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| **Required for:** | Joint Audit Committee |
| **Security Classification:** | **Official** |
| **Handling information if required:** | n/a |
| **Suitable for publication:** | *Yes*  |
| **Title:** | 2020/21 Outturn Treasury Management report |
| **Version:** | n/a |
| **Purpose:** | To review the annual activity and performance of the treasury management function. |
| **ACPO / Strategic Lead:** | PCC |
| **National Decision Model compliance:** | *Yes* |
| **Date created:** | 12 July 2021 |
| **Date to be reviewed:** |  |
| **AUTHOR:** |  |
| **Name:** | Kelvin Menon |
| **Job Title:** | PCC Treasurer |
| **Telephone number:** | 01483 638724 |
| **Email address:** | Kelvin.Menon@surrey.pnn.police.uk |

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**Summary:**

This report contains a summary of treasury management performance activity undertaken during 2020/21 up to and including 31 March 2021.

In addition this report details the statutory requirements of the CIPFA Treasury Management Code of Practice (the Code of Practice).

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**Recommendation(s) -**

The PCC is asked to note the contents of this report.

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**Introduction -**

**1 Treasury Management – Statutory Requirements**

* 1. Compliance with the CIPFA Code of Practice is a requirement under The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. The main aim is to ensure that comprehensive policies and practices are in place for the effective management and control of treasury management activities, including the effective management and control of risk.
	2. Treasury management is defined in the Code of Practice as “*the management of the organisation’s investments and 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.*
	3. The Treasury Management Policy Statement and Strategy 2019 to 2022 includes a requirement that the PCC will review/approve, the following:
* An annual Treasury Management Policy Statement and Strategy
* An annual Capital Strategy
* Borrowing limits and other prudential indicators
* Six monthly reports (annual and mid-year) on activities and performance of the Treasury Management function
	1. The Code of Practice emphasises that when assessing the performance of a treasury management provider, comparisons should only be made with other providers who have a similar risk appetite, and should always consider the security, liquidity and yield of funds invested, with security and liquidity having priority over yield.
	2. The Police and Crime Commissioner (PCC) operates a balanced revenue budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties. The priority is to provide adequate security and liquidity before considering optimising investment return.

1. **Treasury Management Transactions Annual Outturn for 2020/21**

The treasury management function is carried out by Surrey County Council (SCC) under a service level agreement. Under this agreement the following treasury management transactions were undertaken during 2020/21 up to 31 March 2021:

* 1. Short Term Lending

In accordance with agreed policy, surplus cash was lent on a daily basis to SCC. The following loans were made during the year:

|  |  |  |
| --- | --- | --- |
| **2019-20** |  | **2020-21** |
| £28.623m | Average Investment | £27.401m |
| 257 | Number of Loans | 253 |
| £0.207m | Total Interest Received | £0.041m |
| 0.75% | Average Interest Earned Q1 | 0.31% |
| 0.75% | Average Interest Earned Q2 | 0.14% |
| 0.75% | Average Interest Earned Q3 | 0.10% |
| 0.72% | Average Interest Earned Q4 | 0.10% |
| 0.74% | Total Average Interest Earned | 0.16% |

The average rate of return for the year 2020-2021 was 0.16% based upon an average investment of £27.4m and is above the average London Inter-Bank BID rate (formerly Local Authority 7 day rate) for the same period of -0.07%. Appendix 1 shows the % interest rates achieved with appendix 2 showing the actual interest amounts received.

Appendix 3 shows that investment balances continue to fall due to use of reserves to fund the budget and reduction of capital receipts being received.

* 1. The primary consideration governing the Surrey County Council’s Strategy is to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking optimal rate of return or yield and to strike a balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the aim is to achieve a total return that is equal or higher than the prevailing rate of inflation in order to maintain the spending power of the sum invested.
	2. The Bank of England base rate remained at 0.10% throughout the year in response to uncertainty pertaining to the coronavirus pandemic.

* 1. The cost to the PCC for the services of Surrey County Council for 2020/21 was £20,746 and is forecast to remain at a similar level for 2021/22.
	2. Short Term Borrowing

No short term external borrowing was undertaken during 2020/21, all cash balances were lent overnight allowing us the flexibility to draw on our own resources.

* 1. Long Term Borrowing

No new borrowing was taken during the year. The PWLB loan taken out in March 2019 has a balance remaining of £15.1m which supports the Building the Future project and capital programme. This loan represents equal instalments of principal (EIP) together with interest on the balance outstanding and will be fully repaid in 28 years March 2049.

Trends and variations in the PWLB interest rates are illustrated in Appendix 4.

* 1. Future Borrowing Requirements

The long-term borrowing requirement continues to be periodically reviewed. The PCC has various options for financing future borrowing, this is likely to be achieved through a mixture of internal borrowing and Public Work Lending Board (PWLB) borrowing. The main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

* 1. General

Surrey County Council’s treasury management officers monitor cash flow on behalf of the PCC and aggregate this with their own cash flow, before making appropriate investments on behalf of both organisations. Accordingly there was no requirement to deal with brokers or bankers during 2020/21.

* 1. Economic Update

A review of economic performance to date and outlook can be found at Appendix 5.

1. Value for Money

The PCC is committed to achieving value for money in treasury management. Although returns on investment appear low this is offset by the competitive cost of the treasury management service provided by SCC.

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**Equalities Implications –** There are no equalities implications arising from this report.

**Risk –** The following risk arises from this report:

* Minimising risk to ensure the Commissioner’s principal sums are safeguarded is achieved by undertaking all Treasury Management activity during the year in accordance with the approved Treasury Management Policy Strategy and associated contracts with SCC. Maximising income is considered secondary to this main aim.

**Human Rights –** There are no human rights implications arising from this report.

**Attachments:**

**Background papers –**

This document has been prepared with due regard to:-

PCC Treasury Management Strategy

CIPFA The Prudential Code for Capital Finance in Local Authorities – 2018 edition

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

**Contact details -**

**Name:** Miranda Kadwell

**Job Title:** Chief Accountant

**Email address:** Miranda.Kadwell@surrey.pnn.police.uk

**APPENDIX 1 – INTEREST RATE PERFORMANCE**

**APPENDIX 2 – INTEREST RETURN PERFORMANCE**

**APPENDIX 3 – INVESTMENT PORTFOLIO PERFORMANCE**

**APPENDIX 4 – PWLB certainty rates to 31 March 2021**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  **1 Year**  |  **5 Year**  |  **10 Year**  |  **25 Year**  |  **50 Year**  |
| **31/03/20** | 1.90% | 1.95% | 2.14% | 2.65% | 2.39% |
| **31/03/21** | 0.79% | 1.18% | 1.71% | 2.19% | 1.99% |
|  **Low**  | 0.65% | 0.72% | 1.00% | 1.53% | 1.32% |
|  **Low Date**  | 04/01/21 | 11/12/20 | 11/12/20 | 11/12/20 | 11/12/20 |
|  **High**  | 1.94% | 1.99% | 2.28% | 2.86% | 2.71% |
|  **High Date**  | 08/04/20 | 08/04/20 | 11/11/20 | 11/11/20 | 11/11/20 |
|  **Average**  | 1.43% | 1.50% | 1.81% | 2.33% | 2.14% |

Gilt yields fell sharply from the start of 2020 due to the pandemic. Expectations of economic recovery started in 2021 and once the UK vaccination programme started making rapid progress, gilt yields and PWLB rates started rising sharply as confidence in economic recovery rebounded. At the close of play on 31 March 2021, all gilt yields from 1 to 5 years were between 0.19% and 0.58% whilst 10 year and 25 year yields were at 1.11% and 1.59%.

HM Treasury imposed an additional 1% margin over gilts to all PWLB rates until 11 March 2020 when this was partially reversed for some forms of borrowing. A consultation was then held with local authorities and on 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; standard and certainty margins were reduced by 1%.

**APPENDIX 5 – Economic Update**

**UK.**  **Coronavirus.** The 2020/21 financial year was dominated by the pandemic. The first national lockdown in late March 2020 had a significant impact on the economy. This caused an economic downturn exceeding the financial crisis of 2008/09. A second lockdown in November 2020 was followed by a third lockdown in January 2021. Businesses and individuals became more resilient in adapting to working in new ways so less impact was observed compared to the initial lockdown. Introduction of the vaccines promises to lead to a return to more normal life during the second half of 2021 which in turn will speed up economic recovery and reopening of the economy generally.

The Bank of England base rate has remained at 0.10% since 11 March 2020 as a result of the continuing uncertainty resulting from the coronavirus pandemic.

The Chancellor implemented government support to businesses by way of cheap loans and protecting employment by paying for workers on furlough. This support comes at great cost and increased debt to GDP ratio to circa 100%. Tax increases are planned for the three years following 2021 and 2022 to help pay for pandemic costs.

**UK.**  **Brexit.** The final agreement of 24 December 2020 eliminated some of the downside risk for the UK economy. Further work needs to be undertaken for the services sector and disruption was experienced during January due to form filling barriers to trade.