

REPORT OF: FINANCIAL SERVICES
FINANCIAL SERVICES MANAGER

TO: ACCOUNTS & AUDIT COMMITTEE

DATES: 27th January 2016

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**TREASURY MANAGEMENT
2015/16 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 in the third quarter of 2015/16.

RECOMMENDATIONS

2. It is recommended that the Committee note the work on the Council's treasury management activities in the third quarter of 2015/16.

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 to-date in 2015/16 in relation to the Council's debt and investments.

Long Term Borrowing

4. At the beginning of this financial year, the Council held loans of £14.359m, comprised wholly of Public Works Loan Board (PWLB) debt. During August a further loan for £1m was taken out with the PWLB. This is part of the overall financing of the approved capital programme.
5. As a result of the above, the Council held PWLB loan debt of £15.359m at the end of December at an average cost of 3.36%. An analysis of this long-term debt is provided at [Appendix A](#) with a maturity profile provided at [Appendix B](#). A loan of £1m is due to be repaid on 31/3/2016 and no decision has been made at this time on whether to refinance the debt.

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.

These loans are usually, but not always, taken when the Council has a temporary cashflow deficit. To-date in this year there has been no such borrowing.

Temporary (or Short Term) Investments

7. 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 the 31st December 2015 was £25m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 31st December 2015

	£m	No.
Opening Balance of Investments	18.350	10
New Investments	308.010	132
Investments Realised	(301.360)	(130)
Balance of Investments at 31st December 2015	25.000	12

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 12 investments comprising the balance of £25m were placed with the following sectors:

	£m	%	
a. Local Authorities	10.00	40.00	(Principal Councils (4))
b. UK Banks	7.00	28.00	(Lloyds (3) / Santander (1))
c. Non-UK Banks	2.50	10.00	(Svenska Handelsbanken only)
d. UK Government	1.00	4.00	(Debt Management Office (1))
e. Building Societies	4.50	18.00	(Nationwide (1) / Coventry (1))
	25.00	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 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 0.52%, 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 access that financial institutions have to low cost funds.

9. Total investments comprise fixed term-deposits of £19.5m ranging between 8 and 364 days in duration for amounts between £1m to £2.5m at interest rates of 0.25% to 0.98% together with instant access deposits of £5.5m at rates of 0.25% to 0.40%.
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. The only UK banks we currently have investments with are Lloyds Bank and Santander (UK).
11. The lending list includes limits with regard to both the maximum amount and duration of investment that may be made with an approved counterparty. For Lloyds Bank (the Council's bankers) the limit is £5m comprising investments at any one time together with the balance on the current account. This limit has not been breached during the quarter.
12. During the quarter there have been no revisions to the credit rating methodology that impact on our counter-party lending list. The Council draws on information which it receives regularly from Capita Asset Services. Having regard to this information, the Coventry Building Society was added to our approved lending list in the previous quarter.
13. 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. 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 £928k and £80k respectively.
14. The Annual Treasury Management Strategy for 2015/16 was approved by Council in March. This sets out the framework against which the treasury management function is carried out and updates against this will be reported to this Committee quarterly. The strategy is available to view on line at: <http://www.pendle.gov.uk/meetings/meeting/1820/council>.

IMPLICATIONS

Policy

- 15 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

- 16 The financial implications are as given in the report.

Legal

17. 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

18. 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 notes.

Health and Safety

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

Sustainability

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A: PWLB long-term debt as at 31st December 2015

Appendix B: Maturity profile of PWLB long-term debt as at 31st December 2015

LIST OF BACKGROUND PAPERS

None.