

**REPORT OF: FINANCIAL SERVICES MANAGER**

**TO: ACCOUNTS & AUDIT COMMITTEE**

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**Contact Details:** Vince Green  
**Tel. No:** 01282 661867  
**E-mail:** vince.green@pendle.gov.uk

**TREASURY MANAGEMENT  
2016/17 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 at the end of December 2016.

**RECOMMENDATIONS**

2. It is recommended that the Committee note the work on the Council's treasury management activities in the period from 1<sup>st</sup> April to 31<sup>st</sup> December 2016.

**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 investments.

Long Term Borrowing

4. At the beginning of this financial year, the Council held loans of £15.359m, comprised wholly of Public Works Loan Board (PWLb) debt. In July a further £1m was borrowed from the PWLB. This was a fixed rate maturity loan at 2.14% with a repayment date of 31/3/2063 and was taken to fund the council's capital programme plans in the current year. As a result, the Council held PWLB loan debt of £16.359m at the end of quarter 3 at an average cost of 3.34%. An analysis of this long-term debt is provided at [Appendix A](#) with a maturity profile provided at [Appendix B](#).
5. Further borrowing may be undertaken in quarter 4 in accordance with the approved treasury management strategy and, following the agreement of Council, to fund the acquisition of the council's leasehold interests in the ACE Centre, and No.1 Market Street, Nelson. However, at the time of writing this report, decisions on the timing of this borrowing have not been taken and hence it is possible the Council will end the year with total borrowing of £16.359m.

## 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. There has been no such borrowing in the first quarter.

## 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 £17.80m. The balance of investments as at the 31<sup>st</sup> December 2016 was £24.40m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

**Table 1: Analysis of Investments at 31<sup>st</sup> December 2016**

	£m	No.
Opening Balance of Investments	17.800	8
New Investments	176.450	82
Investments Realised	(169.850)	(76)
<b>Balance of Investments at 31<sup>st</sup> Dec 2016</b>	<b>24.400</b>	<b>14</b>

**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 14 investments comprising the balance of £24.40m were placed with the following sectors:

	£m	%	
a. Local Authorities	12.90	52.87	(Principal Councils (6))
b. UK Banks	6.00	24.59	(Lloyds (3) / Santander (1))
c. UK Government	1.00	4.10	(Debt Management Office (1))
d. Building Societies	4.50	18.44	(Coventry (2) / Nationwide (1))
	<b>24.40</b>	<b>100.00</b>	

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 was reduced last August to an historic low of 0.25%. This was the first change since March 2009 when the rate was reduced to 0.5%. In terms of the relative performance of the Council's investment portfolio, the average return on investments in the year to-date is 0.45%, which is below the budgeted rate of return of 0.55%. The underlying strategy remains one of protecting the capital invested whilst optimising, not maximising, returns on investment. The investment rates on offer continue to remain low given the actions of the Bank of England and the access that financial institutions have to low cost funds.

9. Total investments comprise fixed term-deposits of £22.2m ranging between 40 and 364 days in duration for amounts between £1m to £3m at interest rates of 0.15% to 0.80% and instant access deposits of £2.2m 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. The only UK banks we currently have investments with are Lloyds Bank and Santander (UK).
11. Treasury management activities 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 revised budget for these items in the current year is £1.036m and £91k respectively.
12. The Annual Treasury Management Strategy for 2016/17 was approved by Council in March 2016. 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 2016/17 strategy is available to view [here](#). The strategy for 2017/18 is currently being prepared and will be submitted to Council for approval in March.

## **IMPLICATIONS**

### **Policy**

13. 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**

14. The financial implications are as given in the report.

### **Legal**

15. 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.

### **Risk Management**

16. There are no new risk management implications arising from the contents of this report. However, Councillors will be aware of the current heightened uncertainty in the financial markets and the economy as a whole post 'Brexit' and the potential risks that this may generate 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 and having regard to external advice and support from treasury advisers.

### **Health and Safety**

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

## **Sustainability**

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

## **Community Safety**

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

## **Equality and Diversity**

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

## **APPENDICES**

**Appendix A:** PWLB long-term debt as at 31<sup>st</sup> December 2016

**Appendix B:** Maturity profile of PWLB long-term debt as at 31<sup>st</sup> December 2016

## **LIST OF BACKGROUND PAPERS**

None.