

REPORT OF: FINANCIAL SERVICES MANAGER

TO: EXECUTIVE

DATES: 22nd OCTOBER 2015

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**TREASURY MANAGEMENT
2015/16 MID-YEAR REPORT**

PURPOSE OF REPORT

1. The purpose of the report is to update Councillors on the treasury management activities of the Council for the period ending 30th September 2015 in accordance with the Council's Treasury Management Policy.

RECOMMENDATIONS

2. It is recommended that the Executive note the work on the Council's treasury activities for the period ending 30th September 2015.

REASONS FOR RECOMMENDATION

3. To comply with the Council's Treasury Management Policy and good practice in treasury management generally.

ISSUE

Introduction

4. In accordance with the Council's Treasury Management Policy it is a requirement that at least twice a year, a report be submitted to the Executive on the Council's Treasury Management activities. Quarterly monitoring updates are provided to the Accounts & Audit Committee and at the end of the financial year a final report is presented to the Executive providing details of the outturn for the year.

5. This mid-year report as attached at [Appendix A](#) has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
- An economic update for the first six months of 2015/16;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - The Council's capital expenditure (prudential indicators);
 - A review of the Council's investment portfolio for 2015/16;
 - A review of the Council's borrowing strategy for 2015/16;
 - A review of compliance with Treasury and Prudential Limits for 2015/16.

An overview of the management of the Council's debt and investments in the year to-date follows below.

Long Term Borrowing

6. At the beginning of the financial year, the Council held long-term loans of £13.359m, comprised wholly of Public Works Loan Board (PWLB) debt. As at the 30th September, the Council held PWLB debt, including £1m of debt due to mature at 31 March 2016, of £15.359m, at an average cost of 3.28%.
7. The Council has an underlying requirement to borrow to finance the capital programme. The 2015/16 Treasury Management Strategy, as approved by Council in March 2015, outlined a requirement for net new borrowing of £4.5m in the current financial year. However, £2m was taken in advance in 2014/15 given the relatively low PWLB rates on offer against a rising trend over the medium term and the Council being under-borrowed. To-date in this financial year further borrowing of £1m has been taken from the PWLB, the details of which will be reported to the Accounts and Audit Committee later in the year. It is anticipated that the balance of £1.5m will be borrowed later this year to support the Brownfield Development Fund.

Temporary (or Short Term) Borrowing

8. 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.

These loans are usually, but not always, taken when the Council has a temporary cashflow deficit. To-date in 2015/16 there has been no instances of temporary borrowing.

Temporary (or Short Term) Investments

9. The Council's cash flow position is generally such that it has the 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 £18.35m. The balance of investments as at 30th September was £21.70m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 30th September 2015

	£m	No.
Opening Balance of Investments	18.35	10
New Investments	224.56	94
Investments Realised	(221.21)	(94)
Balance of Investments at 30th Sept 2015	21.70	10

The 10 investments comprising the balance of £21.70m were placed with the following sectors:

	£m	%	
a. Local Authorities	5.70	26.3	(Lancashire County Council)
b. UK Banks	7.00	32.3	(RBS/Lloyds/Santander)
c. Non-UK Banks	2.50	11.5	(Svenska Handelsbanken only)
d. Building Societies	4.50	20.7	(Nationwide BS/Coventry BS)
e. Central Government	<u>2.00</u>	<u>9.20</u>	(Debt Management Office only).
	<u>21.70</u>	<u>100.0</u>	

10. 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 base rate has remained at 0.5% since March 2009. In terms of the relative performance of the Council's investment portfolio, the average return on investments in 2015/16 to-date is 0.54%, which is below the budgeted rate of return of 0.75%. 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 Government's Funding for Lending scheme under which financial institutions can access low cost funds from the Bank of England.
11. 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. Until recently the only UK banks we placed investments with were the part-nationalised banks, namely the Lloyds Bank Group and the RBS Group. The Council has £4.5m invested with the former (in 3 investments) and no investments with the latter. The RBS Group is temporarily suspended from the approved list of counterparties due to its credit rating falling below the minimum criteria required by the agreed Treasury Management Policy. Deposits range from money at call of £2.5m to fixed term deposits of £2.5m at interest rates ranging from 0.25% to 1.00%.
12. In August 2014 the Council opened a Time Deposit account with Santander UK and placed an initial deposit of £2.5m for a 3 month duration. The one non-UK bank is Svenska Handelsbanken, a Swedish bank, with whom the Council now has £2.5m invested in an instant access account. The limit on this counterparty was increased from £2m to £2.5m in September 2014 bringing it in to line with other financial institutions on the lending list and

having regard to its credit rating.

13. In September 2015 the Council increased its value of investments in the Building Society sector, placing a £2m investment with Coventry Building Society for a term of 2.5months.
14. Treasury management activities, and particularly investments of cash resources, are undertaken within the Council's agreed Treasury Management Policy and, where necessary, advice is sought from Capita Asset Services.
15. 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 (as part of the Strategic Monitoring report). The approved budget for these items in the current year is £1m and £70k respectively.

IMPLICATIONS

Policy

16. Treasury Management activity is 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. The Annual Treasury Management Strategy for 2015/16 was approved by Council on 26th March 2015.

Financial

17. The financial implications are as given in the report and Appendix A.

Legal

18. 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 financial year was approved by Council in March 2015.

Risk Management

19. 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 potentials risks that 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 the requirements of Treasury Management Practice (TMP) notes. .

Health and Safety:

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

Sustainability:

21. There are no sustainability issues arising from the contents of this report.

Community Safety:

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

Equality and Diversity:

23. There are no equality and diversity issues arising from the contents of this report.

APPENDICES

Appendix A: 2015/16 Mid-Year Review Report

LIST OF BACKGROUND PAPERS

None.