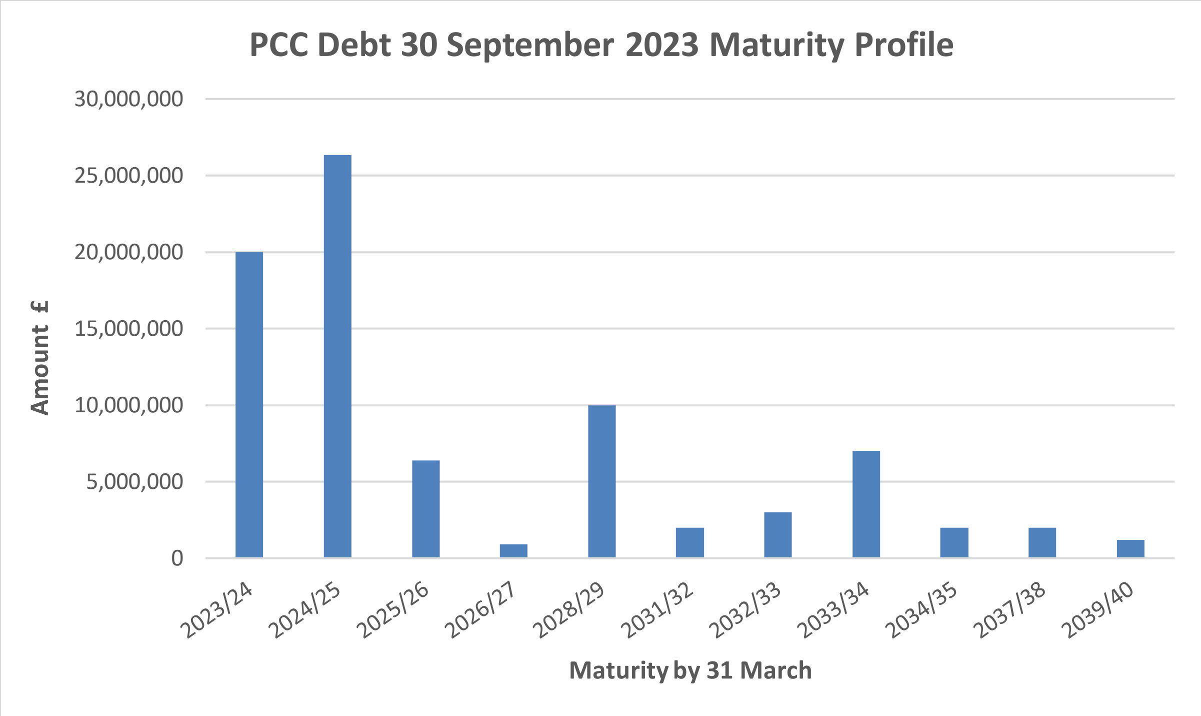
3.1. The PCC adheres to CIPFA's Prudential Code and therefore in the medium term any borrowing is for capital purposes only. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). Therefore, borrowing decisions are taken in light of anticipated need in terms of changes in the CFR and also short-term cash flow projections. The Treasury Management Strategy for 2023/24 anticipated that by 31.3.24 the estimated CFR would be £93.137m.

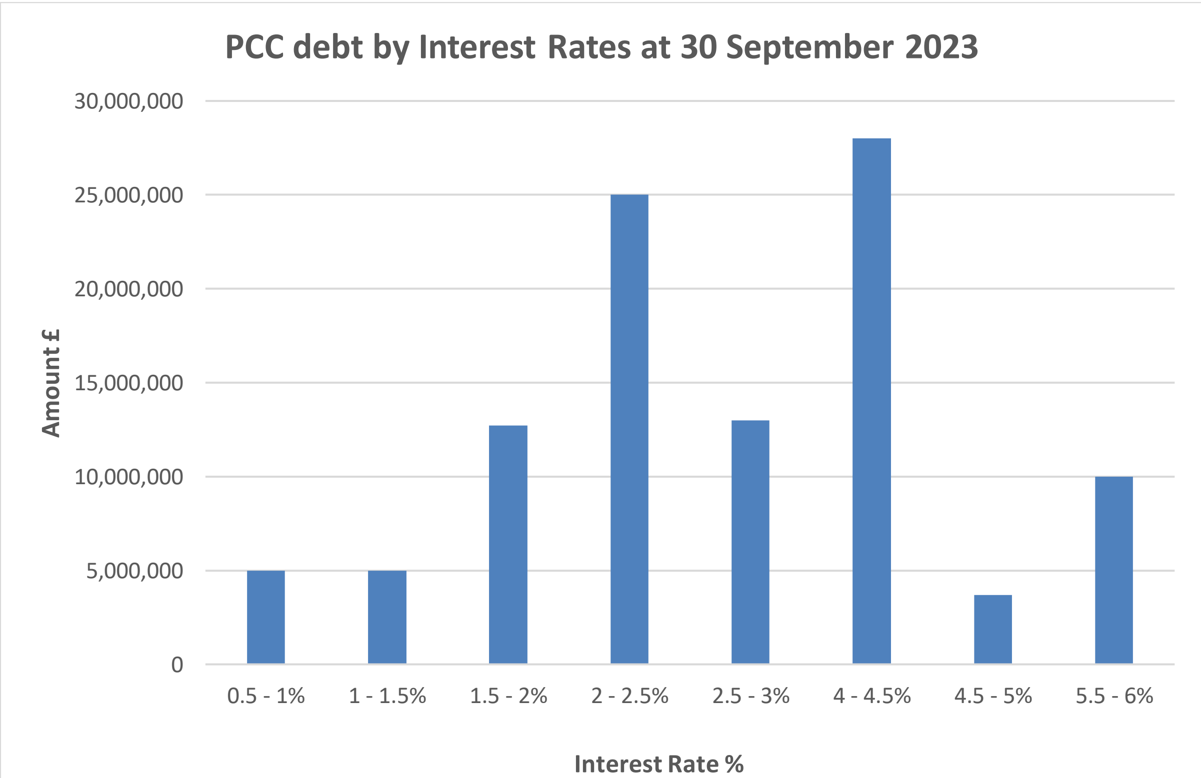
3.2. At 1 April the existing debt consisted of PWLB debt £43.537m along with a total of £50m for long term and short term borrowing with other local authorities. £30m of these other local authorities will mature along with some PWLB maturities in year (£1.2m). During the period up to 30 September, two new loans with other local authorities totalling £20m were taken out, to replace the maturing borrowings in the year.

3.3. The debt as at 30 September 23 is £93.500m with additional borrowing already taken of £10m for the remainder of the financial year and further loans of £20.038m being due to mature by 31.3.24.

3.4. The committed debt at 31.3.24 is £82.362m which is less than the revised CFR figure of £93.137m, however there will be the need to borrow monies later in the financial year due to cashflow requirements so this figure will rise but should still just be under the CFR figure.

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





4. Investments

4.1. Both the CIPFA Code and the DLUHC 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.

4.2. 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.

4.3. At 30 September there was a balance of £17.777m in the call account with the average balance invested in LCC for the year being £54.846m. The interest earned on the call balances as at 30 September is £1.004m at an average rate of 4.68%.

4.4. There were also three fixed investments taken out during June and July 2023 to take advantage of excess cash generated from the pension grant settlement. These investments will mature in October 2023, November 2023 and December 2023 respectively and earned £0.034m this year at a rate of 4.90%.

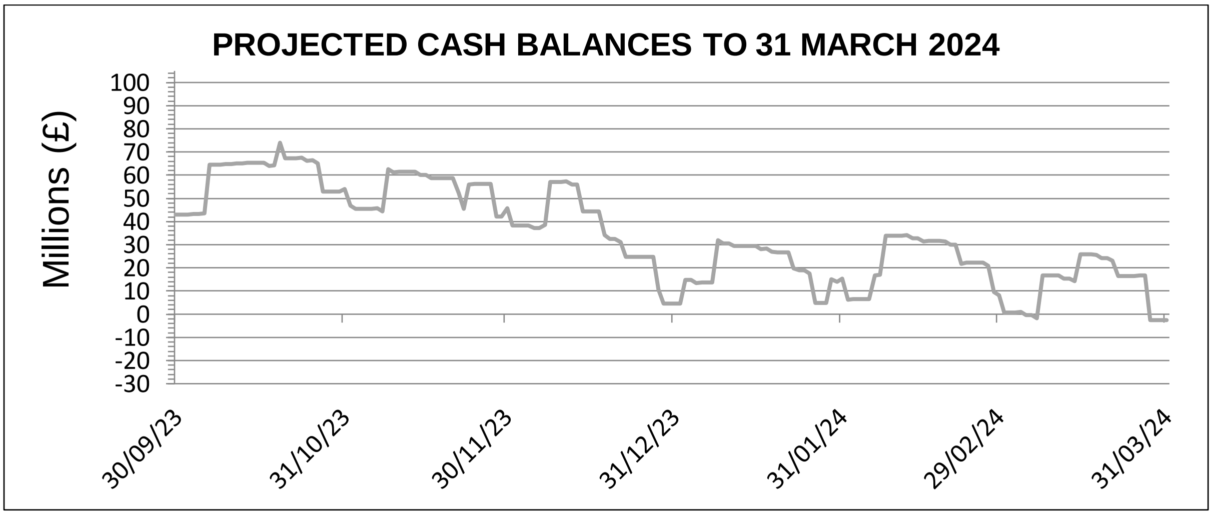
Local Authority/Government	Amount	Interest Rate	Start	Finish
CORNWALL COUNTY COUNCIL	10,000,000	4.80%	7-Jul-23	8-Dec-23
EASTLEIGH BOROUGH COUNCIL	10,000,000	5.25%	10-Jul-23	30-Nov-23
DARLINGTON BOROUGH COUNCIL	5,000,000	4.85%	19-Jun-23	9-Oct-23

4.5. The average overall investment balance for the period was £45.657m at an average rate of 4.74% for the period. This is comparable with the benchmark 7 day index which averaged 4.73% over the same period.

4.6. 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 deficit position of £2m at year end.

5. Cash Flow

5.1. The estimated cash flow totals are as follows:



5.2. This graph above shows that the balances are expected to fall to around £2m cash deficit by year end so there will be a need to take short-term borrowing out later in this financial year. It is anticipated that there will also be a requirement in 2024/25 for further borrowing based on the current capital programme and maturing debt in that year. This will be reviewed over the next few months once we receive the forecast from Lancashire PCC.

6. Prudential Indicators

6.1. 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 2023/24 are shown in the table below alongside the current actual. None of the indicators have been breached over the period.

	2023/24 P.I.s	**Actual at 30 Sep 23**
Adoption of the CIPFA Code of Practice for Treasury Management		Adopted
Authorised limit for external debt	£m	£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	130	94
Other long-term liabilities	5	0
Total	135	94
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	94
Other long-term liabilities	1	0
Total	106	94

	2023/24 P.I.s	**Actual at 30 Sep 23**
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	58%
Upper limit for total principal sums invested for over 364 days (per maturity date)	50%	Nil
Interest Rate Exposure		
One-year revenue impact of a 1% rise in interest rates	£10m	(£0.2m)
Maturity structure of debt from 31.03.23	**Upper/ Lower Limits**	**Actual**
Under 12 months	90% / nil	12%

12 months and within 24 months	80% / nil	39%
24 months and within 5 years	85% / nil	8%
5 years and within 10 years	85% / nil	16%
10 years and above	90% / 5%	25%
Ratio of financing costs to revenue stream (%)		
Ratio of financing costs to revenue stream (%)	0.87	0.80
Gross debt and the capital financing requirement	**£m**	
Total debt as at 30 September 2023	94	
Capital Financing Requirement estimated 31.3.24	93	
Debt in excess of CFR	1	

7. Revenue Budget Implications

7.1. The 2023/24 revenue budget for treasury management activity showed that anticipated expenditure exceeded income by £3.015m. Taking into account the activity in the year and estimated cash-flow for the remainder of the year the latest forecast is shown below:

	2023/24	2023/24	2023/24
	Budget	Forecast	Variance
	£m	£m	£m
MRP	2.269	2.191	-0.078
Interest payable	2.446	2.700	0.254
Interest receivable	-1.700	-2.100	-0.400
Net budget	**3.015**	**2.791**	**-0.224**

8. Business Risk Implications

8.1. 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.

8.2. 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.