Treasury Management Activities 2019/20 Quarter 4 (January to March 2020) and Annual Report 2019/20

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Purpose of the Report

The purpose of this paper is to report on the Treasury Management Activities (TMA), which have taken place during the period January to March 2020, in accordance with the requirements of CIPFA's Code of Practice on Treasury Management.

TMA are undertaken in accordance with the Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) approved by the Commissioner in February each year.

Recommendations

The Commissioner is asked to note the contents of this report.

JAC Members are asked to note the contents of this report. The report is provided as part of the arrangements to ensure members are briefed on Treasury Management and maintain an understanding of activity in support of their review of the annual strategy.

Economic Background

2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December, which settled the Brexit issue. The whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter one of 2020/21. Although the UK left the EU on 31 January 2020, we still have much uncertainty as to whether a comprehensive trade deal will be achieved by the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on the deadline of agreeing a deal by then.

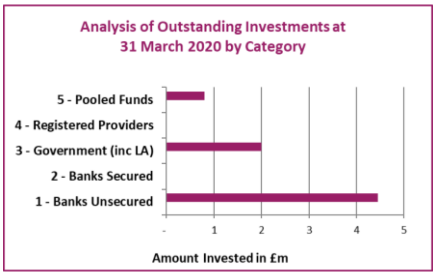
After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and do nothing until March 2020; at this point it became clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75%, therefore, occurred in March, first to 0.25% and then to 0.10%.

TM Operations and Performance Measures

The Commissioners day to day TMA are undertaken in accordance with the TMSS. The TMSS establishes an investment strategy with limits for particular categories of investment and individual counterparty limits within the categories.

Outstanding Investments: As at 31 March 2020 the total value of investments was **£7.245m** and all were within TMSS limits.

The chart below shows the outstanding investments at 31 March by category.



A full list of the investments that make up the balance of £7.245m is provided at **Appendix A**.

Investment Activity: During quarter 4 a total of 4 investments with a combined value of £8.0m were made within TM categories 1-3 (banks unsecured, banks secured and Government). In addition to these there were regular smaller investments in category 5 (money market pooled funds).

Non-specified investments: The TMSS sets a limit for investments with a duration of greater than 364 days at the time the investment is made (known as non-specified investments), this limit is £5m. At 31 March the Commissioner had no investments meeting this description.

Investment Income: The base budget for investment interest receivable in 2019/20 was set at £165k but included an element (£45k) of interest that would be earned by investing in a property fund in 2019/20. Following uncertainty around the Brexit negotiations it was decided to delay any such investment. The actual income achieved against this target was £143k, which provides a shortfall of £22k. This reflects an end of year improvement from previous reports which forecast actual interest would be in the region of £130k.

The average return on investment during quarter 4 was 0.73%. As a measure of investment performance the rate achieved on maturing investments of over 3 months in duration is compared with the average BOE base rate for the period of the investment.

The table below illustrates the rate achieved on the three maturing investments of over three months duration in quarter 4 compared with the average base rate for the duration of the investment. The average base rate calculation include the two rate drops in March 2020 – From 0.75% to 0.25% on 11.03.2020 and then to 0.1% 19.03.2020.

Borrower	Value £m	Period (Months)	Actual Rate (%)	Average Base Rate (%)
Treasury bills	1.4	6	0.70%	0.69%
Lloyds	2.0	6	1.00%	0.75%
Nationwide	2	6	0.81%	0.75%

Cash Balances: The aim of the TMSS is to invest surplus funds and minimise the level of un-invested cash balances. The actual un-invested cash balances for the period January to March are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	88	3,946	59,806
Days Overdrawn	3	(1,020)	(1,020)

The bank account had only one large un-invested balance during quarter 4. This was for an amount of £59k and occurred on 19th February and was in relation to seized cash of £59k being banked by central services. As is common practice transactions of this nature made during the day are not invested as they are subject to checking by the bank and may be reversed. The largest/only overdrawn balance occurred on 06th March (£1,020 - and carried over the weekend) and was as a result of a previously banked cheque being returned as the signature did not match the account mandate. A replacement cheque has now been received. The estimated interest incurred as a result of the unauthorised overdraft usage would be zero as the Commissioners accounts are pooled together.

Prudential Indicators

In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators which determine if the TMSS meets the requirements of the Prudential Code in terms of ***Affordability, Sustainability** and **Prudence***.

An analysis of the current position with regard to those prudential indicators for the financial year 2019/20 is provided at **Appendix B**. The analysis confirms that the Prudential Indicators set for 2019/20 have all being complied with.

Annual Report on Treasury Management Operations 2019/20

Treasury Strategy: In February 2019 the Commissioner approved the 2019/20 Treasury Management Strategy Statement (TMSS). The TMSS incorporated the investment and borrowing strategies for the 2019/20 financial year. The investment strategy approved for 2019/20 was largely the same as had been adopted for the previous year. The limits for each category of investment were based on the relative security of each class of financial institution and a percentage of the estimated balances, which would be available for investment during the year.

In relation to borrowing, the Commissioner has an underlying need to borrow funds to finance the capital programme, which is measured by the Capital Financing requirement (CFR).

The CFR at the start of 2019/20 amounted to £19.35m (including £4.75m relating to the PFI agreement for West Cumbria TPA HQ in Workington) leaving a £14.60m exposure to external borrowing at some time in the future, which is presently being covered by the use of internal funds (reserves).

The closing CFR for 2019/20 is anticipated to be £22.31m, of which £4.58m relates to the PFI thereby leaving a £17.73m exposure to the requirement to undertake external borrowing at some point.

During 2019/20 the Commissioner has maintained this strategy of using cash balances, arising primarily from reserves, to meet the cash flow commitments and was not therefore compelled to borrow.

Although long term borrowing rates remained relatively low during 2019/20, a conscious decision was made to defer long term financing decisions as the short term cost of carrying debt (i.e. the differential between the borrowing rate estimated at 2.64% and the rate of 1.0% available as when such funding was invested), as this would have had an adverse effect on the revenue budget for the year and the immediate outlook period.

During 2018/19 the contract for the provision of treasury management advice services was re-tendered with the result that with effect from 1 April 2019 a new advisor (Link Asset Services Ltd) was appointed. Link Assets Services Ltd have continued to provide the advisory service during 2019/20.

The Commissioner, in consultation with the treasury advisors continues to look for the most opportune time to undertake any longer term borrowing to fund the capital financing requirement.

Key Statistics

Principal:

Number of investments placed during 2019/20 was **197** (218 in 2018/19).

Value of investments placed during 2019/20 was **£131.362m** (£135.565m in 2018/19).

Of these investments made, 63 were to external counterparties and as such will have attracted a £10 transfer fee per transaction. The transfer to the NatWest Liquidity Select account for overnight money is classed as an inter-account transfer' as the NatWest holds the Commissioner's main bank account. This type of transfer is free although we do pay a small fee to access the internet banking site.

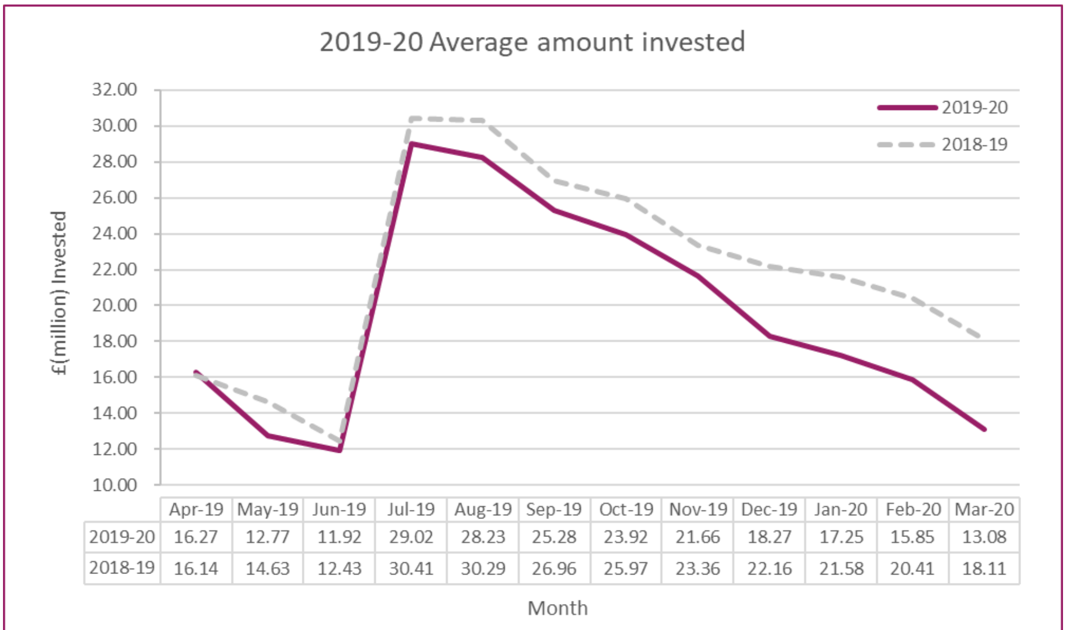
The **average** daily investment balance during 2019/20 was **£19.50m** (£21.90m in 2018/19).

The **highest** daily investment balance in 2019/20 was **£33.97m** (£35.11m in 2018/19)

The **lowest** daily investment balance in 2019/20 was **£7.24m** (£9.23m in 2018/19).

A detailed breakdown of the closing balance invested as at 31 March 2020 is provided at **Appendix A.**

The level of cash reserves available to invest has followed the same pattern as seen in previous years. Following the introduction of the Home Office Police Pensions Grant in 2007/08, there has been an annual spike in investments in July, when the majority of the grant is received, followed by a gradual decline in balances as pension payments are made throughout the remainder of the year.

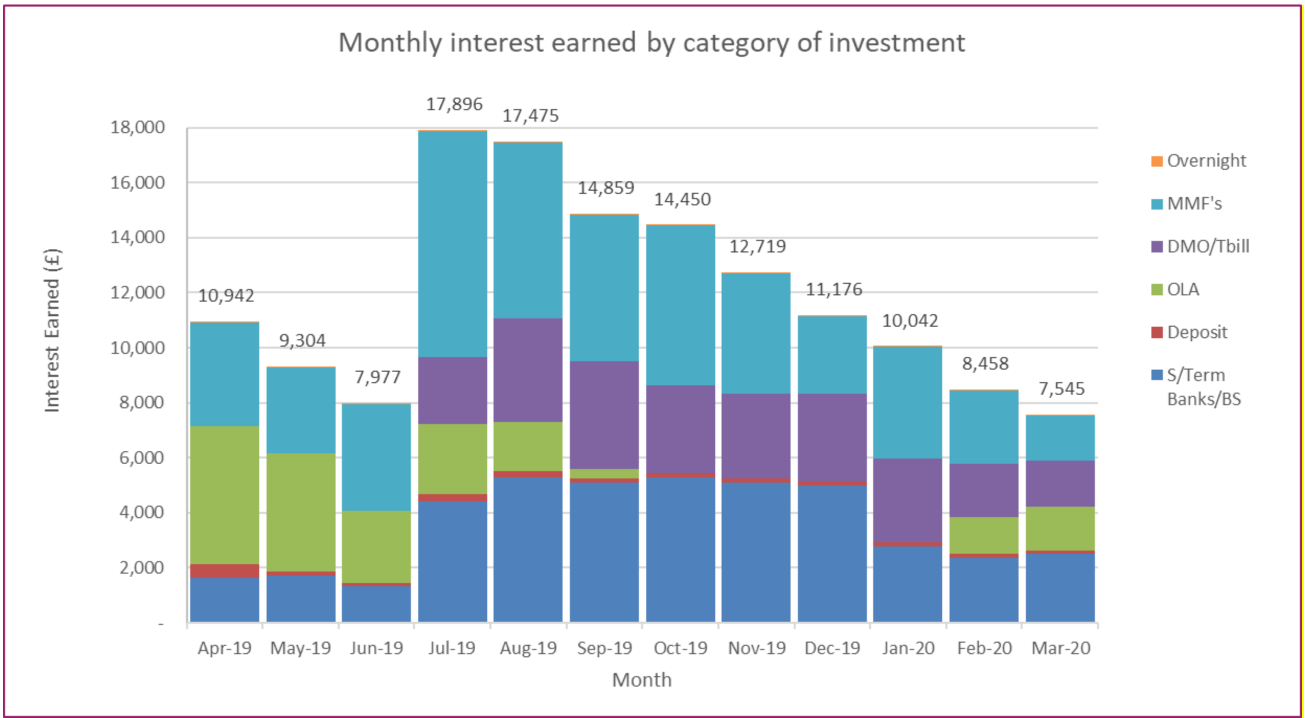


	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
2019-20	16.27	12.77	11.92	29.02	28.23	25.28	23.92	21.66	18.27	17.25	15.85	13.08
2018-19	16.14	14.63	12.43	30.41	30.29	26.96	25.97	23.36	22.16	21.58	20.41	18.11

This chart illustrates the monthly average amounts invested during 2019/20 (with monthly comparatives for 2018/19).

Interest:

A total of £143k was earned in 2019/20 (£146k in 2018/19) from the Commissioner's treasury management activities and can be broken down as follows:



The average return on investments for 2019/20 was 0.73% (0.67% in 2018/19).

The base rate started the year at 0.75% but was reduced by 0.50% to 0.25% on the 11th March 2020. It was then reduced by 0.15% to 0.1% on 19th March 2020 - this gives an average bank base rate of 0.72% for the year.

The table above shows the outturn on investment interest as £143k for 2019/20 which is £22k below the base budget of £165k. The base budget was increased by £45k in line with the plans to invest long term in a property funds. These funds yield higher returns as well as the potential for capital growth. They are backed, as the name suggests, by property. Uncertainty around the Brexit negotiations and the effect that this would have on property prices have resulted in this investment being delayed. With the global pandemic now also taking its toll on the UK economy it is unlikely that this investment will take place in the near future.

The base budget for 2020/21 is £96k and was set while the interest rate was predicted to remain at 0.75% until 2020/21 quarter 4 where it was expected to rise to 1.0%. The cash flow forecast has been remodelled to take account of the recent sudden rate cuts and the revised forecast for investment income in 2020/21 is £25k.

Treasury Operations:

As discussed above the aim of the Treasury Management Strategy is to invest surplus cash and minimise the level of un-invested cash balances, whilst limiting risks to the Commissioner's funds. Actual un-invested balances for 2019/20 for the Commissioner's main bank account are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	359	4,039	99,280
Days Overdrawn	7	(942)	(2,745)

The largest credit balance occurred during quarter two, the largest overdrawn balance occurred during the third quarter.

The largest un-invested balance occurred on the 13th August (£99k) whereby a customer paid a large invoice. In line with procedure, any funds banked during the day are subject to checking by the bank and could be removed from our account again while any issues are resolved, which would have resulted in an overdrawn account. It is therefore normal practice that this cash is not invested into the liquidity select account and would have been left in the main fund account.

The largest overdrawn balance occurred on the 22 of October (£3k) and was as a result of two cheques clearing. The banking industry have been encouraged to implement a faster clearing process for cheques, rather than the customary three days. On occasion, where a recipient banks at the same bank as the Police and Crime Commissioners main fund account, a cheque may clear on the same day as it is presented, as in this case.

Both of these instances have previously been reported in the relevant quarterly activity report to the Commissioner and Members.

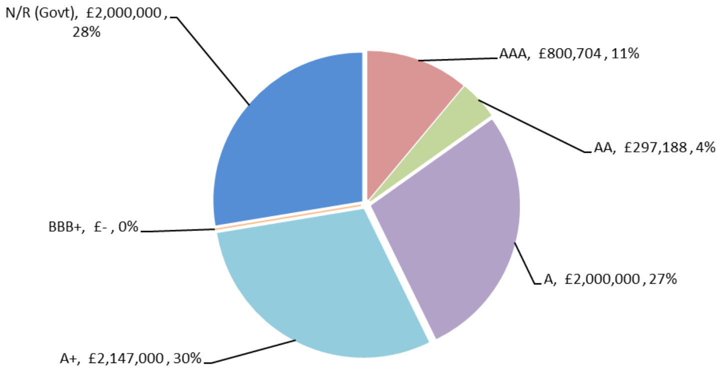
Compliance with Prudential Indicators

All treasury related Prudential Indicators for 2019/20, which were set in February 2019 as part of the annual Statement of Treasury Management Strategy, have been complied with. Further details can be found at **Appendix B**.

Appendix A
Investment Balance at 31 March 2020

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
Category 1 - Banks Unsecured (Includes Banks & Building Societies)							
Svenska (Deposit Acc)	AA	Various	On Demand	N/A	0.30%	297,188	297,188
NatWest (Liquidity Select Acc)	A+	31/03/2020	01/04/2020	O/N	0.02%	147,000	147,000
Lloyds	A+	06/01/2020	06/04/2020	6	0.75%	2,000,000	2,000,000
Nationwide	A	08/01/2020	08/04/2020	8	0.73%	2,000,000	2,000,000
						4,444,188	**4,444,188**
Category 2 - Banks Secured (Includes Banks & Building Societies)							
						0	**0**
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
Thurrock Council	N/R (Govt)	03/02/2020	03/08/2020	125	0.95%	2,000,000	2,000,000
						2,000,000	**2,000,000**
Category 4 -Registered Providers (Includes Providers of Social Housing)							
None						0	0
						0	**0**
Category 5 -Pooled Funds (Includes AAA rated Money Market Funds)							
Fidelity	AAA	Various	On demand	O/N		704	704
BlackRock	AAA	Various	On demand	O/N		0	0
Aberdeen Standard	AAA	Various	On demand	O/N		800,000	800,000
						800,704	**800,704**
Total						**7,244,892**	**7,244,892**

Analysis of Outstanding Investments by Credit Rating of Counterparty at 31 March 2020 (Minimum Criteria per TMSS A-)



Note – The credit ratings in the table & chart relate to the standing as at 31 March 2020, these ratings are constantly subject to change.

Appendix B
Prudential Indicators 2019/20

Prudential and Treasury Indicators

Treasury Management Indicators		Result	RAG
The Authorised Limit *The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit under section3(1) of the local government Act 2003.*	**TEST - Is current external borrowing within the approved limit**	**YES**	
The Operational Boundary *The operational boundary represents and estimate of the most likely but not worse case scenario it is only a guide and may be breached temporarily due to variations in cash flow.*	**TEST - Is current external borrowing within the approved limit**	**YES**	
Actual External Debt *It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investment rates compared to the costs of borrowing.*	**TEST - Is the external debt within the Authorised limit and operational boundry**	**YES**	
Gross and Net Debt *The purpose of this indicator is highlight a situation where the Commissioner is planning to borrow in advance of need.*	**TEST - Is the PCC planning to borrow in advance of need**	**NO**	
Maturity Structure of Borrowing *The indicator is designed to exercise control over the Commissioner having large concentrations of fixed rate debt needing to be repaid at any one time.*	**TEST - Does the PCC have large amounts of fixed rate debt requiring repayment at any one time**	**NO**	
Upper Limit for total principal sums invested for over 365 Days *The purpose of this indicator is to ensure that the commissioner has protected himself against the risk of loss arising from the need to seek early redemption of principal sums invested.*	**TEST - Is the value of long term investments witin the approved limit**	**YES**	
Purdential indicators			
Ratio of Financing Costs to Net Revenue Stream *This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meet financing costs*	**TEST - Is the ratio of captial expenditure funded by revenue within planned limits**	**YES**	
Net Borrowing and the Capital Financing Requirement This indicator is to ensure that net borrowing will only be for capital purposes. The commissioner should ensure that the net external borrowing does not exceed the total CFR requirement from the preceding year plus any additional borrowing for the next 2 years.	**TEST - Is net debt less than the capital financing requirement**	**YES**	
Capital Expenditure and Capital financing *The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2019/20*	**TEST - Is the current capital outurn within planned limits**	**YES**	
Capital Financing Requirement *The CFR is a measure of the extent to which the commissioner needs to borrow to support capital expenditure only. It should be noted that at present all borrowing has been met internally.*	**TEST - Is the capital financing requirment within planned limits**	**YES**	