

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 23 SEPTEMBER 2015

Title of Report	TREASURY MANAGEMENT ACTIVITY REPORT – APRIL TO AUGUST 2015
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Purpose of Report	To inform Members of the Authority's Treasury Management activity undertaken during the period April to August 2015.
Reason for Decision	To ensure that Members are informed of the Authority's Treasury Management activity during the financial year and have the opportunity to scrutinise that activity.
Council Priorities	Value for Money
Implications:	
Financial/Staff	Interest earned on balances and interest paid on external debt, impact on the resources available to the Authority.
Link to relevant CAT	Could impact upon all Corporate Action Teams.
Risk Management	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.
Equalities Impact Screening	Not Applicable
Human Rights	Not Applicable
Transformational Government	Not Applicable
Consultees	None

Background Papers	<p>Treasury Management Strategy Statement 2015/16 – Council Meeting 24 February 2015 (presented as part of the Budget and Council Tax 2015/16 Report) http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&MId=1346&Ver=4</p> <p>Treasury Management Stewardship Report 2014/15 – Cabinet Meeting 16 June 2015 http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=126&MId=1339&Ver=4</p>
Recommendations	<p>THAT MEMBERS APPROVE THIS REPORT AND COMMENT AS APPROPRIATE.</p>

1.0 BACKGROUND

- 1.1 The Authority's 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 Treasury Management is defined as "the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 1.3 The Authority's current Treasury Management Strategy Statement, including the Borrowing Strategy, Debt rescheduling Strategy, Annual Investment Policy and Strategy, Interest Apportionment Policy, Prudential Indicators and Annual Minimum revenue Position Statement were approved by Council on 24 February 2015.
- 1.4 The code requires that Authorities report on the performance of the Treasury Management function at least twice yearly (mid-year and at year end).
- 1.5 This is the first of three in-year reports to be presented in 2015/16, to inform Members of the Authority's treasury activity and enable scrutiny of activity and performance. These reports supplement the annual Treasury Stewardship Report, which will be presented to this Committee and Cabinet as soon as possible after the end of the financial year.

2.0 SCOPE

- 2.1 This report:
 - a) Has been prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
 - b) Presents details of capital financing, borrowing, debt rescheduling and investment transactions;
 - c) Gives details of the treasury management transactions for the period April to August 2015;
 - d) Reports on breaches of or compliance with treasury limits and Prudential Indicators.

3.0 THE U.K. ECONOMY AND EVENTS.

- The second estimate of Q2 GDP released by the ONS on 28th August 2015 showed the UK economy growing by 0.7% over the quarter and 2.6% year-on-year. Both of these figures were unrevised from previously published estimates.
- Since 2013, GDP has grown steadily and Q2 2015 has shown continued strength and GDP has now increased for ten consecutive quarters. Output showed increases for production, services and construction but decreases for agriculture, forestry and fishing.
- Production grew by an overall 0.7% (a downward revision of 0.3% from the previously published element). Within production, output from oil and gas extraction rose by 6.1%; electricity, gas, steam and air conditioning and supply fell by 3.1% and manufacturing which is the largest component of production, fell by 0.3%.
- Construction output rose by 0.2% in Q2 2015 (revised up from the previously published estimate) and rose by 2.5% between Q2 2014 and Q2 2015 (revised up by 0.3% from the previously published estimate).
- Within the expenditure components of GDP, net trade contributed 1.0%, household final consumption expenditure contributed 0.4% and general Government final consumption expenditure contributed 0.2%. Business investment was estimated to have risen by 2.9% on the quarter and 5.0% on the year.
- Service industries grew by 0.7% in Q2 2015 which was unrevised from the previously published element.
- There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively.

4.0 THE AUTHORITY'S TREASURY POSITION.

4.1 The Authority's gross / net debt and investment positions are as follows:

DEBT	Balance at 01/4/2015 £m	%	Maturing loans £m	Premature redemptions £m	New Borrowing £m	Balance at 31/08/2015 £m	%
Long-term fixed rate	£85.514m		£0.000m	£0.000m	£0.000m	£85.514m	
Long-term variable rate	£0.000m		£0.000m	£0.000m	£0.000m	£0.000m	
Temporary Borrowing	£0.000m		£0.000m	£0.000m	£0.000m	£0.000m	
Total borrowing	£85.514m	99.9	£0.000m	£0.000m	£0.000m	£85.514m	99.9
Other long-term liabilities	£0.126m	0.1	£0.000m	£0.000m	£0.000m	£0.126m	0.1
TOTAL EXTERNAL DEBT	£85.640m	100	£0.000m	£0.000m	£0.000m	£85.640m	100

INVESTMENTS	Balance at 01/4/2015 £m	%	Maturities £m	Sales £m	New Investments £m	Balance at 31/08/2015 £m	%
Internally Managed	£21.255m	100	£53.77m	£0.000m	£70.77m	£38.255m	100
Investments with maturities up to 1 year *	£16.255m*	76.5	£53.77m	£0.000m	£66.27m	£28.755m	75.2
Investments with maturities in excess of 1 year	£5.000m	23.5	£0.000m	£0.000m	£4.50m	£9.500m	24.8
Externally Managed Investments	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	0
TOTAL INVESTMENTS	£21.255m	100	£53.77m	£0.000m	£70.77m	£38.255m	100
NET DEBT	£64.385m					£47.385m	

* The 'balance of investments with maturities up to 1 year' at 01/04/2015 has been revised upwards by £9,534. This is due to interest achieved on an account in 2014/15 being represented in this table as a principal amount on maturity.

- 4.2 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, capital receipts, payments to other precepting authorities or central government and interest on treasury activity.
- 4.3 In the period April 2015 to August 2015, the capacity for investment has currently increased by £17m. The volatility of balances is normal throughout the year and a number of factors contribute to this:
- The Authority traditionally benefits from the receipt of Council Tax and Business Rates during the first ten months of the financial year;
 - Revenue expenditure is more evenly weighted throughout the financial year;
 - 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.
 - 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 Authority's cash flow projections which is monitored and revised daily as part of the treasury management process.
- 4.4 The current increased capacity for investment is expected to reverse towards the end of the financial year and this is in line with the Authority's experience.

5.0 BORROWING ACTIVITY.

- 5.1 The Authority's Borrowing Strategy 2015/16, approved by Council on 24 February 2015, incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Authority's Prudential Indicators.
- 5.2 The Authority's estimated borrowing requirement for the current financial year is £1.05m. In the two subsequent financial years this is estimated to be £1.151m in 2016/17 and £0.897m in 2017/18.
- 5.3 The Authority has not undertaken any new long-term borrowing during the period.
- 5.4 The Authority has two PWLB annuity loans as part of the self-financing of the HRA. The repayment element for these in 2015/16 is £1.03m.

5.5 The Authority's cash flow remained positive during the period. The Authority did not require any temporary loans during the period.

6.0 DEBT RESCHEDULING ACTIVITY.

6.1 The Authority's Debt Rescheduling Strategy 2015/16, which was approved by Council on 24 February 2015, 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.

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

6.3 The Authority's portfolio of thirteen loans - ten PWLB loans and three market loans - will continue to be monitored for debt rescheduling opportunities that comply with the Authority's Policy and rationale.

7.0 INVESTMENT ACTIVITY.

7.1 The Authority's Investment Policy and Strategy 2015/16, which was approved by Council on 24 February 2015, established that the major policy objective is to invest its surplus funds prudently.

7.2 The Authority's investment priorities are:

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

7.3 To lower the inherent investment risk, the Authority 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.

- 7.4 The counterparties that the Authority currently utilise all meet the criteria set out in the Treasury Management Strategy Statement 2015/16 and are monitored by the Authority's Treasury Management Advisors. The counterparties and amounts currently invested are shown below:

Counterparty	Length of Investment	£m
HSBC	Overnight	1.2
Lloyds Bank (Current Account)	Overnight	0.1
Bank of Scotland	Overnight	1.4
Handelsbanken	Overnight	1.5
Black Rock MMF	Overnight	2.1
Goldman Sachs MMF	Overnight	3.0
Scottish Widows Investment Partnership	Overnight	2.5
CCLA Investment Management Ltd MMF	Overnight	1.0
Lloyds Bank Notice Account	32 days	1.0
Barclays Treasury Direct	3 Months	1.5
National Counties Building Society	99 days	1.0
Coventry Building Society	100 days	1.5
Lancashire County Council	364 days	1.5
West Dunbartonshire Council	364 days	2.5
London Borough of Enfield	364 days	2.0
Barnsley Metropolitan Borough Council	364 days	3.0
North Tyneside Council	364 days	2.0
Lancashire County Council	18 months	2.0
Blaenu Gwent County Borough Council	3 years	2.5
Staffordshire Moorland	3 Years	2.0
Greater London Authority	3 Years	3.0
Total Invested		38.3

- 7.5 The average rate of return on the Authority's investment balances during the period was 0.62%. For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) at the end of August 2015 was 0.36%. The average 7 day London Interbank Offered Rate (LIBOR) rate at the end of August 2015 was 0.49%. The comparison of rates of return against a benchmark is less relevant when set against the ultimate priority of Security as set out in the Authority's Treasury Management Strategy Statement 2015/16.
- 7.6 There were 82 investments made during the period, totalling £70.8m. The average balance held for the period was £30.6m.
- 7.7 Short term interest rates remain low resulting in a lengthening of investment periods, where cash-flow permits, in order to lock in higher rates of return. Nine fixed term investments were taken out during the period. These investments were for amounts ranging from £1m to £2.5m. Five fixed term investments have matured within the period. The Authority and its advisors remain on a state of alert for signs of credit or market distress that may adversely affect the Authority.

- 7.8 The Authority has budgeted to achieve £145,000 of income from its investment activity in 2015/16. Investment activity from April to August 2015 has achieved £86,600 in interest. The current forecast that is estimated to be achieved is £214,500. Of this total, an element is applied to balances held on external income. This external income represents balances from S106 contributions that have not yet been spent. The estimated amount forecast to be applied is approximately £19,200 subject to the balances remaining at the end of the financial year.
- 7.9 The estimated remaining balance of interest (£195,300) 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 2015/16, the budgeted investment income is apportioned as follows: £92,000 General Fund and £53,000 Housing Revenue Account. Any over or under achievement of interest is apportioned on this basis and the current forecast is anticipated as follows:

	Budget	Projected
General Fund	£92,000	£123,900
HRA	£53,000	£71,400
External Balances	£ 0	£19,200
Total	£145,000	£214,500

- 7.10 The Authority sets maximum investment limits per counterparty in its Investment Policy and Strategy. The Authority's current bank account is now included in these limits. The previous current account was not included in the limits. The banking provider altered from the Co-op to Lloyds in the recent procurement exercise and the reason for the change is because the account attracts interest.
- 7.11 The major income and expenditure streams are accounted for as part of the daily treasury management operational processes. Variations in income are anticipated by ensuring that there is scope to absorb estimated fluctuations in the bank account. Variations in income of up to £100,000 are a prudent estimate based on historical experience.
- 7.12 On 25th June, the counterparty limit was breached by £0.9m as a maturity was returned to the Authority by an investment counterparty one day earlier than requested. This is not something the Council could have taken action to avoid.
- 7.13 The Council has also moved its bank account to Lloyds and because the overall investment limit on the counterparty was not increased this has led to the limit being breached by smaller amounts on two occasions - £47,000 (31st July) and £131,000 (31st August). These breaches occurred because of fluctuations in transactions in the bank account. The counterparty investment limited will be reviewed when the next Treasury Management Strategy Statement is prepared to reflect the addition of the bank account to our investments with Lloyds. This will be presented to Cabinet and Council for approval in February 2016.
- 7.14 All other investments made during the period, complied with the Authority's agreed Annual Investment Strategy, Treasury Management Practices, Prudential Indicators and prescribed limits.

8.0 SUMMARY

- 8.1 For the period April to August 2015, the Authority can confirm that it has complied with its Prudential Indicators, which were approved on 24 February 2015 as part of the Authority's Treasury Management Strategy Statement.
- 8.2 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 2015. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 8.3 The Authority can confirm that during the period April to August 2015, it has complied with its Treasury Management Practices other than the breaches reported above. In light of this the fluctuations in the bank account will be monitored throughout the day to mitigate potential unforeseen high level fluctuations.