

**REPORT OF: DIRECTOR OF RESOURCES**

**TO: ACCOUNTS & AUDIT COMMITTEE**

**DATES: 19<sup>th</sup> MARCH 2024**

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## **TREASURY MANAGEMENT 2023/24 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 first quarter of 2023/24.

### **RECOMMENDATIONS**

2. It is recommended that the Committee note the work on the Council's treasury management activities in the period 01st September 2023 to 31st December 2023.

### **ISSUE**

#### **Introduction**

3. The Council's Treasury Management function is concerned with the management of the Council's debts, investments, cash-flow, and banking arrangements. These activities are regulated by a variety of professional codes, statute and guidance. The Council's Treasury Management Policy requires that at least twice a year, a report be submitted to the Executive Committee (formerly the Policy & Resources Committee) on the Council's Treasury Management activities. It also represents good practice to report on treasury activities to the Accounts & 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 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. The TMSS, incorporating the AIS, and MRP Policy Statement were approved by Council at its meeting of 23<sup>rd</sup> March 2023.
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.

6. Treasury management activities are undertaken within the Council's Treasury Management Policy and where necessary, advice is sought from Link Asset Services (LAS) who are engaged as the Council's external advisors.

### **Long Term Borrowing**

7. At the beginning of the 2023/24 financial year, the Council held loans of £20.359m, at an average interest rate of 2.92%, comprised wholly of Public Works Loan Board (PWLb) debt.
8. No additional borrowing has been undertaken during 2023/24. Rates are continually under review, with officer considerations taking into account the Council's borrowing requirement and the need to support the Council's underlying need to borrow to finance the Capital Programme (including borrowing for slippage carried forward from previous years). As part of the forward look for the 2024/25 budget and the medium-term financial plan, a review of the Capital Programme and the Capital Financing Requirement is being undertaken. To this end, Council approved new Capital Programme at its Council meeting on 26<sup>th</sup> February 2024.
9. At the time of this report, the Council has PWLB loan debt of £20.359m at an average interest rate of 2.92% as of 31<sup>st</sup> December 2023. An analysis of this long-term debt is provided in [Appendix A](#) with a maturity profile provided at [Appendix B](#). Decisions on long-term borrowing, such as timing and amount, also impact on the revenue budget as assumptions on external debt repayment are made within the Medium-Term Financial Plan. There are no other items of outstanding long-term borrowing which we need to bring to your attention.
10. We can report that the borrowing position is within the boundary limits set and approved as part of the TMSS and AIS (referred to in para 4 above).

### **Temporary (or Short Term) Borrowing**

11. Temporary borrowing relates to loans which are repayable:

- (a) without notice.
- (b) at less than 12 months' notice; or
- (c) within 364 days of the date of borrowing.

During the period under consideration, the Council has not undertaken any short-term borrowing.

### **Temporary (or Short Term) Investments**

12. The Council's cash-flow position is generally such that it has scope to undertake short-term investing activity relating to surplus funds, i.e. as represented by balances, reserves etc. in excess of required working cash / capital. In line with recent trends, and as reported, the Council continues to adopt a more reserved approach to investing surplus funds; choosing to keep cash in instant access accounts or invest short term in highly liquid opportunities. The Council started the year with investments of £29.8m. The balance of investments as of 31<sup>st</sup> December 2023 was £39.45m. The below table summarises the investment transactions that have taken place since the previous reported quarter:

	£m	No.
Opening balance of Investments 01 April 2023	29.800	11
New Investments	225.120	87
Investments Realised	(215.470)	83
<b>Balance of Investments on 31<sup>st</sup> December 2023</b>	<b>39.450</b>	<b>15</b>

13. The 15 investments comprising the balance of £39.45m were placed within the following sectors:

Sector	£m	%
Local Authorities (Principal Councils (1))	7.950	20.15
Public Sector Deposit Fund (CCLA Money Market Fund)	3.000	7.60
UK Government	15.500	39.29
UK Banks	3.000	7.60
UK Building Societies	10.000	25.35
	<b>39.450</b>	<b>100.00</b>

14. The composition of the investment balances are as follows:

Deposit Type	£m	Interest rate / range	Duration
Fixed Term Deposits	10.500	5.18% - 5.19%	<90 days
Fixed Term Deposits	5.000	5.19% - 5.20%	90 - 180 days
Fixed Term Deposits	16.000	5.20% - 5.70%	>180 days
Instant Access - MMF / Call account	7.950	4.56% - 4.75%	N/A
	<b>39.450</b>		

15. Unlike interest rates for borrowing, rates for short term investments are generally considered to track more closely to the prevailing Bank of England (BoE) rate. There were no further rate increases in the BoE Bank Rate in quarter three which remains at 5.25% from 3<sup>rd</sup> August 2023.
16. The Council's Treasury Advisor (Link Asset Services) had the view that central forecast for interest rates (which was previously updated on 7th November) reflected a view that the MPC would be keen to underpin its anti-inflation credentials by keeping the Bank Rate at 5.25% until at least the second half of 2024. Rate cuts are expected to start when both the CPI inflation and wage/employment data are unequivocally supportive of such a move, and that there is a strong likelihood of the overall economy enduring tepid growth (at best) or a mild recession (at worst) over the coming months.
17. The table below shows LAS's view of interest rates:

Link Group Interest Rate View 07.11.23													
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

18. In terms of the relative performance of the Council's investment portfolio, the average rate of return across the period under consideration was 4.93%, i.e. 1<sup>st</sup> April 2023 to 31<sup>st</sup> December 2023. The approved TMSS noted that the expectation for investment earning rates for 2023/24 were 4.30% which tracks against the current expectations of the treasury management function and LAS (Link Asset Services).
19. 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.
20. Treasury management activities are undertaken within the Council's Treasury Management Policy (and Strategy Statement) 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 to the Executive Committee.

21. There have been no breaches of the counter-party limits during quarter 3 with either the Council's bankers, Lloyds, or with the Council's approved Counter-parties as set out in the approved Counter-Party Lending List. See [Appendix C](#) the current List.

### **External Advice and Training from LINK Group**

22. Council Officers had meetings with LINK Group Advisors on 14<sup>th</sup> November and 7<sup>th</sup> December 2023 to discuss the latest Balance Sheet Review and the latest economic outlook and how this will impact on Pendle Borough Council. The Council is currently under borrowed, however due to cash balances has some ability to wait and see before having to make any additional borrowing to fund the capital programme. The Capital Programme is continually monitored to keep under review future financing need.

## **IMPLICATIONS**

### **Policy**

23. This report has been produced in compliance with the requirements of the Council's Treasury Management Policy.

### **Financial**

24. The financial implications are given in the report.

### **Legal**

25. 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. As noted above, these were approved by Members at the meeting of the 23rd of March 2023 for the current financial year. No amendments or alterations have been required or made following this approval.

### **Risk Management**

26. Treasury Risk Management is a key element of the Council's Treasury Management Strategy. In the light of this, and in accordance with best practice, the Council has a specific Treasury Management Practice Note specifically covering Treasury Risk Management. This covers areas such as liquidity risk, interest rate risk management and credit/counterparty risk management.
27. Given the arrangements the Council currently has in place in relation to Treasury Risk Management, treasury issues do not currently feature on the Council's Risk Register.

### **Health and Safety**

28. There are no health and safety implications arising directly from the contents of this report.

### **Sustainability Implications**

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

**Community Safety:**

30. There are no community safety issues arising directly from the contents of this report.

**Equality and Diversity:**

31. There are no equality and diversity implications arising from the contents of this report.

**APPENDICES**

**Appendix A** – PWLB long-term debt portfolio as of 31<sup>st</sup> December 2023.

**Appendix B** – Maturity profile of PWLB long-term debt as of 31<sup>st</sup> December 2023.

**Appendix C** – Approved Counterparty Lending List as of 31<sup>st</sup> December 2023.

**LIST OF BACKGROUND PAPERS**

None

## Appendix A –

### PWLB Long-term Debt Portfolio

Position as at 31/12/23

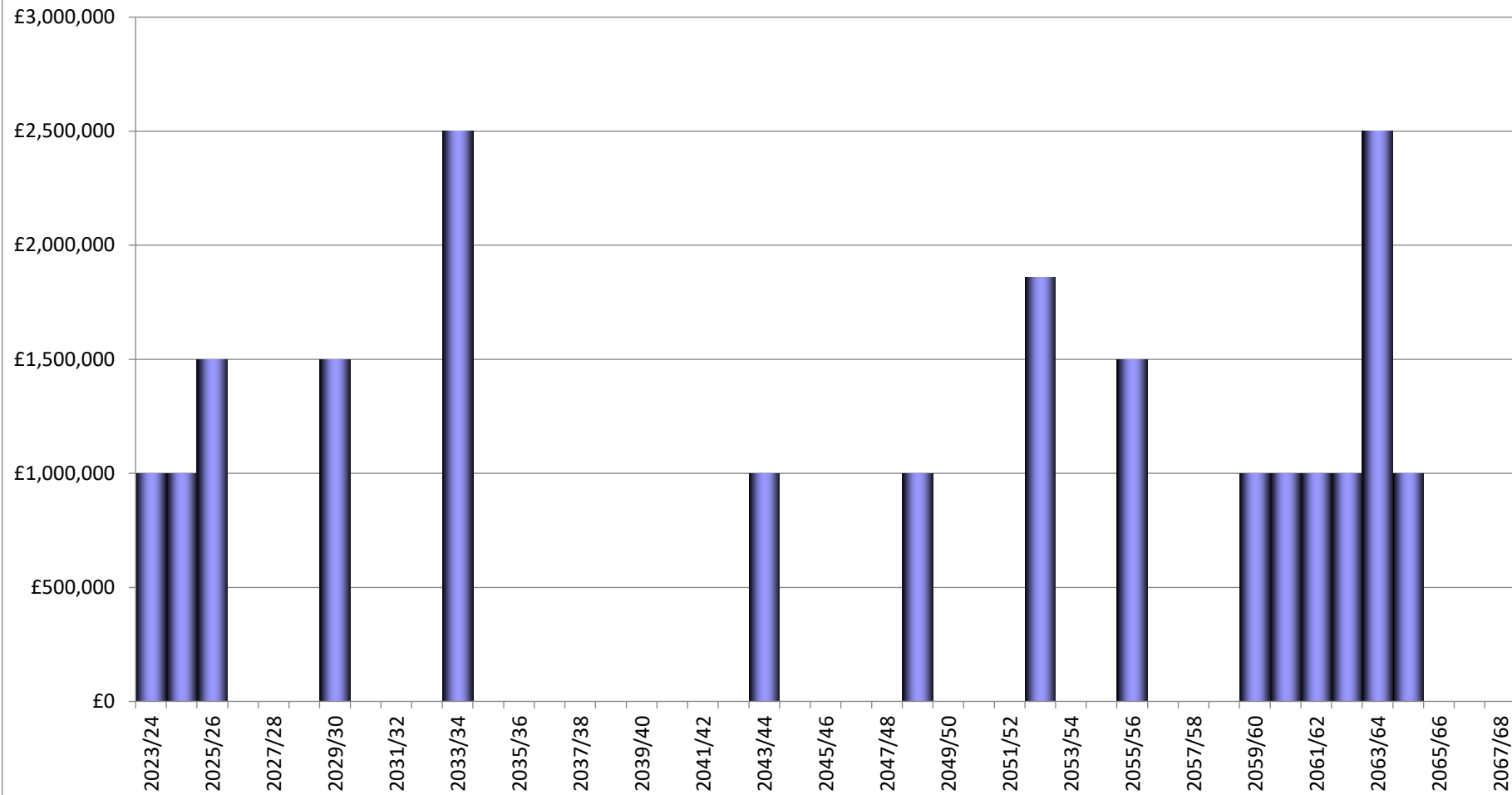
Start Date	Maturity Date	Years to Maturity	Total Debt 31/12/2023	Interest Rate	Annual Interest Payable
		Years	£	%	£
23-Jul-07	31-Mar-53	29.25	1,859,166	4.75%	88,310
14-Jun-10	31-Mar-25	1.25	1,000,000	4.16%	41,600
22-May-14	31-Mar-24	0.25	1,000,000	3.49%	34,900
20-Aug-14	31-Mar-26	2.25	1,500,000	3.47%	52,050
09-Jan-15	31-Mar-30	6.25	1,500,000	2.82%	42,300
09-Jan-15	31-Mar-64	40.25	1,500,000	3.14%	47,100
14-Aug-15	31-Mar-62	38.25	1,000,000	3.07%	30,700
11-Feb-16	31-Mar-34	10.25	1,000,000	2.91%	29,100
07-Jul-16	31-Mar-63	39.25	1,000,000	2.14%	21,400
02-May-17	31-Mar-60	36.25	1,000,000	2.36%	23,600
02-May-17	31-Mar-61	37.25	1,000,000	2.35%	23,500
02-May-17	31-Mar-65	41.25	1,000,000	2.34%	23,400
09-Nov-18	31-Mar-44	20.25	1,000,000	2.78%	27,800
09-Nov-18	31-Mar-64	40.25	1,000,000	2.64%	26,400
19-Jun-19	31-Mar-49	25.25	1,000,000	2.28%	22,800
19-Jun-19	31-Mar-56	32.25	1,500,000	2.21%	33,150
13-Sep-19	31-Mar-34	10.25	1,500,000	1.76%	26,400
<b>TOTAL</b>			<b>20,359,166</b>		<b>594,510</b>

Average cost of long-term debt

2.92%

Average Life

24

**Pendle Borough Council - Long-term PWLB Debt Maturity Profile as at 31st December 2023**

## Appendix C –

### COUNTERPARTY LENDING LIST

	Counterparty	Type of Institution	Sovereign Rating	Long Term	Short Term	Group Limit £M	Individual Limit £M	Maximum Duration (Mths / Days)
	Pendle BC's Minimum Ratings Criteria	(per Fitch)		A-	F1			
1	UK Banks	Bank		A-	F1	5.000	5.000	up to 364 days
	<b><u>Royal Bank of Scotland Group</u></b>					5.000		
2	NatWest Bank PLC	Bank	(AA)	A+	F1		5.000	up to 364 days
3	The RBS PLC	Bank	(AA)	A+	F1		5.000	up to 364 days
	<b><u>Lloyds Banking Group PLC</u></b>					10.000		
4	Lloyds Bank PLC	Bank	(AA)	A+	F1		10.000	Liquid Funds
5	UK Local Authorities	All UK Principal Councils	(AA)	n/a	n/a		3.000	up to 6 months
6	Lancashire County Council	LCC Call-Account	(AA)	n/a	n/a		6.000	Liquid Funds
7	Debt Management Facility	UK Government	(AA)	n/a	n/a		Unlimited	up to 6 months
8	CCLA - PSDF	Money Market Fund	(AA)	AAA mmf			3.000	Liquid Funds
	<b><u>Building Societies</u></b>							
9	Nationwide	Building Society	(AA)	A	F1		5.000	up to 6 months
10	Coventry	Building Society	(AA)	A-	F1		5.000	up to 6 months
11	Skipton Building Society	Building Society	(AA)	A-	F1		5.000	up to 6 months
12	Leeds	Building Society	(AA)	A-	F1		5.000	up to 100 days
13	Yorkshire Building Society	Building Society	(AA)	A-	F1		5.000	up to 100 days

Additional Investments in UK Banks, Building Societies may be made providing that they meet the qualifying criteria set out in Section 5.4 of the Treasury Management Strategy.