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 / Cashflow** **Quarter 1 Report 2022/23**
Classification:	**Official**
Agenda Number	**3ii)**
Chief Officer	**DCC Andrew Prophet** **Janet Perry, Chief Finance Officer, PFCC Office**
Report from:	**Corporate Finance**
Date of Meeting:	**28th July 2022**
Author on behalf of Chief Officer:	**Arfanara Naidu, Technical Capital Accountant and Matt Tokley, Head of Corporate Accounting**
Date of Approval:	**13th July 2022 (COG)**

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 were first presented to Chief Officers and the PFCC during 2021/22. These reports set out key information in respect of cashflow and treasury management activities for the current year only.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) definition of treasury management is classified as '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 note the treasury management activity during the previous three months of 2022/23 and the onward plan for the remainder of the year.

3.0 Executive Summary

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

4.0 Background

4.1 It should be noted that the approval of the 2022/23 TMS was delayed, meaning the 2021/22 TMS has remained the formal source guidance for cash management throughout the preceding quarter. The 2022/23 TMS was approved at the PFCC's June Strategic Board and the related decision report is now in the process of being signed off.

5.0 External Context / Economic Background

5.1 The economic recovery continued to be a challenge during the first quarter of 2022/23, which was dominated by the economic damage to the UK economy due to the coronavirus outbreak over the last two years, Russia's invasion of Ukraine in February 2022 and the current high inflation dampening the global and UK economic growth. The high inflation rates, rise in energy and fuel prices significantly increase the chances of further global and regional recessions and impact on UK CPI rates. The CPI rates are at 9% and is forecast to increase further to 10% during 2022. The high sustained inflation is likely to lead to negative GDP growth for Q2 onwards in the UK due to negative real household disposable income growth.

5.2 The Bank of England (BoE) previously signalled that moderate monetary tightening alongside the fall in real income would pull inflation back to target across the medium term however inflation has exceeded the BoE expectation and further rises in interest rates are expected. The BoE monetary Policy Committee increase the official base rate by 0.5% to 1.25% in June and further increases are expected if inflation continues to rise and GDP continues to slow down.

5.3 The labour market continued to show signs of tightening as employers struggled to fill vacancies, and unemployment levels fell by 3.8% and is now below pre-pandemic levels with pay growth at 6.8% including bonuses, and 4.2% for regular pay. However total growth in pay was just 0.4% after adjusting for inflation.

5.4 Inflation in the eurozone also increased to 8.1% during the period with the main contributing factor being that Europe was heavily impacted by the energy crisis following the Russia and Ukraine war. The European Central Bank is expecting to revise their monetary policy and end quantitative easing at the beginning of July and increase the interest rates by 0.25% later in the month.

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) arising from its revenue and capital expenditure activities, netted off by any applicable income streams 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 2022 Actual £m
Capital financing requirement	20.68
Less: usable reserves	(37.57)
Less: working capital	2.67
Net (borrowing)/investments	**14.22**

6.2 The treasury management cashbook position as of the 30th June 2022, as well as the changes over the first quarter are shown in Table 2. This represents the accounting position which is consistent with the Draft Statement of Accounts 2021/22, which is in the process of being finalised at the time of writing.

Table 2 - Treasury Management Summary (Year to Date)

	31st March 2022 Actual £m	Movement	30th June 2022 Actual £m
External Borrowing	0.00	0.00	0.00
Total external borrowing	0.00	0.00	0.00
Short-term investments	10.00	(4.50)	5.50
Cash and cash equivalents	4.22	0.89	5.11
Total investment	14.22	(3.60)	10.61
Total Net Investment	**14.22**	**(3.60)**	**10.61**

Summary - Quarter 1 2022/23

6.3 On 30th June, the PFCC had net cash and investments of £10.61m based on the cashbook position above, however the actual balance held at bank was £7.26m, 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

	31st March 2022 Actual £m	30th July 2022 Actual £m	Movement £m
Call accounts	3.26	1.01	(2.25)
Money market funds	3.30	4.00	0.70
Fixed term deposits (including notice accounts)	11.50	2.50	(9.00)
Lloyds current account	0.05	(0.25)	(0.30)
Total	**18.107**	**7.261**	**(10.85)**

6.4 The investments balance has decreased by £10.85m over the three-month period with the reduction relating to lower grant receipts in the period compared to the previous quarter, as well as other reductions in miscellaneous income. Typically, the annual cashflow cycle is low in the first quarter and peaks during the summer when the Police Officer Pension Top Up Grant is received from the Home Office. Thereafter, the position declines in the third and fourth quarters with an external borrowing expectation being forecast in the latter.

6.5 The average level of investments over the three-month period from 01/04/22 – 30/06/22 was £11.8m representing an average return of 0.7%. This represented an appreciative uplift from the previous quarter and a more positive level of return than that seen for the majority of the last 1-2 years. Whilst the returns picked up there was a continued priority of security over yield in the PFCC's TMS, a reliance on the Debt Management Office and money market funds, and somewhat limited avenues in respect of other investment routes. Based on the increase in interest rates in May and June together with the prospect of further increases in interest rates during the remainder of this financial year, coupled with the anticipated Top Up Grant income of £29m in the second quarter, discussions are underway in respect of exploring various options for the optimum approach of investing these surplus monies.

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 timing fluctuations and differences between actual amounts to estimates, are covered within this reporting mechanism.

6.7 For the period 1/4/22 – 30/6/22 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	
	April	May	June	Total Q1	Actual Q1	Variance
	£m	£m	£m	£m	£m	£m
Opening Position	**0.048**	**0.447**	**1.973**	**0.048**	**0.048**	**(0.000)**
Expenditure						
Supplier payments	(17.0)	(10.0)	(9.3)	(36.3)	(35.1)	1.2
HMRC payments	(6.8)	(7.2)	(7.6)	(21.5)	(21.3)	0.3
Essex LGPS payments	(1.5)	(1.5)	(1.5)	(4.5)	(4.4)	0.1
Pensioners payments	(11.0)	0.0	(5.6)	(16.6)	(16.6)	(0.1)
Payroll - uniform	(8.6)	(8.5)	(8.5)	(25.6)	(26.6)	(1.0)
Payroll - staff	(4.4)	(4.5)	(4.5)	(13.4)	(13.8)	(0.4)
	(49.3)	**(31.7)**	**(36.9)**	**(117.9)**	**(117.9)**	**0.1**
Income						
Council tax precepts	8.2	12.4	12.4	33.0	33.0	0.0
Core government funding	16.4	17.2	16.1	49.7	48.3	(1.4)
Other government grants	1.5	1.5	1.1	4.1	8.5	4.4
VAT reimbursements	0.8	3.9	0.8	5.5	5.1	(0.4)
Property sales	0.4	0.4	0.0	0.8	0.0	(0.8)
Other receipts	4.8	4.9	6.7	16.4	13.2	(3.2)
	32.1	**40.3**	**37.1**	**109.5**	**108.0**	**(1.4)**

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 £0.1m, after the adjustments referred to in the paragraph above. This mainly related to the following issues:

- Supplier payments made up the bulk of the main variance in relation to expenditure, with outgoings £1.2m 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 continue to be a key workstream for Corporate Accounting and 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, as well as maximising the use of Process Director information for outstanding supplier payments.

- Other variances totalled to a net decrease of £1.1m comprising of higher payments to HMRC of £0.3m and £0.1m of Essex LGPS payments relating to increased payroll-related contributions in respect of additional overtime and bank holiday payments, offset by a decrease of £1.4m relating to salaries 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 £1.4m decrease in income compared to the forecast plans submitted, which was comprised of an increase of £4.4m relating to grants receipts offset by a reduction in income for Core government grants of £1.4m, VAT reimbursements of £0.4m, decreases of £0.8m in respect of property sales and a reduction of £3.2m in other receipts. Further detail and explanations for the income variances are set out below:

- £4.4m increase in income relating to other government grants including the Police Officer Pension Scheme top up grant of £2.89m, Council Tax Freeze Grant of £0.5m, Council Tax Support Grant of £2.8m, COP26 mutual aid monies of £1m, PUP grant for £0.6m and other various smaller grants of £0.7m.

- £3.2m variance relating to other receipts with actual miscellaneous income received lower compared to the forecast in Quarter 1, 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 £0.4m 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. 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 1/4/22 – 30/6/22 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	
	April £m	May £m	June £m	Total Q1 £m	Actual Q1 £m	Variance £m
Opening Position	**0.048**	**0.447**	**1.973**	**0.048**	**0.048**	**(0.0)**
Net expenditure						
Expenditure	(49.3)	(31.7)	(36.9)	(117.9)	(117.9)	**0.1**
Income	32.1	40.3	37.1	109.5	108.0	**(1.4)**
	(17.3)	**8.7**	**0.2**	**(8.4)**	**(9.8)**	**(1.3)**
Investment activity						
Fixed term investments - new deals	(14.0)	(25.0)	(12.0)	(51.0)	(51.0)	0.0
Fixed term investments - repayments	23.9	21.5	10.0	55.4	55.0	(0.4)
Money market funds - additions	(11.5)	(11.0)	(13.5)	(36.0)	(42.3)	(6.3)
Money market funds - withdrawals	14.6	11.5	14.0	40.1	55.0	14.9
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
Treasury Bills	0.0	0.0	0.0	0.0	5.0	5.0
Interest receivable	0.0	0.0	0.0	0.0	0.0	0.0
	13.0	**(3.0)**	**(1.5)**	**8.5**	**21.7**	**13.3**
External borrowing activity						
Short-term external borrowing	0.0	5.0	0.0	5.0	5.0	0.0
Short - term external borrowing - repayment	0.0	(5.0)	0.0	(5.0)	(5.0)	(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	**(4.3)**	**6.1**	**0.7**	**0.1**	**12.0**	**11.9**

6.12 In Quarter 1 there was a significant decrease in cash balances during April with £4.98m of treasury bills sold on the secondary market and various drawdowns actioned from call accounts. In addition, external short-term borrowing of £5m was undertaken with Manchester City Council for a period on one month to maintain sufficient liquidity for daily treasury activities.

6.13 Cash balances remained low during May due to a delay in receipts from HMRC relating to VAT, leaving the current account in an overdraft position of £3m with Lloyds Bank for one day on Friday 6th May. This was in breach of the TMS, however the position was only temporary and following consultation with the PFCC Chief Financial Officer, the decision was taken not to borrow from external sources. This was mainly due to the expected scheduled grant income of £15m expected to be received on Monday 9th May.

6.14 There have been no other significant deviations to the investment approach adopted by the PFCC with similar financial instruments used during this period, also reflecting the delay with the 2022/23 TMS being approved Table 5 above expands on Table 4 to encompass the treasury management activity during Quarter 1, reflecting a net decrease in expected investments compared to the plan of £13.3m. This variance was mainly comprised of an increased requirement to draw on money market funds during the period, representing £8.6m of this variance as well as the £5m of treasury bills also needing to be called back earlier than expected.

6.15 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

	April £m	May £m	June £m
Total cash & investments - estimated as per plan	18.0	8.0	6.0
Total cash & investments - actual as per month-end position	18.5	5.5	2.4
Variance	**0.5**	**(2.5)**	**(3.6)**

7.0 Cashflow – remainder of 2022/23

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 2022/23 (April 2022 – March 2023)

	Cashflow summary & forecast - 2022/23			
	Q1	Q2	Q3	Q4
	£m	£m	£m	£m
Opening Position	**0.05**	**0.80**	**0.80**	**0.80**
Expenditure				
Supplier payments	(35.1)	(36.5)	(30.7)	(40.9)
Capital - property acquisitions	0.0	0.0	0.0	0.0
HMRC payments	(21.3)	(20.7)	(19.9)	(19.9)
Essex LGPS payments	(4.4)	(4.6)	(4.5)	(4.5)
Pensioners payments	(16.6)	(22.0)	(16.5)	(16.5)
Payroll - uniform	(26.6)	(25.5)	(25.5)	(25.5)
Payroll - staff	(13.8)	(13.6)	(13.5)	(13.5)
	(117.8)	**(123.0)**	**(110.7)**	**(120.9)**
Income				
Council tax precepts	33.0	37.2	38.2	36.0
Core government funding	48.3	48.4	48.4	48.4
Pension top-up grant	0.0	29.0	0.0	0.0
Other government grants	8.5	3.3	4.6	4.5
VAT reimbursements	5.1	2.3	2.3	2.3
Property sales	0.0	0.3	0.0	0.9
Other receipts	13.2	16.0	10.9	9.7
	108.1	**136.4**	**104.3**	**101.6**
Net cashflow surplus/(deficit)	**(9.6)**	**14.3**	**(5.7)**	**(18.4)**
Treasury activity				
Investment balances brought forward	7.5	(2.0)	12.3	6.6
Net addition to/(reduction of) investments	(9.6)	14.3	(5.7)	(18.4)
Net external borrowings	0.0	0.0	0.0	0.0
Total net cash and investments	**(2.0)**	**12.3**	**6.6**	**(11.8)**

7.2 The cashflow forecast, particularly the more detailed version within the appendices, demonstrates that the cashflow peaks between the second and third quarter, and thereafter declines over the remainder of the year. As previously noted, the second quarter trend relates to the annual pension top-up grant being received during this period. This latter amount was subsequently received in the PFCC bank account on the 5th of July, totalling £29m.

7.3 The actual cashflow position for the first quarter reflects the significant decrease in cash balances during this period, when short-term external borrowing was undertaken to meet this temporary shortfall (as referred to in 6.12). Cash balances are expected to improve during the second quarter to £12.3m, however it is anticipated that they will then decrease over the second half of the year.

7.4 Based on the approved 2022/23 Capital Programme and related investment plans, external borrowing is forecast for this year and the subsequent medium-term period, with a direct impact on treasury management processes and the force cashflow. The cash position forecast for Q4 is expected to be in deficit by £11.8m, reflecting the expected capital investment required as well as the diminishing resources available to fund this.

7.5 In respect of property sales, the PFCC is expecting to receive £3.365m before year-end, including £1.5m for Harlow. These sales will be dependent on completions being finalised in expected timescales and may potentially slip into 2023/24. If this does occur the PFCC will cover this deficit based on the approved instruments available, as set out in the TMS.

7.6 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 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.

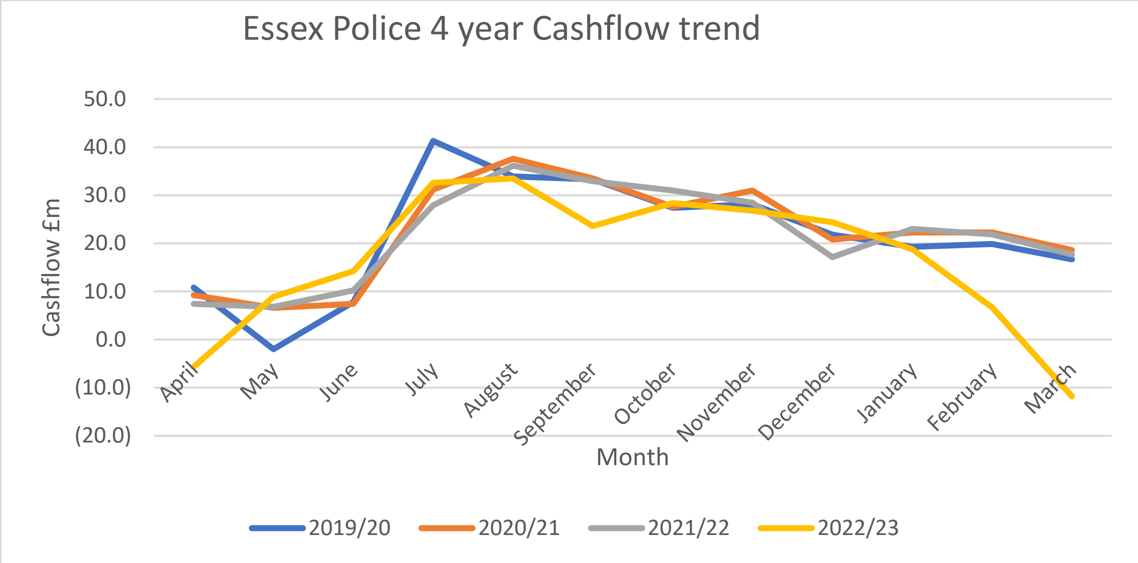
7.7 With interest rates expected to increase further over the next few months the PFCC will continue to invest funds over shorter-term periods thus retaining the option to take advantage of more attractive rates should they arise later in the year. Covered bonds and strategic pooled funds also provide alternative investment options with a moderate increased level of risk, and the relative benefits and disadvantages of using these instruments will continue to be reviewed. This includes any compliance issues to the Prudential Code, should borrowing be required to fund them, although this is not expected to be an issue of concern. However, based on the current economic position these funds will not be prioritised at the current time with returns from these funds deemed to be less attractive than other comparable options in the market.

7.8 As Table 7 confirms external borrowing is anticipated in 2022/23 to support investment plans, which also includes an element to meet short-term cashflow requirements, with these extra funds invested short-term where appropriate. This also means the PFCC is not expected to require any further action to retain the minimum balance of £10m investments in accordance with MiFID II legislation.

7.9 The PFCC has also assessed whether any consideration should be given to borrowing in advance of need, based on the increasing interest rates forecast across the remainder of 2022/23. This is allowable in the Prudential Code if being undertaken primarily to minimise upcoming financing costs required to fund operational and strategic priorities. However, based on the relatively low amount of funds required in 2022/23, as well as where borrowing rates are already placed, the PFCC has assessed that there is no material benefit expected in undertaking borrowing in advance of need at the current time.

7.10 Table 8 below sets out the four-year cashflow trend for the period 2019/20 – 2022/23, showing the forecast deficit at 31/3/23.

Table 8 – 4-year Cashflow trend



7.11 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 force HQ project and wider capital programme priorities, 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 1 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 2022/23 have complied with both the CIPFA Code of Practice as well as the Prudential Code, with some minor variations to the approved PFCC's 2021/22 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 2022/23 are demonstrated in Table 9 below.

Table 9 – External Borrowing Limits

	2021/22 - TMS	2022/23 - 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 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 The above indicators are regularly reported to the PFCC and this information has therefore not been re-produced here, with compliance accepted in each case. For financing costs the 2022/23 forecasts for minimum revenue provision (MRP) and interest payable are immaterial based on net revenue stream, and not deemed to be a key risk.

9.0 Compliance – Treasury Management Practices (TMP's)

9.1 Compliance for the PFCC's TMP's across the first quarter are set out in the table below.

Table 10 – TMP's summary

TMP's	Q1 2022/23 (based on 2021/22 TMS)	Complied (Yes/No)
Interest rate risk indicator - 1% rise in interest rates (upper limit impact)	(£150,000)	Yes - rate rises to date in 2022/23 have not breached TMS limits
Interest rate risk indicator - 1% fall in interest rates (upper limit impact)	£150,000	Yes - rate rises to date in 2022/23 have not breached TMS limits
Minimum credit rating for counterparty investments	A	Yes
Gross bank account overdraft facility availability	£10m	Yes
Net bank account overdraft facility availability	£1m	No - £3m in overdraft for the 6th May, however overdraft extension agreed with Lloyds on the day, and agreed with PFCC CFO
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 - external borrowing in accordance with TMS maturity structure to Quarter 1 period 2022/23

Compliance – Investments

9.2 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, however that is essentially due to revised criteria which has now been incorporated into the 2022/3 TMS which was still awaiting approval at the end of the first quarter. These issues are therefore not envisaged to continue across the remainder of the year.

Table 11 – Investment Compliance

	2022/23 - maximum to date	30/06/2022	Guideline limit (based on 2021/22 TMS)	Complied (Yes/No)
UK central government (including DMADF & Treasury Bills)	£154.2m	£28.77m	£ unlimited (10 years)	Yes
UK local government - per authority	£0.0m	£0.0m	£5.0m per authority (5 years)	Yes
UK local government - total	£0.0m	£0.0m	£ unlimited in total (5 years)	Yes
Lloyds bank account plc (operational bank account)	£3.8m (overnight only)	(£0.249m) / (3.43%)	£2.0 maximum (1 year)	No * (see commentary in section 10)
UK financial institutions (between A and AAA, liquid investments)	£2.51m / 153.6% (highest % when > £1m)	£2.51m / 34.5%	Higher of 5% or £1.0m (unlimited in total, 1 year per institution)	No* (see commentary in Section 10)
Money market funds (AAA rated) - Total	£10m / 44%	£4m / 55%	50% of total investments, £5m per institution, unlimited sector limit	No* (see commentary in Section 10)

9.3 In respect of liquid UK financial institutions, the 153.6% issue related to balances held with Barclays on the 6th May which was due to the £3m overdraft position held with Lloyds., Following consultation with the PFCC's Chief Financial Officer the decision was taken not to undertake external borrowing to plug this deficit based on the short-term nature of the breach (e.g. one working day only). As previously noted, additional flexibility will be included in the 2022/23 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 £15m of grant income was expected the following day.

9.4 During the first quarter there were two instances where money market funds in total exceeded the agreed 50% threshold, with 52% held in these funds on the 26th April, and 54.72% on the 27th May. In monetary terms this equated to £6m and £4m and both instances were corrected on the next working day and related to additional cashflow movements not previously anticipated, tipping this percentage over the guideline threshold.

10.0 Other Issues

10.1 It should be noted that various amendments have been made in the draft 2022/23 Treasury Management Strategy including updated criteria and limits for call accounts and money market funds. A proposal for a Strategic Pooled Fund is again included but will be outside of agreed investment criteria until specifically agreed.

10.2 New governance arrangements agreed with the PFCC in respect of the process by which external borrowing is approved are also covered in the new strategy. As part of this proposal the Quarter 1 TM/Cashflow report will be the last presented to the PFCC Performance and Resources Scrutiny Board (PRSB), with the Quarter 2 report due to be presented to the PFCC Strategic Board instead. The underlying reason for this change represents the requirement for a decision to be approved in respect of any external borrowing recommended for the following quarter. Future TM reports will continue to be submitted via the Strategic Board route thereafter, rather than PRSB.

Appendix A

Investment position on 30th June 2022

	30/06/2022 £000	Start date (where applicable)	Maturity date (where applicable)
Call/notice accounts			
Santander UK PLC - call	10		
Barclays Bank PLC – call	1,000		
Total	**1,010**		
Money market funds			
Aberdeen	2,000		
Aviva	2,000		
Black Rock	-		
Federated	-		
Insight	-		
Total	**4,000**		
Fixed term deposits			
Bank of England - DMO	1,000	24/06/2022	01/07/2022
Barclays PLC - notice	1,500		
Total	**2,500**		
Other			
Lloyds current account	(249)		
Total	**(249)**		
Total treasury investments	**7,261**		

Appendix B

Monthly Cashflow Forecast for the remainder of 2022/23

	July	August	September	October	November	December	January	February	March
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening Position	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Expenditure									
Supplier payments	(13.6)	(13.6)	(12.7)	(10.2)	(10.2)	(10.2)	(18.7)	(21.0)	(24.6)
Capital - property acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HMRC payments	(7.5)	(6.6)	(6.6)	(6.6)	(6.6)	(6.4)	(6.6)	(6.4)	(6.4)
Essex LGPS payments	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
Pensioners payments	(11.3)	0.0	(11.0)	0.0	(5.4)	(5.4)	0.0	(5.4)	(5.4)
Payroll - uniform	(8.5)	(8.5)	(8.5)	(8.5)	(8.5)	(8.5)	(8.2)	(8.5)	(8.5)
Payroll - staff	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)
	(46.8)	**(34.7)**	**(44.9)**	**(31.3)**	**(36.6)**	**(36.5)**	**(39.4)**	**(47.3)**	**(50.9)**
Income									
Council tax precepts	12.4	12.4	12.4	14.3	11.7	12.4	12.4	11.7	9.4
Core government funding	16.1	16.1	16.1	16.1	16.1	16.1	16.1	16.4	16.3
Pension top-up grant	29.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other government grants	1.0	1.0	1.0	1.1	1.1	1.1	1.1	0.0	0.0
VAT reimbursements	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	2.0
Property sales	0.3	0.0	0.3	0.0	1.6	0.3	0.0	1.6	0.3
Other receipts	5.6	5.3	4.4	3.7	3.7	3.4	3.4	4.7	4.4
	65.1	**35.6**	**35.0**	**36.0**	**35.0**	**34.1**	**33.8**	**35.2**	**32.4**
Net cashflow surplus/(deficit)	**18.3**	**0.9**	**(9.9)**	**4.8**	**(1.6)**	**(2.5)**	**(5.6)**	**(12.1)**	**(18.5)**
Treasury activity									
Investment balances brought forward	14.2	32.6	33.5	23.6	28.4	26.8	24.4	18.8	6.7
Net addition to/(reduction of) investments	18.3	0.9	(9.9)	4.8	(1.6)	(2.5)	(5.6)	(12.1)	(18.5)
Net external borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total net cash and investments	**32.6**	**33.5**	**23.6**	**28.4**	**26.8**	**24.4**	**18.8**	**6.7**	**(11.8)**

Appendix C

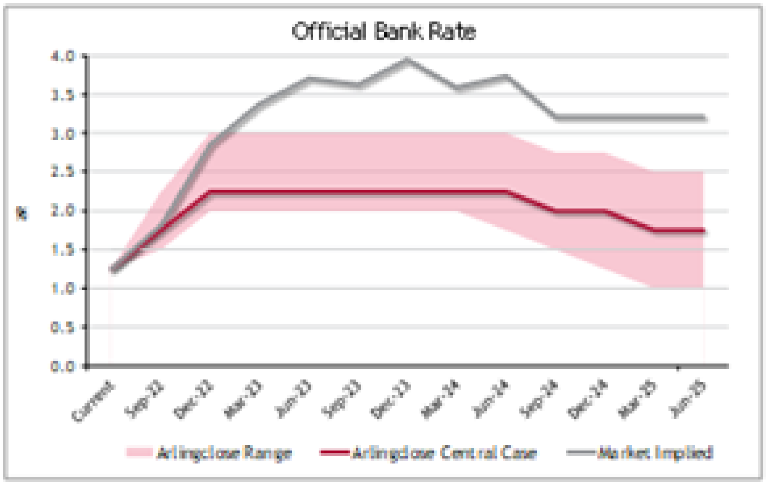
Arlingclose Interest Rate Outlook for the remainder of 2021/22 and beyond

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 emerging treasury management issues.

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

Economic and Interest Rate Forecast June 2022

	Current	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Arlingclose Central Case	1.25	1.75	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75
Downside risk	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75



The Bank of England increased the base rate to 1.25% in June. Arlingclose expect this rate to rise again during the year in and believe that the MPC will raise the rate further in September, then again in December, attempting to dampen aggregate demand and reduce the risk of sustained higher inflation.

The high inflation is dampening global economic growth due to the current economic environment with regards to the invasion of Ukraine, the rise in fuel and energy costs . High sustained inflation is likely to lead to zero or negative GDP growth for Q2 2022 onwards will significantly influence the UK CPI rate expecting to rise to 9%.