

The Police and Crime Commissioner for Cumbria

Treasury Management Activities 2020/21 as at 31 December 2020 (Quarter 3)

Public Accountability Conference 19 February 2021 and Joint Audit Committee 17 March 2021



Cash flow Balances

Quarterly average daily balance - £22.996m

Investment balance @ 31/12/20 £15.873m 

(down from £20.237m at 30/09/20).



Investment Interest Forecast

Base Budget - £96,491

Revised Budget - £96,491

Current Estimate - £15,000



Borrowing Strategy

No borrowing was undertaken during the quarter ended 31 December 2020 and none is expected during the remainder of 2020/21.

Investment Strategy

Category	Category Limit (£m)	Investments at 31 Dec (£m)	Compliance with Limit
1 - Banks Unsecured	20	0.691	Yes
2 - Banks Secured	20	0.000	Yes
3 - Government (inc LA)	10	8.600	Yes
4 - Registered Providers	10	0.000	Yes
5 - Pooled Funds	15	6.582	Yes
Total		15.873	

There have been no breaches in the approved limits to report during the quarter.

Performance Indicators

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	91	7,818	116,443
Days Overdrawn	1	(720)	(720)

Average interest rate earned 0.02%

Average bank base rate quarter 3 0.10%

(Current bank base rate 0.10%)

Treasury and Prudential Indicators

During the quarter ended 31 December 2020, the treasury function has operated within the treasury and prudential indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices.

Compliance with the prudential and treasury indicators are shown on page 3.

Economic Outlook and Treasury position for the quarter ended 31 December 2020

Economic outlook and Interest Rate Forecasts

The key quarterly meeting of the Bank of England Monetary Policy Committee on 05/11/20 kept Bank Rate unchanged. However, it revised its economic forecasts to take account of a second national lockdown which will have the effect of putting back economic recovery and doing further damage to the economy.

Significantly, there was no mention of negative interest rates in the minutes or Monetary Policy Report. Link Treasury's Interest rate forecasts currently shows no increase, (or decrease), through to quarter 1 2024 but they estimate that there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. Inflation is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short-lived factor and so not a concern.

Vaccination announcements have enormously boosted confidence that life could largely return to normal during the second half of 2021, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. Effective vaccines would radically improve the economic outlook once they have been widely administered.

Strategy Limits

There have been no breaches in the strategy limits during quarter 3.

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	0.00%	499,414	499,414
NatWest (Liquidity Select Acc)	A+	31/12/2020	04/01/2021	O/N	0.01%	192,000	192,000
						691,414	691,414
Category 2 - Banks Secured (Includes Banks & Building Societies)							
						0	0
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
Debt Management Office	Gov	03/11/2020	29/01/2021	29	0.01%	1,600,000	1,600,000
Debt Management Office	Gov	06/11/2020	29/01/2021	29	0.01%	3,000,000	3,000,000
Debt Management Office	Gov	27/11/2020	22/01/2021	22	0.01%	1,000,000	1,000,000
Debt Management Office	Gov	07/12/2020	26/02/2021	57	0.01%	3,000,000	3,000,000
						8,600,000	8,600,000
Category 4 - Registered Providers (Includes Providers of Social Housing)							
None						0	0
						0	0
Category 5 - Pooled Funds (Includes AAA rated Money Market Funds)							
Invesco		Various	On demand	O/N		1,950,000	1,950,000
Fidelity		Various	On demand	O/N		482,005	482,005
BlackRock		Various	On demand	O/N		1,650,000	1,650,000
Goldman Sachs	AAA	Various	On demand	O/N		500,000	500,000
Aberdeen Standard	AAA	Various	On demand	O/N		2,000,000	2,000,000
						6,582,005	6,582,005
Total						15,873,419	15,873,419

In July 2020 the police pension grant was received from the Home Office. Along with the July grant payment the investments reached their highest balance of £30.677m. A large proportion of the pension grant was invested with the Debt Management Office (DMO) of HM Treasury to be returned at regular intervals as cashflow forecasts require. This has almost all been returned and with the DMO rates fluctuating daily (even into negative rates) we will manage the remaining portfolio in MMF's, taking advantage of positive DMO rates where we can to spread our risk.

Treasury and Prudential Indicators 2020/21 at 31 December 2020

Treasury Management Indicators		Result	RAG	Prudential indicators		Result	RAG
The Authorised Limit				Ratio of Financing Costs to Net Revenue Stream			
<i>The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not be sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit under section 3(1) of the Local Government Act 2003.</i>	TEST - Is current external borrowing within the approved limit	YES		<i>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</i>	TEST - Is the ratio of capital expenditure funded by revenue within planned limits	YES	
The Operational Boundary				Net Borrowing and the Capital Financing Requirement			
<i>The operational boundary represents and estimate of the most likely but not worst case scenario it is only a guide and may be breached temporarily due to variations in cash flow.</i>	TEST - Is current external borrowing within the approved limit	YES		<i>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.</i>	TEST - Is net debt less than the capital financing requirement	YES	
Actual External Debt				Capital Expenditure and Capital financing			
<i>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.</i>	TEST - Is the external debt within the Authorised limit and operational boundary	YES		<i>The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2020/21</i>	TEST - Is the current capital outturn within planned limits	YES	
Gross and Net Debt				Capital Financing Requirement			
<i>The purpose of this indicator is to highlight a situation where the Commissioner is planning to borrow in advance of need.</i>	TEST - Is the PCC planning to borrow in advance of need	NO		<i>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.</i>	TEST - Is the capital financing requirement within planned limits	YES	
Maturity Structure of Borrowing							
<i>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.</i>	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							
<i>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.</i>	TEST - Is the value of long term investments within the approved limit	YES					

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that regular reports are presented with regards to treasury management activities. This quarterly report ensures the Police and Crime Commissioner is implementing best practice in accordance with the Code.