

REPORT OF: CHIEF EXECUTIVE
TO: ACCOUNTS AND AUDIT COMMITTEE
DATES: 23rd MARCH 2021

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TREASURY MANAGEMENT QUARTER 4 – 2020/21 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 March 2021 (as at 12th March 2021).

RECOMMENDATIONS

2. It is recommended that the Committee note the work on the Council's treasury management activities in the period to 12th March 2021.

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 updated as part of the Budget Setting process for 2021/22 and approved by Council on 25th February 2021 and is considered fit for purpose (a copy of the Strategy can be obtained from the Agenda Papers on the Council's website for the Council meeting on 25th February 2021).

Long Term Borrowing

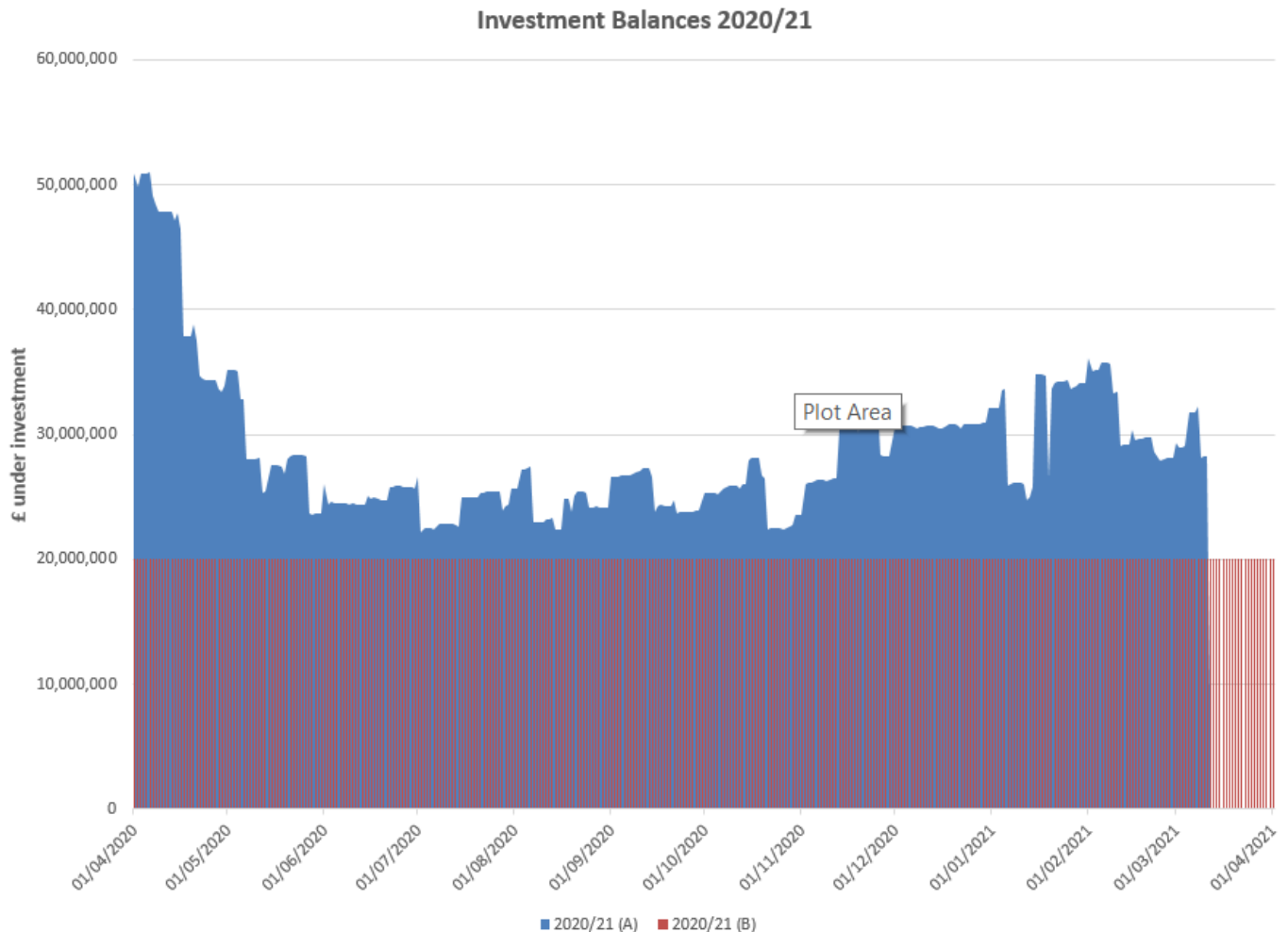
5. At the beginning of this financial year, the Council held loans of £23.359m, comprised wholly of Public Works Loan Board (PWLB) debt.
6. No additional borrowing has been undertaken in 2020/21.
7. At the time of this report the Council has PWLB loan debt of £23.359m at an average interest rate of 2.91%. An analysis of this long-term debt is provided at [Appendix A](#) with a maturity profile provided at [Appendix B](#). An amount of £1m is due to be repaid on 31st March 2021 and at this stage is unlikely to be replaced. 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. As reported previously, due to the COVID-19 Pandemic, 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.

Temporary (or Short-term) Borrowing

13. 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.
14. 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 12th March 2021 was £22.0m. Whilst this shows little change since the beginning of the year, it does belie the fluctuations in the amount of investments during the year which is shown in the graph below:-



16. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 12th March 2021

	£m	No.
Opening Balance of Investments	20.000	11
New Investments	68,000	24
Investments Realised	(66,000)	27
Balance of Investments at 12th March	22.000	8

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.

17. The investments comprising the balance of £22.0m were placed with the following sectors:

Local Authorities	6.0	27.3%
Banks	4.0	18.2%
Building Societies	7.5	34.1%
DMO	4.5	20.5%
Total	22.0	100.0%

18. 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 0.23%, which is below the budgeted rate of return of 0.35%.
19. The Council's approach to investment of surplus cash during the current financial year has been to use it to cashflow the delivery of the Council's Capital Programme (otherwise referred to as **internal borrowing**). This has the benefit of driving down the balance of surplus cash avoiding the need to invest it (and for which, given interest rates, there is limited yield). This has been done in place of **external borrowing** (most likely from the Public Works Loan Board) which, whilst eventually will be necessary, would incur a cost of carrying the debt significantly in excess of what can be earned through investments.
20. This is considered a prudent approach in the context of the Treasury Management Code of Practice and which adheres to the fundamental principles of investment management – security (of the capital), liquidity (of funds so investments are available when they are needed), and yield (SLY). The underlying strategy remains one of protecting the capital invested whilst optimising, not maximising, returns on investment.

IMPLICATIONS

Policy

21. 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

22. 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.
23. 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 the Policy and Resources Committee. The Revised Budgets for these items 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.

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 are under review to reflect operational changes in the Finance function.
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 12th March 2021.

Appendix B – Maturity profile of PWLB long-term debt as at 12th March 2021.

Appendix C – Approved Counterparty Lending List as at 12th March 2021 (last updated 23rd October 2020).

LIST OF BACKGROUND PAPERS

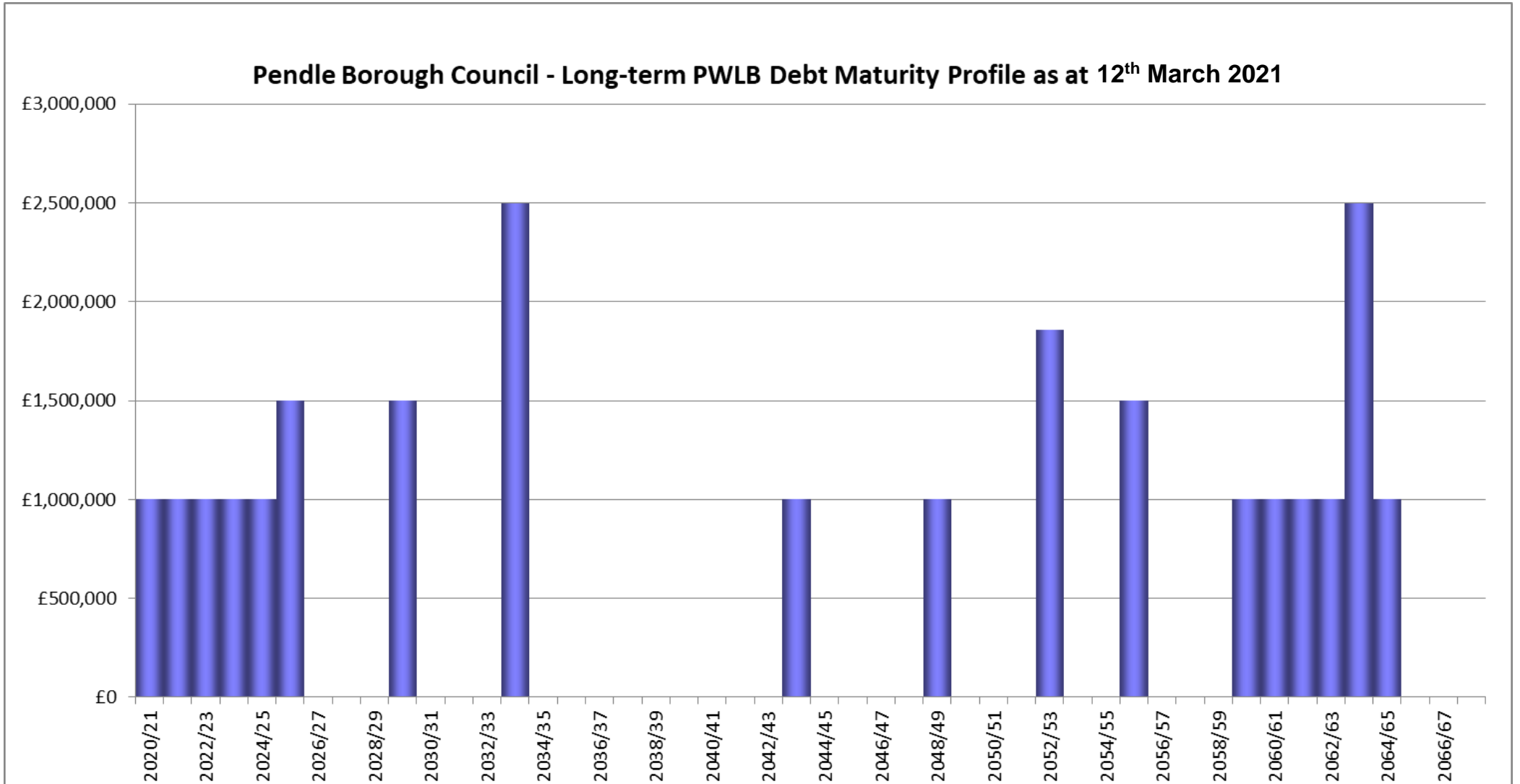
None

PWLB Debt Portfolio
Position as at 12th March 2021

	Start Date	Maturity Date	Years to Maturity	Total Debt 12/03/2021	Interest Rate	Annual Interest Payable
Loan Reference			Years	£	%	£
493481	23-Jul-07	31-Mar-53	32.00	1,859,166	4.75%	88,310
497424	14-Jun-10	31-Mar-25	4.00	1,000,000	4.16%	41,600
502049	27-Mar-13	31-Mar-22	1.00	1,000,000	2.66%	26,600
502050	27-Mar-13	31-Mar-21	0.00	1,000,000	2.46%	24,600
503065	22-May-14	31-Mar-23	2.00	1,000,000	3.37%	33,700
503066	22-May-14	31-Mar-24	3.00	1,000,000	3.49%	34,900
503226	20-Aug-14	31-Mar-26	5.00	1,500,000	3.47%	52,050
503619	09-Jan-15	31-Mar-30	9.00	1,500,000	2.82%	42,300
503620	09-Jan-15	31-Mar-64	43.00	1,500,000	3.14%	47,100
504304	14-Aug-15	31-Mar-62	41.00	1,000,000	3.07%	30,700
504664	11-Feb-16	31-Mar-34	13.00	1,000,000	2.91%	29,100
505224	07-Jul-16	31-Mar-63	42.00	1,000,000	2.14%	21,400
506039	02-May-17	31-Mar-60	39.00	1,000,000	2.36%	23,600
506040	02-May-17	31-Mar-61	40.00	1,000,000	2.35%	23,500
506041	02-May-17	31-Mar-65	44.00	1,000,000	2.34%	23,400
508018	09-Nov-18	31-Mar-44	23.00	1,000,000	2.78%	27,800
508019	09-Nov-18	31-Mar-64	43.00	1,000,000	2.64%	26,400
509381	19-Jun-19	31-Mar-49	28.00	1,000,000	2.28%	22,800
509382	19-Jun-19	31-Mar-56	35.00	1,500,000	2.21%	33,150
113576	13-Sep-19	31-Mar-34	13.00	1,500,000	1.76%	26,400
TOTAL				23,359,166		679,410

Average cost of long-term debt

2.91%



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	<i>(per Fitch)</i>		A-	F1	BB+	5			
	UK Banks									
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
	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.