

REPORT OF: CHIEF EXECUTIVE
TO: ACCOUNTS & AUDIT COMMITTEE
DATES: 28th JANUARY 2020

Contact Details: Craig Finn
Tel. No: 01282 661014
E-mail: craig.finn@pendle.gov.uk

**TREASURY MANAGEMENT
2019/20 QUARTER 3 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 period April to December 2019 (to Quarter 3).

RECOMMENDATIONS

2. It is recommended that the Committee note the work on the Council's treasury management activities in the period.

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.

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 (PWL) debt.
6. New borrowing in the sum of £4.0m (three transactions of £1m, £1.5m and a further £1.5m respectively) was undertaken in the year to date as detailed below:

- 21st June 2019 - £1m repayable on 31st March 2049 at a fixed rate of 2.28%
 - 21st June 2019 - £1.5m repayable on 31st March 2056 at a fixed rate of 2.21%
 - 13th September 2019 - £1.5m repayable on 31st March 2034 at a fixed rate of 1.76%.
7. At the time of writing this report no additional borrowing has been undertaken in quarter three, however rates are continually under review and borrowing may take place to take account of historically low rates being offered and the Council's underlying need to borrow to finance the Capital Programme.
 8. At the time of this report the Council has PWLB loan debt of £24.359m at an average cost reduced from 3.11% as at 31st March 2019 to 2.94%. An analysis of this long-term debt is provided at [Appendix A](#) with a maturity profile provided at [Appendix B](#). 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).
 9. In accordance with the revised Treasury Management Strategy Statement (TMSS) 2019/20, net borrowing for the year was forecast at £10m, being the underlying need to borrow to finance the Capital Programme, including commercial investments. The Capital Strategy position is to incur no new borrowing for capital investment over the life of the current Medium Term Financial Plan, except for borrowing in support of the Council's Property Investment Strategy. Going forward, the proposed strategy for the Medium Term Capital Programme is to include additional borrowing equal to the prior year's Minimum Revenue Provision (MRP), providing some headroom to support the Capital Programme but maintaining a net nil increase to the Council's overall Capital Financing Requirement (CFR).
 10. The above borrowing of £4.0m is within this forecast and supports the financing of programmed capital expenditure within the Council's revised 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 19/20 Capital Programme is that capital receipts will be used in lieu of borrowing, but that this will remain under review with decisions and strategic changes reported to Council, Policy and Resources Committee and/or the 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

11. 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

12. 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, working capital etc. The Council started the year with investments of £16.0m. The balance of investments as at the reporting date (31st December 2019) was £24.5m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 31st December 2019

	£m	No.
Opening Balance of Investments	16.000	9
New Investments	242.000	75
Investments Realised	(233.500)	70
Balance of Investments at 31st December 2019	24.500	14

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.

13. The 14 investments comprising the balance of £24.5m were placed with the following sectors:

	£m	%	
a. Local Authorities	11.5	46.94	(Principal Councils (4))
b. UK Banks	5.5	22.45	(Lloyds (2) / Santander (2))
c. Government	0.0	0.00	
d. Building Societies	7.5	30.61	(Coventry (2) / Nationwide (3) / Leeds (1))
	24.5	100.00	

14. 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 2nd 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 0.81%, 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. Delays to Capital spending have contributed to the increase in short-term surplus cash available for investment (as reported to Policy and Resources Committee earlier this month) with a revision to budgeted investment income, up from the approved estimate of £65k to £150k.
15. Total investments comprised fixed term deposits of £22.0m ranging from 88 days to 351 days in duration for amounts between £1m and £3m at interest rates of 0.71% and 1.05% and instant access deposit of £2.5m at a rate of 0.50%.
16. Following the General Election result of December 2019, Brexit continues to dominate the headlines in terms of the timing of the withdrawal and the securing of a 'comprehensive' Trade Deal or not, that will have debt and investment implications. Typical investment approaches have now been offered by the Council's Treasury Advisors, Link Asset Services (LAS), based on scenarios of negotiating a 'Brexit Trade Deal' or reverting to the 'rules' of a 'World Trade Organisation Deal' at the end of 2020.

17. The Council maintains a balanced approach to the potential outcomes of securing a comprehensive trade deal; utilising a diverse range of high quality counterparties, focussing on cash-flow requirements, and maintaining a rolling maturity profile within the maximum duration limits with the approved TMSS, to react and respond to rate changes as they occur.
18. LAS have revised their interest forecasts further (based on their Brexit assumptions) resulting in an anticipated first increase in Bank Rate taking place in Q1 of 2021 (out from Q4 2020 at the time of the last Committee report). Movement is likely to impact on both investment and borrowing rates on offer.
19. With regards to debt, the increase in the borrowing rates offered to Local Authorities from the PWLB has started to open up a range of alternate opportunities. For both investment and debt, and the potential impact of Brexit, the Council will continue to maintain a watching brief.
20. Treasury management activities are undertaken within the Council's revised 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 budgets for these items, as approved by Policy and Resources Committee in January 2020 are £1.202m and £150k respectively.
21. The Annual Treasury Management Strategy for 2019/20 was approved by Council in March 2019 and revised in August 2019 as outlined above. This set out the framework against which the treasury management function is carried out.

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 1st January 2019, the largest UK Banks separated core retail banking from investment banking. This is known as 'ring-fencing'. For Pendle, the 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 31st December 2019.

[Appendix B](#) – Maturity profile of PWLB long-term debt as at 31st December 2019.

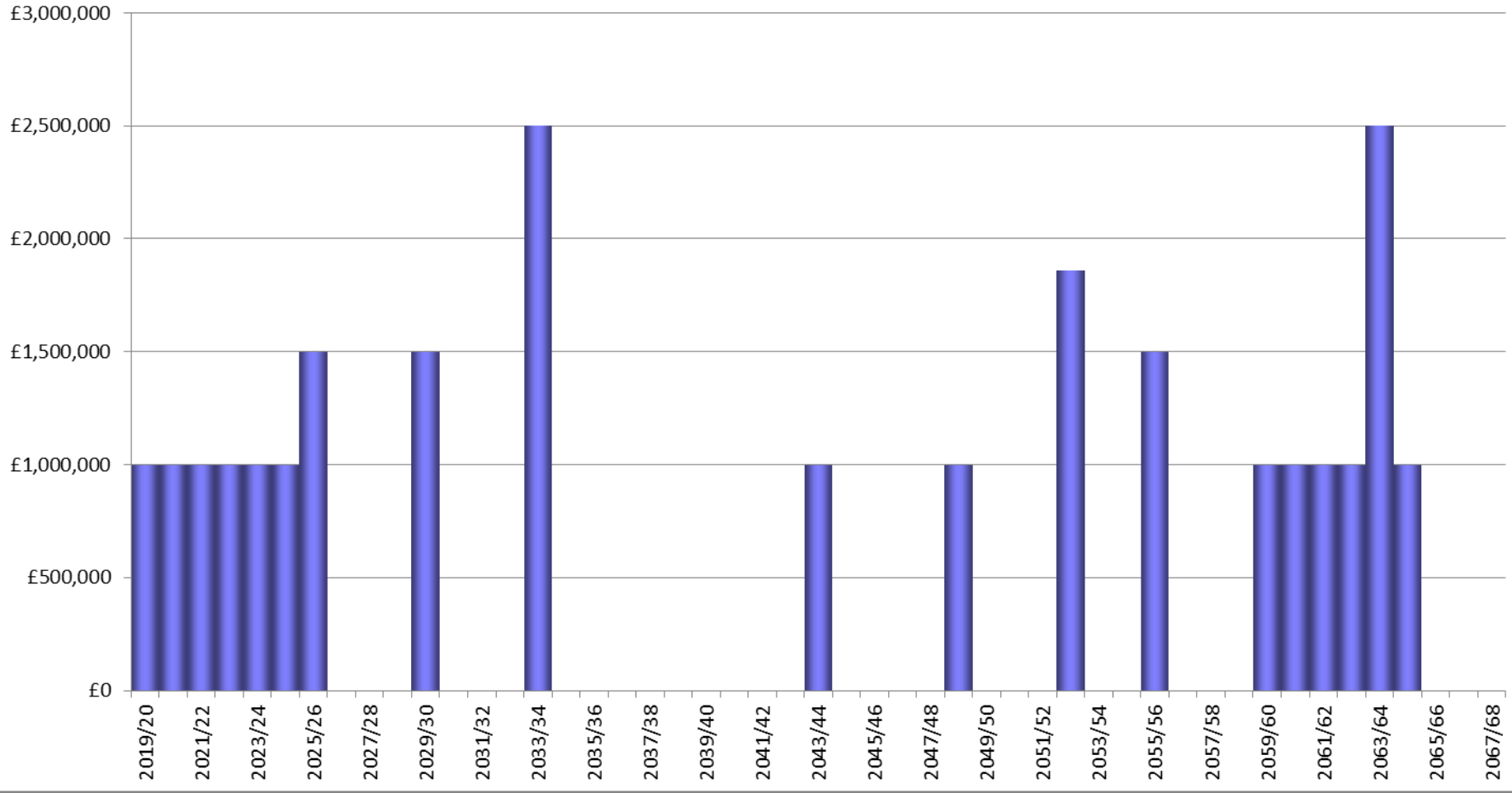
[Appendix C](#) – Approved Counterparty Lending List as at 31st December 2019.

LIST OF BACKGROUND PAPERS

None

PWLB Long-term Debt Portfolio					
Position as at 31/12/19					
Start Date	Maturity Date	Years to Maturity	Total Debt 31/12/2019	Interest Rate	Annual Interest Payable
		Years	£	%	£
23-Jul-07	31-Mar-53	33.25	1,859,166	4.75%	88,310
14-Jun-10	31-Mar-20	0.25	1,000,000	3.69%	36,900
14-Jun-10	31-Mar-25	5.25	1,000,000	4.16%	41,600
27-Mar-13	31-Mar-22	2.25	1,000,000	2.66%	26,600
27-Mar-13	31-Mar-21	1.25	1,000,000	2.46%	24,600
22-May-14	31-Mar-23	3.25	1,000,000	3.37%	33,700
22-May-14	31-Mar-24	4.25	1,000,000	3.49%	34,900
20-Aug-14	31-Mar-26	6.25	1,500,000	3.47%	52,050
09-Jan-15	31-Mar-30	10.25	1,500,000	2.82%	42,300
09-Jan-15	31-Mar-64	44.25	1,500,000	3.14%	47,100
14-Aug-15	31-Mar-62	42.25	1,000,000	3.07%	30,700
11-Feb-16	31-Mar-34	14.25	1,000,000	2.91%	29,100
07-Jul-16	31-Mar-63	43.25	1,000,000	2.14%	21,400
02-May-17	31-Mar-60	40.25	1,000,000	2.36%	23,600
02-May-17	31-Mar-61	41.25	1,000,000	2.35%	23,500
02-May-17	31-Mar-65	45.25	1,000,000	2.34%	23,400
09-Nov-18	31-Mar-44	24.25	1,000,000	2.78%	27,800
09-Nov-18	31-Mar-64	44.25	1,000,000	2.64%	26,400
19-Jun-19	31-Mar-49	30.00	1,000,000	2.28%	22,800
19-Jun-19	31-Mar-56	37.00	1,500,000	2.21%	33,150
13-Sep-19	31-Mar-34	15.00	1,500,000	1.76%	26,400
TOTAL			24,359,166		716,310
			Average cost of long-term debt		2.94%

Pendle Borough Council - Long-term PWLB Debt Maturity Profile as at 31st December 2019



APPROVED COUNTERPARTY LENDING LIST (updated 16/01/20)

Fitch Ratings (@ 10th January 2020 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)	
	Pendle BC's Minimum Ratings Criteria			A-	F1	BB+	5				
	(per Fitch)										
	UK Banks										
1	HSBC Bank PLC (Non Ring Fenced Bank)	Bank	(AA)	A+	F1+	a	1	2.500	2.500	up to 364 days	
	HSBC Bank PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1+	a	1		2.500	up to 364 days	
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 364 days	
	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 364 days	
7	- Bank of Scotland PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1	a	5		2.500	up to 364 days	
	Other										
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	
	Building Societies										
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.