

**REPORT OF:** CHIEF EXECUTIVE  
**TO:** ACCOUNTS & AUDIT COMMITTEE  
**DATES:** 26<sup>th</sup> January 2021

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**TREASURY MANAGEMENT  
2020/21 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 2020.

**RECOMMENDATIONS**

2. It is recommended that the Committee note the work on the Council's treasury management activities in the period 01<sup>st</sup> April 2020 to 31<sup>st</sup> December 2020. Previous reports acknowledged breaches of the approved counterparty limit for Lloyds in Q1 and Q2 respectively, as a consequence of receipt of significant central Government funding in response to the COVID-19 outbreak. No breaches have occurred in Q3.

**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 2020/21. The Council's Capital Strategy was revised and approved by Council on 26<sup>th</sup> September 2019 and is considered fit for purpose. A copy can be accessed from the Council's website (item 15 refers).

## Long Term Borrowing

5. At the beginning of this financial year, the Council held loans of £23.359m, comprised wholly of Public Works Loan Board (PWLB) debt.
6. No additional borrowing has been undertaken in 2020/21.
7. 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 31<sup>st</sup> 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.
8. 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. A Revised TMSS was approved by Council in December 2020.
9. The revised TMSS included a change to the Council's approved borrowing strategy.
10. The Council's original 2020/21 borrowing strategy comprised three core strands:
  - External borrowing for the balance of sums approved as part of the 2019/20 Estimate (non-commercial activity);
  - External borrowing to replace expected debt maturity (repayment);
  - External borrowing to support the Council's Property Investment Strategy (commercial activity).
11. This was revised and approved as follows:
  - No external borrowing to be undertaken during 2020/21 to fund capital slippage brought forward from 2019/20;
  - No re-financing of maturing debt (replacement borrowing);
  - No investment in Commercial activity in 2020/21.
12. The Council will instead utilise surplus cash balances (internal borrowing) in lieu of external debt.
13. 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, further 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

14. 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

15. 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 31<sup>st</sup> December 2020 was £28.0m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

**Table 1: Analysis of Investments at 31<sup>st</sup> December 2020**

	£m	No.
Opening Balance of Investments	20.000	11
New Investments	48,500	16
Investments Realised	(40,500)	18
<b>Balance of Investments at 31<sup>st</sup> December 2020</b>	<b>28.000</b>	<b>9</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.

16. The 9 investments comprising the balance of £28.0m were placed with the following sectors:

	£m	%	
a. Local Authorities	6.0	21.43	(Principal Councils (1))
b. UK Banks	2.5	8.93	(Santander (1))
c. Government	12.0	42.86	(DMO (4))
d. Building Societies	7.5	26.78	(N'wide, Leeds, Coventry (3))
	<b>28.0</b>	<b>100.00</b>	

17. 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 19<sup>th</sup> 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 11<sup>th</sup> 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 0.32%, which is below the budgeted rate of return of 0.35%.
18. Previous reports to this Committee signposted the likely reduction in average return on investments throughout the year, as the prevailing interest rates available for re-investment on maturing deposits reduce. 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, with a more realistic assessment being £40k. This is considered a prudent estimate in the context of the Treasury Management Code of Practice, and an investment strategy of Security, Liquidity, and Yield (SLY). The underlying strategy remains one of protecting the capital invested whilst optimising, not maximising, returns on investment.

19. Total investments comprised fixed term deposits of £22.0m ranging from 54 days to 182 days in duration for amounts between £1m and £3m at interest rates of between 0.01% and 0.23%, and instant access deposit of £6.0m at a rate of 0.05%.
20. 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 revised budgets for these items, as approved by Policy and Resources Committee in January 2020 are £1.182m (original estimate £1.354m) and £40k (original estimate £100k) respectively. Revised budgets principally reflect the change in borrowing strategy and reduced interest payable, and the anticipated reduction in the return on investment, as outlined in the body of the report.
21. 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 and subsequently revised and approved by Council in December 2020. 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**

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 in consultation with Group Leaders under the Exercise of Urgent Powers Protocol in March 2020 and subsequently revised and approved by Council in December 2020.

### **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 20/21 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.

26. 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 changes in personnel and remote working practices, to ensure a robust control framework remains.

### **Health and Safety**

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

### **Sustainability Implications**

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

### **Community Safety**

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

### **Equality and Diversity**

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

## **APPENDICES**

[Appendix A](#) – PWLB long-term debt as at 31<sup>st</sup> December 2020.

[Appendix B](#) – Maturity profile of PWLB long-term debt as at 31<sup>st</sup> December 2020.

[Appendix C](#) – Approved Counterparty Lending List as at 23<sup>rd</sup> October 2020.

## **LIST OF BACKGROUND PAPERS**

None

## PWLB Long-term Debt Portfolio

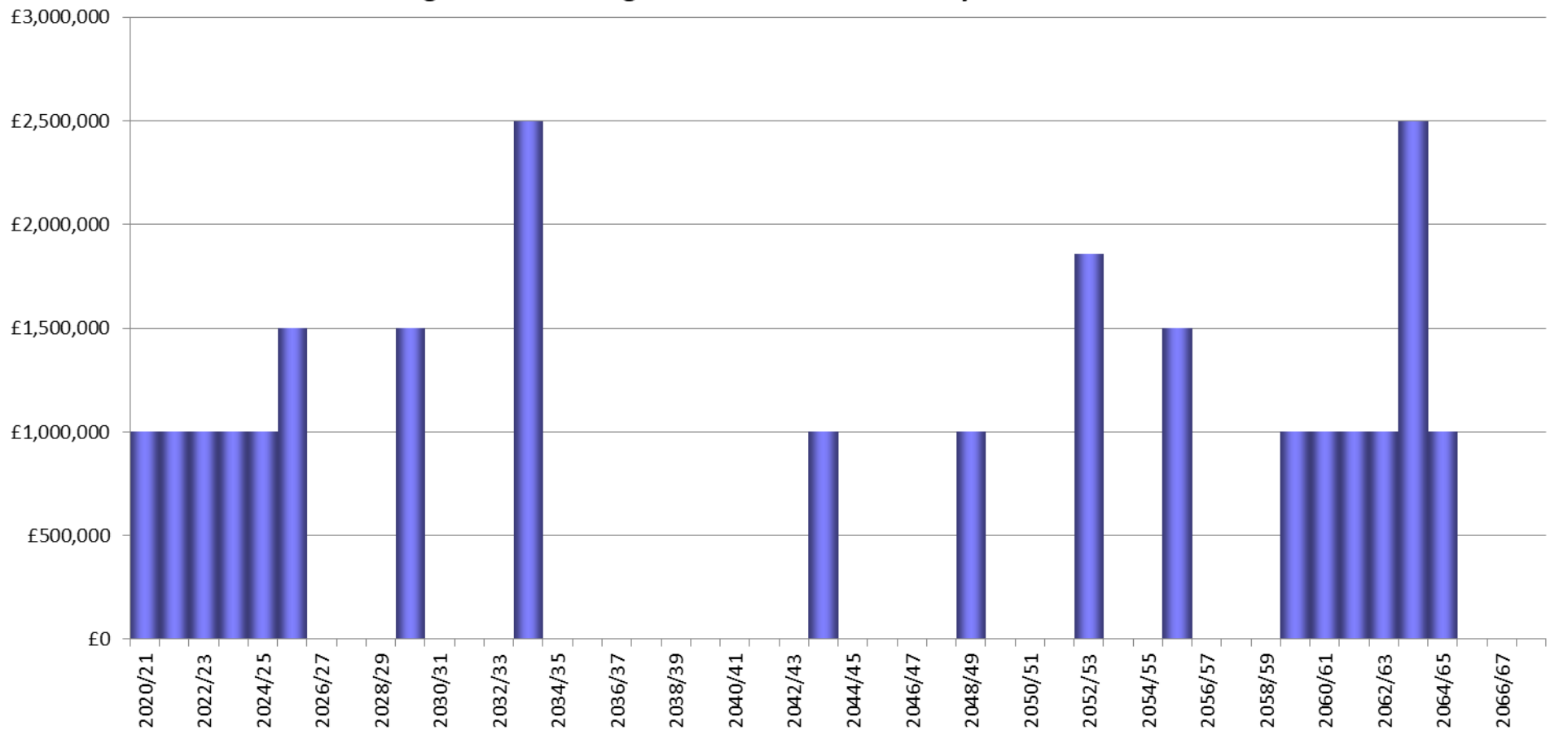
Position as at 31/12/20

Start Date	Maturity Date	Years to Maturity	Total Debt 31/12/2020	Interest Rate	Annual Interest Payable
		Years	£	%	£
23-Jul-07	31-Mar-53	32.25	1,859,166	4.75%	88,310
14-Jun-10	31-Mar-25	4.25	1,000,000	4.16%	41,600
27-Mar-13	31-Mar-22	1.25	1,000,000	2.66%	26,600
27-Mar-13	31-Mar-21	0.25	1,000,000	2.46%	24,600
22-May-14	31-Mar-23	2.25	1,000,000	3.37%	33,700
22-May-14	31-Mar-24	3.25	1,000,000	3.49%	34,900
20-Aug-14	31-Mar-26	5.25	1,500,000	3.47%	52,050
09-Jan-15	31-Mar-30	9.25	1,500,000	2.82%	42,300
09-Jan-15	31-Mar-64	43.25	1,500,000	3.14%	47,100
14-Aug-15	31-Mar-62	41.25	1,000,000	3.07%	30,700
11-Feb-16	31-Mar-34	13.25	1,000,000	2.91%	29,100
07-Jul-16	31-Mar-63	42.25	1,000,000	2.14%	21,400
02-May-17	31-Mar-60	39.25	1,000,000	2.36%	23,600
02-May-17	31-Mar-61	40.25	1,000,000	2.35%	23,500
02-May-17	31-Mar-65	44.25	1,000,000	2.34%	23,400
09-Nov-18	31-Mar-44	23.25	1,000,000	2.78%	27,800
09-Nov-18	31-Mar-64	43.25	1,000,000	2.64%	26,400
19-Jun-19	31-Mar-49	28.25	1,000,000	2.28%	22,800
19-Jun-19	31-Mar-56	35.25	1,500,000	2.21%	33,150
13-Sep-19	31-Mar-34	13.25	1,500,000	1.76%	26,400
<b>TOTAL</b>			<b>23,359,166</b>		<b>679,410</b>

Average cost of long-term debt

2.91%

**Pendle Borough Council - Long-term PWLB Debt Maturity Profile as at 31st December 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)
<b>Pendle BC's Minimum Ratings Criteria (per Fitch)</b>										
<b>UK Banks</b>										
1	HSBC Bank PLC (Non Ring Fenced Bank)	Bank	(AA)	AA-	F1+	a	1	2.500	2.500	up to 364 days
	HSBC Bank PLC (Ring Fenced Bank)	Bank	(AA)	AA-	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 6 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							10.000		
6	- Lloyds Bank PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1	a	5		10.000	up to 6 months
7	- Bank of Scotland PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1	a	5		2.500	up to 6 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.