

REPORT OF: FINANCIAL SERVICES MANAGER

TO: ACCOUNTS & AUDIT COMMITTEE

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TREASURY MANAGEMENT 2017/18 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 period 1st April to 31st December 2017.

RECOMMENDATIONS

2. It is recommended that the Committee note:
 - a) the work on the Council's treasury management activities in the period and
 - b) the Council's position with regard to MiFID II and
 - c) forthcoming changes arising from changes to CIPFA's Prudential Code and Treasury Management Code, commencing from 2018/19.

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 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 Number One Market Street.

5. As a result the Council had PWLB loan debt of £19.359m at the end of the period at an average cost of 3.18%. 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 remainder of the year in accordance with the approved treasury management strategy to finance the Council's capital programme.

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.

In the period to date, the Council borrowed £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 31st December 2017 was £15.8m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 31st December 2017

	£m	No.
Opening Balance of Investments	17.500	9
New Investments	134.300	52
Investments Realised	(136.000)	53
Balance of Investments at 31st December 2017	15.800	8

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 8 investments comprising the balance of £15.8m were placed with the following sectors:

	£m	%	
a. Local Authorities	8.0	50.64	(Principal Councils (3))
b. UK Banks	3.5	22.15	(Lloyds (1) / Santander (1))
c. Building Societies	2.5	15.82	(Coventry (2))
d. Government	1.8	11.39	(Debt Management Office (1))
	15.8	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 Councillors will be aware the Bank rate was increased on 2nd November 2017, from 0.25% to 0.50%. In terms of the relative performance of the Council's investment portfolio, the average return on investments in the year to date is 0.39%, which is marginally above the budgeted rate of return of 0.38%. 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 £10.8m ranging between 8 to 364 days in duration for amounts between £1.5m to £2.0m at interest rates of 0.10% and 0.60% and instant access deposits of £5m at a rate of 0.25%.
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 Link Asset Services (LAS), formerly Capita Asset Services (CAS).
11. Indications are that investment returns will remain low for some time, although recent data continues to show inflation levels exceeding the Bank of England's target rate, which was considered one of the factors for the November 2017 increase. Commentators are suggesting that further phased increases in the base rate during 2018/19 are possible and that this should be considered when depositing funds over the longer-term.

MiFID II

12. The Markets in Financial Instruments Directive II (MiFID II) came into force on 3rd January 2018. This 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 was recognised as a professional client.
13. 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 other, more 'complex' investments such as Treasury Bills, Certificates of Deposit and a Money Market Fund.
14. Initial information on MiFID II featured in the quarter 2 monitoring report to this Committee in September following which the Council commenced an opt-up process facilitated by CIPFA. We also engaged directly with our current approved Counterparties to establish the operational implications of MiFID II. (A copy of the Q2 Monitoring Report can be viewed [here](#) (item 8 refers)).
15. In summary, the Council currently enjoys both 'retail' and 'professional' status dependent upon the particular Counterparty and their interpretation and application of the MiFID II directive.
16. As the Council typically transacts in Fixed Term Deposits, there is no deemed 'loss of protection' arising from a change of status from 'retail' to 'professional' client with certain institutions, nor have preferential rates been offered to clients of one particular category.
17. Where necessary, for example to trade in the more complex products available to the Council and which fall within the scope of MiFID II, we can choose to opt-up to professional status at any time. There is a defined process to follow should we wish to do this with any or all counterparties.

Governance

18. Treasury management activities are undertaken within the Council's agreed Treasury Management Policy and where necessary, advice is sought from LAS. 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 budgets for these items as recently approved by the Executive in December 2017 are £1.120m and £75k respectively.
19. The CIPFA Treasury Management Code of Practice and Cross-Sectoral Guidance Notes (the Code) have been updated for 2017 and are complementary to the recently revised Prudential Code, covered by the annual TMSS. Changes to the latter and any implications for Pendle will be reported to Council in March 2018.
20. The Council last reviewed its Treasury Management Practices (TMPs) in July 2017 and following amendments to the Code, will do so again in 2018/19, and report back to this Committee. In summary, the Code changes include but are not limited to:
 - A change in definition of 'Treasury Management' to include reference to borrowing activity;
 - The possibility of extending the short-term maximum duration for invested sums from 364 days to 365 days (to be confirmed);
 - A widening of the term 'investment' to cover non-financial assets which the Council may hold *primarily* for financial returns e.g. investment property;
 - Consideration of organisational and segregation of responsibilities;
 - Reference to future liquidity requirements where internal borrowing is undertaken;
 - Changes within TMPs to include, for example:
 - Increased reference to management of 'risks';
 - Reference to MiFID II and Council classification(s);
21. 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). Work is underway on the strategy for 2018/19 and this will be presented to Council for approval in March.

IMPLICATIONS

Policy

22. 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

23. The financial implications are given in the report.

Legal

24. 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

25. 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 and are to be reviewed again in 2018/19 following revision of CIPFA's Treasury Management Code of Practice.

Health and Safety

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

Sustainability Implications

27. There are no sustainability implications arising directly from this report.

Community Safety:

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

Equality and Diversity:

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

APPENDICES

[Appendix A](#) – PWLB long-term debt as at 31st December 2017

[Appendix B](#) – Maturity profile of PWLB long-term debt as at 31st December 2017.

LIST OF BACKGROUND PAPERS

None

PWLB Long-term Debt Portfolio

Position as at 31/12/17

Appendix A

Start Date	Maturity Date	Years to Maturity	Total Debt 02/05/17	Interest rate	Annual Interest Payable
			£	%	£
23-Jul-07	31-Mar-52	34.25	1,859,166	4.75%	88,310
20-Aug-09	31-Mar-18	0.25	1,000,000	3.66%	36,600
14-Jun-10	31-Mar-20	2.25	1,000,000	3.69%	36,900
14-Jun-10	30-Mar-25	7.24	1,000,000	4.16%	41,600
27-Mar-13	31-Mar-21	3.25	1,000,000	2.46%	24,600
27-Mar-13	31-Mar-22	4.25	1,000,000	2.66%	26,600
22-May-14	31-Mar-23	5.25	1,000,000	3.37%	33,700
22-May-14	31-Mar-24	6.25	1,000,000	3.49%	34,900
20-Aug-14	31-Mar-26	8.25	1,500,000	3.47%	52,050
09-Jan-15	31-Mar-30	12.25	1,500,000	2.82%	42,300
09-Jan-15	31-Mar-64	46.25	1,500,000	3.14%	47,100
14-Aug-15	31-Mar-62	44.25	1,000,000	3.07%	30,700
11-Feb-16	31-Mar-34	16.25	1,000,000	2.91%	29,100
07-Jul-16	31-Mar-63	45.25	1,000,000	2.14%	21,400
02-May-17	31-Mar-60	42.25	1,000,000	2.36%	23,600
02-May-17	31-Mar-61	43.25	1,000,000	2.35%	23,500
02-May-17	31-Mar-65	47.25	1,000,000	2.34%	23,400
TOTAL			19,359,166		616,360

Average cost of long-term debt

3.18%

Appendix B

Pendle Borough Council - Long-term PWLB Debt Maturity Profile as at 31st December 2017

