Performance and Resources Scrutiny Programme 2022/23

Report to: the Office of the Police, Fire and Crime Commissioner for Essex

Title of Report:	**Treasury Management Outturn Report 2021/22**
Classification:	**Official**
Agenda Number	**3iii)**
Chief Officer	**DCC Andrew Prophet** **Janet Perry, Chief Finance Officer, PFCC Office**
Report from:	**Corporate Finance**
Date of Meeting:	**30th May 2022**
Author on behalf of Chief Officer:	**Arfanara Naidu, Technical Capital Accountant and Matt Tokley, Head of Corporate Accounting**
Date of Approval:	**TBC (not yet approved by Chief Officers)**

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1.0 Purpose of Report

1.1 To present the annual treasury review/outturn report for 2021/22. 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:-

Formally note the treasury management outturn position for 2021/22.

3.0 Executive Summary

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

4.0 Introduction/Background

4.1 During 2021/22 the OPFCC has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the PFCC to approve a treasury management strategy before the start of each financial year as well as produce quarterly and annual treasury management outturn reports. This report fulfils the PFCC's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

4.2 As it stands the PFCC's TMS for 2022/23 is currently awaiting approval from the PFCC with discussion ongoing in respect of proposed governance arrangements in respect of external borrowing requirements as well as agreeing other content within the report. It is envisaged that a revised version of the strategy will be presented to the June Strategic Board on the 16th of June 2022, with a decision report to follow. The CIPFA Prudential Code also includes a requirement for the PFCC to provide a Capital Strategy and Investment Strategy, documents which cover capital expenditure and financing, and non-treasury investments. It is intended that the updated versions of these documents will be approved as part of the 2022/23 TMS process set out above.

4.3 The PFCC has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the PFCC's TMS. The approach to dealing with this risk is covered within the main body of the report.

5.0 External Context / Economic Background

5.1 The continuing economic recovery from the Coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

5.2 The base rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England (BoE) would delay rate rises until 2022. However, rising, persistent inflation changed that position.

5.3 UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations, which also impacted for the force capital programme. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5%, with core inflation, which excludes the more volatile components, rising to 5.2% compared to the corresponding position in the previous year of 4.4%.

5.4 The BoE increased the base rate to 0.25% in December from 0.10% and a further increase to 0.50% in February and 0.75% in March. In March the Monetary Policy

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Committee (MPC) announced that the Ukraine invasion had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions worldwide the CPI inflation is expected to rise to 8% later in 2022, higher than the forecast in the February Monetary Policy Report. The forecast for interest rates is expected to rise further in the first quarter of 2022/23.

5.5 With respect to the labour market the government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%.

5.6 In respect of financial markets the conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period, however the impact on investments was starting to settle down by the end of 2021/22. Fitch and Moody's revised their outlooks on a number of UK banks and building societies to 'stable', recognising their improved capital positions compared to the previous year, and better growth prospects in the UK. In addition, having completed its full review of its credit advice on unsecured deposits, the force treasury advisors Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days.

5.7 For a more detailed overview of the external/economic background during 2021/22, please refer to Appendix C.

6.0 Current Work and Performance

6.1 On 31st March 2022, the PFCC had net investments of £14.22m (£11.81m, 31st March 2021) relating to income and expenditure from its revenue and capital activities. This is presented in Table 1 below.

Table 1: Balance Sheet Summary

	31st March 2021 Actual £m	31st March 2022 Actual £m	Movement
Capital financing requirement	9.10	20.68	11.58
Less: usable reserves	(25.46)	(37.57)	(12.11)
Less: working capital	4.55	2.67	(1.88)
Net (borrowing)/investments	**11.81**	**14.22**	**(2.40)**

6.2 Table 1 also refers to the Capital Financing Requirement (CFR) which represents the underlying need to borrow for capital purposes. Usable reserves and working capital

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are the underlying resources available for investment.

6.3 The treasury management cashbook position as at the 31st March 2022 and the change over the twelve month period is shown in Table 2 below.

Table 2: Treasury Management Summary

	31st March 2021 Actual £m	31st March 2022 Actual £m	Movement
Long/short-term external borrowing	0.00	0.00	0.00
Total external borrowing	**0.00**	**0.00**	**0.00**
Long-term investments	0.00	0.00	0.00
Short-term investments	6.50	10.00	3.50
Cash and cash equivalents	5.31	4.22	(1.09)
Total investments	**11.81**	**14.22**	**2.41**
Total net investments	**11.81**	**14.22**	**2.41**

Investments

6.4 The PFCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22 the PFCC's total cash and investment balance ranged between £3m and £54.1m due to differing profiles of income and expenditure.

6.5 Both the CIPFA Code and government guidance require the PFCC to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The PFCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.6 The table below summarises the actual investments held at the 31st March 2022 and the comparable figures for 31st March 2021 (excluding accrued interest and other adjustments). Please refer to Appendix A for full details of these investments.

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Table 3: Investments

	31st March 2021 Actual £m	31st March 2022 Actual £m	Movement
Call accounts	3.26	3.26	0.00
Money market funds	6.50	3.30	(3.20)
Fixed term deposits (including notice accounts)	8.00	11.50	3.50
Lloyds current account	0.82	0.05	(0.77)
Total	**18.58**	**18.11**	**(0.47)**

6.7 The table below provides a reconciliation for the actual investments held at the 31st March 2022 (as per Table 3) compared to those in the Treasury Management Summary (as per Table 2, the PFCC Group Balance Sheet position as at the 31st March 2022).

Table 4: Reconciliation of Investments to year-end Balance Sheet position

	31st March 2021 Actual £m	31st March 2022 Actual £m	Movement
Total actual investments held	18.58	18.11	(0.47)
Less: monies held on behalf of third parties (seizures under POCA, PACE and the Misuse of Drugs Act)	(4.19)	(4.02)	0.18
Add: petty cash advances/imprest	0.10	0.07	(0.03)
Less: unpresented amounts for operational bank accounts	(2.67)	0.06	2.73
Total net investments per balance sheet	**11.81**	**14.22**	**2.40**

6.8 As shown in the opening row of Table 4, the actual investments decreased by just under £0.5m during 2021/22. It should be noted that the last payment run for the year was undertaken within 2021/22 meaning there were no timing differences in the same way which occurred in 2020/21. The net investments held is presented in the table above.

6.9 Both payments and receipts increased compared to 2020/21. In respect of payments, the main increase related to payroll costs for officers, staff and pensioners which increased by £9.1m (£220.7m in 2021/22, compared to £211.6m in 2020/21). This included the impact of additional Police Officers being recruited into the establishment, as well as pay inflation. Indirect employee costs relating to the HMRC and the Essex Pension Fund increased by £5m (£95.4m in 2021/22 compared to £90.4m). The increased value of supplier payments of £130m in 2021/22 compared to £124.5m in 2020/21 was comprised of revenue and capital commitments as well as Pension lump sum payments.

6.10 For receipts, the council tax rise in 2021/22 contributed revenue income of £134.4m (£128.8m in 2020/21), an increase of £5.6m. Other central sources of government funding as well as several new grants (including the Police Uplift Programme) meant an increase in cashflow of £7.8m (£211.8m in 2020/21 compared to £204.0m in 2020/21). There were also increased receipts for VAT reimbursement of £2m (£13.9m in 2021/22 compared to £11.9m in 2021/22). Other increased income included Stansted Airport policing reimbursements from Manchester Airport Group (MAG) of £3.1m (£6.9m in 2021/22 compared to £3.8m in 2020/21) and additional receipts from sale of property of £1.3m (property sales during the period were £5.1m in 2021/22 in accordance with the Estates disposal programme, compared to £3.8m in 2020/21). However, these increases were offset by the reduction in the Home Office Pensions Top Up Grant with £30.1m received in 2021/22 (£34.6m in 2020/21) reflecting the annual deficit on the Police Officer Pension Scheme continuing to reduce, primarily due to the increased number of officers paying in contributions into the fund, together with related employer contributions. There was also a reduction in other government grants with £16m received in 2021/22 compared to £19.1m in 2020/21, a reduction of £3.1m. Further detail of income and expenditure for the last quarter of 2021/22 is included in Appendix B.

6.11 The average level of investments (excluding the element relating to third party monies) over the twelve-month period was £25.432m (£26.023m in 2020/21). Interest earnings for the period were £0.010m (£0.017m 2020/21), representing an average return of 0.04% (0.07% 2020/21) compared to a net investment budget of £0.018m. This budget included the immaterial impact of interest income paid over to third parties in respect of the repayment of seized monies. The significant decrease in both interest yield and the average rate of return continued to reflect the impact of the COVID pandemic, the relatively low amount of choice in respect of investment opportunities available, as well as the rates on offer from the remaining counterparties available to the PFCC. Furthermore, the budget was set at a time when the base rate was 0.10% rather than the current 0.75%. The average rate achieved was mainly due to returns in the second half of the year as the base rate increased to 0.75% on 17th March 2022, from 0.50% in February 2022.

6.12 Money market funds (MMF's) and local authority deposits generally provided higher returns than the Debt Management Account Deposit Facility (DMADF) where a significant amount of money was placed during the year. Some negative returns were also received during the year in quarter three but the DMADF had reverted to positive rates by year-end, with rates improving in the last quarter of 2021/22 due to the more positive base rate position.

6.13 Due to the economic uncertainty during 2021/22, the PFCC's investment strategy was focused on liquidity and security, such as MMF's and call accounts. The PFCC continued to place a high importance on having ready access to monies, particularly with low rates present throughout the period. With negative rates appearing in the short-term market and the BoE decision to hold the base rate at 0.10% during September, October and November 2021, £5m of treasury bills were purchased 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 negative interest rates with the DMADF and other low returns on investments.

6.14 In light of Russia's invasion of Ukraine, Arlingclose contacted the fund managers of the PFCC's MMF's and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

Borrowing

6.15 The PFCC's chief objective when undertaking external borrowing is to either cover short-term cashflow deficits or, where applicable, fund longer-term investment. The main factors considered are to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

6.16 As of 31st March 2022, the PFCC held no external borrowing, a position consistent with the previous financial period. Whilst there had been an anticipation that external borrowing would potentially be required in 2021/22, the significant slippage reported in the capital programme, as well as revenue budgets, meant this was no longer required. Additional government grant funding and other increased receipts including VAT reimbursements and Stansted Airport payments from MAG (as outlined in paragraph 6.10) were also a key reason why external borrowing was not required. For the majority of 2021/22 the PFCC considered it to be more cost effective to use internal resources to cover the daily cashflow position where a deficit occurred (such as the bank overdraft).

6.17 Based on current capital investment plans submitted as part of the approved 2022/23 budget, external borrowing is forecast for the coming financial year as well as the subsequent medium-term financial period, with the attributable values calculated by the 'liability benchmark' for the PFCC. Further detail of this will be set out within the 2022/23 TMS, however the external borrowing requirement will continue to be fundamentally linked to the progress of the capital programme and whether further slippage can be avoided going forward

6.18 In August 2021 HM Treasury significantly revised its guidance for the PWLB lending facility with more detail and twelve examples of permitted and prohibited use of PWLB loans. Where an organisation is purchasing or intending to purchase investment assets primarily for yield they will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

6.19 Acceptable use of PWLB borrowing going forward includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Whilst this change does impact the public sector it is not anticipated to have any effect on the PFCC due to its current portfolio of financial instruments. The 22/23 TMS will set out how the PFCC proposes to source its external borrowing as and when required.

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6.20 Whilst there was no external cash requirement during 2021/22 there was an increase in internal borrowing, due to a diminished amount of capital resources available to fund an annual capital programme which exceeded £12m in value in 2021/22. Internal borrowing relates to the accounting mechanism whereby the PFCC can choose to defer financing it's capital expenditure in the year and use its cash resources instead. This produces an increase in the CFR which is then reduced by Minimum Revenue Provision (MRP) being applied in subsequent years. For 2021/22 the closing CFR was £16.123m compared to £9.097m at the end of 2020/21. The net increase of £7.026m related to unfinanced 2021/22 capital expenditure of £7.614m, offset by £0.588m MRP being charged, relating to pre-2008 historic debt.

6.21 The financing charges, comprising interest payable and MRP incurred in the year reflected a net £0.095m saving, based on the initial £0.683m budget set for 2021/22. The actual charge of £0.588m solely related to MRP with no interest payable in the year.

7.0 Governance Framework/Other Issues

7.1 CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes were around permitted reasons to borrow (see 6.15), knowledge and skills, and the management of non-treasury investments.

7.2 The principles of the Prudential 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, within the 2022/23 TMS. This document is due to be presented at the June 2022 Strategic Board. The PFCC will therefore be taking advantage of the 'soft landing' option prescribed by CIPFA, with the PFCC being able to review/approve the changes to the strategy at the June board.

7.3 In order to comply with the Prudential Code, organisations must not borrow to invest primarily for financial return. Acceptable use of PWLB borrowing includes cashflow management, 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 an organisation's function but where a financial return is also expected, is allowed, provided that the financial return is not the primary reason for the expenditure. The changes align the Prudential Code with the PWLB lending rules.

7.4 The Prudential Code also states that it is not prudent for organisations to make investment or spending decisions that will increase the CFR unless directly and primarily related to the functions of the organisation. Existing commercial investments are not required to be sold; however, organisations with existing commercial investments who expect to need to borrow should review the options for exiting these investments. As previously stated the latter is not currently expected to be an issue for the PFCC.

7.5 Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

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7.6 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 & 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.

8.0 Compliance

8.1 All treasury management activities undertaken during 2021/22 have complied with the CIPFA Code of Practice and the CIPFA Prudential Code, however, there have been some variations to the PFCC's approved TMS. These are issues consistent with those reported to the PFCC during 2021/22 and are set out in the paragraphs in the 'Investment Counterparties' sub-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 line 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 in 2021/22 are demonstrated in Table 5 below.

Table 5: Gross Debt Limits

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

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8.3 It should be noted that since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However, for 2021/22 there were no instances when total external debt was in excess of the operational boundary value.

Investment Counterparties

8.4 Compliance with the approved investment counterparties list is shown in Table 6 below.

Table 6: Investment Counterparties

	2021/22 - maximum	31/03/2022	2021/22 guideline limit	Complied - 21/22 (Yes/No)	Complied - Q4 (Yes/No)
UK central government (including DMADF & Treasury Bills)	£32.0m	£4.98m	£ 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	£5m	£5m	£ unlimited in total (5 years)	Yes	Yes
Lloyds bank account plc (operational bank account)	£4.7m (overnight only)	£0.05m / 0.27%	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)	£4.8m / 90% (highest % when > £1m)	£4.8m / 26.29%	Higher of 5% or £1.0m (unlimited in total, 1 year per institution)	No* (see commentary in Section 8)	Yes
Money market funds (AAA rated) - Total	£22.5m / 60%	£3.3m / 18.23%	50% of total investments	No* (see commentary in Section 8)	Yes

8.5 As can be seen from the above table there have been several instances where the 2021/22 TMS strategy limits have not been complied with, particularly in relation to money market funds. Whilst some of this reasoning relates to the challenging economic circumstances in which the PFCC operated within during 2021/22, there were some governance issues relating to an element of these. However, because these issues have already been set out in previous quarterly reports submitted to the PFCC some of this content has not been repeated here.

8.6 The 5% limit referred to in Table 6 is based upon the total exposure to the counterparty concerned, as a proportion of the total investments held on that day. Any limits for counterparties with fixed term deposits are calculated only at the point that monies are invested.

8.7 Performance in respect of UK entities with a credit rating of A- or below, non-UK entities, corporates and registered providers have all been omitted from the below table as these were not used during 2021/22.

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8.8 In respect of liquid UK financial institutions, the 90% issue related to balances held with Barclays on the 1st of 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.

8.9 During the year there were four instances where money market funds in total exceeded the 50% threshold held. This was on the 1st April at 60%, 23rd August at 54%, 1st September at 54% and 58% on the 1st October 2021. These were corrected on the next working day and related to additional cashflow movements not previously anticipated, tipping this % over the guideline threshold. There was also one instance of the individual MMF balances being higher than the recommended 10% per fund limit.

8.10 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 where funds are instantly accessible on a same-day basis have been included within the 2022/23 TMS.

9.0 Treasury Management Indicators

9.1 The PFCC measured and managed its exposure to treasury management risks during 2021/22 using the following indicators.

9.2 **Interest rate exposure:** This indicator is set to control the PFCC's exposure to interest rate risk. The figures reflect the potential impact of a rise or decrease in the base rate by 1% with potentially more costs arising in both instances. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Table 7: Interest rate exposure

<table>
<tr><th></th><th>2021/22 - TMS interest rate position</th><th>31/3/22 interest rate position</th><th>2021/22 forecast impact - max tolerance (if 1% movement)</th><th>Complied (Yes/No)</th></tr>
<tr><td>Upper limit on one year revenue impact of a 1% rise in interest rates</td><td rowspan="2">0.10%</td><td rowspan="2">0.75%</td><td>(£150,000)</td><td>Yes (rise less than 1%)</td></tr>
<tr><td>Upper limit on one year revenue impact of a 1% fall in interest rates</td><td>150,000</td><td>Yes (rise less than 1%)</td></tr>
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9.3 The indicator for interest rate rises is based upon the potential exposure to additional interest payable. The indicator for interest rate reductions is based upon the potential exposure to reduced levels of investment income.

9.4 **Security:** The PFCC has adopted a voluntary measure of its exposure to credit risk by using minimum credit rating criteria for the counterparties it invests money with. These credit ratings are provided by the three main credit agencies in the UK (Standard & Poors, Fitch and Moody's) and are used in addition to counterparty information received from the PFCC's treasury management advisors Arlingclose. This approach supersedes the previous measure included within the 2021/22 TMS, as set out in the PFCC's 2021/22 TM Outturn Report.

Table 8: Minimum credit ratings for counterparties

	31/3/22 actual	2021/22 target	Complied (Yes/No)
Minimum credit rating (excluding operational bank account)	A	A	Yes

9.5 **Liquidity:** The PFCC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments on a daily basis, without the need for additional external borrowing. The amount available as well as the maximum amount utilised during 2021/22 is set out in Table 9 below.

Table 9: PFCC bank overdraft facility

	2021/22 maximum usage	2021/22 maximum available	2021/22 target availability	Complied (Yes/No)
PFCC bank accounts	£2.9m	£1.0m	£1.0m	No * (see commentary in section9)

9.6 The PFCC used the arranged overdraft position 11 times during 2021/22, eight of which equated to a deficit of less than £1.0m. On three occasions the account was overdrawn on three separate days £2.9m on 23rd March, £1.4m on 28th January and £1.04m on 17th December. However, on all occasions the overdrawn position was for one day only with the charges incurred being negligible, compared to a short-term external loan should this have been the agreed course of action instead. For the 22/23 TMS it is proposed to explore further opportunities to extend the use of the arranged overdraft as well as to implement a governance process for external borrowing which more accurately determines the values involved, and allows the PFCC to approve more accurate and timely external borrowing requirements.

9.7 **Principal sums invested beyond 365 days:** The purpose of this indicator is to control the PFCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities longer than one year are shown in Table 10 below:

Table 10: Investments longer than one year

`	31/3/22 actual	2021/22 target	Complied (Yes/No)
Principal invested beyond one year in duration	£0.0m	£5.0m	Yes

9.8. All investments were kept short-term during 2021/22 with a maximum investment duration of six months, relating to local authority deposits. This was mainly due to revised investment advice received from Arlingclose, which subsequently led to the removal of fixed term deposits for periods greater than 365 days in the 2021/22 TMS.

10.0 Consultation/Engagement

10.1 The economic context of this paper has been prepared in consultation with Arlingclose, the PFCC's treasury management advisors.

11.0 Future Work/Development

11.1 Work to expand the current range of 'highly liquid' financial instruments is referred to within the main body of the report. Other areas of proposed improvements are set out within the 2022/23 TMS due to be submitted to the June Strategic Board.

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Appendix A

Investment position on 31st March 2021

	31/03/2021 £000	Start date	Maturity date	Approx. Rate %
Call/notice accounts				
Santander UK PLC	2,260			0.05%
Barclays Bank FIBCA	1,000			0.05%
Barclays Bank PLC	1,500			0.10%
Total	**4,760**			
Money market funds				
Blackrock	1000			0.00%
Insight	1,000			0.00%
Aberdeen	1,500			0.01%
Federated	1,500			0.01%
Aviva	1,500			0.01%
Total	**6,500**			
Fixed term deposits / Treasury Bills				
Bank of England DMO	6,500	29/03/2021	01/04/2021	0.01%
Thurrock Council				
Total	**6,500**			
Other				
Lloyds current account	818			0.02%
	818			
Total treasury investments	**18,578**			

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Investment position on 31st March 2022

	31/03/2022 £000	Start date	Maturity date	Approx. Rate %
Call/notice accounts				
Santander UK PLC	2,260			0.02%
Barclays Bank FIBCA	1,000			0.00%
Barclays Bank PLC	1,500			0.05%
Total	**4,760**			
Money market funds				
Blackrock	2,800			0.00%
Insight	500			0.00%
Aberdeen	0			0.01%
Federated	0			0.01%
Aviva	0			0.01%
Total	**3,300**			
Fixed term deposits / Treasury Bills				
Bank of England - Treasury Bills*	4,999	22/11/2021	14/04/2022	0.05%
Thurrock Council	5,000	15/10/2021	19/04/2022	0.10%
Total	**9,999**			
Other				
Lloyds current account	48			0.00%
	48			
Total treasury investments	**18,107**			

*The treasury bills were purchased with an original maturity date of the 23rd May 2022 however they were sold on the secondary market with a revised maturity date of 19th April 2022. The reason for the earlier date was to maintain sufficient liquidity for daily treasury activities in April 2022

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Appendix B

Cashflow - Income and Expenditure Quarter 4 – 2021/22

	As per plan				As per cashflow	
	January	February	March	Total Q4	Actual Q4	Variance
	£m	£m	£m	£m	£m	£m
Opening Position	**0.04**	**0.2**	**2.6**	**0.0**	**0.04**	**0.0**
Expenditure						
Supplier payments	(12.2)	(9.6)	(10.0)	(31.8)	(30.6)	1.1
Capital acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
HMRC payments	(6.4)	(6.9)	(6.4)	(19.7)	(20.0)	(0.3)
Essex LGPS payments	(1.5)	(1.5)	(1.5)	(4.4)	(4.4)	(0.0)
Pensioners payments	0.0	(5.4)	(5.4)	(10.8)	(10.8)	(0.0)
Payroll - uniform	(8.2)	(8.2)	(8.2)	(24.6)	(25.6)	(1.0)
Payroll - staff	(4.5)	(4.0)	(4.5)	(13.0)	(14.6)	(1.6)
	(32.8)	**(35.5)**	**(36.0)**	**(104.2)**	**(106.0)**	**(1.8)**
Income						
Council tax precepts	11.7	11.7	11.7	35.1	32.9	(2.2)
Core government funding	15.2	15.2	15.2	45.6	45.6	0.0
Other government grants	1.6	1.6	1.1	4.3	8.9	4.7
VAT reimbursements	0.8	2.6	2.0	5.4	2.2	(3.1)
Property sales	0.0	0.0	0.0	0.0	0.4	0.4
Other receipts	3.8	6.4	4.1	14.3	12.8	(1.5)
	33.1	**37.5**	**34.1**	**104.6**	**102.9**	**(1.7)**

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Appendix C

Economic & financial markets overview

The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period. Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. The rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

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Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels. Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review: In the first half of FY 2021/22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a few UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

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