NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 10 OCTOBER 2018

Title of report	**TREASURY MANAGEMENT ACTIVITY REPORT APRIL TO AUGUST 2018**
Contacts	Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk Head of Finance / S151 Officer 01530 454707 tracy.bingham@nwleicestershire.gov.uk Finance Team Manager / Deputy S151 Officer 01530 454492 anna.wright@nwleicestershire.gov.uk
Purpose of report	To inform Members of the council's Treasury Management activity undertaken during the period April to August 2018.
Council priorities	Value for Money
Implications: Financial/Staff Link to relevant CAT Risk Management Equalities Impact Screening Human Rights Transformational Government	 Interest earned on balances and interest paid on external debt, impact on the resources available to the council. Could impact on all corporate action teams Borrowing and investment both carry an element of risk. This risk is mitigated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of treasury Management and the retention of Treasury Management advisors (Arlingclose) to proffer expert advice. Not Applicable Not Applicable This relates to the new ways in which Councils are being asked to deliver their services
Comments of Head of Paid Service	

Comments of Section 151 Officer	
Comments of Monitoring Officer	
Consultees	
Background papers	Treasury Management Strategy Statement 2018/19 – Council 27 February 2018.
Recommendations	**THAT MEMBERS APPROVE THIS REPORT AND COMMENT AS APPROPRIATE.**

1.0 BACKGROUND

1.1 Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the code"), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and investment activity.

1.2 As a minimum, the code requires that the council reports on the performance of the Treasury Management function at least twice yearly (mid-year and at yead end). This is the first of three in-year reports to be presented in 2018/19, to inform Members of the council's treasury activity and enable scrutiny of activity and performance.

1.3 The council's current Treasury Management Strategy Statement which includes the Borrowing Strategy; Debt Rescheduling Strategy; Annual Investment Strategy; Apportionment of Interest Strategy; Prudential Indicators and Annual Minimum Revenue Provision was approved by Council on 27 February 2018. Attached as Apendix C for reference.

1.4 Investing or borrowing activities expose the council to financial risks including the loss of invested funds and revenue effects of changing interest rates. The successful identification, monitoring and control of risks are therefore central to the council's Treasury Management strategy.

2.0 THE UK ECONOMY AND OTHER FACTORS

2.1 An economic and interest rate forecast that has been provided by our treasury advisors (Arlingclose) from the Monetary Policy Committee minutes, provided below.

> The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 12 September 2018, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

In the MPC's most recent economic projections, set out in the August Inflation Report, GDP was expected to grow by around 1¾% per year on average over the forecast period, conditioned on the gently rising path of Bank Rate implied by market yields at that time. Although modest by historical standards, the projected pace of GDP growth was sligIn the MPC's most recent economic projections, set out in the August Inflation Report, GDP was expected to grow by around 1¾% per year on average over the forecast period, conditioned on the gently rising path of Bank Rate implied by market yields at that time. Although modest by historical standards, the projected pace of GDP growth was slightly faster than the diminished rate of supply growth, which averaged around 1½% per year. With a very limited degree of slack remaining, a small margin of excess demand was therefore projected to emerge by late 2019 and build thereafter, feeding through into higher growth in domestic costs than has been seen over recent years. The contribution of external cost pressures, which has accounted for above-target inflation since the beginning of 2017, was projected to ease over the forecast period. Taking these influences together, and conditioned on the gently rising path of Bank Rate, CPI inflation remained slightly above 2% through most of the forecast period, reaching the target in the third year.

Recent news in UK macroeconomic data has been limited and the MPC's August projections appear to be broadly on track. UK GDP grew by 0.4% in 2018 Q2 and by 0.6% in the three months to July. The UK labour market has continued to tighten, with the unemployment rate falling to 4.0% and the number of vacancies rising further. Regular pay growth has risen further to around 3% on a year earlier. CPI inflation was 2.5% in July.

The global economy still appears to be growing at above-trend rates, although recent developments are likely to have increased downside risks around global growth to some degree. In emerging market economies, indicators of growth have continued to soften and financial conditions have tightened further, in some cases markedly. Recent announcements of further protectionist measures by the United States and China, if implemented, could have a somewhat more negative impact on global growth than was anticipated at the time of the August Report. The MPC continues to recognise that the economic outlook could be influenced significantly by the response of households, businesses and financial markets to developments related to the process of EU withdrawal. Since the Committee's previous meeting, there have been indications, most prominently in financial markets, of greater uncertainty about future developments in the withdrawal process.

3.0 THE COUNCIL'S TREASURY POSITION.

3.1 The council's current strategy is to use internal borrowing to reduce risk and keep interest costs low. The treasury management current position and the change over the reporting period is shown below.

	Balance at 01/04/18 £m	Net Movement £m	Balance at 02/09/2018 £m
Long term borrowing - HRA	£74.0	£0	£74.0
Long term borrowing – General Fund	£8.4	£0	£8.4
Other long-term liabilities - HBBC	£0.1	£0	£0.1

Total Borrowing	**£82.5**	**£0**	**£82.5**
Long term investments – greater than 1 year	£12.0	(£2.5)	£9.5
Short term investments – less than 1 year	£29.3	£9.8	£39.1
Pooled funds and externally managed investments*	£2.6	£4.4	£7.0
Total Investments	**£43.9**	**£11.7**	**£55.6**
Net debt	**£38.5**	**(£11.7)**	**£26.9**

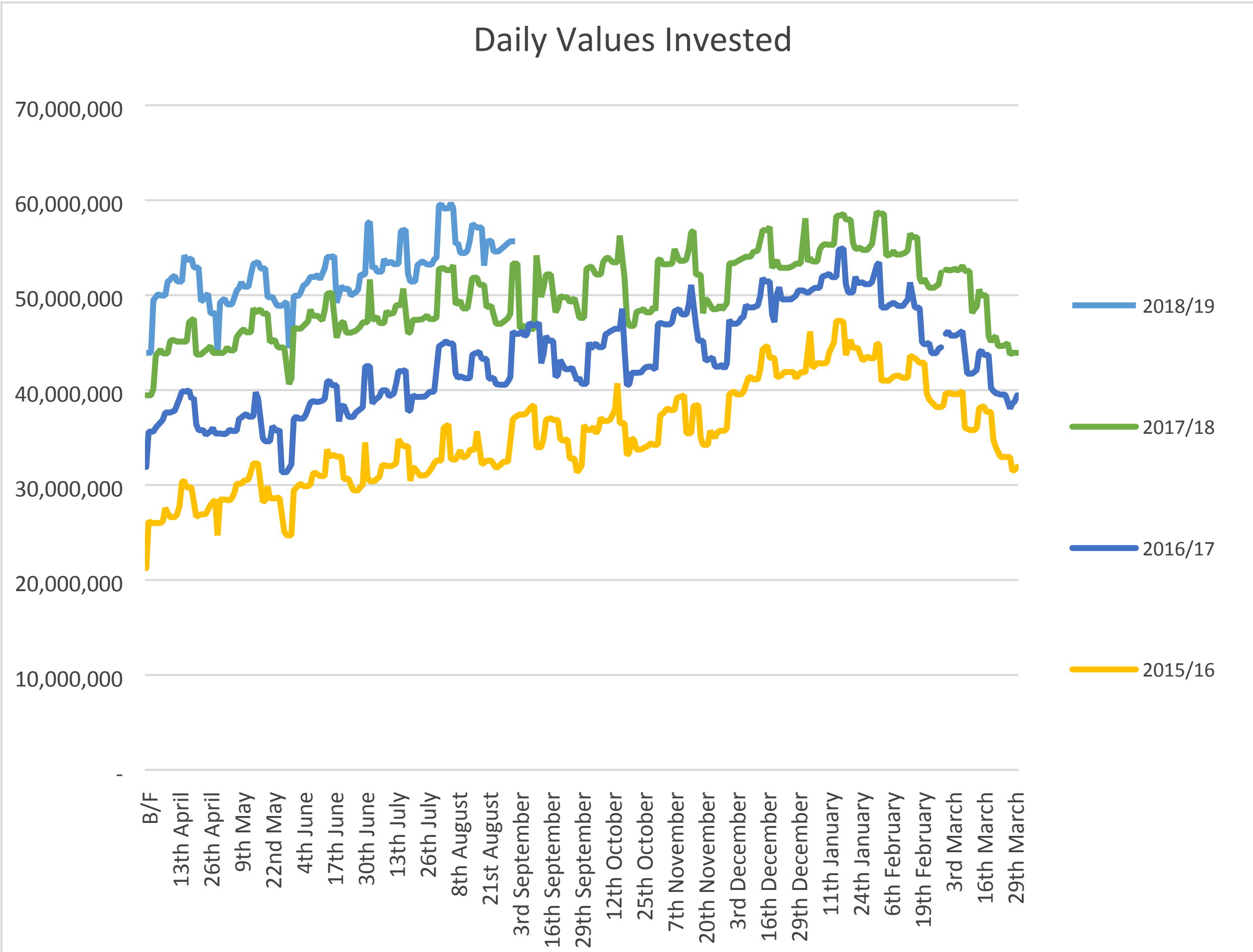
*Money Market Funds

3.2 The investment position varies throughout the year as it is dependent upon cash flow. Examples of significant areas that can impact on cash flow are collection of Council tax, business rates, grants, and capital receipts, payments to other precepting authorities or central government and interest on treasury activity.

3.3 In the period April 2018 to August 2018, the capacity for investment has increased by £11.7m. The volatility of balances is normal throughout the year and a number of factors contribute to this during the financial year:

a) The council (as it typically does) has benefit from the receipt of Council Tax and Business Rates during the first ten months of the financial year whilst revenue expenditure is more evenly weighted throughout the financial year;
b) Capital expenditure is more heavily weighted towards the latter part of the financial year due to the time required to schedule programmes of work or award contracts.
c) The patterns of income and expenditure are variable and are compared to previous years. The current patterns are in line with the expected trends. These patterns are reflected in the council's cash flow projections which is monitored and revised daily as part of the treasury management process.

3.4 The value of investments per day is represented in the table below, illustrating the cash flow trends throughout the year. The cash flows for the period are in line with the anticipated trend.



4.0 BORROWING ACTIVITY

4.1 The council's Borrowing Strategy 2018/19, incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the council's Prudential Indicators.

4.2 The council's estimated borrowing requirement for 2018/19 is £2.29m. In the two subsequent years, this is estimated to be £10.702m in 2019/20 and £8.989m in 2020/21, as reported in the Treasury Management Strategy Statement.

4.3 The council has not undertaken any new long-term borrowing during the period as the levels of cash balances held have meant that we are currently able to use internal borrowing.

4.4 The council has two PWLB annuity loans as part of the self-financing of the HRA. The repayment element for these in 2018/19 is £1.103m.

4.4 During the reporting period of April to August 2018, the council's cash flow remained positive and did not require any temporary loans.

5.0 DEBT RESCHEDULING ACTIVITY

5.1 The council's Debt Rescheduling Strategy 2018/19 establishes a flexible approach where the rationale for rescheduling could be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

5.2 No opportunities for debt rescheduling were identified which conformed to the above rationale. Accordingly, the council has undertaken no debt rescheduling activity during the period.

5.3 The council's portfolio of thirteen loans - ten PWLB loans and three market loans - will continue to be monitored for debt rescheduling opportunities.

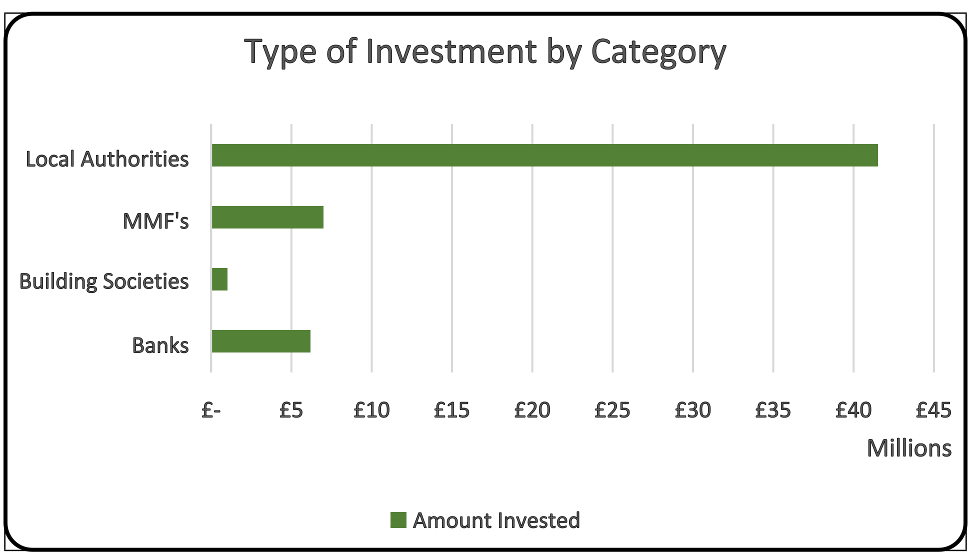
6.0 INVESTMENT ACTIVITY

6.1 The main objective of the council's Investment Policy and Strategy 2018/19 is to invest its surplus funds prudently.

6.2 The council's investment priorities are:

- security of the invested capital;
- sufficient liquidity to permit investments; and,
- Optimum yield which is commensurate with security and liquidity.

6.3 To lower the inherent investment risk, the council has minimised the use of banks and increased the use of other Local Authorities as investment counterparties. A range of lengths of investment, from overnight investments to short and long fixed term, from 32 days to 3 years, are currently utilised to ensure that the principles of security, liquidity and yield are followed. The table below shows the range of counterparties used by the council and the values currently invested.



6.4 The counterparties that the council currently use all meet the criteria set out in the Treasury Management Strategy Statement 2018/19 and are monitored by the Treasury Management Advisors. A detailed list of the counterparties used and amounts currently invested can be seen in Appendix A.

6.5 The average rate of return on the council's investment balances during the period was 0.63% (increased from 0.487% reported to members at Audit & Governance on 25 July 2018 in the Treasury management Stewardship report). For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) at the end of July 2018 was 0.36% and the average 7 day London Interbank Offered Rate (LIBOR) rate at the end of July 2018 was 0.49%. This shows that we are achieving a good rate of return against benchmark.

6.6 The council's treasury management advisors produce investment benchmarking quarterly. The latest available is based on June 2018. The total rate of return achieved by the council is compared to 57 other district councils and the average of 135 local authorities, the yield is itemised by types of investments. The internal investment return of the council of 0.63% is comparable to 0.66% achieved by 57 other district councils and 0.65% achieved by the average of 135 local councils. The full benchmarking summary can be seen in Appendix B.

6.7 Short and long term interest rates are rising marginally since the increase on the base rate by the Bank of England to 0.75% in August 2018. Our treasury advisors are forecasting that the base rate will remain low over the medium term. Interest rates achieved on the council's investments have started to see the base rate increase reflected in the rates of return as noted in paragraph 6.5.

6.8 There were 53 investments made during the period totalling £93.2m and 50 maturities totalling £80.9m. The average balance held for the period was £51.9m.

6.9 Of the investment and maturities, 17 were fixed term investments taken out during the period and 10 were fixed term investments that have matured during the period. The fixed term investments were for amounts ranging between £1m and £5m.

6.10 The council has budgeted to achieve £229,000 of income from its investment activity in 2018/19. Investment activity from April to August 2018 has achieved £258,825 in interest for the financial year. The current forecast that is estimated to be achieved is £282,115.

6.11 Of this total, an element is applied to balances held on external income. This external income largely represents balances from S106 contributions that have not yet been spent. The estimated amount forecast to be applied is approximately £15,284 subject to the balances remaining at the end of the financial year. There is no budget applied to this element as S106 contributions are only achieved when specific conditions are met and are anticipated to be spent.

6.12 The estimated remaining balance (£266,831) received on investment income is budgeted to be apportioned between General Fund and the Housing Revenue Account based on the estimated cash flow position. For 2018/19, the budgeted investment income is apportioned as follows: £145,300 General Fund and £83,700 Housing Revenue Account. Any over or under achievement of interest is apportioned on this basis. The current budget and forecast is shown in the table below

	Budget	**Projected**
General Fund	£145,300	£169,304
HRA	£83,700	£97,527
Sub-Total	**£229,000**	**£266,831**
External Balances	£0	£15,284
Total	**£229,000**	**£282,115**

7.0 SUMMARY

7.1 In compliance with the requirements of the CIPFA code of practice, this report provides members with a summary report of the Treasury Management activity for the period April to August 2018. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

7.2 For the period April to August 2018, the council can confirm that it has complied with its Prudential Indicators, which were approved by Council as part of the Treasury Management Startegy Statement.

7.3 For the reporting period, the council can confirm that it has complied with its Treasury Management practices.

APPENDIX A

LIST OF COUNTERPARTIES, CURRENT INVESTMENT AND INTEREST RATE

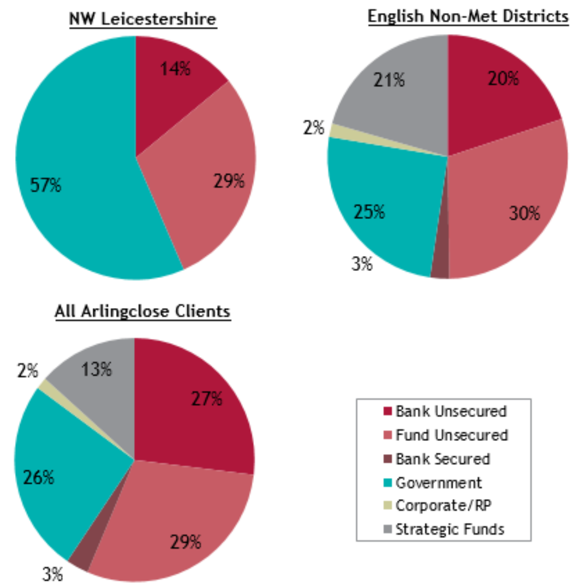
Counterparty	**Length**	**Amount**	**Rate**
Goldman Sachs MMF	Overnight	2,200,000.00	0.58%
Blackrock MMF	Overnight	800,000.00	0.54%
Aberdeen Asset Management MMF	Overnight	3,000,000.00	0.60%
CCLA MMF	Overnight	1,000,000.00	0.64%
Lloyds Main	Overnight	33,457.23	0.65%
Bank of Scotland	Overnight	1,395,000.00	0.65%
Lloyds Notice Account	32 days	250,000.00	0.82%
Santander Notice Account	95 days	1,495,000.00	0.60%
Newcastle City Council	1093 days	2,500,000.00	1.13%
Lancashire County Council	730 days	2,000,000.00	0.55%
Liverpool City Council	640 days	2,000,000.00	0.65%
Northumberland County Council	1096 days	3,000,000.00	0.99%
Salford City Council	321 days	1,000,000.00	0.60%
Leeds City Council	276 days	3,000,000.00	0.60%
Thurrock Council	312 days	1,000,000.00	0.63%
Moray Council	275 days	2,500,000.00	0.82%
Stirling Council	185 days	1,500,000.00	0.75%
Lancashire County Council	183 days	2,000,000.00	0.78%
Thurrock Council	276 days	1,000,000.00	0.80%
Eastleigh Borough Council	277 days	1,500,000.00	0.70%
Thurrock Council	184 days	2,000,000.00	0.65%
Fife Council	184 days	1,500,000.00	0.60%
Lloyds Bank Fixed Term Deposit	185 days	1,500,000.00	0.75%
National Counties Building Society	98 days	1,000,000.00	0.62%
Blackpool Borough Council	184 days	2,000,000.00	0.60%
Thurrock Council	288 days	1,000,000.00	0.66%
Surrey Heath Borough Council	185 days	1,000,000.00	0.60%
Lancashire County Council	185 days	1,000,000.00	0.60%
Barclays Treasury Direct Facility	94 days	1,500,000.00	0.46%
Walsall Metropolitan Borough Council	238 days	5,000,000.00	0.60%
Rhondda Cynon Taff CBC	184 days	1,000,000.00	0.65%
Salford City Council	203 days	2,000,000.00	0.78%
Leeds City Council	247 days	2,000,000.00	0.80%
Total		**55,673,457.24**	

ADVISORS INVESTMENT BENCHMARKING

arlingclose

Investment Benchmarking 30 June 2018

	NW Leicestershire	57 English Non-Met Districts Average	135 LAs Average
Internal Investments	£52.2m	£26.1m	£62.0m
Cash Plus & Short Bond Funds	£0.0m	£0.0m	£0.0m
Strategic Pooled Funds	£0.0m	£10.4m	£10.9m
TOTAL INVESTMENTS	**£52.2m**	**£37.3m**	**£72.8m**
Security			
Average Credit Score	4.30	4.37	4.46
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.82	4.12	4.21
Average Credit Rating (time-weighted)	AA-	AA-	AA-
Number of Counterparties / Funds	21	14	14
Proportion Exposed to Bail-in	43%	61%	62%
Liquidity			
Proportion Available within 7 days	32%	37%	42%
Proportion Available within 100 days	43%	53%	61%
Average Days to Maturity	130	98	42
Market Risks			
Average Days to Next Rate Reset	141	98	76
Strategic Fund Volatility	0.0%	2.4%	3.2%
Yield			
Internal Investment Return	0.63%	0.66%	0.65%
Cash Plus & Short Bond Fund Return	0.00%	0.51%	0.50%
Strategic Funds - Income Return	-	3.45%	3.34%
Strategic Funds - Capital Gains/Losses	-	0.49%	0.72%
Strategic Funds - Total Return	-	3.94%	4.05%
Total Investments - Income Return	0.63%	1.37%	1.13%
Total Investments - Total Return	**0.63%**	**1.51%**	**1.28%**



Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.