

REPORT OF: FINANCIAL SERVICES MANAGER

TO: ACCOUNTS & AUDIT COMMITTEE

DATES: 31ST JULY 2017

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

TREASURY MANAGEMENT 2017/18 QUARTER 1 MONITORING REPORT

PURPOSE OF REPORT

1. The purpose of this report is to advise the Committee of the treasury management activities of the Council in the first quarter of 2017/18.

RECOMMENDATIONS

2. It is recommended that the Committee note the work on the Council's treasury management activities in the first quarter 2017/18.

ISSUE

Introduction

3. The Council's Treasury Management policy requires that at least twice a year, a report be submitted to the Executive 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.

Long Term Borrowing

4. At the beginning of this financial year, the Council held loans of £16.359m, comprised wholly of Public Works Loan Board (PWLb) debt. During the first quarter, the Council undertook new borrowing in the sum of £3m, (comprised of three separate £1m loans) again from PWLB to fund the acquisition of the freehold of No1 Market Street. Details of the acquisition in the context of the Liberata contract extension were resolved by Council in December 2016 and the background can be found [here](#) (item 10 refers).
5. As a result the Council had PWLB loan debt of £19.359m at the end of the quarter at an average cost of 3.15%. An analysis of this long-term debt is provided at **Appendix A** with a maturity profile provided at **Appendix B**.

Temporary (or Short-term) Borrowing

6. Temporary borrowing relates to loans which are repayable:-
- Without notice or
 - At less than 12 months' notice or
 - Within 364 days of the date of borrowing.

During the first quarter 2017/18, the Council borrowed the sum of £1m from Bridgend County Borough Council for a period of 8 days at the rate of 0.20% incurring interest charges of £43.84. This transaction was undertaken to cover a temporary cashflow deficit and represented a more cost effective short-term borrowing option than agreeing an increase to the agreed overdraft level with the Council's bankers.

Temporary (or Short-term) Investments

7. 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. The Council started the year with investments of £17.5m. The balance of investments as at 30th June 2017 was £16.5m. Table 12 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 30th June 2017

	£m	No.
Opening Balance of Investments	17.500	9
New Investments	38.000	14
Investments Realised	(39.000)	14
Balance of Investments at 30th June 2017	16.500	9

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.

The 9 investments comprising the balance of £16.5m were placed with the following sectors:

	£m	%	
a. Local Authorities	9.0	54.55	(Principal Councils (3))
b. UK Banks	4.5	27.27	(Lloyds (2) / Santander (2))
c. Building Societies	3.0	18.18	(Coventry (1) / Nationwide (1))
	16.5	100.00	

8. 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 0.25% since 4th August 2016. In terms of the relative performance of the Council's investment portfolio, the average return on investments in the year to date is 0.41%, which is above the target rate of 0.30%. 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.

9. Total investments comprised fixed term deposits of £11.5m ranging between 6 months to 364 days in duration for amounts between £1m to £2m at interest rates of 0.36% and 0.70% and instant access deposits of £5m at a rate of 0.15%.
10. The Council maintains an approved lending list which specifies the counterparties and types of investment that can be made. The list is reviewed regularly drawing on credit rating information provided by Capita Asset Services (CAS).
11. Indications are that investment returns may remain low for some time despite some signs in the first quarter that the Bank of England Monetary Policy Committee (MPC) might revise rates. Slow Q1 UK growth and political uncertainty as the UK negotiates its exit from the EU are cited as the principal factors supporting this viewpoint.
12. Treasury management activities are undertaken within the Council's agreed Treasury Management Policy and where necessary, advice is sought from CAS. 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 quarterly to management Team and the Executive. The approved budget for these items in the current year is £1.3m and £60k respectively.
13. The Annual Treasury Management Strategy for 2017/18 was approved by Council in March 2017. This set out the framework against which the treasury management function is carried out and updates against this are reported to this Committee quarterly. A copy of the 2017/18 strategy is available to view [here](#) (item 15 refers).

IMPLICATIONS

Policy

14. 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

15. The financial implications are given in the report.

Legal

16. 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 2017.

Risk Management

17. There are no new risk management implications arising from the contents of this report. However, 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). The updated TMP documents are included elsewhere on the agenda as a separate item.

18. With effect from 3rd January 2018, the Financial Conduct Authority (FCA) implements the Markets in Financial Instruments Directive II (MiFID II). This may impact on access to financial markets and financial institutions, potentially increasing costs and placing restrictions on investments available to the Council. The Council will need to compare its default position of 'retail' client as proposed under MiFID II and the level of protection afforded to this status to that of 'professional' status, which could overcome the default risks. The Local Government Association (LGA), in consultation with other stakeholders including the Chartered Institute of Public Finance and Accountancy (CIPFA) is to develop a standardised 'top-up' process to move from retail to professional client. The Council will continue to monitor the situation and update the Committee accordingly.

Health and Safety

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

Sustainability Implications

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

Community Safety:

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

Equality and Diversity:

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

APPENDICES

Appendix A – PWLB long-term debt as at 30th June 2017

Appendix B – Maturity profile of PWLB long-term debt as at 30th June 2017.

LIST OF BACKGROUND PAPERS

None

PWLB Long-term Debt Portfolio

Appendix A

Position as at 30/06/17

Start Date	Maturity Date	Years to Maturity	Total Debt 30/06/2017	Interest Rate	Annual Interest Payable
		Years	£	%	£
23-Jul-07	31-Mar-53	35.75	1,859,166	4.75%	88,310
20-Feb-09	31-Mar-18	0.75	1,000,000	3.66%	36,600
14-Jun-10	31-Mar-20	2.75	1,000,000	3.69%	36,900
14-Jun-10	31-Mar-25	7.75	1,000,000	4.16%	41,600
27-Mar-13	31-Mar-22	4.75	1,000,000	2.66%	26,600
27-Mar-13	31-Mar-21	3.75	1,000,000	2.46%	24,600
22-May-14	31-Mar-23	5.75	1,000,000	3.37%	33,700
22-May-14	31-Mar-24	6.75	1,000,000	3.49%	34,900
20-Aug-14	31-Mar-26	8.75	1,500,000	3.47%	52,050
09-Jan-15	31-Mar-64	46.75	1,500,000	3.14%	47,100
09-Jan-15	31-Mar-30	12.75	1,500,000	2.82%	42,300
14-Aug-15	31-Mar-62	44.75	1,000,000	3.07%	30,700
11-Feb-16	31-Mar-34	16.75	1,000,000	2.91%	29,100
07-Jul-16	31-Mar-63	45.75	1,000,000	2.14%	21,400
02-May-17	31-Mar-60	42.75	1,000,000	2.36%	21,563
02-May-17	31-Mar-61	43.75	1,000,000	2.35%	21,472
02-May-17	31-Mar-65	47.75	1,000,000	2.34%	21,381
TOTAL			19,359,166		610,276

Average cost of long-term debt

3.15%

Pendle Borough Council - Long-term PWLB Debt Maturity Profile as at 30th June 2017