The Police and Crime Commissioner for Cumbria

Treasury Management Activities 2022/23 for the period 01 July 2022 to 30 September 2022

Public Accountability Conference 02 November 2022 and Joint Audit Committee 23 November 2022

Cash flow Balances

Quarter 2 average daily balance - £26.566m

Investment balance @ 30/09/22 £22.033m

(Up 322% from £5.224m at 30/06/22).

Investment Interest Forecast

Base Budget - £10,000

Revised Budget - £10,000

Current Estimate - £300,000

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 30 Sep (£m)	Compliance with Limit
1 - Banks Unsecured	20	8.511	Yes
2 - Banks Secured	20	0.000	Yes
3 - Government (inc LA)	10	7.622	Yes
4 - Registered Providers	10	0.000	Yes
5 - Pooled Funds	15	5.900	Yes
Total		**22.033**	

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

Performance Indicators

Quarter 2	Number of Days	Average Balance £	Largest Balance £
Days In Credit	92	58,457	296,828
Days Overdrawn	0	0	0

Average interest rate earned – 1.50%

Average bank base rate – 1.61%

(Current bank base rate – 2.25%)

Treasury and Prudential Indicators

During the period 01 July 2022 and 30 September 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 September 2022

GDP fell 0.3% month on month in August. This was worse than expected and was driven by a fall in the retail and hospitality sectors. GDP is expected to have fallen by 0.5% in September. It is predicted that the UK economy will be in recession for the remainder of 2022.

CPI inflation rose from 9.9% in August to 10.1% in September returning to July's recent high, driven by a further increase in food inflation from 13.4% to 14.8%. However, global agricultural commodity prices are now falling so CPI food inflation may soon start to ease. Fuel inflation has reduced 32.1% to 26.5%, indicating that petrol prices may have peaked. However, inflation is rising in other sectors: core goods inflation rebounded from 6.6% to 7.0% and services inflation climbed from 5.9% to a new cycle high of 6.1%. CPI inflation has not yet peaked. The increase in utility bills in October could push inflation to 10.5% and a further increase in the spring may take inflation close to 11% by April. Inflation is forecast to reduce during 2023, average inflation for 2023 is currently forecast at 9%.

The MPC has now increased interest rates seven times in as many meetings with the second 50bps raise in a row taking rates to a 14 year high of 2.25%. Interest rates are expected to be increased more aggressively over the coming months as the Bank of England continues in its efforts to squeeze inflation out of the economy.

The MPC has confirmed that it would do everything necessary to ensure headline inflation, on the CPI measure, drops back to 2% over a three-year timeframe. Link, the treasury advisers to the PCC, have revised their interest forecast and predict the MPC will raise rates by 100bps in November and a further 75bps in December, taking the current rate from 2.25% to 4% by the end of the year. Rates are predicted to peak at 5% in the spring and only start to reduce to 4.5% at the end of 2023. This is in line with the peak forecast by economists, but lower than the peak (5.5% - 5.75%) priced into the financial markets.

Base Rate Estimates	2022/23	2023/24	2024/25
Quarter 1	1.75	5.00	3.75
Quarter 2	2.25	5.00	3.25
Quarter 3	4.00	4.50	3.00
Quarter 4	5.00	4.00	2.75

Investments in place on 30 September 2022

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)	Counterparty Total (£)
Category 1 - Banks Unsecured (Includes Banks & Building Societies)							
Nationwide BS	A	05/07/2022	04/10/2022	4	1.41%	2,000,000	2,000,000
Heleba	A+	05/07/2022	04/10/2022	4	1.59%	2,000,000	2,000,000
Lloyds CD	A+	06/07/2022	07/11/2022	38	1.75%	2,000,000	2,000,000
Santander CD	A+	11/07/2022	25/11/2022	56	1.93%	2,000,000	2,000,000
Svenska (Deposit Acc)	AA	Various	On Demand	N/A	0.60%	500,676	500,676
NatWest (Liquidity Select Acc)	A+	30/09/2022	03/10/2022	O/N	0.30%	10,000	10,000
						8,510,676	**8,510,676**
Category 2 - Banks Secured (Includes Banks & Building Societies)							
None							0
						0	**0**
Category 3 - Government (Includes HM Treasury and Other Local Authorities)							
Treasury Bills	Gov	04/07/2022	03/10/2022	3	1.290%	1,993,588	1,993,588
Treasury Bills	Gov	11/07/2022	10/10/2022	10	1.390%	1,993,093	1,993,093
Treasury Bills	Gov	01/08/2022	30/01/2023	122	2.060%	1,635,204	1,635,204
Debt Management Office	Gov	07/09/2022	31/10/2022	31	1.940%	2,000,000	2,000,000
						7,621,885	**7,621,885**
Category 4 - Registered Providers (Includes Providers of Social Housing)							
None							0
						0	**0**
Category 5 - Pooled Funds (Includes AAA rated Money Market Funds)							
Invesco	AAA	Various	On demand	O/N	1.811%	1,000,000	1,000,000
Fidelity	AAA	Various	On demand	O/N	1.758%	1,400,000	1,400,000
Aberdeen Standard	AAA	Various	On demand	O/N	1.880%	3,500,000	3,500,000
						5,900,000	**5,900,000**
Total						**22,032,561**	**22,032,561**

On 5th July 2022 the police pension 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 (60%) 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 (40%) being managed through the money market funds.

Borrowing position for the quarter ended 30 September 2022

At 30th September 2022 there were no loans outstanding.

Treasury and Prudential Indicators 2022/23 at 30 September 2022

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	Green
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	Green
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	Green
Gross and Net Debt *The purpose of this indicator is to 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	Green
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	Green
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	Green

Prudential indicators		Result	RAG
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	Green
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	Green
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 2022/23*	**TEST - Is the current capital outurn within planned limits**	YES	Green
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	Green

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.