The Police and Crime Commissioner for Cumbria

Treasury Management Activities 2022/23 for the period 01 October 2022 to 31 December 2022

Public Accountability Conference 16 February 2023 and Joint Audit Committee 22 March 2023

Cash flow Balances

Quarter 3 average daily balance - £23.856m

Investment balance @ 31/12/22 £17.744m

(Down 20% from £22.033m at 30/09/22)

Investment Interest Forecast

Base Budget - £10,000

Revised Budget - £10,000

Current Estimate - £380,000

Borrowing Strategy

The budget for 2023/24 includes a decision that borrowing of £3m will be undertaken in 2022/23 to replace planned revenue contributions. This will release funds to balance the budget in 2023/24. As this decision is subject to formal approval of the budget, its impact is not reflected in this report.

Investment Strategy

Category	Category Limit (£m)	Investments at 31 Dec (£m)	Compliance with Limit
1 - Banks Unsecured	20	7.511	Yes
2 - Banks Secured	20	0.000	Yes
3 - Government (inc LA)	10	6.613	Yes
4 - Registered Providers	10	0.000	Yes
5 - Pooled Funds	15	3.620	Yes
Total		**17.744**	

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

Performance Indicators

Quarter 3	Number of Days	Average Balance £	Largest Balance £
Days In Credit	63	65,982	409,008
Days Overdrawn	0	0	0

Average interest rate earned – 2.54%

Average bank base rate – 2.81%

(Current bank base rate – 4.00%)

Treasury and Prudential Indicators

During the period 01 October 2022 and 31 December 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 31 December 2022

GDP grew by 0.1% month on month in November. This was better than expected and was driven by growth in the services sector, with suggestions that there was a positive boost from the World Cup. It is now predicted that the UK economy will be in recession for all of 2023.

CPI inflation fell slightly from 10.7% in November to 10.5% in December. Fuel inflation has fallen dramatically from 17.2% in November to 11.5% in December and may fall to 0% in the coming months. Other sectors which saw downward pressure were clothing and footwear, and recreation and culture. However, these were offset by increases in prices for hotels and restaurants, and food and drink. CPI inflation may have peaked. Inflation is forecast to reduce during 2023, average CPI inflation for 2023 is currently forecast at 7%.

The MPC has increased the Bank Rate 375bps over the past twelve months taking rates to a 14 year high of 4.00% on 2nd February 2023. Further increases are likely in the coming months, with the rate expected to peak in the summer. The Bank of England will continue its efforts to squeeze inflation out of the economy but it is thought that a reduction by the end of the year may be possible.

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 increase the Bank Rate in Quarters 1 and 2 of 2023 to combat ongoing inflationary and wage pressures. Link's view is that the Bank Rate will peak at 4.5% and only start to reduce to 4.25% in the final quarter of 2023. This is in line with the peak forecast by economists, but higher than current market pricing of a peak of 4.25%.

Base Rate Estimates	2022/23	2023/24	2024/25
Quarter 1	1.25	4.50	3.75
Quarter 2	2.25	4.50	3.25
Quarter 3	3.50	4.25	3.00
Quarter 4	4.25	4.00	2.75

Investments in place on 31 December 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	04/10/2022	03/01/2023	95	2.69%	2,000,000	2,000,000
Svenska Handelsbanken	AA	07/11/2022	07/03/2023	158	3.05%	1,000,000	1,000,000
Lloyds CD	A+	07/11/2022	14/02/2023	137	3.45%	2,000,000	2,000,000
Santander CD	A+	25/11/2022	31/03/2023	182	3.58%	2,000,000	2,000,000
Svenska Handelsbanken (Deposit Acc	AA	Various	On Demand	N/A	1.70%	501,426	501,426
NatWest (Liquidity Select Acc)	A+	31/12/2022	03/01/2023	O/N	0.80%	10,000	10,000
						7,511,426	**7,511,426**
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	01/08/2022	30/01/2023	122	2.060%	1,635,204	1,635,204
Treasury Bills	Gov	07/11/2022	27/03/2023	178	2.955%	1,977,585	1,977,585
Debt Management Office	Gov	07/11/2022	28/02/2023	151	3.040%	2,000,000	2,000,000
Debt Management Office	Gov	07/12/2022	31/01/2023	123	3.100%	1,000,000	1,000,000
						6,612,789	**6,612,789**
Category 4 - Registered Providers (Includes Providers of Social Housing)							
None							0
						0	**0**
Category 5 - Pooled Funds (Includes AAA rated Money Market Funds)							
Fidelity	AAA	Various	On demand	O/N	3.131%	2,950,000	2,950,000
Aberdeen Standard	AAA	Various	On demand	O/N	3.640%	670,000	670,000
						3,620,000	**3,620,000**
Total						**17,744,215**	**17,744,215**

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 31 December 2022

At 31st December 2022 there were no loans outstanding.

Treasury and Prudential Indicators 2022/23 at 31 December 2022

Treasury Management Indicators

Indicator	Test	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 be sustainable. It is the expected maximum borrowing needed 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 an 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 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	
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	

Prudential indicators

Indicator	Test	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 capital 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 2022/23.*	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	

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.