

REPORT OF: CHIEF EXECUTIVE
TO: ACCOUNTS & AUDIT COMMITTEE
DATES: 10th November 2020

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**TREASURY MANAGEMENT
2020/21 QUARTER 2 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 September 2020.

RECOMMENDATIONS

2. It is recommended that the Committee note the work on the Council's treasury management activities in the period 01st April 2020 to 30th September 2020. The Q1 monitoring report included reference to the technical breach of the approved counterparty limit for Lloyds Bank Plc (£10m) as a consequence of receipt of significant central Government funding in response to the COVID-19 outbreak.
3. The cash holding limit with Lloyds Bank Plc was exceeded during the period 1st July to 30th Sept ie Q2 on 15th September 2020, for one day only, before investing surplus monies with the Debt Management Office (DMO) on 16th September 2020.

ISSUE

Introduction

4. 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.
5. 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 2020/21. The Council's Capital Strategy was revised and approved by

Council on 26th September 2019 and is considered fit for purpose. A copy can be accessed from the Council's website (item 15 refers).

Long Term Borrowing

6. At the beginning of this financial year, the Council held loans of £23.359m, comprised wholly of Public Works Loan Board (PWLB) debt.
7. No additional borrowing has been undertaken during the first half of 2020/21. Rates are continually under review with potential borrowing later in the year to take account of historically low rates on offer to support the Council's underlying need to borrow to finance the Capital Programme, including borrowing for slippage carried forward from previous years.
8. At the time of this report the Council has PWLB loan debt of £23.359m at an average interest rate of 2.91%, reduced from 2.94% as at 31st March 2019. 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.
9. The Local Government Act 2003 requires the Council to approve the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy (AIS) in advance of the municipal year. Due to the COVID-19 outbreak, and the suspension of Committee meetings at that time, the 2020/21 TMSS and AIS were approved in consultation with Group Leaders under the Exercise of Urgent Powers Protocol.
10. Net borrowing for the year, as per the approved TMSS, is 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. The consultation on future lending terms via PWLB, including proposed changes that *could* prevent borrowing to fund commercial assets, has now closed and feedback is currently being evaluated. Whilst this Council did not respond directly, the District Councils' Network (DCN), of which Pendle is a member, responded to advocate no change to current legislation (amongst other responses).
11. In addition, the proposed borrowing strategy for the Medium Term Capital Programme provides for the re-financing of maturing debt and also 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). The 2020/21 Capital Programme approved by Council in February 2020 includes PWLB borrowing for slippage from previous years.
12. The TMSS for 2020/21, increased the approved counterparty limit for sums held with Lloyds Bank Plc (the Council's existing bankers) from £6m to £10m. The limit was amended to provide flexibility in respect of holding maturing investments and increased liquidity, to offset any abnormal changes to the expected cash (in)-flows in relation to the COVID-19 outbreak.
13. Following the approval of the 2020/21 TMSS, Central Government announced several key funding packages leading to significant increases in the Council's cash holdings, namely;
 - £26.4m allocated and paid over to the Council to fund business grants;
 - £2.2m additional Council funding and COVID-19 hardship fund;

- £1.3m full prepayment of 2020/21 NNDR Section 31 grant;
 - £2.5m deferral of Q1 payments for MHCLG's share of NNDR until October 20 – March 21.
14. As a result of these funding announcements, the Council breached its counterparty limit with Lloyds Bank Plc in the period 27th March 2020 to 01st July 2020. Indeed, Cipfa issued a Treasury and Capital Management Update in April 2020, noting that such funding packages may lead to temporary cash surpluses, with technical breaches of approved counterparty limits a possibility. An additional breach occurred on 15th September 2020.
15. At the time of this report, sums held with Lloyds Bank Plc are back within the approved counterparty limit, with the Council having processed business grant payments to eligible applicants at a value in excess of £23m.
16. The world's attention remains focussed on the coronavirus COVID-19 outbreak and recovery going forward. Central Government have implemented significant levels of financial support to date and with more funding packages announced to support the ongoing COVID-19 effort, revision of the approved TMSS may be required. Any proposed amendments to the TMSS will be presented to Council for approval.

Temporary (or Short-term) Borrowing

17. 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

18. 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. As previously stated, the Council has been adopting a more reserved approach to investing surplus funds, instead choosing to keep as much cash in instant access accounts as possible, or fixing deposits for short-term durations. The Council started the year with investments of £20.0m. The balance of investments as at 30th September 2020 was £17.0m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 30th September 2020

	£m	No.
Opening Balance of Investments	20.000	11
New Investments	23.000	7
Investments Realised	(26.000)	12
Balance of Investments at 30th September 2020	17.000	6

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.

19. The 6 investments comprising the balance of £17.0m were placed with the following sectors:

	£m	%	
a. Local Authorities	6.0	35.29	(Principal Councils (1))
b. UK Banks	1.0	5.88	(Lloyds (1))
c. Government	3.0	17.65	(DMO (1))
d. Building Societies	7.0	41.18	(N'wide, Leeds, Coventry (3))
	17.0	100.00	

20. Unlike interest rates for long-term borrowing, rates for short-term investments are generally linked more closely to the prevailing Bank of England rate. At the special MPC meeting on 19th March 2020 the committee voted unanimously to cut the Bank Rate by a further 15 basis points, down to 0.10%, from the reduction to 0.25% agreed on 11th March 2020. In terms of the relative performance of the Council's investment portfolio, the average return on investments in the year to date is 0.48%, which is above the budgeted rate of return of 0.35%.
21. It is likely that we will see this rate of return reduce throughout the year, as the prevailing interest rates available for re-investment on maturing deposits are likely to be reduced. Opting to maintain higher levels of liquid funds (in lieu of anticipated reduced cash receipts as a result of the COVID-19 outbreak) will also negatively affect the amount of investment income the Council can reasonably expect to achieve. For these reasons it is likely that the 2020/21 budgeted investment income target of £100k will not be met.
22. Return on the investment of surplus funds is a Key Performance Indicator (KPI) of the Council and performance will continue to be monitored monthly, and reported quarterly. The impact on the budget in 2020/21 and the medium term will be reported to members as part of the Council's established budget setting process. The underlying strategy remains one of protecting the capital invested whilst optimising, not maximising, returns on investment.
23. Total investments comprised fixed term deposits of £11.0m ranging from 23 days to 351 days in duration for amounts between £1m and £3m at interest rates of between 0.01% and 1.05%, and instant access deposit of £6.0m at a rate of 0.05%.
24. As reported to the Committee in the Q1 report, it was anticipated that a time 'lag' impacting upon the credit quality of counterparties would likely follow in Q2 or Q3. At the time of this report, Moody's, one of the three main rating agencies has acted, downgrading the UK sovereign rating on 16th October. Whilst this has no direct operational impact on the management of the Council's cashflows, the knock-on effect has seen a change to the suggested maximum investment duration ('duration risk') for (future) sums placed with Lloyds Bank Plc. The maximum recommended duration for future fixed term deposits with Lloyds is 6 months, down from 364 days, and this is reflected in the approved Counterparty Lending List at [Appendix C](#).
25. Lloyds are the Council's incumbent bankers, providing instant access to credit balances. Separately, the Council has £1m under fixed investment with Lloyds, maturing on 15th December 2020.
26. 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 alternative opportunities. For both investment and debt, the potential impact of COVID-19 and Brexit on markets, the Council will continue to maintain a watching brief.

27. Treasury management activities are undertaken within the Council's Treasury Management Policy and where necessary, advice is sought from Link Asset Services (LAS), the Council's Treasury Advisors. 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 February 2020 are £1.354m and £100k respectively.
28. The Annual Treasury Management Strategy for 2020/21 was approved in consultation with Group Leaders under the Exercise of Urgent Powers Protocol in March 2020 as outlined above. This set out the framework against which the treasury management function is carried out. The annual Treasury Management Strategy for 2021/22 will be presented to Council in March 21.

IMPLICATIONS

Policy

29. 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.
30. Central Government consultation on PWLB future lending terms has now closed and feedback is being evaluated. Any implications for the Council will be reported in due course.

Financial

31. The financial implications are given in the report.

Legal

32. 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 in consultation with Group Leaders under the Exercise of Urgent Powers Protocol in March 2020.

Risk Management

33. 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 2020 to reflect operational changes and also the impact of COVID-19 and Brexit outcomes on the Council's minimum ratings criteria and availability of creditworthy counterparties.
34. The review of TMPs will include scrutiny of TMP5 "Organisation, Clarity, and Segregation of Responsibilities, and Dealing Arrangements" and TMP6 "Reporting Requirements and Management Information Arrangements" to account for remote working practices to ensure a robust control framework for the authorisation of payments remains.

Health and Safety

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

Sustainability Implications

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A – PWLB long-term debt as at 30th September 2020.

Appendix B – Maturity profile of PWLB long-term debt as at 30th September 2020.

Appendix C – Approved Counterparty Lending List as at 23rd October 2020.

LIST OF BACKGROUND PAPERS

None

PWLB Long-term Debt Portfolio

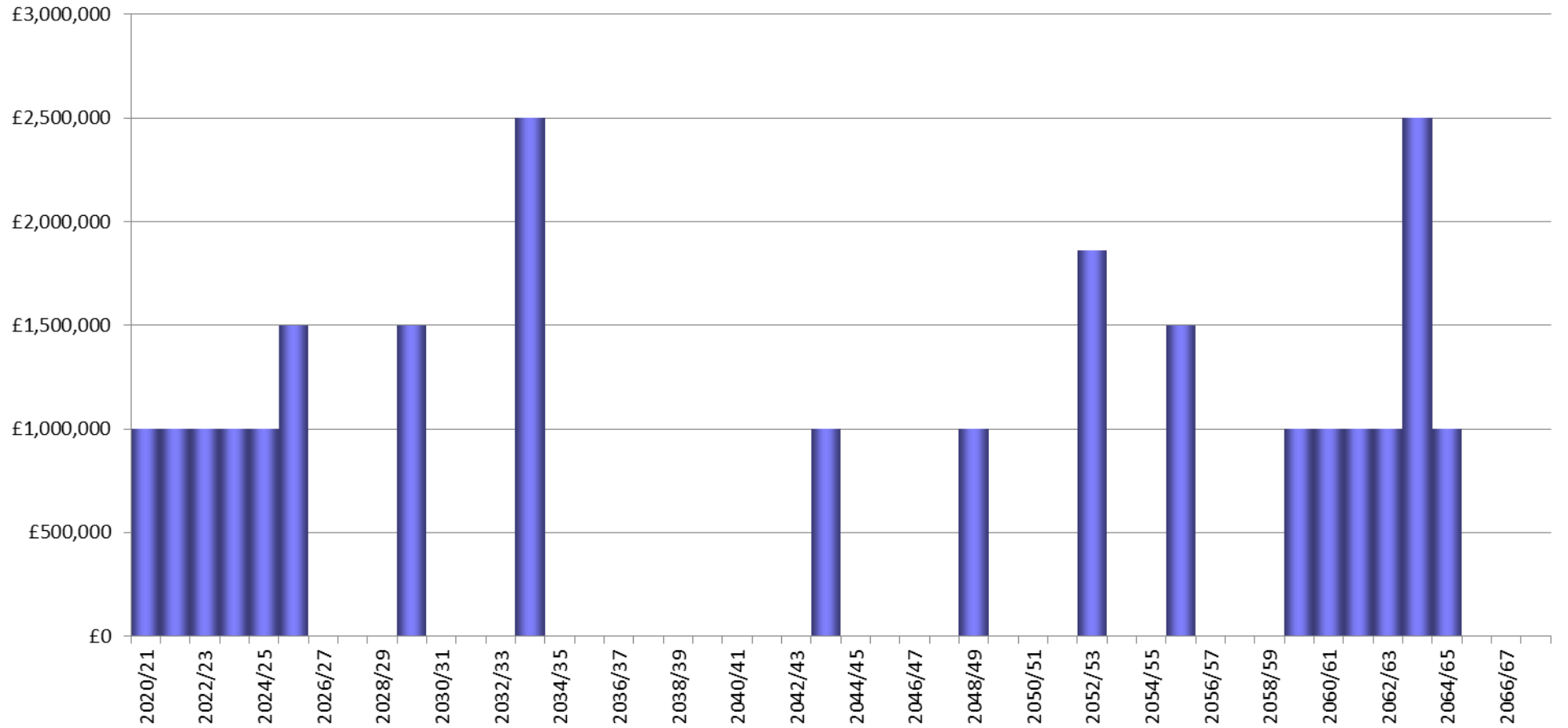
Position as at 30/09/20

Start Date	Maturity Date	Years to Maturity	Total Debt 30/09/2020	Interest Rate	Annual Interest Payable
		Years	£	%	£
23-Jul-07	31-Mar-53	32.50	1,859,166	4.75%	88,310
14-Jun-10	31-Mar-25	4.50	1,000,000	4.16%	41,600
27-Mar-13	31-Mar-22	1.50	1,000,000	2.66%	26,600
27-Mar-13	31-Mar-21	0.50	1,000,000	2.46%	24,600
22-May-14	31-Mar-23	2.50	1,000,000	3.37%	33,700
22-May-14	31-Mar-24	3.50	1,000,000	3.49%	34,900
20-Aug-14	31-Mar-26	5.50	1,500,000	3.47%	52,050
09-Jan-15	31-Mar-30	9.50	1,500,000	2.82%	42,300
09-Jan-15	31-Mar-64	43.50	1,500,000	3.14%	47,100
14-Aug-15	31-Mar-62	41.50	1,000,000	3.07%	30,700
11-Feb-16	31-Mar-34	13.50	1,000,000	2.91%	29,100
07-Jul-16	31-Mar-63	42.50	1,000,000	2.14%	21,400
02-May-17	31-Mar-60	39.50	1,000,000	2.36%	23,600
02-May-17	31-Mar-61	40.50	1,000,000	2.35%	23,500
02-May-17	31-Mar-65	44.50	1,000,000	2.34%	23,400
09-Nov-18	31-Mar-44	23.50	1,000,000	2.78%	27,800
09-Nov-18	31-Mar-64	43.50	1,000,000	2.64%	26,400
19-Jun-19	31-Mar-49	28.50	1,000,000	2.28%	22,800
19-Jun-19	31-Mar-56	35.50	1,500,000	2.21%	33,150
13-Sep-19	31-Mar-34	13.50	1,500,000	1.76%	26,400
TOTAL			23,359,166		679,410

Average cost of long-term debt

2.91%

Pendle Borough Council - Long-term PWLB Debt Maturity Profile as at 30th September 2020



APPROVED COUNTERPARTY LENDING LIST (updated 23/10/20)

Fitch Ratings (@ 23rd October 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									
UK Banks									
<i>(per Fitch)</i>									
			A-	F1	BB+	5			
1	HSBC Bank PLC (Non Ring Fenced Bank)	(AA)	AA-	F1+	a	1	2.500	2.500	up to 364 days
	HSBC Bank PLC (Ring Fenced Bank)	(AA)	AA-	F1+	a	1		2.500	up to 364 days
2	Barclays Bank PLC (Non Ring Fenced Bank)	(AA)	A+	F1	a	5	2.500	2.500	up to 6 months
	Barclays Bank UK PLC (Ring Fenced Bank)	(AA)	A+	F1	a	1		2.500	up to 6 months
3	Santander UK PLC	(AA)	A+	F1	a	2		2.500	up to 364 days
	Royal Bank of Scotland						3.000		
4	NatWest Bank PLC (Ring Fenced Bank)	(AA)	A+	F1	a	5		2.500	up to 364 days
5	The RBS PLC (Ring Fenced Bank)	(AA)	A+	F1	a	5		2.500	up to 364 days
	Lloyds Banking Group plc						10.000		
6	- Lloyds Bank PLC (Ring Fenced Bank)	(AA)	A+	F1	a	5		5.000	up to 6 months
7	- Bank of Scotland PLC (Ring Fenced Bank)	(AA)	A+	F1	a	5		2.500	up to 6 months
Other									
8	Principal Local Authorities	(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	(AA)			AAAmmf			1.000	Liquid Funds
Building Societies									
11	Nationwide	(AA)	A	F1	a	5		3.000	up to 6 months
12	Coventry	(AA)	A-	F1	a-	5		2.500	up to 6 months
13	Leeds	(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.