REPORT OF:	**FINANCIAL SERVICES MANAGER**
TO:	**EXECUTIVE**
DATE:	**19th OCTOBER 2017**

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TREASURY MANAGEMENT
2017/18 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 2017 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 2017.

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 2017/18;
- 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 2017/18;
- A review of the Council's borrowing strategy for 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18.

It should be noted that CIPFA are currently consulting Local Authorities on revisions to the Treasury Management and Prudential Codes. A report to members will be issued in due course once the new codes have been agreed and issued, with an assessment of the likely impact on this authority.

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 £16.359m, comprised wholly of Public Works Loan Board (PWLB) debt. As at the 30th September, the Council held £19.359m of PWLB debt, at an average cost of 3.15%.

7. The Council borrowed £3m (comprised of three separate loans) from the PWLB in the first quarter 2017/18 in line with the approved strategy to fund the acquisition of the freehold of No1 Market Street, and this was reported to the Accounts and Audit Committee in July.

8. The Council has an underlying requirement to borrow to finance the capital programme. Further borrowing may be undertaken during the second half of the year in accordance with the approved strategy to fund the purchase of the leasehold interest in the ACE Centre. This was originally funded by 'internal' borrowing, utilising surplus cash balances at the time of acquisition.

Temporary (or Short Term) Borrowing

9. 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. 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

10. 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 £17.5m. The balance of investments as at 30th

September 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 30th September 2017

	£m	No.
Opening Balance of Investments	17.5	9
New Investments	72.0	29
Investments Realised	(74.0)	(29)
Balance of Investments at 30th Sept 2017	**15.5**	**9**

The 9 investments comprising the balance of £15.5m were placed with the following sectors:

		£m	%	
a.	Local Authorities	6.0	38.70	(Principal Councils (3))
b.	UK Banks	5.5	35.48	(Lloyds (2) / Santander (2))
c.	Non UK Banks	-	-	-
d.	Building Societies	4.0	25.80	(Coventry (1) / Nationwide (1))
		15.5	**100.00**	

11. 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 4th August 2016. In terms of the relative performance of the Council's investment portfolio, the average return on investments in 2017/18 to-date is 0.40%, 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.

12. 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).

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 CAS.

14. 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 £1.3m and £60k respectively.

MiFID II

15. 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.

16. In accordance with the approved Treasury Management Strategy Statement (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.

17. 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’.

18. To retain the flexibility of the TMSS and AIS and to ensure continued access to institutions and markets, the Council intends to participate in the opting-up process to notify Financial Institutions of its intention to opt-up to ‘professional’ client.

19. 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.

20. The Council must then consider whether it is happy to accept professional status should it be offered. In summary, these protection ‘losses’ are likely to refer to external advice regarding the suitability and appropriateness of products or services; institutions and advisors are entitled to assume that ‘professional’ clients have the necessary level of experience, knowledge and expertise to understand the risks associated with their chosen product or service.

21. It should be noted that at all times the Council will retain the right to request a different client categorisation and in practice could be viewed as both ‘retail’ and ‘professional’ client by different institutions.

IMPLICATIONS

Policy

22. 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 2017/18 was approved by Council on 23rd March 2017.

23. Changes to the CIPFA Treasury Management Code of Practice and Prudential Code are currently out for consultation. Members will be informed of changes and advised of any implications for Pendle, in due course.

Financial

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

Legal

25. 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 2017.

Risk Management

26. 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. These were recently updated and approved by the Accounts and Audit Committee at its meeting of 31st July 2017.

27. 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.

28. 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 Councillors accordingly.

Health and Safety:

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

Sustainability:

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

Community Safety:

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

Equality and Diversity:

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

APPENDICES

Appendix A: 2017/18 Mid-Year Review Report

LIST OF BACKGROUND PAPERS
None.