

The Police and Crime Commissioner for Cumbria

Treasury Management Activities 2022/23 for the period 01 April 2022 to 30 June 2022

Public Accountability Conference 02 August 2022 and Joint Audit Committee 21 September 2022



Cash flow Balances

Quarter 1 average daily balance - £10.361m
 Investment balance @ 30/06/22 £5.224m
 (Down 60% from £13.173m at 31/03/22).



Investment Interest Forecast

Base Budget - £10,000
 Revised Budget - £10,000
 Current Estimate - £170,000



Borrowing Strategy

During 2021/22 the scheme to purchase the dog kennels at Wreay was approved. The scheme was estimated to cost £1.5m for the purchase and refurbishment. During 2021/22 £1.133m was borrowed (internally) and in 2022/23 it is expected that £0.367m will be borrowed (internally) to complete the scheme of works.

Investment Strategy

Category	Category Limit (£m)	Investments at 31 Mar (£m)	Compliance with Limit
1 - Banks Unsecured	20	0.524	Yes
2 - Banks Secured	20	0.000	Yes
3 - Government (inc LA)	10	0.000	Yes
4 - Registered Providers	10	0.000	Yes
5 - Pooled Funds	15	4.700	Yes
Total		5.224	

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

Performance Indicators

	Number of Days	Average Balance (£)	Largest Balance (£)
Quarter 1			
Days In Credit	91	65,656	362,306
Days Overdrawn	0	0	0

Average interest rate earned - 0.73%
 Average base rate - 0.94%
 (Current bank base rate – 1.25%)

Treasury and Prudential Indicators

During the period 01 April 2022 and 30 June 2022, 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 30 June 2022

Following the 0.1% month on month fall in GDP in March and the 0.3% month on month contraction in April, the economy is now moving towards a recession (two quarters of falling output in a row). That said, without the joint wind down of the COVID-19 Test and Trace and vaccination programme, GDP would have risen by 0.2% m/m and 0.1% m/m in March and April respectively. That's hardly strong, but it suggests the underlying momentum is not quite as weak as the headline figures imply.

CPI inflation rose from 9.0% in April to a new 40-year high of 9.1% in May and it is not yet close to its peak. The increase in CPI inflation in May was mainly due to a further leap in food price inflation from 6.7% to a 13-year high of 8.5%. With the influence of increases in agricultural commodity prices yet to fully feed into prices on the supermarket shelves, food price inflation could rise above 10% in September. Two-thirds of the observation period for the Ofgem price cap having now passed, something like a 40% rise in utility prices is pretty in line for October. The further rise in core producer price inflation, from 13.9% to 14.8%, suggests that core goods CPI inflation will probably rise to 14% before long. CPI inflation to a peak of around 10.5% in October. Latest figures released for June 2022 show CPI inflation has again risen to 9.4%.

The MPC has now increased interest rates five times in as many meetings and raised rates to their highest level since the Global Financial Crisis. The US Federal Reserve raised rates by 75 basis points (bps) in June and a handful of other central banks have recently raised rates by 50bps, the Bank of England's action is relatively dovish in comparison. The MPC's decision not to follow the Fed and raise rates by more makes some sense. The UK's status as a larger importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

The MPC's new guidance is that if there are signs of "more persistent inflationary pressures" it will, "if necessary act forcefully in response". Link, the treasury advisers to the PCC, expect the MPC to continue to raise rates in steps of 25bps rather than 50bps and predict the MPC will raise rates from 1.25% now to a peak of 2.75% next year. That's higher than the peak of 2.00% forecast by economists, but lower than the peak (3.5%) priced into the financial markets.

Base Rate Estimates	2022/23	2023/24	2024/25
Quarter 1	1.75	2.75	2.25
Quarter 2	2.25	2.75	2.25
Quarter 3	2.75	2.50	2.25
Quarter 4	2.75	2.50	2.25

Investments in place on 30 June 2022

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	0.05%	499,920	499,920
NatWest (Liquidity Select Acc)	A+	30/06/2022	01/07/2022	O/N	0.01%	24,000	24,000
						523,920	523,920
Category 2 - Banks Secured (Includes Banks & Building Societies)							
						0	0
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
						0	0
Category 4 - Registered Providers (Includes Providers of Social Housing)							
None						0	0
Category 5 - Pooled Funds (Includes AAA rated Money Market Funds)							
Invesco	AAA	Various	On demand	O/N	0.355%	2,000,000	2,000,000
BlackRock	AAA	Various	On demand	O/N	0.158%	0	0
Fidelity	AAA	Various	On demand	O/N	0.397%	0	0
Goldman Sachs	AAA	Various	On demand	O/N	0.443%	2,500,000	2,500,000
Aberdeen Standard	AAA	Various	On demand	O/N	0.381%	200,000	200,000
						4,700,000	4,700,000
Total						5,223,920	5,223,920

On the 30th June the available cash for investment was at its lowest. This is the same every year as a result of the timing of the Police Pension Grant from the Home office. In July 2022 grant of £19.85m was received and is largely in advance and will be drawn down over the remainder of the year. Along with the July grant payment, the investments reached their highest balance of £30.97m. A large proportion of this balance was split between the Debt Management Office (DMO) of HM Treasury, Treasury Bills, Certificates of Deposit and Fixed Term Investments to be returned at regular intervals as cashflow forecasts require, with the remainder being managed through the

Borrowing position for the quarter ended 30 June 2022

At the 30th June 2022 there were no loans outstanding. Both Local Authority loans taken out at the end of March to cover short term liquidity were repaid by the 14th of April.

Treasury and Prudential Indicators 2022/23 at 30 June 2022

Treasury Management Indicators		Result	RAG	Prudential indicators		Result	RAG
<p>The Authorised Limit</p> <p><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></p>	TEST - Is current external borrowing within the approved limit	YES	●	<p>Ratio of Financing Costs to Net Revenue Stream</p> <p><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></p>	TEST - Is the ratio of capital expenditure funded by revenue within planned limits	YES	●
<p>The Operational Boundary</p> <p><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></p>	TEST - Is current external borrowing within the approved limit	YES	●	<p>Net Borrowing and the Capital Financing Requirement</p> <p><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></p>	TEST - Is net debt less than the capital financing requirement	YES	●
<p>Actual External Debt</p> <p><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></p>	TEST - Is the external debt within the Authorised limit and operational boundry	YES	●	<p>Capital Expenditure and Capital financing</p> <p><i>The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2022/23</i></p>	TEST - Is the current capital outturn within planned limits	YES	●
<p>Gross and Net Debt</p> <p><i>The purpose of this indicator is to highlight a situation where the Commissioner is planning to borrow in advance of need.</i></p>	TEST - Is the PCC planning to borrow in advance of need	NO	●	<p>Capital Financing Requirement</p> <p><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></p>	TEST - Is the capital financing requirement within planned limits	YES	●
<p>Maturity Structure of Borrowing</p> <p><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></p>	TEST - Does the PCC have large amounts of fixed rate debt requiring repayment at any one time	NO	●				
<p>Upper Limit for total principal sums invested for over 365 Days</p> <p><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></p>	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 half yearly report ensures the Police and Crime Commissioner is implementing best practice in accordance with the Code.