

Performance and Resources Scrutiny Programme 2021/22**Report to: the Office of the Police, Fire and Crime Commissioner for Essex**

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Author on behalf of Chief Officer:	Arfanara Naidu, Technical Capital Accountant and Matt Tokley, Head of Corporate Accounting
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1.0 Purpose of Report

- 1.1 Treasury management activity is reported four times annually, with two quarterly updates as well as the half-year outturn report and the full year outturn report. The two additional quarterly reports are new from 2021/22. These reports set out key information in respect of cashflow and treasury management activities for the current year only.

The Chartered Institute of Public Finance and Accountancy (CIPFA) definition of treasury management is:

‘The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.

2.0 Recommendations

- 2.1 The PFCC is recommended to:-

- To note the treasury management activity during the previous three months of 2021/22 and the onward plan for the remainder of the year.
- To note the new treasury guidance as covered in paragraph 11.1, and to agree the recommendation to defer the implementation of the related reporting requirements until 2022/23. This will mean the proposed changes are incorporated into the Treasury Management Strategy approval process, the paper for which is due to be submitted to the March Strategic Board. This will allow the PFCC to fully review and scrutinise the proposed changes prior to their implementation.

3.0 Executive Summary

- 3.1 This report provides an overview for how the PFCC's cash balances have been managed during the last three months of 2021/22, whether there have been any deviations to the 2021/22 Treasury Management Strategy (TMS) and what investments and borrowings, where applicable, have been undertaken.

4.0 Background

- 4.1 The PFCC's TMS for 2021/22 was presented to the Strategic Board on the 11th March 2021. Following further updates shared with the PFCC the revised version of the document was presented to the Strategic Board on the 10th June 2021 and formally signed/approved on the 2nd July 2021. The first quarterly report for 2021/22 was presented to the Performance and Resources Scrutiny Board on the 29th July 2021, with the second quarter information following to the same board on the 26th October 2021.

5.0 External Context / Economic Background

- 5.1 The economic recovery continued to be dominated by COVID 19 due to the emergence of the Omicron Coronavirus variant whereas prior to this the Bank of England considered the UK economy to be evolving in line with expectation. The new variant presents further uncertainty and risk to the economy and in early December some restrictions were announced by the Government as a precautionary step to help ease pressures on the NHS. The Bank of England revised Quarter 3 growth indicating that the UK economy has lost more momentum than previously thought and revised down its estimate for the remainder of the financial year.
- 5.2 The Bank of England (BoE) increased the base rate to 0.25% in December from 0.1% but maintained its Quantitative Easing programme, unchanged since the November 2020 meeting. In the December 2021 policy announcement by the BoE stated that it expected the UK economy to grow at a slower pace than was predicted due to the pace of the global recovery showing signs of slowing and concerns of persistent inflationary pressures. The Bank of England expectation for GDP growth was revised down to 0.6% from 1% for Quarter 4, whilst inflation was projected to be higher than previous forecast with CPI likely to remain above 5% throughout the winter and peak at 6% in April 2022.
- 5.3 Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant. The labour market performed better than previous forecast with total wage growth after adjustment for inflation reported to be up 1.7%. The most recent labour market data for three months to October 2021

showed the unemployment rate falling to 4.2% while employment rate rose to 75.5%.

- 5.4 The ongoing vaccine rollout programme is credit positive for the financial services sector and the improved economic outlook has meant that some institutions have been able to reduce provision for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a better position now compared to earlier this year and 2020.
- 5.5 The institutions and permitted investment durations on the PFCC's counterparty list remains under constant review, with credit rating changes received via the PFCC's treasury management advisors Arlingclose. Whilst there have been no significant changes to the recommended counterparty list during the first half of the year there has been a greater focus on the credit worthiness of local authorities in the context of several reported instances of financial difficulty across the public sector.

6.0 Current Work and Performance

- 6.1 On 31st March 2021, the PFCC had net investments of £11.81m (£13.79m, 31st March 2020) arising from revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These elements are presented in Table 1 below.

Table 1 – Capital Financing Requirement

	31st March 2021 Actual £m
Capital financing requirement	9.10
Less: usable reserves	(25.46)
Less: working capital	4.55
Net (borrowing)/investments	11.81

- 6.2 The treasury management cashbook position as at the 31st December 2021, as well as the changes over both the preceding nine-month period, and previous quarter are shown in Tables 2a and 2b below. This represents the accounting position which is consistent with the Statement of Accounts.

Table 2a – Treasury Management Summary – Year to Date

	31st March 2021 Actual £m	Annual movement to date £m	31st December 2021 Actual £m
External borrowing	0.00	0.00	0.00
Total external borrowing	0.00	0.00	0.00
Short-term investments	6.50	3.50	10.00
Cash and cash equivalents	5.31	10.55	15.86
Total investments	11.81	14.05	25.86
Total net investments	11.81	14.05	25.86

Table 2b – Treasury Management Summary - Quarter 3

	30th September 2021 Actual	Q3 Movement	31st December 2021 Actual £m
External borrowing	0.00	0.00	0.00
Total external borrowing	0.00	0.00	0.00
Short-term investments	14.00	(4.00)	10.00
Cash and cash equivalents	23.40	(7.54)	15.86
Total investments	37.40	(11.54)	25.86
Total net investments	37.40	(11.54)	25.86

- 6.3 On 31st December 2021, the PFCC had net cash and investments of £25.86m based on the cashbook position above, however the actual balance held at bank was £21.05m, relating to income and expenditure from its revenue and capital activities. The minor variance between the two figures relates to timings differences. The actual investment portfolio held is presented in Table 3, with further details provided within Appendix A.

Table 3 – Investments

	30th September 2021 Actual £m	31st December 2021 Actual £m	Movement £m
Call accounts	3.26	3.26	0.00
Money market funds	18.50	6.25	(12.25)
Fixed term deposits (including notice accounts)	15.50	11.50	(4.00)
Lloyds current account	0.62	0.04	(0.58)
Total	37.884	21.05	(16.83)

- 6.4 The investments balance has decreased by £16.83m over the three-month period with the reduction in Treasury management activities in Quarter 3 relating to lower grant receipts in the period compared to the previous quarter and includes a reduction in other miscellaneous income. Typically, the annual cashflow cycle peaks in the second quarter and declines in quarter 3 and 4. The increased cashflow in the second quarter included

the Pension Top Up Grant received from the Home Office, which comprised two amounts in July and August, adding up to a total of £30.15m, contributing to increased investments during the second quarter.

- 6.5 The average level of investments over the three-month period from 1/10/21 – 31/12/21 was £35.6m, a reduction of £5.8m compared to the second quarter. Investment income returns during the period were extremely low in comparison to the previous few years, equating to just £0.0013m, and representing an average return of 0.01% (with many investments continue to incur a yield of 0.00% return during this period). The low returns reflect the continued priority of security over yield in the PFCC's TMS, the reliance on the Debt Management Office and money market funds, as well as the backdrop of the low interest rate environment referred to in section 5.
- 6.6 Each month the PFCC is provided with a plan of anticipated cashflow transactions for the coming month. Where there are significant differences the Corporate Accounting team will liaise with the PFCC to ensure revised plans are put in place. An example of where this would occur is where a counterparty holding Essex Police funds has a credit rating change which is not permissible within the current TMS. Any other variances, including timings fluctuations and differences between actual amounts to estimates, are covered within this reporting mechanism.
- 6.7 For the period 1/10/21 – 31/12/21 the planned cashflow movements compared to the actual transactions have been summarised in Table 4 below, which presents the operating expenditure and income variances.

Table 4 – Cashflow – Income and Expenditure

	As per plan			As per cashflow		
	October	November	December	Total Q3	Actual Q3	Variance
	£m	£m	£m	£m	£m	£m
Opening Position	0.6	0.2	0.7	0.6	0.6	0.0
Expenditure						
Supplier payments	(12.8)	(9.5)	(12.4)	(34.7)	(31.0)	3.7
Capital acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
HMRC payments	(6.8)	(6.3)	(5.6)	(18.7)	(19.6)	(0.9)
Essex LGPS payments	(1.5)	(1.5)	(1.5)	(4.5)	(4.3)	0.2
Pensioners payments	(5.4)	(5.4)	(10.7)	(21.5)	(21.5)	0.0
Payroll - uniform	(8.8)	(8.2)	(8.2)	(25.2)	(25.0)	0.2
Payroll - staff	(4.5)	(4.5)	(4.5)	(13.5)	(13.6)	(0.1)
	(39.8)	(35.4)	(42.9)	(118.1)	(115.0)	3.1
Income						
Council tax precepts	11.7	11.7	11.7	35.1	36.0	0.9
Core government funding	15.2	15.2	15.2	45.6	45.6	0.0
Other government grants	1.6	2.6	2.1	6.3	5.7	(0.6)
VAT reimbursements	0.8	2.0	0.8	3.6	2.5	(1.1)
Property sales	0.0	0.0	0.0	0.0	0.0	0.0
Other receipts	3.4	4.6	4.3	12.3	8.1	(4.1)
	32.7	36.1	34.1	102.9	97.9	(4.9)

6.8 The opening position represents the current account balance held with Lloyds. In respect of why the monthly opening positions do not match to the previous month's closing balances this is because each of the plans are undertaken in isolation and by the time the next month's plan is produced the actual opening position will be available rather than having to use the previous month estimate. Each plan is produced at the start of each month based on the most readily available and accurate information held at that time. Because of this process whereby a revised plan is produced on a rolling monthly basis, there are sometimes amounts which slip from month to month and would therefore be included in more than one of the plans. Therefore, any amounts which were included in more than one of the monthly plans circulated, have now been removed from Table 4.

6.9 The overall variance for actual expenditure in the period compared to estimated values was a reduction of £3.1m, after the adjustments referred to above. This mainly related to the following issues:-

- Supplier payments made up the bulk of the main variance in relation to expenditure, with outgoings £3.7m less than expected compared to the forecast. Typically, higher supplier payment forecasts are used in the first quarter of the year and then reduce thereafter as the year progresses. Work on being able to accurately analyse forecast outgoings, particularly following the move to weekly supplier payments earlier in 2021, continue to be a key workstream in the Corporate Accounting team with new staffing resources now in place. This work is referenced in the current open action at the monthly Corporate Finance/Business Services Stakeholder meetings, in relation to further understanding the make-up of Purchase Order (PO) and non-PO invoices, within payment runs.
- Other variances totalled to a net increase of £0.6m comprising of higher payments to HMRC of £0.9m relating to higher payroll-related contributions in respect of additional overtime and bank holiday payments, offset by a small decrease of £0.2m relating to Essex LGPS payments and other indirect payroll costs compared to the forecast. It should be noted that the forecast for HMRC contributions and payroll costs can vary month to month, depending on ad-hoc or one-off contributions being made, which distort the regular level of payments for serving officers and staff.

6.10 There was an overall £4.9m decrease in income compared to the forecast plans submitted, with the main reasons and explanations for this variance being set out below:

- £0.9m additional council tax precept income – the expected timings for 21/22 Council Tax income have been updated with some reprofiled dates coming out of this exercise. This can vary slightly month to month based on billing authority adjustments, and the additional income of £0.9m reflected in Quarter 3 related to a Hardship Funds adjustment received in October not reflected in the forecast.
- £4.1m variance relating to other receipts with actual miscellaneous income received lower compared to the forecast in Quarter 3, relating to a smaller average level of daily receipts than anticipated. It should be noted that the projection for this income was higher than necessary, and we are in the process of reviewing these projections for the remainder of the financial year. By their nature

however, they are unpredictable income streams which cannot always be accurately forecast in the cashflow.

- A shortfall of £1.1m relating to VAT reimbursements and £0.6m for other government grants. For VAT this related to input tax being lower than expected and thus variations in actual receipts, as well as a delay in reimbursements for December. There was also a reduction in grants compared to the projected forecast but no high value elements within this variance.

6.11 For the period 1/10/21 – 31/12/21 the summarised cashflow movement including treasury management activity, has been summarised in Table 5 below.

Table 5 – Cashflow (incorporating Treasury Management Activity)

	As per plan			As per cashflow		
	October	November	December	Total Q3	Actual Q3	Variance
	£m	£m	£m	£m	£m	£m
Opening Position	0.6	0.2	0.7	0.6	0.6	0.0
Net expenditure						
Expenditure	(39.8)	(35.4)	(42.9)	(118.1)	(115.0)	3.1
Income	32.7	36.1	34.1	102.9	97.9	(4.9)
	(7.14)	0.7	(8.8)	(15.3)	(17.1)	(1.8)
Investment activity						
Fixed term investments - new deals	(49.0)	(36.5)	(10.0)	(95.5)	(124.0)	(28.5)
Fixed term investments - repayments	51.0	40.5	11.5	103.0	128.0	25.0
Money market funds - additions	0.0	(11.5)	(9.0)	(20.5)	(24.5)	(4.0)
Money market funds - withdrawals	4.5	7.0	16.4	27.9	36.7	8.9
Call accounts - additions	0.0	0.0	0.0	0.0	0.0	0.0
Call accounts - withdrawals	0.0	0.0	0.0	0.0	0.0	0.0
Interest receivable	0.0	0.0	0.0	0.0	0.0	0.0
	6.50	(0.5)	8.9	14.9	16.2	1.4
External borrowing activity						
Short-term external borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Long-term external borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Interest payable	0.0	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0	0.0
Closing Position	(0.0)	0.4	0.7	0.2	0.0	(0.2)

6.12 In Quarter 3 there have been no significant deviations to the investment approach adopted by the PFCC with similar financial instruments used during this period. Table 5 above expands on Table 4 to encompass the treasury management activity during Quarter 3, reflecting a net increase in expected investments compared to the plan of £1.4m. This variance comprised (£3.5m) reduction in fixed term deals offset by a £4.9m increase relating to money market funds.

6.13 The forecast total cash and investments are included in each monthly plan to the PFCC, in addition to the cashflow movement. Table 6 below shows the variances between the estimate month-end totals compared to the actual balance held - there were no material differences or anything to report which has not already been noted in Table 4.

Table 6 – Total Balances

	October	November	December
	£m	£m	£m
Total cash & investments - estimated as per plan	30.8	30.1	20.6
Total cash & investments - actual as per month-end position	29.5	29.5	21.0
Variance	(1.3)	(0.6)	0.4

7.0 **Cashflow – remainder of 2021/22**

- 7.1 The cashflow has been projected forward for the remainder of the financial year, with a summary included in Table 7 below (a monthly version is included within Appendix B).

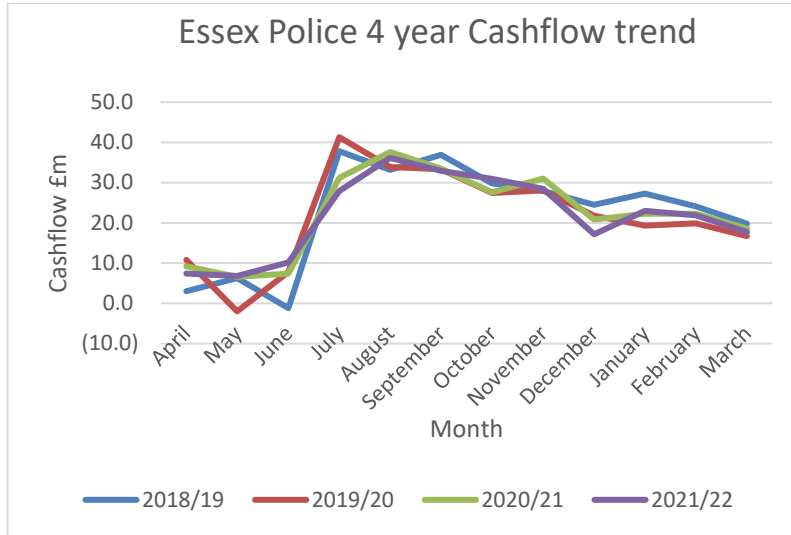
Table 7 – Cashflow plan for 2021/22 (January – March)

	Cashflow summary & forecast - 2021/22			
	Q1	Q2	Q3	Q4
	£m	£m	£m	£m
Opening Position	0.8	0.3	0.6	0.0
Expenditure				
Supplier payments	(38.6)	(31.0)	(31.0)	(31.0)
Capital - property acquisitions	0.0	0.0	0.0	0.0
HMRC payments	(19.1)	(19.2)	(19.6)	(19.4)
Essex LGPS payments	(4.4)	(4.5)	(4.3)	(4.4)
Pensioners payments	(16.0)	(16.0)	(21.5)	(10.7)
Payroll - uniform	(24.4)	(25.0)	(25.0)	(25.2)
Payroll - staff	(13.4)	(13.6)	(13.6)	(13.5)
	(115.9)	(109.3)	(115.2)	(104.3)
Income				
Council tax precepts	30.3	35.1	36.0	33.0
Core government funding	49.0	45.6	45.6	47.9
Pension top-up grant	0.0	0.0	0.0	0.0
Other government grants	6.5	36.7	5.7	1.7
VAT reimbursements	3.0	6.3	2.5	3.3
Property sales	4.6	0.2	0.0	1.9
Other receipts	14.0	14.2	8.1	13.1
	107.4	138.1	97.9	100.8
Net cashflow surplus/(deficit)	(7.6)	29.1	(16.7)	(3.4)
Treasury activity				
Investment balances brought forward	17.8	10.2	37.8	21.1
Net addition to/(reduction of) investments	(7.6)	27.6	(16.7)	(3.4)
Net external borrowings	0.0	0.0	0.0	0.0
Total net cash and investments	10.2	37.8	21.1	17.7

- 7.2 The cashflow forecast, particularly the more detailed version, demonstrates that the cashflow peaks between the second and third quarter, and thereafter declines over the remainder of the year. More specifically the second quarter trend relates to the annual Pension Top-Up Grant of £26.0m received in July, with a further £4.1m received in August. This latter payment reflected an updated calculation provided to the Home Office in respect of the 2020/21 outturn position.
- 7.3 The actual cashflow position decreased to circa £21.1m at the end of December, with an estimated position of £17.7m by the end of March. There is no external borrowing requirement expected in 2021/22, with the current revenue and capital forecast underspend and related slippage positions consistent with the higher amounts of cash now being retained within the force.

- 7.4 In respect of property sales, the PFCC is expecting to receive a further £2.15m before year-end, including £1.5m for Harlow. These sales will be dependent on completions being finalised in expected time scales and may potentially slip into 2022/23. If this does occur the PFCC can cover this deficit based on the forecast cash levels set out elsewhere in this report.
- 7.5 Treasury management activity will be concentrated on how to best utilise the forecast surplus balances during the remainder of the year, with the focus on achieving a reasonable return on investments whilst keeping enough of the PFCC's portfolio in liquid instruments, ensuring that short-term cashflow commitments can be managed and covered when required. Additional opportunities will continue to be explored in relation to new call accounts as well as further investments in semi-liquid instruments such as treasury bills, which offer a fixed term maturity date as well as an option to sell on the secondary market. In addition, covered bonds continue to be a growth area within public sector treasury management and the benefits and risks of using these instruments will be reviewed.
- 7.6 With negative rates appearing in the short-term market and the Bank of England decision to hold the base rate at 0.10% during September, October and November 2021, the decision was made to purchase £5m of treasury bills in November for a duration of six months, achieving a 0.05% return. In addition, a £5m fixed-term deposit was placed with Thurrock Council in October with a return of 0.10%, which compared favourably to the negative interest rates with DMO and other low returns on investments. With the subsequent increase in the base interest rate to 0.25% announced by the Bank of England in December an uplift in investment yields are expected, and the Corporate Finance team will continue to review the market for favourable returns on short term investment.
- 7.7 Table 7 confirms that no external borrowing is anticipated to be required in 2021/22 to support its investment plans. It also means the PFCC is not expected to require taking any further action to retain the minimum balance of £10m investments in accordance with MiFID II legislation. Further details of this requirement are set out in the 2021/22 TMS, and will be reiterated within the upcoming 2022/23 TMS due to be presented at the March 2022 PFCC Strategic Board.
- 7.8 Table 8 on the following page sets out the four-year cashflow trend for the period 2018/19 – 2021/22.

Table 8 – 4 year Cashflow trend



7.9 The continuation of the above trend across the medium-term will depend on a wide array of factors including the size of the annual deficit in the Police Officer Pension Account, the timing of the anticipated investment in the HQ project and wider capital programme, the revenue budget position linking into the MTFS plans, as well as the profile of any associated external borrowing repayments. The timing of specific government grant income, often received at short notice, will also dictate the likelihood of further peaks and troughs arising compared to the trend curve presented.

8.0 **Compliance – Prudential Indicators**

8.1 Throughout the Quarter 3 reporting period the PFCC has concentrated on its compliance with its investment strategy as well as borrowing requirements in accordance with the CIPFA Prudential Code. In summary the PFCC’s treasury management activities undertaken to date in 2021/22 have complied with both the CIPFA Code of Practice as well as the Prudential Code, with some minor variations to the approved PFCC’s TMS, as set out within the section below.

Gross Debt

8.2 The PFCC is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In accordance with statutory guidance a lower ‘operational boundary’ is also set as a warning level should debt approach the affordable borrowing limit. Compliance with the authorised limit and operational boundary key prudential indicators for the year to date in 2021/22 are demonstrated in Table 9 below.

Table 9 – External Borrowing Limits

	2021/22 - TMS	2021/22 - Actual (to date)	Complied (Yes/No)
Authorised limit - total external debt	£25m	£0m	Yes
Operational Boundary - total external debt	£20m	£0m	Yes

8.3 The other prudential indicators within the TMS 2021/22 are as follows:-

- Estimates of Capital Expenditure
- Estimates of Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- Proportion of Financing Costs to Net Revenue Stream

8.4 For the first three elements above, these prudential indicators are being regularly reported to the PFCC within the monthly budget monitoring reporting process and/or within the regular Medium Term-Financial Strategy (MTFS) updates. This information has therefore not been re-produced for this report, and compliance is accepted for each indicator. In respect of the financing costs indicator the current forecasts in 2021/22 for minimum revenue provision (MRP), interest payable and interest receivable are all immaterial based on net revenue stream and are not deemed to be a key risk.

9.0 **Compliance – Treasury Management Practices (TMP's)**

9.1 The TMP's within the TMS 2021/22 and the compliance against each of these are set out in the table below (more detail for each individual TMP will be provided in the year-end TM outturn report).

Table 10 – TMP's summary

TMP's	2021/22 - TMS	Complied (Yes/No)
Interest rate risk indicator - 1% rise in interest rates (upper limit impact)	(£150,000)	Yes - no rate rise to date during 2021/22
Interest rate risk indicator - 1% fall in interest rates (upper limit impact)	£150,000	Yes - no rate rise to date during 2021/22
Minimum credit rating for counterparty investments	A	Yes
Gross bank account overdraft facility availability	£10m	Yes
Net bank account overdraft facility availability	£1m	Yes
Minimum amount of investment portfolio held in call accounts and money market funds	Lower of £10m or 50% of total investments	Yes
Limit on principal invested beyond one year (non-government)	£0m	Yes
Maturity structure of (external) borrowing	Various	Yes - no external borrowing during the Quarter 3 period of 2021/22

10.0 **Compliance – Investments**

10.1 Investment Counterparties & Strategy Compliance

Compliance with the approved investment counterparties list is demonstrated in Table 11 below. As can be seen there have been some instances where the strategy limits have not been complied with, and these issues are consistent with those highlighted within the 2020/21 TM Outturn Report. These issues also represent the need to source further liquidity options within the PFCC's investment portfolio, to assist with the diversification of funds.

Table 11 – Investment Compliance

	2021/22 - maximum to date	31/12/2021	2021/22 guideline limit	Complied (Yes/No)	Complied (Yes/No) Q3
UK central government (including DMADF & Treasury Bills)	£37.0m	£5.0m	£ unlimited (10 years)	Yes	Yes
UK local government - per authority	£5.0m	£5.0m	£5.0m per authority (5 years)	Yes	Yes
UK local government - total	£0.5m	£0.5m	£ unlimited in total (5 years)	Yes	Yes
Lloyds bank account plc (operational bank account)	£4.0m (overnight only)	£0.04m / 0.19%	Higher of 5% or £1.0m (1 year), or up to £5.0m (overnight only)	Yes	Yes
UK financial institutions (between A and AAA, liquid investments)	£3.2m / 81% (highest % when > £1m)	£4.8m / 22.8%	Higher of 5% or £1.0m (unlimited in total, 1 year per institution)	No* (see commentary in Section 10)	Yes
Money market funds (AAA rated) - Total	£22.5m / 60%	£6.25m / 30%	50% of total investments	No* (see commentary in Section 10)	No* (see commentary in Section 10)

- 10.2 In respect of liquid UK financial institutions, the 81% issue related to balances held with Barclays on the 1st June and was covered within the Quarter 1 report commentary. As previously noted, additional flexibility was included in the 2021/22 TMS where guideline limits are breached for a short time, but which do not cause undue risk exposure to the PFCC. This was deemed as one of those instances, particularly as £1m of these monies have same day access availability.
- 10.3 During the third quarter there was one instance where money market funds in total exceeded the agreed 50% threshold, with 58% held in these funds on the 1st October. In monetary terms this equated to £18.5m, compared to the £16m value which would have represented 50%. This was corrected on the next working day and related to additional cashflow movements not previously anticipated, tipping this percentage over the guideline threshold.
- 10.4 The guideline limits and the relevant compliance criteria were discussed at the Performance and Resources Scrutiny Board when the Quarter 1 report was presented in

July 2021, with a more manageable and practical approach proposed for these limits based on the limited options available currently in respect of the PFCC's investments. New recommendations for these investments will be made within the 2022/23 TMS.

11.0 Other Issues

Prudential Code and Borrowing

- 11.1 CIPFA published a revised Prudential Code for Capital Finance on 20th December 2021. The code took immediate effect although organisations may defer introducing the revised reporting requirements until 2023/24. The PFCC has adopted the new guidance with immediate effect and it is proposed to implement the reporting requirements at the earliest possible opportunity, e.g. within the 2022/23 Treasury Management Strategy, which is due to be presented at the March Strategic Board. The PFCC will therefore be taking advantage of the 'soft landing' option prescribed by CIPFA, with the PFCC being able to review and approve the resulting changes to the strategy at the March board.
- 11.2 In order to comply with the Code, organisations must not borrow to invest primarily for financial return. The Code also states that it is not prudent for local authorities (including the PFCC) to make investments or spending decisions that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the organisation. Existing commercial investments are not required to be sold however organisations are required to review any existing commercial investments as well as any related borrowing requirements. The PFCC is not impacted by these changes as no commercial investments are currently held.
- 11.3 Borrowing is permitted for cashflow management purposes, interest rate risk management, to refinance current borrowing, and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of services is also permitted.

Treasury Management Code and other changes

- 11.4 In addition to the Prudential Code, CIPFA also published a revised Treasury Management (TM) Code in December 2021. Whilst the Prudential Code takes immediate effect there was no mention of the date of initial application for the TM Code. Some of the other content included within both documents is listed below:-
- Additional reporting requirements for the Capital Strategy.
 - For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the PFCC's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to front-line services).
 - Forward looking prudential code indicators which must be monitored and reported to members at least quarterly.
 - A new indicator for net income from commercial and service investments to net revenue stream.
 - Inclusion of the liability benchmark as a treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances, existing loan

debt outstanding loans CFR, net loans requirement, a liability benchmark over at least ten years, and which ideally cover the PFCC's full debt maturity profile.

- Excluding investment income from the definition of financing costs.
- Credit and counterparty policies should set out the PFCC's policy and practices relating to Environmental, Social and Governance (ESG) investment considerations.
- Additional focus on the knowledge and skills of senior officers and management, and any other elected members or board representatives involved in decision making.

Investment position on 31st December 2021

	31/12/21 £000	Start date (where applicable)	Maturity date (where applicable)
Call accounts			
Santander UK PLC - call	2,260		
Barclays Bank PLC – call	1,000		
Total	3,260		
Money market funds			
Aberdeen	250		
Aviva	2,000		
Black Rock	1,000		
Federated	3,000		
Insight	-		
Total	6,250		
Fixed term deposits			
Bank of England - DMO	5,000	22/11/21	23/05/22
Thurrock Council	5,000	15/10/21	19/04/22
Barclays PLC – notice	1,500		
Total	11,500		
Other			
Lloyds current account	40		
Total	40		
Total treasury investments	21,050		

Monthly Cashflow Forecast for the remainder of 2021/22

	January	February	March
	£m	£m	£m
Opening Position	0.0	0.0	0.0
Expenditure			
Supplier payments	(10.7)	(10.1)	(10.2)
Capital - property acquisitions	0.0	0.0	0.0
HMRC payments	(6.6)	(6.4)	(6.4)
Essex LGPS payments	(1.5)	(1.5)	(1.5)
Pensioners payments	0.0	(5.4)	(5.4)
Payroll - uniform	(8.2)	(8.5)	(8.5)
Payroll - staff	(4.5)	(4.5)	(4.5)
	(31.4)	(36.4)	(36.5)
Income			
Council tax precepts	11.9	11.7	9.4
Core government funding	15.2	16.4	16.3
Pension top-up grant	0.0	0.0	0.0
Other government grants	1.7	0.0	0.0
VAT reimbursements	0.5	0.8	2.0
Property sales	0.0	1.6	0.3
Other receipts	4.0	4.7	4.4
	33.3	35.2	32.4
Net cashflow surplus/(deficit)	1.9	(1.2)	(4.1)
Treasury activity			
Investment balances brought forward	21.1	23.0	21.9
Net addition to/(reduction of) investments	1.9	(1.2)	(4.1)
Net external borrowings	0.0	0.0	0.0
Total net cash and investments	23.0	21.9	17.7

Arlingclose Interest Rate Outlook for the remainder of 2021/22 and beyond

The PFCC uses Arlingclose as its treasury advisor, to assist with its investment and borrowing strategy, as well as advising on the economic outlook and dealing with related risks and new wider treasury management issues.

Arlingclose have provided an updated interest rate forecast which is included below for information.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Arlingclose Central Case	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

The Bank of England increased the bank rate to 0.25% in December. Arlingclose expect this rate to rise again during the first quarter of 2022 and believe that the MPC will want to build on the strong message it delivered in December by tightening their monetary policy despite Omicron uncertainty.

The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and is also a reminder of the potential downside risks.