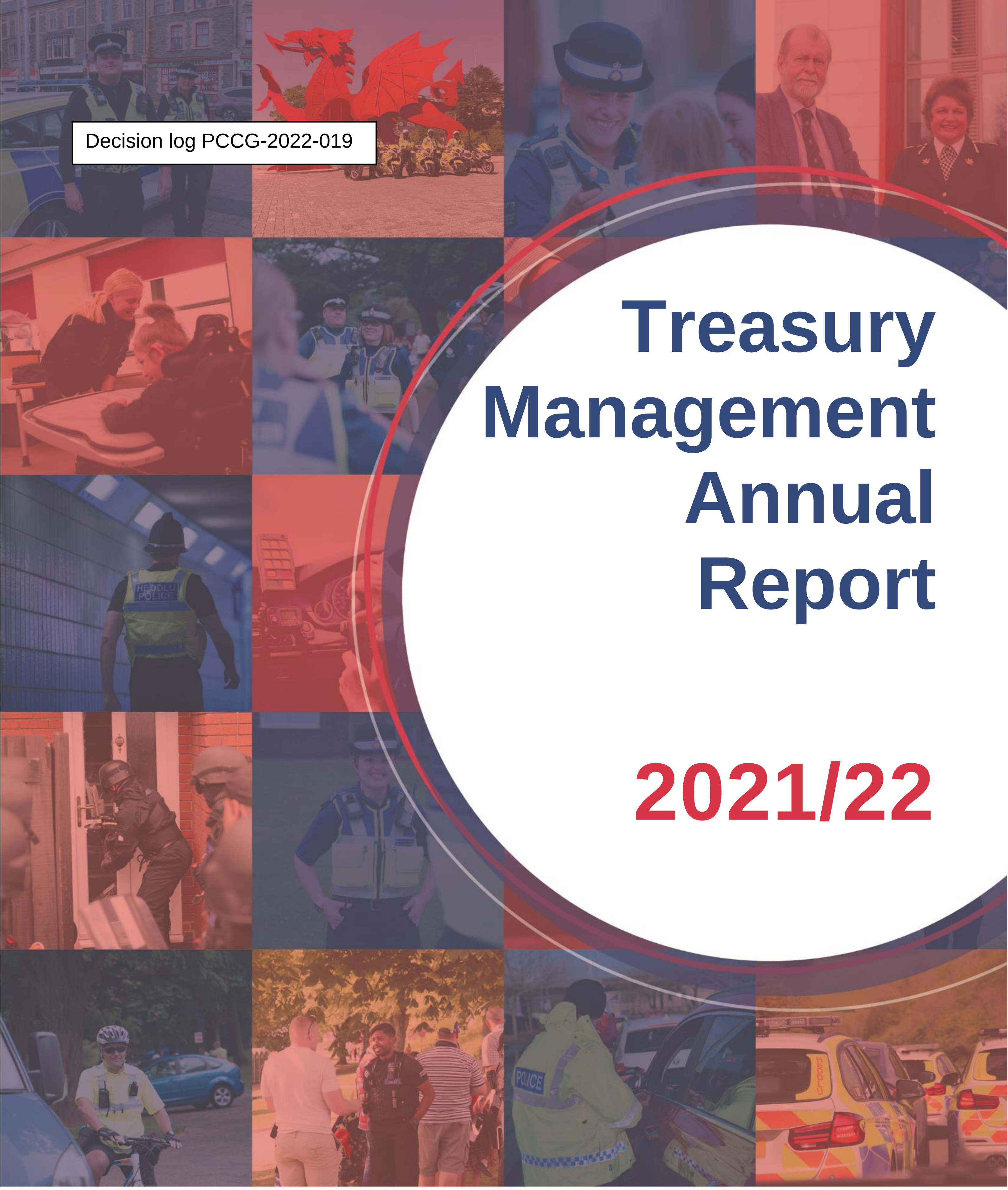
Decision log PCCG-2022-019



Treasury Management Annual Report

2021/22

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GWENT
POLICE AND CRIME COMMISSIONER

9th June 2022

OFFICE OF THE POLICE & CRIME COMMISSIONER **OFFICE OF THE CHIEF CONSTABLE**	
TITLE:	**Treasury Management Annual Report 2021/22**
DATE:	**9th June 2022**
TIMING:	**Routine**
PURPOSE:	**For consideration**

1.	**RECOMMENDATION**
1.1	That the Annual Treasury Management Activity Report and actual Prudential Indicators for 2021/22 are approved.
2.	**INTRODUCTION & BACKGROUND**
2.1	Treasury Management is the management of cash flows, banking, money market and capital market transactions and the management of the associated risks, in the pursuit of the optimum performance or return consistent with those risks.
2.2	The Treasury Management Annual Report is a requirement of the Police and Crime Commissioner's (PCC's) statutory reporting responsibilities.
2.3	The report meets the requirements of both the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The PCC is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
2.4	The report covers both Treasury Management activity during 2021/22 and the actual Prudential Indicators for 2021/22.
2.5	During 2021/22 the minimum reporting requirements were that the PCC received an annual treasury management strategy in advance of the year, a mid-year update report and an annual report following the year end, describing the actual performance or activity compared to the annual strategy.
3.	**ISSUES FOR CONSIDERATION**
3.1	**Capital Expenditure and Financing**
3.1.1	During each financial year the PCC incurs expenditure on acquiring and enhancing land, buildings, vehicles and other long-term assets. These activities are known as capital expenditure. Such expenditure may either be:

a) Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on borrowing need; or

b) If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

3.1.2 Actual capital expenditure forms one of the required Prudential Indicators. The table below shows capital expenditure in the respective years and how this was financed. The 2021/22 Estimate of Capital expenditure is as per the Treasury Management Strategy for 2021/22.

	2020/21 Actual £m	2021/22 Estimate £m	2021/22 Actual £m
Capital Expenditure	15.969	18.655	17.285
Financed by:			
Capital Receipts	0.000	0.500	2.498
Capital Grants and PIF Grants	0.121	0.120	0.120
Reserves	8.951	13.399	7.288
Revenue	6.897	4.636	7.379
Unfinanced Capital Expenditure	0	0	0

3.2 Borrowing Requirement

3.2.1 The PCC's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the PCC's debt position. It represents 2021/22 and any prior years' capital expenditure which has not yet been financed by revenue or other resources.

3.2.2 Part of the PCC's treasury activity is to address this borrowing need, either through borrowing from external bodies, or utilising temporary internal cash resources.

3.2.3 Under treasury management arrangements, actual debt can be borrowed or repaid at any time within the confines of the annual Treasury Management Strategy. However, the PCC is required to make an annual revenue charge to reduce the CFR. This statutory revenue charge is called the Minimum Revenue Provision (MRP). The total CFR can also be reduced by:

a) The application of additional capital resources; or

b) Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

3.2.4 The PCC's CFR for the year is shown below and represents a key prudential indicator.

	2020/21 Actual £m	2021/22 Estimate £m	2021/22 Actual £m
Capital Financing Requirement	0	0	0

3.3 Treasury Position

3.3.1 Whilst the PCC's gauge of his underlying need to borrow is the CFR, the Chief Finance Officer for the PCC can manage the actual borrowing position by either:

a) Borrowing to the CFR amount;

b) Choosing to utilise some temporary internal cash flow funds in lieu of borrowing (under-borrowing); or

c) Borrowing for potential future increases in the CFR (borrowing in advance of need).

3.3.2 The figures in this report are based on the carrying amounts borrowed and invested and therefore reflect those figures disclosed in the Statement of Accounts.

3.3.3 The treasury position at the 31st March 2022 compared with previous year comparators was:

	31st March 2021		31st March 2022	
	Principal £m	Average Interest Rate %	Principal £m	Average Interest Rate %
Actual Borrowing Position				
Fixed Rate Debt	0	0	0	0
Variable Rate Debt	0	0	0	0
Total Debt	0	0	0	0
Underlying Borrowing Requirement (excl. PFI)	0		0	
(Over) / Under Borrowing	0		0	
Actual Investment Position				
Fixed Interest Investments	31.081	0.39	24.030	0.21
Variable Interest Investments	5.000	0.02	8.002	0.18
Total Investments	36.081		32.032	

Cash & Cash Equivalents	6.239		1.414	
Net Borrowing	(42.320)		(33.446)	

3.4 Prudential Indicators and Compliance Issues

3.4.1 Some of the Prudential Indicators provide either an overview or specific limits on treasury activity and these are shown below:

3.4.2 Gross Borrowing and the CFR

In order to ensure that borrowing levels are prudent over the medium term the PCC's borrowing must only be for a capital purpose. Gross borrowing should not therefore, except in the short term, have exceeded the CFR for 2021/22, plus the expected changes to the CFR over 2022/23 and 2023/24 etc. The table below highlights the PCC's gross borrowing position against the CFR.

	2020/21 Actual £m	2021/22 Estimate £m	2021/22 Actual £m
Gross Borrowing (incl. PFI)	0	0	0
External Borrowing (excl. PFI)	0	0	0
Capital Financing Requirement (CFR)	0	0	0

3.4.3 The above table shows that gross debt is exactly the same as the CFR and therefore this Prudential Indicator has been met.

3.4.4 The Authorised Limit

The Authorised Limit is the 'Affordable Borrowing Limit' required by Section 3 of the Local Government Act 2003. The PCC does not have the power to borrow above this level.

The table below demonstrates that during 2021/22 the PCC maintained gross borrowing within the Authorised Limit.

3.4.5 The Operational Boundary

The Operational Boundary is the expected borrowing position during the year. Periods where the actual position is either below or over the Operational Boundary are acceptable, subject to the Authorised Limit not being breached.

3.4.6 Maximum Gross Borrowing

This is the Gross Borrowing at the beginning of the financial year.

3.4.7 Average Gross Borrowing

This is the average of the borrowing position at the beginning of the year and the borrowing position at the end of the year.

	2021/22 £m
Authorised Borrowing Limit	4.101
Operational Boundary	0
Actual Maximum Gross Borrowing Position	0
Average Gross Borrowing Position	0
Estimated Financing Costs as a % of Net Revenue Stream	(0.15%)
Actual Financing Costs as a % of Net Revenue Stream	(0.05%)

3.4.8 Actual financing costs as a proportion of Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the Net Revenue Stream (NRS). For the calculation, NRS equals the Net Revenue Budget for the year of £147.555m.

Actual Financing costs as a % of NRS is a negative as all external debt was settled in 2016/17. The actual percentage is lower than the estimated value due to low interest rates during 2021/22 and the fixed interest rate market has been slow to reflect the current increases in the base rate.

3.4.9 On the 24th March 2022 there was a breach in the current bank account due to the fault of Thurrock Council not repaying a £3m loan on the day it was due. Thurrock Council admitted its liability and were charged the overdraft fees for this breach and were reminded about timely repayment. The process for Thurrock has been reviewed and when we are due to renew a loan with Thurrock Council, we will wait for the return of the loan due in before releasing funds for the new loan. This has been communicated to Thurrock Council and will prevent a breach of this nature from occurring again.

3.5 Economic Background and Interest Rates

3.5.1 The financial year of 2021/22 was dominated by three themes:

a) Coronavirus pandemic and the damage that it did to world economies through lockdowns;

b) The heightened global market concerns in respect of inflation, as economies opened up much more quickly than anticipated for most of 2021; and

c) The Russian invasion of Ukraine in February and its upward impact on commodity and food prices; either though the West's implementation of broad sanctions imposed on Russia, or the displacement of the means to produce and export scarce goods from Ukraine, e.g. wheat.

3.5.2 For the first half of 2021/22, markets were focussed on the first of these three factors; and there was little in the way of interest rate increase expectations as

	late as September 2021. However, from December 2021 through to March 2022, inflation concerns, globally not just in the UK, have led to a pronounced steepening in the yield curve. This led central banks around the world to start to take action, albeit belatedly, in the latter months of 2021/22 . 3.5.3 The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate from 0.10% in November 2021 to 0.75% by March 2022. In addition, the MPC ended Quantitative Easing (QE) and set out clear policies for Quantitative Tightening (QT) - the buying back of gilts from the market primarily, but also a tranche of corporate bonds. 3.5.4 The Federal Reserve in the US also increased the Federal Rate from near zero to a range of 0.25%-0.50%; with significant further rate increases priced in for the remainder of 2022 (close to 2% by year end) and into 2023. The policy of QE is also ending. 3.5.5 The European Central Bank (ECB) has had to be much more cognisant of the negative impact of the Russian invasion of Ukraine and its detrimental effects on energy/commodity prices in particular. Consequently, interest rates are expected to increase from 0.50%, but only cautiously. 3.5.6 Regarding gilt yields and therein, PWLB rates, these have increased markedly across the curve in the latter part of 2021/22. Although yields have shifted upwards, there are significant headwinds facing the economy following the 54% increase in gas and electricity prices at the start of April 2022; the introduction of a 1.25% Health and Social Care Levy for employees; and inflation pressures across a broad range of sectors, including food. 3.5.7 In the March Fiscal Statement, the Chancellor provided some hope for households with National Insurance threshold increases (up £3,000) set for July, but with the CPI measure of inflation expected to be close to or upwards of 7% for much of 2022, the economy is likely to be under considerable pressure to maintain its improved performance in 2021. As for investment rates, short term rates now reflect an expectation that Bank Rate (currently 0.75%) will increase to 2% by the end of 2022. As for equity markets, the FTSE 100 has steadily progressed through much of 2021/22 and ended the financial year at 7,516 compared to 6,713 a year earlier.
3.6	**Investment Position**
3.6.1	Investment Policy – The PCC's investment policy is governed by the Welsh Government, which has been implemented in the annual investment strategy.
3.6.2	Resources – The PCC's longer term cash balances comprise primarily of revenue and capital resources, although these will be influenced by cash flow considerations. The PCC's core cash resources were comprised as follows, and these represent the total funds available for investment:

	2020/21	2021/22

	£m	£m
General Reserves	4.000	5.000
Earmarked Reserves	35.310	28.270
Provisions	1.537	1.720
Useable Capital Receipts	2.498	0.301
Total	43.345	35.291

3.6.3 Investments Held by the PCC - The PCC concluded the year with a balance of £32.032m of internally managed funds which compares with a budget assumption of £20.893m as per the annual Treasury Management Strategy. The difference between the budget and actual position is explained by transferring £5m cash in Santander into Short Term Investment; slippage of capital programme schemes into 2021/22 and beyond; and in year savings against budget which has resulted in surplus funds available for investment purposes.

3.6.4 These internally managed funds received a weighted average return of 0.22% compared to a budget assumption of 0.28%. The comparable performance indicator is the annual average SONIA rate, which was 0.14%.

3.7 Regulatory Framework, Risk and Performance

3.7.1 The PCC's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

a) CIPFA's Treasury Management Code of Practice (2017 Edition);
b) CIPFA Guide for Chief Financial Officers on Treasury Management in Local Authorities;
c) CIPFA Standard of Professional Practice on Treasury Management;
d) The Prudential Code for Capital Finance in Local Authorities (2017 Edition);
e) Local Government Act 2003;
f) Bank of England Non-Investment Products Code (2011);
g) Standing Orders relating to Contracts;
h) Financial Standing Orders, Regulations and Procedures;
i) The Commissioner's Manual of Corporate Governance and Scheme of Delegation; and
j) Markets in Financial Instruments Directive (MiFiD II).

3.7.2 The PCC complied with all of the above relevant statutory and regulatory requirements which require the PCC to identify and, where possible, quantify the levels of risk associated with his treasury management activities. In particular his adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that his capital expenditure is prudent, affordable and sustainable, and his treasury practices demonstrate a low-risk approach.

4. <u>NEXT STEPS</u>

4.1	A Treasury Management update report, reviewing performance for the first six months of 2022/23 will be presented to the Joint Audit Committee in December 2022.
5.	**FINANCIAL CONSIDERATIONS**
5.1	These are detailed in the report.
6.	**PERSONNEL CONSIDERATIONS**
6.1	There are no staffing/personnel implications arising from this report.
7.	**LEGAL IMPLICATIONS**
7.1	There are no legal implications arising from this report.
8.	**EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS**
8.1	This proposal has been considered against the general duty to promote equality, as stipulated under the Strategic Equality Plan and has been assessed not to discriminate against any particular group.
8.2	In preparing this report, consideration has been given to the requirements of the Articles contained in the European Convention on Human Rights and the Human Rights Act 1998.
9.	**RISK**
9.1	Treasury management can never be risk free. In borrowing, the risk is that the PCC incurs a higher interest charge than was necessary and in lending there is the risk of default on repayment and the risk that a better rate of interest could have been achieved from an alternative borrower with acceptable credit status. Adherence to the CIPFA Code of Practice on Treasury Management is best practice in terms of balancing risk and return.
10.	**PUBLIC INTEREST**
10.1	This is a public document.
11.	**CONTACT OFFICER**
11.1	Darren Garwood-Pask, Chief Finance Officer.
12.	**ANNEXES**
12.1	None.

Mr Jeff Cuthbert B.SC., MCIPD Police and Crime Commissioner for Gwent	
My decision is as I have recorded in this paper	
Signed	Date 22.07.2022
Contact Officer	
Name	Darren Garwood-Pask
Position	Chief Finance Officer
Telephone	01633 643083
Email	Darren.garwood@gwent.police.uk
Background papers	