

REPORT OF: CHIEF FINANCIAL OFFICER
TO: ACCOUNTS & AUDIT COMMITTEE
DATES: 27TH SEPTEMBER 2018

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**TREASURY MANAGEMENT
2018/19 QUARTER 2 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 first half of 2018/19¹.

RECOMMENDATIONS

2. It is recommended that the Committee note the work on the Council's treasury management activities in the period 1st April to 11th September 2018.

ISSUE

Introduction

3. The Council's Treasury Management policy requires that at least twice a year, a report be submitted to the Policy and Resources Committee (previously 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 £19.359m, comprised wholly of Public Works Loan Board (PWLB) debt. Technically, the sum of £1m was repayable on 31st March 2018 but as this repayment date was a bank holiday, the amount was not repaid until 3rd April 2018. During the first half of 2018/19, no new borrowing has been undertaken.
5. As a result the Council had PWLB loan debt of £18.359m at the end of the second quarter at an average cost of 3.16%. An analysis of this long-term debt is provided at **Appendix A** with a maturity profile provided at **Appendix B**.

¹ The report covers the period 1 April 2018 to 11th September 2018

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.

During the first half of 2018/19, the Council has not undertaken any short-term borrowing.

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 £14.0m. The balance of investments as at 11th September 2018 was £17.5m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 11th September 2018

	£m	No.
Opening Balance of Investments	14.000	11
New Investments	39.000	22
Investments Realised	(39.500)	24
Balance of Investments at 11th September 2018	17.500	9

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.

8. The 11 investments comprising the balance of £17.5m were placed with the following sectors in accordance with our approved Treasury Strategy:

	£m	%	
a. Local Authorities	7.5	42.86	(Principal Councils (2))
b. UK Banks	5.5	31.43	(Lloyds (3) / Santander (2))
c. Non UK Banks	-	-	-
d. Building Societies	4.5	25.71	(Coventry (2) / Nationwide (2))
	17.5	100.00	

9. 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 had remained at 0.50% since 2nd November 2017 until 2nd August 2018, when it increased to 0.75%. In terms of the relative performance of the Council's investment portfolio, the average return on investments in the year to date is 0.61%, which is above the budgeted rate of return of 0.40%. 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.

10. Total investments comprised fixed term deposits of £12.0m ranging between 5 months to 364 days in duration for amounts between £1m to £2m at interest rates of 0.60% and 0.85% and instant access deposits of £5.5m at a rate of 0.25%.
11. 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).
12. The Council's Treasury Advisors anticipate further Bank Rate moves to be gradual with markets not factoring in any rate increases for the remainder of the calendar year. Market data suggests a potential date of August 2019 for a future rate change as the Bank of England (BoE) policy makers '...strike a balance between taming inflation and protecting against the risk of Brexit affecting growth'².
13. 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 Policy and Resources Committee. The approved budget for these items in the current year is £1.466m and £60k respectively.
14. The Annual Treasury Management Strategy for 2018/19 was approved by Council in March 2018. 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 2018/19 strategy is available to view [here](#) (item 11 refers).

IMPLICATIONS

Policy

14. 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

15. The financial implications are given in the report.

Legal

16. 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 2018.

Risk Management

17. 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

² Source: Link Asset Services: 'The Weekly – 10th September 2018'

Treasury Management Practice Notes (TMPs). The updated TMP documents are included elsewhere on the agenda as a separate item.

18. From 1st January 2019, the largest UK banks must separate core retail banking from investment banking. This is known as 'ring-fencing'. For Pendle, it is anticipated that instruments approved in the Annual Investment Strategy (AIS) eg fixed term deposits will be placed with the ring-fenced entity (RFB) as opposed to non-ring-fenced bank (NRFB) although this can vary by institution.
19. Any new entity created as a result of ring-fencing will be subject to evaluation by the external rating agencies and must therefore satisfy our minimum rating criteria before a transaction is considered.

Health and Safety

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

Sustainability Implications

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

Community Safety:

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

Equality and Diversity:

23. 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 2018.

[Appendix B](#) – Maturity profile of PWLB long-term debt as at 30th September 2018.

[Appendix C](#) – Approved Counterparty Lending List as at 30th September 2018.

LIST OF BACKGROUND PAPERS

None

PWLB Long-term Debt Portfolio

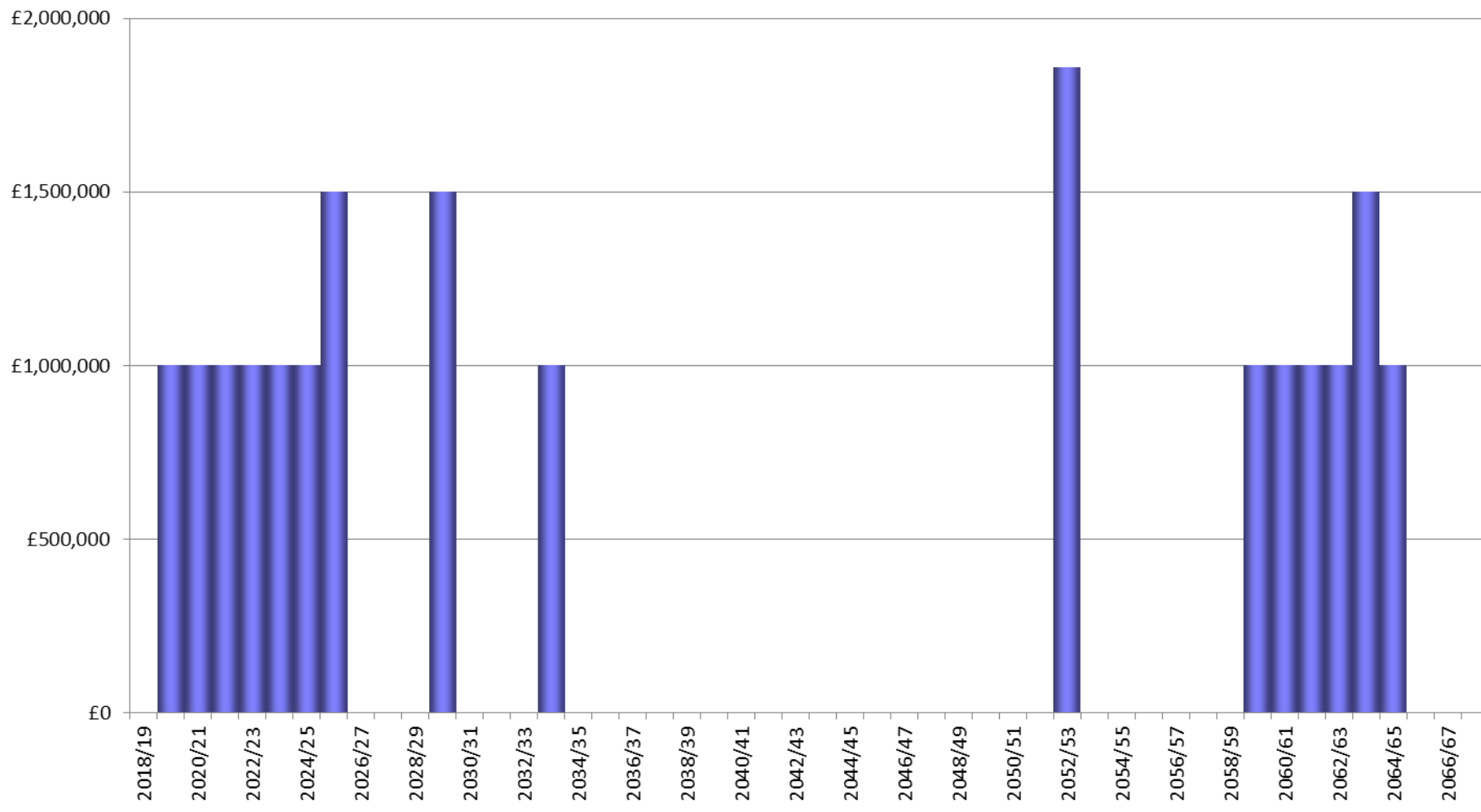
Position as at 11/09/18

Start Date	Maturity Date	Years to Maturity	Total Debt 11/09/2018	Interest Rate	Annual Interest Payable
		Years	£	%	£
23-Jul-07	31-Mar-53	34.60	1,859,166	4.75%	88,310
14-Jun-10	31-Mar-20	1.60	1,000,000	3.69%	36,900
14-Jun-10	31-Mar-25	6.60	1,000,000	4.16%	41,600
27-Mar-13	31-Mar-22	3.60	1,000,000	2.66%	26,600
27-Mar-13	31-Mar-21	2.60	1,000,000	2.46%	24,600
22-May-14	31-Mar-23	4.60	1,000,000	3.37%	33,700
22-May-14	31-Mar-24	5.60	1,000,000	3.49%	34,900
20-Aug-14	31-Mar-26	7.60	1,500,000	3.47%	52,050
09-Jan-15	31-Mar-64	45.60	1,500,000	3.14%	47,100
09-Jan-15	31-Mar-30	11.60	1,500,000	2.82%	42,300
14-Aug-15	31-Mar-62	43.60	1,000,000	3.07%	30,700
11-Feb-16	31-Mar-34	15.60	1,000,000	2.91%	29,100
07-Jul-16	31-Mar-63	44.60	1,000,000	2.14%	21,400
02-May-17	31-Mar-60	41.60	1,000,000	2.36%	23,600
02-May-17	31-Mar-61	42.60	1,000,000	2.35%	23,500
02-May-17	31-Mar-65	46.60	1,000,000	2.34%	23,400
TOTAL			18,359,166		579,760

Average cost of long-term debt

3.16%

Pendle Borough Council - Long-term PWLB Debt Maturity Profile as at 11th September 2018



APPENDIX C

APPROVED COUNTERPARTY LENDING LIST (updated 11/09/18)

Fitch Ratings (@ 7th September per LAS Weekly Credit Rating List)

	Counterparty	Type of Institution	Sovereign Rating	Long Term	Short Term	Viability	Support	Group Limit £M	Individual Limit £M	Maximum Duration (Mths / Days)	
	Pendle BC's Minimum Ratings Criteria (per Fitch)			A-	F1	BB+	5				
	UK Banks										
1	HSBC Bank PLC (Non Ring Fenced Bank)	Bank	(AA)	AA-	F1+	a+	1	2.500	2.500	up to 12 months	
	HSBC Bank PLC (Ring Fenced Bank)	Bank	(AA)	AA-	F1+	a	1	2.500	2.500	up to 12 months	
2	Barclays Bank PLC (Non Ring Fenced Bank)	Bank	(AA)	A	F1	a	5	2.500	2.500	up to 6 months	
	Barclays Bank UK PLC (Ring Fenced Bank)	Bank	(AA)	A	F1	a	1	2.500	2.500	up to 6 months	
3	Santander UK PLC	Bank	(AA)	A	F1	a	2	2.500	2.500	up to 6 months	
	Lloyds Banking Group plc							5.000			
4	- Lloyds Bank PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1	a	5	5.000	5.000	up to 12 months	
5	- Bank of Scotland PLC (Ring Fenced Bank)	Bank	(AA)	A+	F1	a	5	2.500	2.500	up to 12 months	
	Non-UK Banks										
6	Svenska Handelsbanken AB	Bank	(AAA)	AA	F1+	aa	5	2.500	2.500	up to 6 months	
	Other										
7	Principal Local Authorities	All UK Principal Councils	(AA)	n/a	n/a	n/a	n/a	3.000	3.000	up to 364 days	
		LCC Call-Account	(AA)	n/a	n/a	n/a	n/a	6.000	6.000	up to 364 days	
8	Debt Management Office - Deposit Facility		(AA)	n/a	n/a	n/a	n/a	Unlimited	Unlimited	up to 6 months	
9	CCLA - PSDF	Money Market Fund	(AA)			AAAmmf		1.000	1.000	Liquid Funds	
	Building Societies										
10	Nationwide	Building Society	(AA)	A	F1	a	5	3.000	3.000	up to 6 months	
11	Coventry	Building Society	(AA)	A	F1	a	5	2.500	2.500	up to 6 months	
12	Leeds	Building Society	(AA)	A-	F1	a-	5	2.500	2.500	up to 100 days	

Additional Notes

1 No investments should exceed 364 days

2 Where feasible:-

a) there should be no more than 75% of the Council's investments in any single sector with the exception of Principal Local Authorities

b) there should be no fewer than 4 counterparties in use at any one point in time

If the above conditions are breached as a result of the maturity of fixed rate loans, action should be taken as soon as possible to comply with these requirements

3 Whilst UK Treasury Bills (max. of £2.5m) have been approved for investment purposes the preparatory work to enable the use of these has not been progressed.

4 Certificates of Deposit (maximum of £1m total investment) are now an approved means of investment (approved by executive August 2013) - counterparties currently remain limited to those

5 PSDF MMF account is now operative - maximum of £1m - min. investment £25k - no investment may be made to this without prior approval of CFO.

6 LCC maximum of £6m (excluding HACA balance) is subject to the investment with LCC not exceeding 50% of the total under investment (excluding Lloyds current account balance) at any time

7 Monetary limits refer to principal sums invested.

8 Fitch investment grade ratings range from AAA to BBB, STC ratings range from F1+ to D, Viability ratings range from aaa to f.