REPORT OF:	**FINANCIAL SERVICES MANAGER**
TO:	**ACCOUNTS & AUDIT COMMITTEE**
DATES:	**28th SEPTEMBER 2017**

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TREASURY MANAGEMENT
2017/18 QUARTER 2 MONITROING 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 half of 2017/18.

RECOMMENDATIONS

2. It is recommended that the Committee note:

   a) the work on the Council's treasury management activities in the first half of 2017/18 and

   b) the implications for the Council of the forthcoming MiFID II regulations and the actions being taken in response.

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 providers 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 2017/18, 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). No borrowing was undertaken in quarter two.

5. As a result the Council had PWLB loan debt of £19.359m at the end of the first half of the year 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**. Further borrowing may be undertaken during the year in accordance with the approved treasury management strategy to fund the purchase of the leashold interest in the ACE Centre, originally funded by 'internal' borrowing, utilising surplus cash balances at the time of acquisition.

Temporary (or Short-term) Borrowing

6. Temporary borrowing relates to loans which are repayable:-

a) Without notice or
b) At less than 12 months' notice or
c) Within 364 days of the date of borrowing.

During the first half of 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 28th September 2017 was £15.5m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 28th September 2017*

	£m	No.
Opening Balance of Investments	17.500	9
New Investments	72.000	29
Investments Realised	(74.000)	29
Balance of Investments at 28th September 2017	**15.500**	**9**

*projected at time of report

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 £15.5m were placed with the following sectors:

		£m	%	
a.	Local Authorities	6.0	38.71	(Principal Councils (3))
b.	UK Banks	5.5	35.49	(Lloyds (2) / Santander (2))
c.	Building Societies	4.0	25.80	(Coventry (1) / Nationwide (1))
		15.5	**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 0.403%, which is above the budgeted rate of return 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 £13.5m ranging between c4 months to 364 days in duration for amounts between £0.5m to £2.5m at interest rates of 0.24% and 0.70% and instant access deposits of £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 (CAS).

11. As noted in the Q1 report, indications are that investment returns will remain low for some time, although recent data shows inflation levels beyond the Bank of England's (BoE) target of 2% with commentators suggesting a 'rate hike' could be possible in the coming months, based on the minutes from the September Monetary Policy Committee (MPC) meeting. Some forecasters are now building in a rate rise from November 2017 and further increases phased in, in 2018. This compares significantly to market expectations of a first rate rise being introduced in Q2, 2019 (as included in the Council's TMSS).

<u>MiFID II</u>

12. The Markets in Financial Instruments Directive II (MiFID II) comes into force on 3rd January 2018 and requires the Council to decide upon its Client Category, either 'retail' status (default position) or 'professional' status, via an opting-up process. Under MiFID I, the Council is currently recognised as a professional client.

13. In accordance with the approved TMSS and Annual Investment Strategy (AIS), the Council typically invests in Fixed Term Deposits with high quality counterparties, but also has approval to utilise more 'complex' specified investments such as Money Market Funds.

14. The more complex investments are likely to fall within Financial Conduct Authority (FCA) regulation and thus require 'professional' client status to be achieved to access these products. Some Financial Institutions have also indicated that they may be unable to serve clients with a Client Categorisation of 'retail'.

15. To retain the flexibility of the TMSS and AIS and to ensure continued access to institutions and markets, the Council intends to participate in CIPFA's opting-up process (PS Link solution) to notify Financial Institutions of its intention to opt-up to 'professional' client.

16. This process culminates in a request to each Financial Institution. Once each institution has reviewed the request (to opt-up) they will notify the Council of their determination i.e. whether to recognise the Council as a professional or retail client. If the Financial Institution determines that the Council can opt-up to professional status, they will then outline the implications of accepting this change (from retail status) and any loss of protections as a consequence.

17. The Council must then consider whether it is happy to accept professional status should it be offered. Further updates will be presented to members in due course.

Governance

18. 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 £1.300m and £60k respectively.

19. 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

20. 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

21. The financial implications are given in the report.

Legal

22. 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

23. 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). Updated TMP documents were approved by this Committee at its last meeting of 31st July 2017.

24. 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) have now developed a standardised 'top up 'process to move from retail to professional client. The Council will input to this process to gain more information on the implications of change and update members accordingly.

Health and Safety

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

Sustainability Implications

26. There are no sustainability implications arising directly form this report.

Community Safety:

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

Equality and Diversity:

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

APPENDICES

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

LIST OF BACKGROUND PAPERS

None

Appendix A

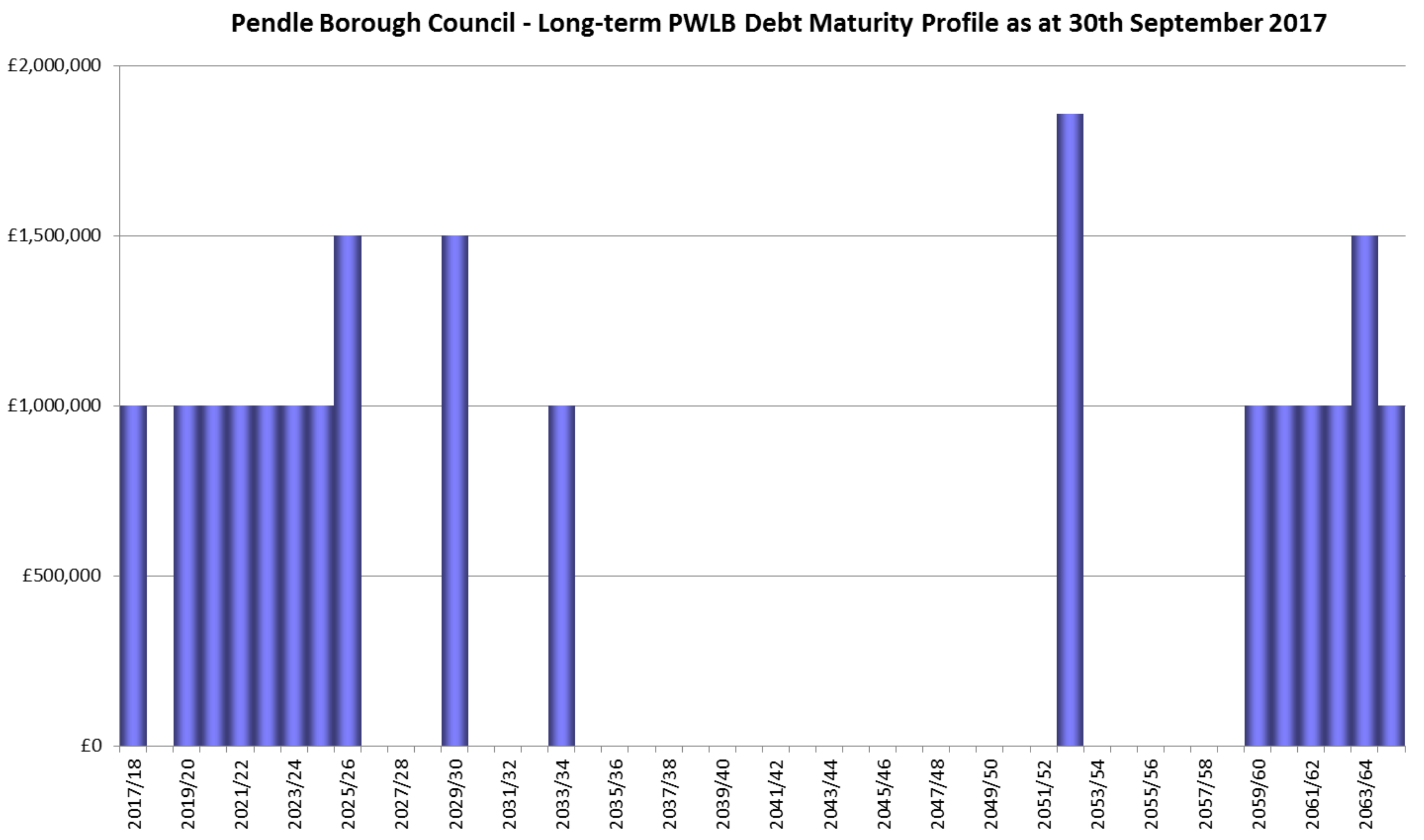
PWLB Long-term Debt Portfolio

Position as at 30/09/17

Start Date	Maturity Date	Years to Maturity	Total Debt 30/09/2017	Interest Rate	Annual Interest Payable
		Years	£	%	£
23-Jul-07	31-Mar-53	35.50	1,859,166	4.75%	88,310
20-Feb-09	31-Mar-18	0.50	1,000,000	3.66%	36,600
14-Jun-10	31-Mar-20	2.50	1,000,000	3.69%	36,900
14-Jun-10	31-Mar-25	7.50	1,000,000	4.16%	41,600
27-Mar-13	31-Mar-22	4.50	1,000,000	2.66%	26,600
27-Mar-13	31-Mar-21	3.50	1,000,000	2.46%	24,600
22-May-14	31-Mar-23	5.50	1,000,000	3.37%	33,700
22-May-14	31-Mar-24	6.50	1,000,000	3.49%	34,900
20-Aug-14	31-Mar-26	8.50	1,500,000	3.47%	52,050
09-Jan-15	31-Mar-64	46.50	1,500,000	3.14%	47,100
09-Jan-15	31-Mar-30	12.50	1,500,000	2.82%	42,300
14-Aug-15	31-Mar-62	44.50	1,000,000	3.07%	30,700
11-Feb-16	31-Mar-34	16.50	1,000,000	2.91%	29,100
07-Jul-16	31-Mar-63	45.50	1,000,000	2.14%	21,400
02-May-17	31-Mar-60	42.50	1,000,000	2.36%	21,563
02-May-17	31-Mar-61	43.50	1,000,000	2.35%	21,472
02-May-17	31-Mar-65	47.50	1,000,000	2.34%	21,381
TOTAL			**19,359,166**		**610,276**

Average cost of long-term debt	3.15%

Appendix B


Pendle Borough Council - Long-term PWLB Debt Maturity Profile as at 30th September 2017
£2,000,000
£1,500,000
£1,000,000
£500,000
£0
2017/18
2019/20
2021/22
2023/24
2025/26
2027/28
2029/30
2031/32
2033/34
2035/36
2037/38
2039/40
2041/42
2043/44
2045/46
2047/48
2049/50
2051/52
2053/54
2055/56
2057/58
2059/60
2061/62
2063/64