

**REPORT OF:** CHIEF FINANCIAL OFFICER  
**TO:** ACCOUNTS & AUDIT COMMITTEE  
**DATES:** 30<sup>th</sup> JULY 2019

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**TREASURY MANAGEMENT  
2019/20 QUARTER 1 MONITORING REPORT**

**PURPOSE OF REPORT**

1. The purpose of this report is to advise the Committee of the treasury management activities of the Council for the first quarter of 2019/20.

**RECOMMENDATIONS**

2. It is recommended that the Committee note the work on the Council's treasury management activities in the period 1<sup>st</sup> April to 30<sup>th</sup> June 2019.

**ISSUE**

**Introduction**

3. The Council's Treasury Management policy requires that at least twice a year, a report be submitted to the Policy and Resources Committee on the Council's Treasury Management activities. It also represents good practice to report on treasury activities to the Accounts and Audit Committee. This report provides a summary view of the activity undertaken in the year to date in relation to the Council's debt and investment.
4. The contribution the treasury management function makes to the authority is critical as the balance of debt and investment operations ensures liquidity, or the ability to meet spending commitments as they fall due either on day to day revenue or for larger capital projects. The revised CIPFA code of guidance for Treasury Management requires the publication of a Capital Strategy from 2019/20 and this was approved by Council on 6<sup>th</sup> February 2019. A copy can be accessed [here](#) (item 7 refers).

**Long Term Borrowing**

5. At the beginning of this financial year, the Council held loans of £20.359m, comprised wholly of Public Works Loan Board (PWLB) debt.

6. New borrowing in the sum of £2.5m (two transactions of £1m and £1.5m respectively) was undertaken in quarter 1 as detailed below:
- 21<sup>st</sup> June 2019 - £1m repayable on 31<sup>st</sup> March 2049 at a fixed rate of 2.28%
  - 21<sup>st</sup> June 2019 - £1.5m repayable on 31<sup>st</sup> March 2056 at a fixed rate of 2.21%
7. As a result the Council had PWLB loan debt of £22.859m at the end of the first quarter at an average cost reduced from 3.11% as at 31<sup>st</sup> March 2019 to 3.02%. An analysis of this long-term debt is provided at **Appendix A** with a maturity profile provided at **Appendix B**. The rates obtained are within the Council's advisors, Link Asset Services (LAS) 'trigger' level applicable to each loan period, being 2.90% (2.28% achieved) and 2.70% (2.21% achieved) respectively. Decisions on long-term borrowing, such as timing and amount, also impacts on the revenue budget as assumptions on external debt repayment are made within the Medium Term Financial Plan (as set out in paragraph 20 below).
8. In accordance with the approved Treasury Management Strategy Statement (TMSS) 2019/20, net borrowing for the year was forecast at £5m, being the underlying need to borrow to finance the Capital Programme. As per the approved Capital Strategy, the position is to incur no new borrowing for capital investment over the life of the current Medium Term Financial Plan (2019/20 to 2021/22).
9. The above borrowing of £2.5m is within this forecast and supports the financing of programmed capital expenditure within the Council's Capital Financing Requirement (CFR) that cannot be met from other resources e.g. asset disposal receipts, grants, use of reserves. The strategy applied to financing the Capital Programme is that capital receipts will be used in lieu of borrowing, but that this will remain under review with decisions reported to Policy and Resources Committee and/or Accounts and Audit Committee as appropriate. The use of Capital Receipts is, of course, wholly dependent on the sale of surplus assets.

### **Temporary (or Short-term) Borrowing**

10. Temporary borrowing relates to loans which are repayable:-
- a) Without notice or
  - b) At less than 12 months' notice or
  - c) Within 364 days of the date of borrowing.

During the period to date, the Council has not undertaken any short-term borrowing.

### **Temporary (or Short-term) Investments**

11. The Council's cashflow position is generally such that it has scope to undertake the short-term investment of surplus funds, i.e. as represented by balances, reserves etc. The Council started the year with investments of £16.0m. The balance of investments as at 30<sup>th</sup> June 2019 was £20.5m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

**Table 1: Analysis of Investments at 30<sup>th</sup> June 2019**

	<b>£m</b>	<b>No.</b>
Opening Balance of Investments	16.000	9
New Investments	49.500	17
Investments Realised	(45.000)	14
<b>Balance of Investments at 30<sup>th</sup> June 2019</b>	<b>20.500</b>	<b>12</b>

**Note:** The amounts and volumes shown above for 'New Investments' and 'Investments Realised' reflect cumulative values for transactions in the year to date as illustrated by way of the following example:-

- Make a new investment of £2m (counts as 1 new investment);
- Recall £0.5m from this investment (counts as the realisation of original investment of £2m and the making of 1 new investment of £1.5m);
- In summary this would be shown as 2 'new' investments with a combined value of £3.5m and 1 'realised' investment of £2m;
- The reported net position would be 1 outstanding investment with a current balance of £1.5m.

12. The 12 investments comprising the balance of £20.5m were placed with the following sectors:

	<b>£m</b>	<b>%</b>	
a. Local Authorities	9.5	46.34	(Principal Councils (3))
b. UK Banks	6.5	31.71	(Lloyds (3) / Santander (2))
c. Non UK Banks	-	-	-
d. Building Societies	4.5	21.95	(Coventry (2) / Nationwide (2))
	<b>20.5</b>	<b>100.00</b>	

13. Unlike interest rates for long-term borrowing, rates for short-term investments are generally linked more closely to the prevailing Bank of England rate. As Members will be aware the Bank Rate has remained at 0.75% since 2<sup>nd</sup> August 2018. In terms of the relative performance of the Council's investment portfolio, the average return on investments in the year to date is 0.83%, which is above the budgeted rate of return of 0.45%. The underlying strategy remains one of protecting the capital invested whilst optimising, not maximising, returns on investment. The investment rates on offer have remained low during the year primarily as a consequence of general economic conditions and the access that financial institutions have to low cost funds.
14. Total investments comprised fixed term deposits of £15.0m ranging between 3 months to 364 days in duration for amounts between £1m to £2m at interest rates of 0.72% and 1.08% and instant access deposits of £5.5m at a rate of 0.50%.
15. At the time of writing Brexit continues to dominate the headlines. Typical investment approaches have been offered by LAS based on scenarios of 'Deal' or 'No Deal', but with a heavily caveated assumption that the exit will take place on or before 31<sup>st</sup> October 2019 either with a Deal in pace or with No Deal. The advice also does not include a General Election and therefore the position is under continual review. Previous commentary, however, is still considered relevant and below for information:

'Deal' Scenario

16. A balanced approach to investment activity is advised and this reflects the existing position of the Council. Modest interest rate increases are forecast with counterparty credit ratings remaining stable.

## 'No Deal' Scenario

17. A more defensive approach to investments is recommended with a focus on shorter-term deposits. Credit rating agencies may review (downgrade) the UK sovereignty rating and also the outlook for UK Banks, as was the case following the EU referendum in 2016. The UK sovereignty rating is no longer considered within our minimum ratings criteria as it is currently below our threshold. This removal was approved by Council on 14<sup>th</sup> July 2016. The more immediate consideration is the potential impact on the credit ratings of UK Banks and our minimum ratings criteria and thus a reduction in available credit-worthy counterparties for the investment of surplus funds.
18. LAS have revised their interest forecasts (based on their Brexit assumptions) resulting in an anticipated first increase in Bank Rate taking place in Q3 of 2020 (out from Q1 2020). It is important to note however, that their commentary refers to hints from the Monetary Policy Committee (MPC) that should a 'No Deal' Brexit occur, a Bank Rate cut in the very short-term would be likely. Movement is likely to impact on both investment and borrowing rates on offer.
19. As Brexit negotiations continue, the Council will continue to review this position.
20. Treasury management activities are undertaken within the Council's agreed Treasury Management Policy and where necessary, advice is sought from LAS. The revenue budgets associated with Treasury management activity, namely debt charges (comprising interest and provision for principal repayment) and investment income are monitored on an ongoing basis and reported to Management Team and Policy and Resources Committee. The approved budgets for these items, as reported to Council in February 2019 are £1.358m and £65k respectively.
21. The Annual Treasury Management Strategy for 2019/20 was approved by Council in March 2019. This set out the framework against which the treasury management function is carried out and updates against this are reported to this Committee quarterly. A copy of the 2019/20 strategy is available to view [here](#) (item 10 refers).

## **IMPLICATIONS**

### **Policy**

22. Treasury Management activities are carried out in accordance with the Annual Treasury Management Strategy which is produced in compliance with the requirements of the Council's Treasury Management policy.

### **Financial**

23. The financial implications are given in the report.

### **Legal**

24. In accordance with the Local Government Act 2003, Members are required to approve the Annual Treasury Management Strategy incorporating the Annual Investment Strategy, the prudential indicators, and the authorised limit for external debt. The Strategy for the current year was approved by Council in March 2019.

## **Risk Management**

25. Councillors will be aware of the uncertainty in the financial markets and the economy as a whole and the potential risks this may have in general. In this context, Councillors should note that treasury activities are undertaken within the Council's Treasury Management Policy and risk is managed through the application of requirements of Treasury Management Practice Notes (TMPs). Updated TMP documents will be presented to Council in 2019 to reflect operational changes and also the impact of the Brexit outcomes on the Council's minimum ratings criteria and availability of creditworthy counterparties.
26. From 1<sup>st</sup> January 2019, the largest UK Banks must separate core retail banking from investment banking. This is known as 'ring-fencing'. For Pendle, it is anticipated that instruments approved in the Annual Investment Strategy (AIS) eg fixed term deposits will be placed with the ring-fenced entity (RFB) as opposed to non-ring-fenced bank (NRFB) although this can vary by institution.
27. Any new entity created as a result of ring-fencing will be subject to evaluation by the external rating agencies and must therefore satisfy our minimum rating criteria before a transaction is considered.

## **Health and Safety**

28. There are no health and safety implications arising directly from the recommendation within this report.

## **Sustainability Implications**

29. There are no sustainability implications arising directly from the recommendation within this report.

## **Community Safety:**

30. There are no community safety issues arising directly from the recommendation within this report.

## **Equality and Diversity:**

31. There are no equality and diversity implications arising directly from the recommendation within this report.

## **APPENDICES**

**Appendix A** – PWLB long-term debt as at 30<sup>th</sup> June 2019.

**Appendix B** – Maturity profile of PWLB long-term debt as at 30<sup>th</sup> June 2019.

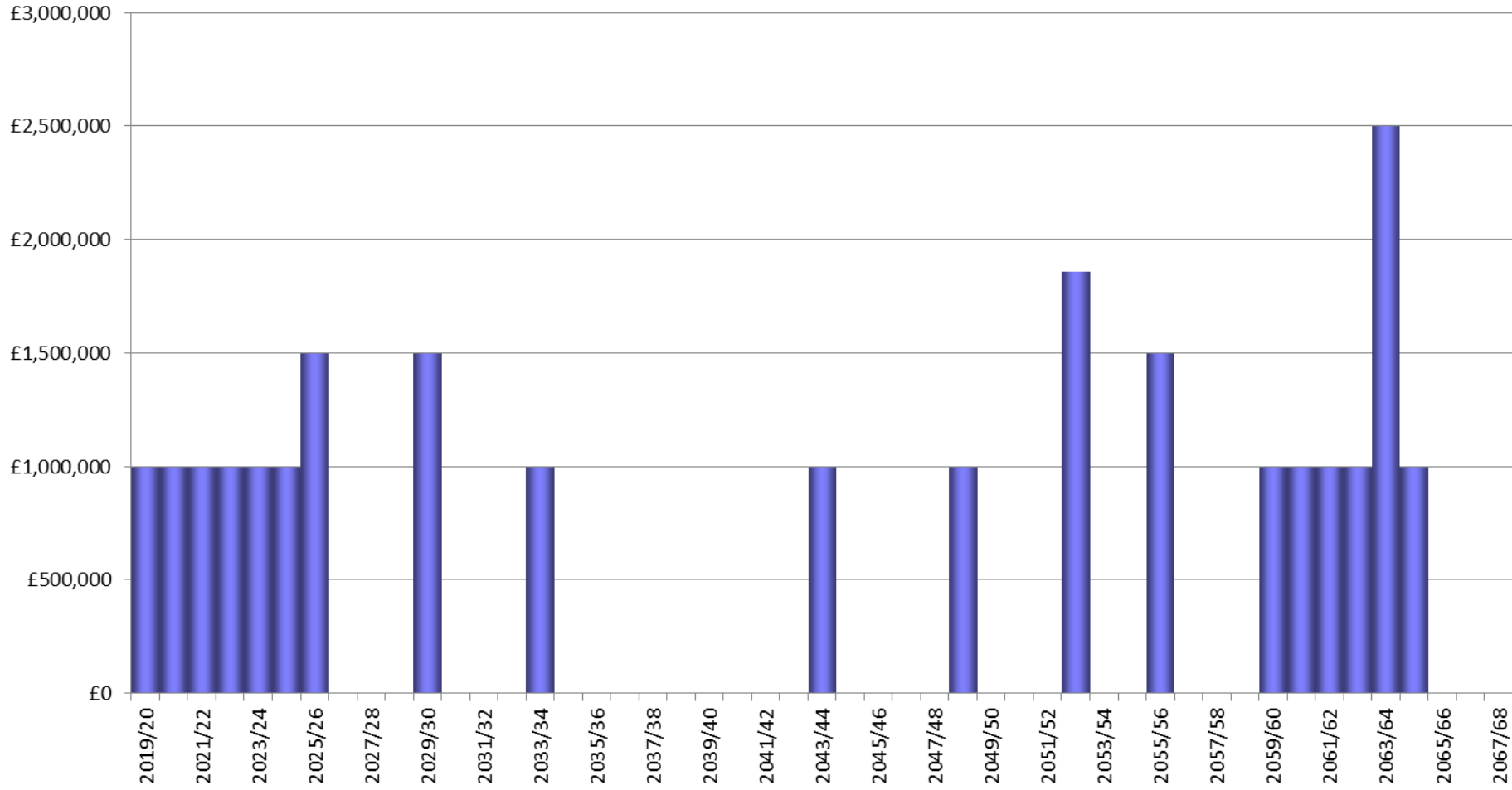
**Appendix C** – Approved Counterparty Lending List as at 30<sup>th</sup> June 2019.

## **LIST OF BACKGROUND PAPERS**

None

PWLB Long-term Debt Portfolio					
Position as at 30/06/19					
Start Date	Maturity Date	Years to Maturity	Total Debt 30/06/2019	Interest Rate	Annual Interest Payable
		Years	£	%	£
23-Jul-07	31-Mar-53	33.75	1,859,166	4.75%	88,310
14-Jun-10	31-Mar-20	0.75	1,000,000	3.69%	36,900
14-Jun-10	31-Mar-25	5.75	1,000,000	4.16%	41,600
27-Mar-13	31-Mar-22	2.75	1,000,000	2.66%	26,600
27-Mar-13	31-Mar-21	1.75	1,000,000	2.46%	24,600
22-May-14	31-Mar-23	3.75	1,000,000	3.37%	33,700
22-May-14	31-Mar-24	4.75	1,000,000	3.49%	34,900
20-Aug-14	31-Mar-26	6.75	1,500,000	3.47%	52,050
09-Jan-15	31-Mar-30	10.75	1,500,000	2.82%	42,300
09-Jan-15	31-Mar-64	44.75	1,500,000	3.14%	47,100
14-Aug-15	31-Mar-62	42.75	1,000,000	3.07%	30,700
11-Feb-16	31-Mar-34	14.75	1,000,000	2.91%	29,100
07-Jul-16	31-Mar-63	43.75	1,000,000	2.14%	21,400
02-May-17	31-Mar-60	40.75	1,000,000	2.36%	23,600
02-May-17	31-Mar-61	41.75	1,000,000	2.35%	23,500
02-May-17	31-Mar-65	45.75	1,000,000	2.34%	23,400
09-Nov-18	31-Mar-44	24.75	1,000,000	2.78%	27,800
09-Nov-18	31-Mar-64	44.75	1,000,000	2.64%	26,400
19-Jun-19	31-Mar-49	29.75	1,000,000	2.28%	22,800
19-Jun-19	31-Mar-56	36.75	1,500,000	2.21%	33,150
<b>TOTAL</b>			<b>22,859,166</b>		<b>689,910</b>
				Average cost of long-term debt	3.02%

**Pendle Borough Council - Long-term PWLB Debt Maturity Profile as at 30th June 2019**



**APPROVED COUNTERPARTY LENDING LIST (updated 14/01/19)**

Fitch Ratings (@ 11th January per LAS Weekly Credit Rating List)

Counterparty	Type of Institution	Sovereign Rating	Long Term	Short Term	Viability	Support	Group Limit £M	Individual Limit £M	Maximum Duration (Mths / Days)
<b>Pendle BC's Minimum Ratings Criteria</b>			<b>A-</b>	<b>F1</b>	<b>BB+</b>	<b>5</b>			
<b>UK Banks</b>		<i>(per Fitch)</i>							
1 HSBC Bank PLC (Non Ring Fenced Bank)	Bank	(AA)	AA-	F1+	a+	1	2.500	2.500	up to 12 months
HSBC Bank PLC (Ring Fenced Bank)	Bank	(AA)	AA-	F1+	a	1		2.500	up to 12 months
2 Barclays Bank PLC (Non Ring Fenced Bank)	Bank	(AA)	A+	F1	a	5	2.500	2.500	up to 6 months
Barclays Bank UK PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1	a	1		2.500	up to 6 months
3 Santander UK PLC	Bank	(AA)	A	F1	a	2		2.500	up to 12 months
Royal Bank of Scotland							3.000		
4 NatWest Bank PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1	a	5		2.500	up to 364 days
5 The RBS PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1	a	5		2.500	up to 364 days
Lloyds Banking Group plc							5.000		
6 - Lloyds Bank PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1	a	5		5.000	up to 12 months
7 - Bank of Scotland PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1	a	5		2.500	up to 12 months
<b>Other</b>									
8 Principal Local Authorities	All UK Principal Councils	(AA)	n/a	n/a	n/a	n/a		3.000	up to 364 days
	LCC Call-Account	(AA)	n/a	n/a	n/a	n/a		6.000	up to 364 days
9 Debt Management Office - Deposit Facility		(AA)	n/a	n/a	n/a	n/a		Unlimited	up to 6 months
10 CCLA - PSDF	Money Market Fund	(AA)			AAAmmf			1.000	Liquid Funds
<b>Building Societies</b>									
11 Nationwide	Building Society	(AA)	A	F1	a	5		3.000	up to 6 months
12 Coventry	Building Society	(AA)	A	F1	a	5		2.500	up to 6 months
13 Leeds	Building Society	(AA)	A-	F1	a-	5		2.500	up to 100 days

**Additional Notes**

- 1 No investments should exceed 364 days
- 2 Where feasible:-
  - a) there should be no more than 75% of the Council's investments in any single sector with the exception of Principal Local Authorities
  - b) there should be no fewer than 4 counterparties in use at any one point in time
 If the above conditions are breached as a result of the maturity of fixed rate loans, action should be taken as soon as possible to comply with these requirements
- 3 Whilst UK Treasury Bills (max. of £2.5m) have been approved for investment purposes the preparatory work to enable the use of these has not been progressed.
- 4 Certificates of Deposit (maximum of £1m total investment) are now an approved means of investment (approved by executive August 2013) - counterparties currently remain limited to those above
- 5 PSDF MMF account is now operative - maximum of £1m - min. investment £25k - no investment may be made to this without prior approval of CFO.
- 6 LCC maximum of £6m (excluding HACA balance) is subject to the investment with LCC not exceeding 50% of the total under investment (excluding Lloyds current account balance) at any time.
- 7 Monetary limits refer to principal sums invested.
- 8 Fitch investment grade ratings range from AAA to BBB, STC ratings range from F1+ to D, Viability ratings range from aaa to f.