

**REPORT OF:** FINANCIAL SERVICES MANAGER

**TO:** EXECUTIVE

**DATES:** 17<sup>th</sup> NOVEMBER 2016

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**TREASURY MANAGEMENT  
2016/17 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 30<sup>th</sup> September 2016 in accordance with the Council's Treasury Management Policy.

**RECOMMENDATION**

2. It is recommended that the Executive note the work on the Council's treasury activities for the period ending 30<sup>th</sup> September 2016.

**REASON 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 2016/17 provided by Capita Asset Services;
  - 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 2016/17;
  - A review of the Council's borrowing strategy for 2016/17;
  - A review of compliance with Treasury and Prudential Limits for 2016/17.

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 £15.359m, comprised wholly of Public Works Loan Board (PWLB) debt.
7. In recent months Councillors may have seen adverse publicity in the national media regarding Councils with particular forms of loans known as LOBO loans (Lender Option / Borrower Option). Pendle Council has no such loans.
8. The Council retains an underlying requirement to borrow to finance the capital programme. The 2016/17 Treasury Management Strategy, as approved by Council in March 2016, outlined a requirement for net additional borrowing of £3.5m in the current financial year, comprising 'normal' borrowing of £2m and the sum of £1.5m to finance the Brownfield Development Fund.
9. To-date the Council has borrowed £1m from the PWLB in July 2016 in line with the 2016/17 strategy and this was reported to the Accounts and Audit Committee in September. The loan was a fixed rate maturity loan at 2.14% with a repayment date of 31<sup>st</sup> March 2063. As at the 30<sup>th</sup> September, the Council held £16.359m of PWLB debt, at an average cost of 3.34%.
10. In October, Council approved the buy-out of the Council's leasehold interest in the ACE Centre and the intention is that this will be financed by borrowing of £2.2m. However, as it is not intended to complete the purchase until early in 2017/18, the timing of this borrowing remains under review. Dependent on the forecast for PWLB rates it may be taken this year or could be drawn down later. There continues to be significant volatility in PWLB rates following the EU referendum and the uncertainty surrounding 'Brexit' combined more recently with concerns regarding the inflation outlook for the UK.

### Temporary (or Short Term) Borrowing

11. 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 2016/17 there has been no instances of temporary borrowing.

### Temporary (or Short Term) Investments

12. 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 £17.8m. The balance of investments as at 30<sup>th</sup> September was £21.0m. Table 1 below summarises the investment transactions that have taken place since the beginning of the year:-

**Table 1: Analysis of Investments at 30th September 2016**

	£m	No.
Opening Balance of Investments	17.80	8
New Investments	116.25	53
Investments Realised	(113.05)	(48)
<b>Balance of Investments at 30th Sept 2016</b>	<b>21.00</b>	<b>13</b>

The 13 investments comprising the balance of £21.0m were placed with the following sectors:

	£m	%	
a. Local Authorities	7.50	35.71	(Principal Councils (3))
b. UK Banks	6.00	28.57	(Lloyds (3) / Santander (1))
c. UK Government	3.00	14.29	(Debt Management Office (3))
d. Building Societies	4.50	21.43	(Coventry (2) / Nationwide (1))
	<b><u>21.00</u></b>	<b><u>100.00</u></b>	

13. 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 reduced to 0.25% with effect from 4<sup>th</sup> August 2016. In terms of the relative performance of the Council's investment portfolio, the average return on investments in 2016/17 to-date is 0.47%, 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, market fluctuations following 'Brexit' and Government schemes under which financial institutions can access low cost funds from the Bank of England.
14. 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 UK's sovereign rating was downgraded to a level that fell below our minimum criteria as defined in the Annual Investment Strategy. In response, Council agreed in July to remove the UK sovereign rating from this requirement. Enabling us to continue investing in approved UK institutions provided they, themselves, continued to meet our minimum lending criteria. The updated counterparty-lending list is provided at [Appendix B](#). The only change since the start of the year is the inclusion of the Leeds Building Society.
15. 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.
16. 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 on-going 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 £1.03m and £91,500 respectively.
17. Included in Appendix A is an update on the Prudential Indicators for the current year. These were approved by Council in February and March. There has been no breach of any limits set in relation to borrowing or investment activity in the current year. The indicators will be reviewed as part of the development of the Treasury Strategy for 2017/18.

## IMPLICATIONS

### Policy

18. 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 2016/17 was approved by Council on 23<sup>rd</sup> March 2016.

## **Financial**

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

## **Legal**

20. 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 2016.

## **Risk Management**

21. 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**

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

## **Sustainability**

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

## **Community Safety**

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

## **Equality and Diversity**

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

## **APPENDICES**

[Appendix A](#): 2016/17 Mid-Year Review Report

[Appendix B](#): Approved Counterparty/Investment Types in 2016/17

## **LIST OF BACKGROUND PAPERS**

None.