# Treasury Management Activities 2021/22 Quarter 4 (January to March 2022) and Annual Report 2021/22

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## Public Accountability Conference 23 June and JAC Meeting 22 June 2022

## 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 2022, 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

The first three months in 2022 saw:

•**A 0.8% month on month rise in GDP in January which more than reversed December's Omicron-induced 0.2% month on month fall.** The Chancellor announced some support for households in his Spring Fiscal Statement in March, in the form of tax cuts (reducing fuel duty by 5p a litre and increasing the threshold for employees paying National Insurance by £3,000). Despite the downward revision to the Office for Budget Responsibility's (OBR) real GDP growth forecast for this year and for next year the forecasts still improved and gave the Chancellor a windfall of about £20bn. The package will help to offset about half the blow to household finances from higher energy and food bills but the expected 'squeeze' on households' living standards will be the biggest for over 50 years.

•**A further rise in CPI inflation to a new 30-year high of 6.2% in February.** CPI inflation is expected to have peaked at 9% in April and is forecast to stay above 7.0% for most of 2022 and above 3.0% for most of 2023. The scheduled 54% rise in utility prices on 1st April will have added an extra 1.4ppts to CPI inflation in April. The surge in agricultural commodity prices triggered by the war in Ukraine means that food price inflation is expected to soon climb above 6%.

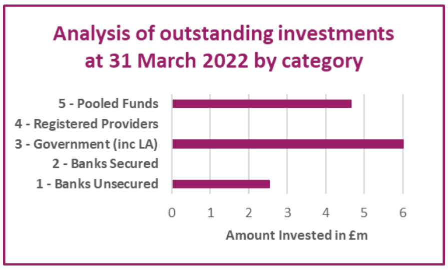
•**Bank Rate rising by 50bps, taking Bank Rate to the pre-virus and post-Global Financial Crisis high of 0.75%.** After the Bank of England became the first major western central bank to put interest rates up in this upswing in December, it has quickly followed up its first 0.15% rise by a further two 0.25% rises to 0.75%, in what is very likely to be a series of increases during 2022.

## 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 2022 the total value of investments was **£13.173m** 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 £13.173m is provided at **Appendix A**.

**Investment Activity:** During quarter 4 a total of 7 investments with a combined value of £13.3m 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 2021/22 was set at £10k based on the interest rate predictions at the time. The budget forecast was revised to £2k in quarter 2 and remained at this level for quarter 3. The actual income achieved against this target was £9k as the market rates rose slowly during quarter 4 in response to the 3 base rate rises, resulting in a rate of 0.75% from 17 March 2022.

The average return on investment during quarter 4 was 0.18%. As a measure of investment performance, the rate achieved on maturing investments of over 3 months in duration would normally be compared with the average BOE base rate for the period of the investment.

However, during the fourth quarter of 2021/22 there were no investments maturing that had been placed for a duration of 3 months or longer.

Interest rates were predicted to rise throughout the quarter and therefore investment durations were kept short to allow the flexibility take advantage of the higher returns as rate increases feed into the market rates. The majority of fixed term investments in quarter 4 were placed with the Debt Management Office (HM Treasury) as the most secure option but this yielded a low return of between 0.09% and 0.5%.

**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 | 91 | 60,124 | 408,898 |
| Days Overdrawn | 0 | 0 | 0 |

There were a number of occasions where the bank balance exceeded the target balance of £7.5k as the practice of sweeping smaller balances daily into the liquidity select account was halted in August 2021. The time taken to perform and verify the transfers outweighed the lost interest from holding higher balances in the main fund. Both the main fund and liquidity select account are held at the Commissioners main bank (the NatWest) so there was no change to the risk profile.

There were no instances in the fourth quarter where the account was overdrawn.

**Loan Activity:** For the first time the Commissioners cash balances towards year end were insufficient to meet its immediate obligations.

A combination of long-term investments, larger than predicted payment runs and large lump sum retirement payments at year end meant that the Commissioner had to access the short-term local authority borrowing market. Full details of the loans for financial year 2021/22 can be found in **Appendix B**. The loans were fully repaid early in April 2022.

## 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 2021/22 is provided at **Appendix C**. The analysis confirms that the Prudential Indicators set for 2021/22 have all been complied with.

# Annual Report on Treasury Management Operations 2021/22

**Treasury Strategy:** In February 2021 the Commissioner approved the 2021/22 Treasury Management Strategy Statement (TMSS). The TMSS incorporated the investment and borrowing strategies for the 2021/22 financial year. The investment strategy approved for 2021/22 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 2021/22 amounted to £21.603m (including £4.403m relating to the PFI agreement for West Cumbria TPA HQ in Workington) leaving a £17.200m 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 2021/22 is £22.107m, of which £4.197m relates to the PFI thereby leaving a £17.910m exposure to the requirement to undertake external borrowing at some point.

During 2021/22 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 2021/22, 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 3.33% for 20 years fixed rate and the rate of 1.93% available as when such funding was invested for 1 year), as this would have had an adverse effect on the revenue budget for the year and the immediate outlook period.

The provision of treasury management advice services is through a contract with Link Asset Services Ltd.

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 2021/22 was **123** (247 in 2020/21).

Value of investments placed during 2021/22 was **£133.937m** (£131.852m in 2020/21).

Of these investments made, 75 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 2021/22 was **£19.661m** (£18.56m in 2020/21).

The **highest** daily investment balance in 2021/22 was **£34.171m** (£30.08m in 2020/21)

The **lowest** daily investment balance in 2021/22 was **£5.873m** (£4.24m in 2020/21).

A detailed breakdown of the closing balance invested as at 31 March 2022 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-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | Sep-21 | Oct-21 | Nov-21 | Dec-21 | Jan-22 | Feb-22 | Mar-22 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2021-22 | 13.39 | 9.44 | 11.13 | 27.65 | 29.80 | 26.96 | 24.19 | 23.42 | 19.81 | 18.17 | 16.42 | 15.12 |
| 2020-21 | 10.49 | 8.34 | 9.47 | 26.09 | 25.57 | 25.31 | 23.90 | 23.00 | 20.15 | 17.87 | 16.44 | 15.69 |

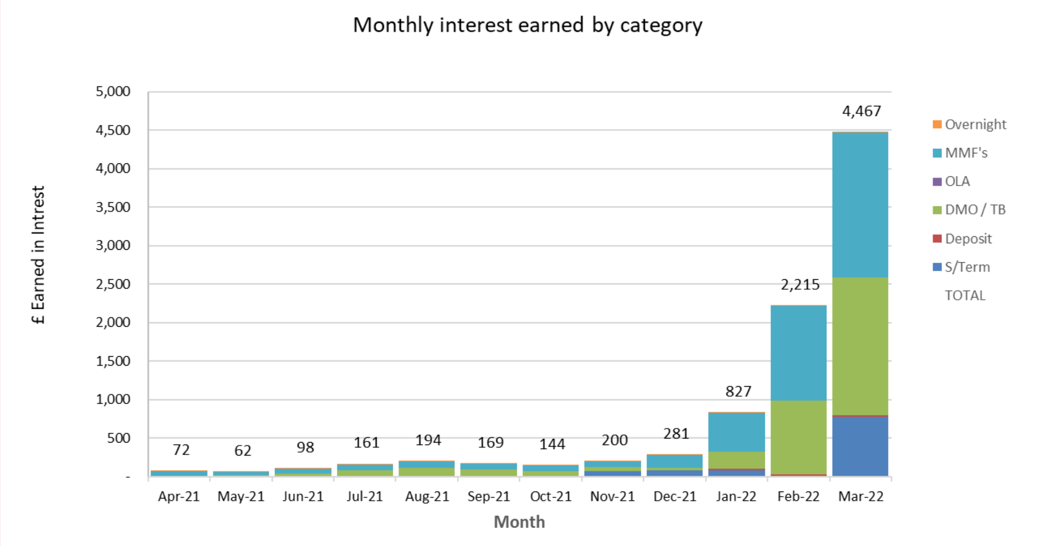
Month

This chart illustrates the monthly average amounts invested during 2021/22 (with monthly comparatives for 2020/21).

## Key Statistics

### Interest:

A total of £9k was earned in 2021/22 (£15k in 2020/21) from the Commissioner's treasury management activities and can be broken down as follows:




This chart illustrates the monthly Interest receipts during 2021/22 – by category of investment

The average return on investments for 2021/22 was 0.05% (0.08% in 2020/21). The base rate started the year at 0.1% and was increased 3 times towards the end of the financial year as follows:

| Base Rate Changes | | |
|---|---|---|
| **Date** | **INC/(DEC)** | **Rate** |
| 17/03/2022 | 0.25% | 0.75% |
| 03/02/2022 | 0.25% | 0.50% |
| 16/12/2021 | 0.15% | 0.25% |
| 01/04/2021 | | 0.10% |

The table above shows the outturn on investment interest as £9k for 2021/22 which is £1k below the base budget of £10k. The base budget was set during the global pandemic when interest rates were at their lowest (even negative in some cases) and fluctuating on a daily basis. Up to and including the quarter 3 report it was expected that interest receipts would be around £2k and only in the last quarter after the base rate increases filtered into market rates did the interest received rise above the estimate.

Whilst trying to find secure investments for the Commissioners surplus's there were unfortunately two occasions when investments with the Debt Management Office received no interest and one occasion where the rate was negative -0.01%, costing the Commissioner £42.

The interest rates are predicted to rise again so despite the rate increases in quarter 4 the investments have been kept to shorter durations to allow us to take advantage.

## Treasury Operations - Investments:

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.

From August 2021 the process of transferring smaller balances to/from the NatWest Liquidity Select account each day was suspended and instead those balances were retained in the Commissioners main fund also at NatWest. The administration behind those smaller transfers outweighed the interest that was being earned. As both accounts are held with NatWest there is no change to security of the funds. The general pattern of the weekly cashflow is that the balance in the bank account builds slightly throughout the week before reducing on a Friday when the supplier payment run leaves the bank meaning that minimal funds are left in the account over the weekend. When analysing the cash flow balances for 1 August to 31 March 22 there potentially could have made an extra £3 in interest earned by not changing practices, but we have saved approximately £540 in staff time (assuming a conservative 15 mins per day). Although in cashable terms this is small the non-cashable benefits to the finance team are much greater.

Actual un-invested balances for 2021/22 for the Commissioner's main bank account are summarised in the table below:

| 2021/22 | Number of Days | Average Balance £ | Largest Balance £ |
|---|---|---|---|
| Days In Credit | 365 | 35,057 | 408,898 |
| Days Overdrawn | 0 | 0 | 0 |

The largest credit balance occurred during quarter 4, occurring during the week commencing 17th January 2022. This was as a result of a number of receipts but mainly the VAT return receipt of £235k and a large payment of £90k from another Police Commissioner in respect of invoices owed.

The new process of leaving higher balances in the main fund means that the Commissioner's account was never overdrawn during 2021/22. The faster cheque clearing regime that made it difficult to predict if cheques would clear on the same day or they will clear in one day or two is no longer a problem as we have the funds available.

## Treasury Operations – Borrowing:

During quarter 4 the Commissioner utilised the existing arrangements of Local Authority to Local Authority borrowing to meet a short term cashflow shortfall.

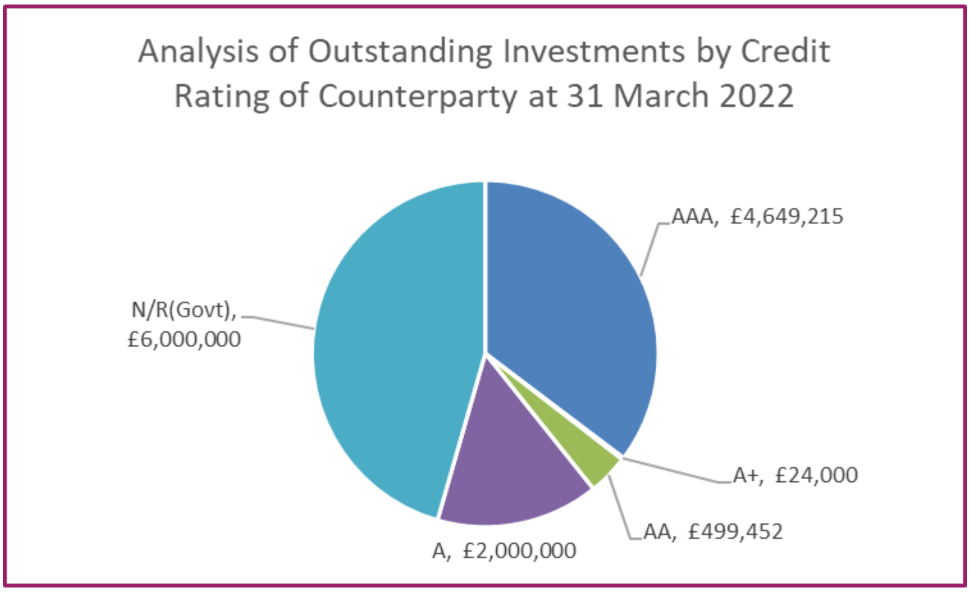
As demonstrated in the graph on page 5 it is normal to see the cash balances fall towards the financial year. The remaining cash was invested in fixed duration deposits and liquid money market funds. The weekly creditor payment processes towards the end of the financial year were larger than the weekly average coupled with a few police pension retirement lump sums failing due which led to the short term cashflow deficit. Full details of the loans can be found in **Appendix B.**

## Compliance with Prudential Indicators

All treasury related Prudential Indicators for 2021/22, which were set in February 2021 as part of the annual Statement of Treasury Management Strategy, have been complied with. Further details can be found at **Appendix C**.

# Appendix A
## Investment Balance at 31 March 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% | 499,452 | 499,452 |
| Nationwide | A | 07/03/2022 | 31/05/2022 | O/N | 0.59% | 2,000,000 | 2,000,000 |
| NatWest (Liquidity Select Acc) | A+ | 31/03/2022 | 01/04/2022 | O/N | 0.01% | 24,000 | 24,000 |
| | | | | | | **2,523,452** | **2,523,452** |
| **Category 2 - Banks Secured (Includes Banks & Building Societies)** | | | | | | | |
| | | | | | | | |
| | | | | | | **0** | **0** |
| **Category 3 - Government (Includes HM Treasury and Other Local Authorities)** | | | | | | | |
| Debt Management Office | Gov | 10/01/2022 | 22/04/2022 | 22 | 0.110% | 2,000,000 | 2,000,000 |
| Debt Management Office | Gov | 25/02/2022 | 29/04/2022 | 29 | 0.440% | 2,000,000 | 2,000,000 |
| Debt Management Office | Gov | 07/03/2022 | 20/05/2022 | 50 | 0.540% | 2,000,000 | 2,000,000 |
| | | | | | | | |
| | | | | | | | 0 |
| | | | | | | **6,000,000** | **6,000,000** |
| **Category 4 -Registered Providers (Includes Providers of Social Housing)** | | | | | | | |
| None | | | | | | 0 | 0 |
| | | | | | | **0** | **0** |
| **Category 5 -Pooled Funds (Includes AAA rated Money Market Funds)** | | | | | | | |
| Invesco | AAA | Various | On demand | O/N | 0.355% | 280,000 | 280,000 |
| BlackRock | AAA | Various | On demand | O/N | 0.158% | 0 | 0 |
| Fidelity | AAA | Various | On demand | O/N | 0.397% | 1,749,215 | 1,749,215 |
| Goldman Sachs | AAA | Various | On demand | O/N | 0.443% | 1,620,000 | 1,620,000 |
| Aberdeen Standard | AAA | Various | On demand | O/N | 0.381% | 1,000,000 | 1,000,000 |
| | | | | | | | |
| | | | | | | **4,649,215** | **4,649,215** |
| | | | | | | | |
| **Total** | | | | | | **13,172,667** | **13,172,667** |




Note – The credit ratings in the table & chart relate to the standing as at 31 March 2022, these ratings are constantly subject to change.

# Appendix B
## Loans Outstanding at 31 March 2022

| Loan Institution | Broker | Borrowing Date | Repayment Date | Days to Repayment | Rate (%) | Interest Amount (£) | Broker Fee (£) | Counterparty Total (£) |
|---|---|---|---|---|---|---|---|---|
| **Category 3 - Government (Includes HM Treasury and Other Local Authorities)** | | | | | | | | |
| Blaenau Gwent County Borough | King and Shaxson | 29/03/2022 | 14/04/2022 | 14 | 0.62% | 815 | 53 | 3,000,000 |
| South Somerset District Council | Arlingclose - iDealTrade | 30/03/2022 | 11/04/2022 | 11 | 0.61% | 602 | 30 | 3,000,000 |
| | | | | | | | | |
| **Total** | | | | | | **1,417** | **82** | **6,000,000** |

# Appendix C
# Prudential Indicators 2021/22

| Treasury Management Indicators | | Result | RAG |
|---|---|---|---|
| **The Authorised Limit**<br>*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**<br>*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**<br>*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**<br>*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**<br>*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**<br>*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 | | Result | RAG |
|---|---|---|---|
| **Ratio of Financing Costs to Net Revenue Stream**<br>*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**<br>*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**<br>*The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2021/22* | **TEST - Is the current capital outurn within planned limits** | **YES** | |
| **Capital Financing Requirement**<br>*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** | |