

REPORT OF: CHIEF FINANCIAL OFFICER
TO: POLICY AND RESOURCES COMMITTEE
DATE: 24th OCTOBER 2019

Contact Details: Craig Finn
Tel. No: 01282 661014
E-mail: craig.finn@pendle.gov.uk

**TREASURY MANAGEMENT – MID YEAR REPORT
2019/20**

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 2019 in accordance with the Council's Treasury Management Policy.

RECOMMENDATION

2. It is recommended that the Policy and Resources Committee note the work on the Council's treasury activities for the period ending 30th September 2019.

REASON 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 Policy and Resources Committee 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 Policy and Resources Committee 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 2019/20;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure as set out in the Capital Strategy (prudential indicators);
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20.

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 £20.359m, comprised wholly of Public Works Loan Board (PWLB) debt. As at the 30th September, the Council held £24.359m of PWLB debt, at an average cost of 2.94%. Borrowing was undertaken as follows:
 - 21st June 2019 - £1m repayable on 31st March 2049 at a fixed rate of 2.28%
 - 21st June 2019 - £1.5m repayable on 31st March 2056 at a fixed rate of 2.21%
 - 13th September 2019 - £1.5m repayable on 31st March 2034 at a fixed rate of 1.76%
7. 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 revised strategy (August 2019) to fund commercial investments in support of the approved Property Investment Strategy, that said, this will be kept under review particularly in the light of recent uplift in borrowing interested rates by Government which will have an immediate impact on the viability of Capital Schemes.
8. On 9th October 2019 the Government increased the PWLB interest rates by 100bps (one percent point) with immediate effect. This action follows a significant increase over the summer months in lending by Local Authorities due to the record low interest rates available. It has been reported that the Treasury is concerned about the significant increase in borrowing and aims to slow the pace down. As the rate increase, with no prior notice, impacts on the affordability of Capital Schemes being delivered by Local Authorities, the Society of District Council Treasurers has suggested that a discount is made available for housing and regeneration schemes. This is apparently being considered by The Treasury.
9. Please note, as the increase in PWLB rates will increase the cost of debt, there will inevitably be a negative effect on the affordability of any Property Investment proposals. The rate increase will apply indefinitely but will be kept under review.

Temporary (or Short Term) Borrowing

10. 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 period to date, the Council has not undertaken any short-term borrowing.

Temporary (or Short Term) Investments

11. 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 £16.0m. The balance of investments as at 30th September was £21m. Table 1 summarises the investment transactions that have taken place since the beginning of the year:-

Table 1: Analysis of Investments at 30th September 2019

	£m	No. of Investments
Opening Balance of Investments	16.0	9
New Investments	156.8	48
Investments Realised	151.8	44
Balance of Investments as at 30th Sept 2019	21.0	13

The 13 investments comprising the balance of £21.0m were placed with the following sectors:-

	£m	%	Institutions
a. Local Authorities	9.0	42.86	Principal Councils (3 Investments)
b. UK Banks	6.5	30.95	Lloyds (3 Investments) / Santander (2 Investments)
c. Non UK Banks	-	-	-
d. Building Societies	5.5	26.19	Coventry (2 Investments) / Nationwide (3 Investments)
	21.0	100.00	

12. 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 0.75% since 2nd August 2018. In terms of the relative performance of the Council's investment portfolio, the average return on investments in the year to date is 0.83%, which is above the budgeted rate of return of 0.45%. 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.
13. Total investments comprised fixed term deposits of £16.0m ranging from 123 to 364 days in duration for amounts between £1m and £3m at interest rates of 0.71% and 1.08% and instant access deposit of £5.0m at a rate of 0.50%.
14. At the time of writing Brexit continues to dominate the headlines. Typical investment approaches have been offered by LAS based on scenarios of 'Deal' or 'No Deal', but with a heavily caveated assumption that the exit will take place on or before 31st October 2019 either with a Deal in place or with No Deal. As Brexit negotiations continue, the Council will continue to review this position.

15. LAS have revised their interest forecasts (based on their Brexit assumptions) resulting in an anticipated first increase in Bank Rate taking place in Q4 of 2020 (out from Q3 2020 at the time of the last Committee report). It is important to note however, that their commentary refers to market expectations that a Bank Rate cut in the very short-term would be likely in the event of a 'No Deal' Brexit. It is important to note that there is currently high levels of market volatility due to the nearing Brexit deadline at the end of October and also the imminent possibility of a General Election. Movement is likely to impact on both investment and borrowing rates on offer.
16. Treasury management activities are undertaken within the Council's revised 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 to Management Team and Policy and Resources Committee. The approved budgets for these items, as reported to Council in February 2019 are £1.358m and £65k respectively.
17. The Annual Treasury Management Strategy for 2019/20 was approved by Council in March 2019 and revised in August 2019 as outlined above. This set out the framework against which the treasury management function is carried out.

IMPLICATIONS

Policy

18. 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 2019/20 was approved by Council on 26th March 2019 and subsequently revised in August 2019.

Financial

19. The financial implications are as given in the report and [Appendix A](#).

Legal

20. 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 2019 and revised in August 2019.

Risk Management

21. 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 will be presented to Council in 2019 to reflect operational changes and also the impact of the Brexit outcomes on the Council's minimum ratings criteria and availability of creditworthy counterparties.

22. 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.
23. 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:

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

Sustainability:

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

Community Safety:

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

Equality and Diversity:

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

APPENDICES - [Appendix A](#) 2019/20 Mid-Year Review Report

LIST OF BACKGROUND PAPERS - None