DECISION : 2024/08	DATE: 27 JUNE 2024
TITLE: 2023/24 Treasury Management year-end position	
REPORT BY: Steve Freeman, Chief Finance Officer	
Executive Summary This report sets out the Commissioner's borrowing and lending activities during 2023/24. All borrowing and investment activities undertaken throughout the year are in accordance with the 2023/24 Treasury Management Policy and based on anticipated spending and interest rates prevailing at the time.	
Recommendation The Police and Crime Commissioner is asked to note and endorse the outturn position report	

1. Background and Advice

1.1. Introduction

In accordance with the CIPFA Treasury Management Code of Practice (2011) and to ensure oversight of treasury management activity, the Commissioner receives regular updates on treasury management issues including a mid-year report and a final outturn report. Investment and borrowing decisions are taken in the light of long-term borrowing requirements, the estimated level of reserves and actual and estimated cash-flow. Consideration is also given to various risks and ensuring compliance with the Prudential Indicators. Decisions are taken in the light of current and forecasted economic information. Therefore, this report provides information on:

- An economic overview for the year
- Borrowing activity during the year
- Investment activity during the year
- Comparison to the Prudential Indicators

1.2. Economic Overview

Treasury management activity in the year was undertaken against a backdrop of inflation being above the Bank of England's target and consequently in the first part of the year increasing Bank Rate. With generally weak growth and falling inflation attention turned to when Bank Rate would peak and whether or not there would be subsequent reductions.

At the start of the year UK inflation was at 8.7% which was a fall from the peaks seen in 2022/23. The year saw inflation continuing to fall and in March 2024 the rate was at 3.2%. However, this was still above the Bank of England's 2% target at the end of the period.

The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Towards the end of the financial year there were signs of an increase in activity with the Office for National Statistics reporting that the economy expanded by 0.2% in January 2024.Subsequently, the first estimate of the UK GDP in Q1 (January to March) 2024 is estimated to have increased by 0.6%.

Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate in May, June and August to reach a level of 5.25%. The Bank Rate was maintained at 5.25% through to March 2024.

Generally forecasts have seen 5.25% as the peak rate and following the Bank's quarterly Monetary Policy Report (MRP) report in February which showed the Banks expected low growth in the UK economy in the first half of 2024 and that headline CPI was to fall below target. Consequently, many forecasters anticipated that interest rates will most likely start to be cut in the second half of 2024.

Sentiment in financial markets during 2023/24 remained uncertain and bond yields, which determine the borrowing rates from the PWLB, continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to high inflation. From October they started declining again before falling sharply in December as falling inflation caused financial markets to expect cuts in interest rates in 2024. When it emerged in January that inflation was stickier than expected and the BoE were not inclined to cut rates soon, yields rose once again.

Over the financial year, the 10-year UK benchmark gilt yield rose from 3.44% to peak at 4.75% in August, before then dropping to 3.44% in late December 2023 and rising again to 3.92% (28th March 2024).

1.3. Borrowing

Long term borrowing has been, or is taken, to fund the investment in assets which has been incurred via the Capital Programme. The overall need to borrow for capital purposes is shown by the capital financing requirement (CFR)

In considering the borrowing undertaken by the PCC consideration was given in relation to:

- The need to borrow as indicated by the CFR and cash-flow forecasts
- The cost of borrowing both in the immediate year and future years
- Risk of liquidity, in other words will the cash be available when required

The PCC has in recent years undertaken a policy of utilising the cash balances to fund capital programme expenditure and some of the borrowing that was taken has been of short duration. Therefore, it was reported in the 2023/24 Treasury Management Strategy that it was anticipated that there would be a need to borrow up to £10m in 2023/24. During the year capital expenditure of £18.768m was funded as follows:

	£m
Grant and contributions	0.112
Revenue including reserves	13.448
Borrowing	5.208

The use of borrowing to finance capital expenditure in year was less than anticipated at the beginning of the year.

It was against the background of borrowing compared to CFR both now and in future years and cash flow projections that decisions on borrowing were made. Using short term borrowing is a cost effective option in the year, as short term rates are usually cheaper than long term. This however may not be the case in the longer term as the necessary replacement loans may cost more as interest rates rise or liquidity becomes scarcer. Therefore, the Chief Finance Officer in consultation with LCC's treasury management team has constantly reviewed the long term PWLB rates with a view to taking some long-term borrowing to finance the capital programme

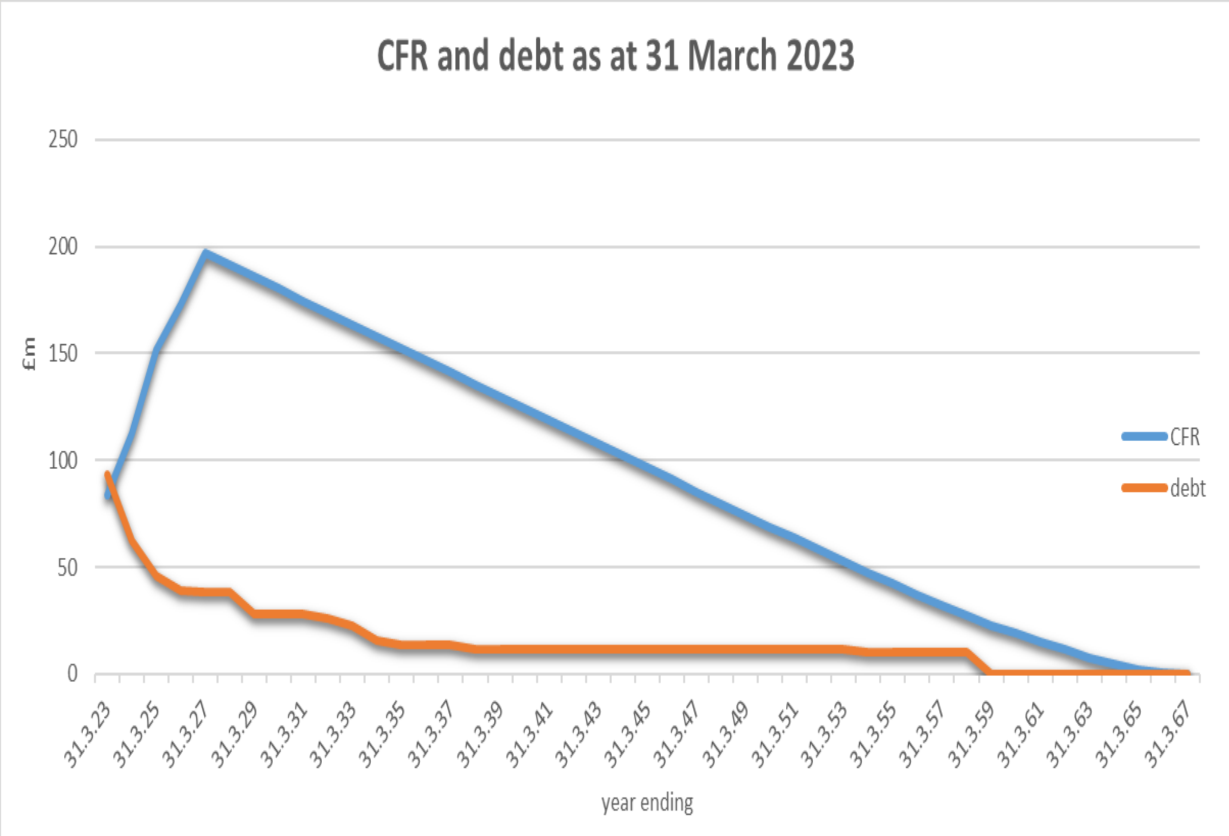
Consequently, during the year there has been a mixture of long and short term borrowing held. The long-term loans have been with the PWLB while short term loans have been taken with other local authorities.

PWLB rates change twice daily and were subject to some volatility in the year. They are monitored to try and ensure best value but the overriding reason for borrowing is need and it was decided not to take any new PWLB loans in the financial year with borrowing requirements being met by taking short term local authority loans.. The table below shows the movement in the borrowing in 2023/24

	PWLB	Other	Total
	£m	£m	£m
Outstanding 1st April	43.537	50.000	93.537
Add New borrowing taken	0.000	40.000	40.000
Less Borrowing repaid	-1.175	-45.000	-46.175
Borrowing outstanding 31 March	42.363	45.000	87.363

The table and graph below show that although the CFR was over funded at 31.3.24 which was partly the result of the short-term borrowing in advance of need and also slippage in the capital programme spend. Debt maturing in 5 years or more accounts for approximately 50% of the estimated borrowing requirement at 31.3.24. The graph below demonstrates that the PCC still has a long term need to borrow to fund its expenditure on assets. Long term rates will continue to be monitored and further loans may be taken; however, the cost in year of any new loan compared to using available cash will be taken into account.

	Actual	**Estimated**
	2023/24	**2023/24**
CFR Balance 1 April	**74.458**	**77.750**
Add expenditure financed from borrowing	5.208	20.778
Less: MRP	-2.191	-2.270
CFR Balance 31 March	**77.475**	**96.262**
Known Outstanding borrowing 31 March	87.363	87.363
Financed from cash balances/(borrowing requirement)	**9.888**	**-8.899**



Note: The capital financing requirement (CFR) is a measure of the accumulated capital expenditure not yet financed either by capital resources or the annual charge made to revenue to repay the debt; referred to as the minimum revenue provision (MRP). During the year the MRP charged was £2.191m.

As a consequence of existing debt and decisions taken on new debt then total interest payable on borrowing during 2023/24 was £2.673m, which equates to an average interest rate of 2.91% on the average debt outstanding for the year.

1.4. Investments

Both the CIPFA Code and the then MHCLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. Throughout the year when investing money the key aim was to strike an appropriate balance between risk and return.

In order to reduce credit risk to the Authority, Lancashire County Council (credit rating by Moodys A2) is the main counterparty for the Authority's investments via the operation of a call account. However, the Treasury Management Strategy does permit investment with other high quality counterparties including other local authorities.

During the year the total cash held by the Authority has been positive with the highest balance being £73.8m and the lowest £6.3m. For the monies invested with Lancashire County Council the average balance was £36.617m with an average rate of 4.96% earning £1.821m.

In addition to the investment with LCC some fixed term deposits were held. These generated interest earned during the year of £0.473m giving a total investment income of £2.293m at an average rate of 4.94%, which is comparable to the Sterling Overnight mid-rate 7 day rate index which averages 4.96% over the same period.

All of these investments are made in accordance with the current Treasury Management Strategy and the CIPFA treasury management code of practice.

Cash flow and interest rates continue to be monitored by the Chief Finance Officer and the County Council's treasury management team, and when cash flow permits and rates are felt to be at appropriate levels further term deposits will be placed.

1.5. Prudential Indicators

In order to control and monitor PCC for Lancashire treasury management functions, a number of prudential indicators are determined against which performance may be measured. The indicators for 2023/24 are shown in the table below alongside the actual outturn position.

	2023-24	**Actual**
Adoption of the CIPFA Code of Practice for Treasury Management	Adopted	Adopted
Authorised limit for external debt	£m	£m
A prudent estimate of total external debt, which t allows sufficient headroom for unusual cash movements		
Borrowing	130.000	87.363
Other long-term liabilities	5.000	0
Total	135.000	87.363
Operational boundary for external debt		
A prudent estimate of debt, but no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the PCC's current plans		
Borrowing	105.000	87.363
Other long-term liabilities	1.000	0
Total	106.000	87.363

	2023-24	**Actual**
Upper limit for fixed interest rate exposure		
Borrowing	100%	100%
Investments	100%	0%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£30m	0
Maturity structure of debt	**Upper/ Lower Limits**	**Actual**
Under 12 months	90% / nil	47%

12 months and within 24 months	80% / nil	7%
24 months and within 5 years	85% / nil	13%
5 years and within 10 years	85% / nil	14%
10 years and above	95% / 5%	19%

Ratio of financing costs to revenue stream (%)	**2023-24**	**Actual**
Ratio of financing costs to revenue stream (%)	0.85	0.75

Capital expenditure	**2023-24**	**Actual**
Estimated capital expenditure	33.214	18.768

Gross Debt / Capital Financing Requirement Indicator	**2023-24**	**Actual**
Capital Financing Requirement	96.262	77.475
Estimated/Actual Gross Debt	95.300	87.363
Debt to CFR (%)	99	113

The debt exceeds the CFR at 31.3.24 as some borrowing for future years has been undertaken. This is in line with the Code.

1.6. Financial Implications

The following table summarises the Financing costs for the PCC, comparing actual with budget:-

	Budget	**Actual**	**Reason for variance**
	£m	£m	
Interest Payable on PWLB and LA loans and debt management expenses	2.446	2.804	Level of borrowing and average interest rates were a lot higher than what was budgeted
Interest Receivable on call and fixed term investments	(1.700)	(2.316)	Average interest rates were a lot higher than what was budgeted
Minimum Revenue Provision	2.269	2.191	MRP less than budget due to slippage in the capital programme.
Net financing costs from Treasury Management activities	3.015	2.679	

2. Links to the Police and Crime Plan

Effective management of the revenue budget in conjunction with strong medium-term financial planning including for investment in futures years is vital to enable the PCC to deliver the Police and Crime Plan

3. Consultations

None

4. Implications:

a. Legal

None

b. Financial

The financial implications are contained within the report

c. Equality Impact Assessment

None

d. Data Protection Impact Assessment

None

5 Risk Management

6. Background Papers

CIPFA – Treasury Management Code of Practice – 2011 Edition
Treasury Management Strategy 2023/24

7. Public access to information

I have been informed about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lancashire.

Signature *Steve Freeman* (Chief Executive Officer)
Date 27/06/2024……………

Signature Ian Dickinson (Monitoring Officer)…………Date 27/06/2024…………….

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