NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 5 DECEMBER 2018

Title of report	**TREASURY MANAGEMENT ACTIVITY REPORT APRIL TO OCTOBER 2018**
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Purpose of report	To inform Members of the council's Treasury Management activity undertaken during the period April to October 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
Consultees	
Background papers	Treasury Management Strategy Statement 2018/19 – Council 27 February 2018.

	Treasury Management Activity Report April to August 2018 – Audit and Governance Committee 10 October 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 second 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. The first covered the reporting period April to August 2018 and was reported to Audit and Governance Committee on 10 October 2018.

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 Appendix 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 Economic and interest rate forecasts are provided on a regular basis by our treasury advisors (Arlingclose). The summary below is based on the Monetary Policy Committee meeting on 1 November 2018.

> In November 2018 the Monetary Policy Committee (MPC) kept Bank Rate at 0.75%. The MPC thinks that, if the economy continues to perform broadly as expected in the November Inflation Report, further increases in Bank Rate over the forecast period would be appropriate to return inflation to the 2% target. The MPC reiterated that any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.
> Based on this gently rising path of Bank Rate and an assumption of a relatively smooth exit from the EU, the MPC expects UK GDP growth to average around 1.75% a year over the forecast period.
> The economic outlook will depend significantly on the nature of EU withdrawal, the form of new trading arrangements, the smoothness of the transition to them and the responses of households, businesses and financial markets. The implications for the path of monetary policy will depend on the balance of the effects on demand, supply and the exchange rate. The MPC

judges that the monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction.

Key Issues in the Inflation report:

MPC's key judgements: The projections included in the inflation report are underpinned by four key judgements. 1) Global GDP growth slows to around its potential rate, as financial conditions tighten; 2) net trade and a rebound in business investment support UK activity, while consumption growth is modest; 3) a margin of excess demand builds as demand growth exceeds subdued potential supply growth and 4) domestic inflationary pressures continue to build, while the contributions from energy and import prices dissipate.

Outlook for inflation: CPI inflation fell back to 2.4% in September, having risen in August. Higher import and energy prices have continued to hold inflation above the 2% target, but these pressures are projected to fade. Domestic inflationary pressures are expected to build over the forecast period and the balance of these effects means that inflation is expected to be above the target for most of the forecast period, reaching 2% by the end.

Global economic and financial market developments: global GDP growth has fallen back somewhat from high rates in 2017. Although growth is expected to remain relatively robust in much of the world, and above estimates of potential growth, the outlook has moderated. UK financial conditions have tightened slightly further since August but remain accommodative overall.

Demand and output: UK GDP growth picked up following a temporary slowing at the beginning of the year. Growth is projected to be modest, with the outlook remaining sensitive to the effects of Brexit. Brexit uncertainty continues to weigh on business investment. Real income growth is recovering following the dampening effects of sterling's depreciation, which should support modest consumption growth. Net trade should also continue to support GDP growth, in part reflecting relatively robust global growth.

The labour market and supply: The unemployment rate is expected to remain broadly stable. The MPC judges that supply and demand in the economy are currently broadly in balance. Potential supply growth has been subdued in recent years and is projected to remain below its historical average rate. As a result, the pace at which output can grow without generating inflationary pressures is likely to remain modest.

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.

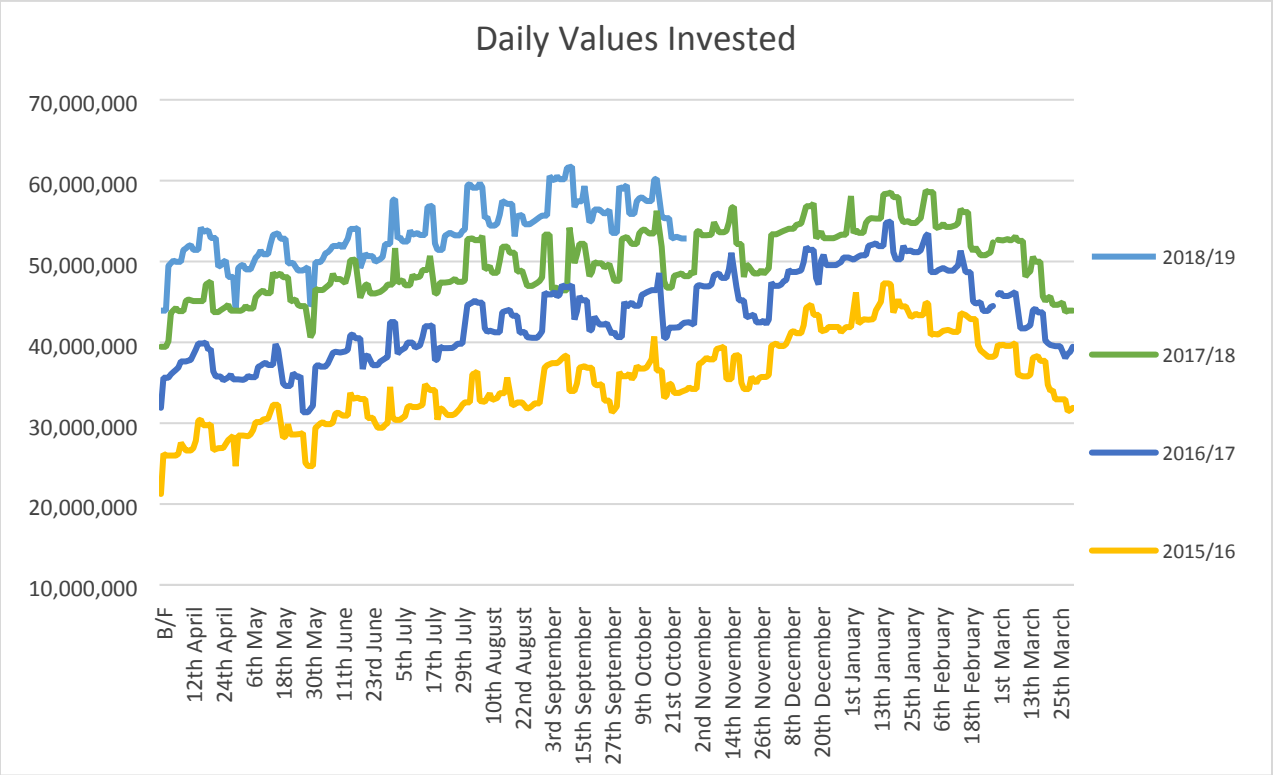
	Balance at 01/04/18 £m	**Net Movement £m**	**Balance at 28/10/2018 £m**
Long term borrowing - HRA	£74.0	(£0.6)	£73.4
Long term borrowing – General Fund	£8.4	£0	£8.4
Other long-term liabilities - HBBC	£0.1	£0	£0.1
Total Borrowing	**£82.5**	**(£0.6)**	**£81.9**
Long term investments – greater than 1 year	£12.0	(£2.5)	£9.5
Short term investments – less than 1 year	£29.3	£4.5	£33.8
Pooled funds and externally managed investments*	£2.6	£6.9	£9.5
Total Investments	**£43.9**	**£8.9**	**£52.8**
Net debt	**£38.6**	**(£9.5)**	**£29.1**

*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 October 2018, the capacity for investment has increased by £8.9m. 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.

3.4 The patterns of income and expenditure are variable and are compared to previous years. The current patterns are in line with the expected trends as shown in the graph below. These patterns are reflected in the council's cash flow projections which is monitored and revised daily as part of the treasury management process.



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 2018/19.

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.

4.5 During the reporting period of April to October 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.

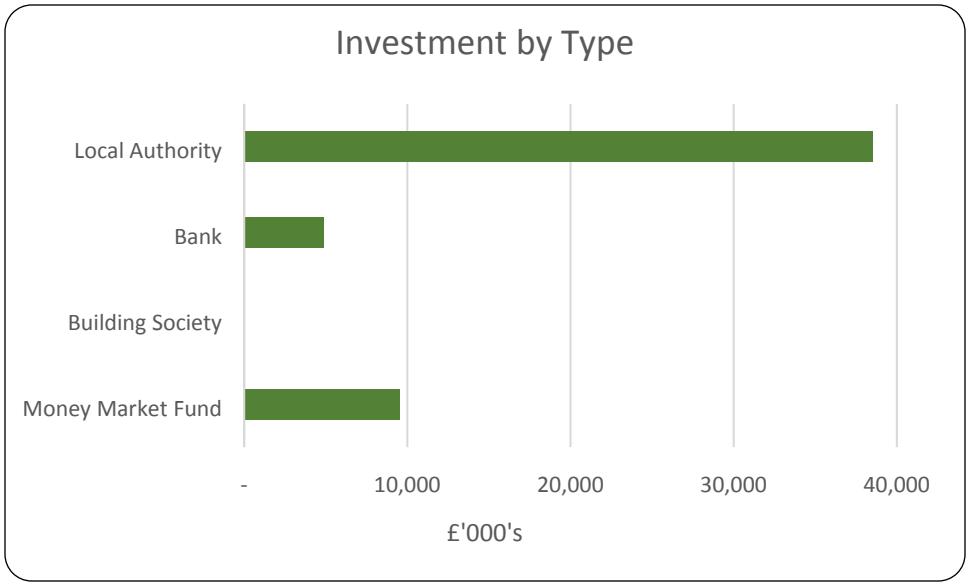
6.0 INVESTMENT ACTIVITY

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 type 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 0.64% (increased from 0.63% reported in the Treasury Management Activity Report April to August 2018). For comparison purposes, the benchmark return at the end of October 2018 for the average 7-day London Interbank Bid Rate (LIBID) was 0.46% and the average 7 day London Interbank Offered Rate (LIBOR) rate was 0.58%. 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 September 2018. The total rate of return achieved by the council takes into account the full year effect to date and is compared to 57 other district councils and the average of 135 local authorities, the yield is itemised by types of investments. The forecast internal investment return of the council is currently 0.72% and is comparable to 0.78% achieved by 56 other district councils and 0.76% achieved by the average of 136 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 paragraphs 6.5 and 6.6.

6.8 There were 68 investments made during the period totalling £122.8m and 66 maturities totalling £113.5m. The average balance held for the period was £53.1m.

6.9 Of the investment and maturities, 20 were fixed term investments taken out during the period and 16 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 October 2018 has achieved £292,715 in interest for the financial year. The current forecast that is estimated to be achieved is £340,155.

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 £18,427 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 (£321,728) 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	£204,136
HRA	£83,700	£117,592
Sub-Total	**£229,000**	**£321,728**
External Balances	£0	£18,427
Total	**£229,000**	**£340,155**

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 October 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 October 2018, the council can confirm that it has complied with its Prudential Indicators, which were approved by Council as part of the Treasury Management Strategy Statement.

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

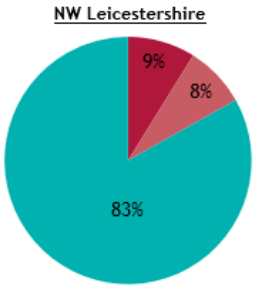
Appendix A

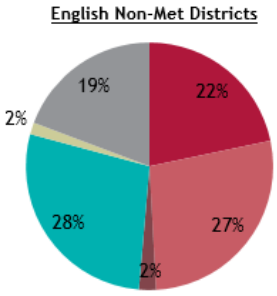
Counterparty	Length	Amount	Rate
Goldman Sachs MMF	Overnight	4,000,000	0.65%
Blackrock MMF	Overnight	3,900,000	0.61%
Aberdeen Asset Management MMF	Overnight	600,000	0.67%
CCLA MMF	Overnight	1,000,000	0.74%
Lloyds Main	Overnight	205,261	0.65%
Bank of Scotland	Overnight	1,395,000	0.65%
Lloyds Notice Account	32 days	250,000	0.75%
Santander Notice Account	95 days	1,495,000	0.85%
Newcastle City Council	1093 days	2,500,000	1.13%
Lancashire County Council	730 days	2,000,000	0.55%
Liverpool City Council	640 days	2,000,000	0.65%
Northumberland County Council	1096 days	3,000,000	0.99%
Thurrock Council	312 days	1,000,000	0.63%
Moray Council	275 days	2,500,000	0.82%
Thurrock Council	276 days	1,000,000	0.80%
Eastleigh Borough Council	277 days	1,500,000	0.70%
Thurrock Council	184 days	2,000,000	0.65%
Fife Council	184 days	1,500,000	0.60%
Lloyds Bank Fixed Term Deposit	185 days	1,500,000	0.75%
Blackpool Borough Council	184 days	2,000,000	0.60%
Thurrock Council	288 days	1,000,000	0.66%
Surrey Heath Borough Council	185 days	1,000,000	0.60%
Lancashire County Council	185 days	1,000,000	0.60%
Walsall Metropolitan Borough Council	238 days	5,000,000	0.60%
Rhondda Cynon Taff CBC	184 days	1,000,000	0.65%
Salford City Council	203 days	2,000,000	0.78%
Leeds City Council	247 days	2,000,000	0.80%
Stirling Council	254 days	1,500,000	0.87%
North Lanarkshire Council	181 days	2,000,000	0.85%
Moray Council	171 days	1,000,000	0.88%
Total		**52,845,261**	

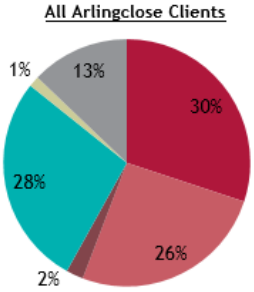
Appendix B

Investment Benchmarking
30 September 2018

	NW Leicestershire	56 English Non-Met Districts Average	136 LAs Average
Internal Investments	£53.5m	£28.8m	£61.0m
Cash Plus & Short Bond Funds	£0.0m	£2.5m	£2.6m
Strategic Pooled Funds	£0.0m	£11.1m	£9.6m
TOTAL INVESTMENTS	£53.5m	£42.4m	£73.2m
Security			
Average Credit Score	3.85	4.28	4.38
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.68	4.00	4.10
Average Credit Rating (time-weighted)	AA-	AA-	AA-
Number of Counterparties / Funds	24	15	15
Proportion Exposed to Bail-in	17%	56%	60%
Liquidity			
Proportion Available within 7 days	11%	35%	41%
Proportion Available within 100 days	52%	58%	66%
Average Days to Maturity	123	88	37
Market Risks			
Average Days to Next Rate Reset	127	90	61
Strategic Fund Volatility	-	2.3%	3.0%
Yield			
Internal Investment Return	0.72%	0.78%	0.76%
Cash Plus & Short Bond Fund Return	-	0.57%	0.55%
Strategic Funds - Income Return	-	3.18%	4.23%
Strategic Funds - Capital Gains/Losses	-	-0.28%	0.09%
Strategic Funds - Total Return	-	2.90%	4.32%
Total Investments - Income Return	0.72%	1.37%	1.17%
Total Investments - Total Return	0.72%	1.41%	1.25%







- Bank Unsecured
- Fund Unsecured
- Bank Secured
- Government
- Corporate/RP
- Strategic Funds

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.