NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 26 SEPTEMBER 2012

Title of report	**TREASURY MANAGEMENT ACTIVITY – APRIL TO AUGUST 2012**
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Purpose of report	To inform Members of the Council's cumulative Treasury Management activity undertaken during the period April to August 2012.
Reason for Decision	To ensure Members are informed of the Council's Treasury Management activity during the financial year and have the opportunity to scrutinise that activity.
Council Priorities	Value for Money
Implications:	
Financial/Staff	Not applicable
Link to relevant CAT	Could impact upon all CAT's.
Risk Management	Borrowing and investment both carry an element of risk. This risk is moderated through the adoption of Treasury and Investment Strategies, adoption of and compliance with the CIPFA code of Treasury Management and the retention of Treasury Management Consultants (Arlingclose) to offer expert advice.
Equalities Impact Assessment	Not applicable
Human Rights	Not applicable
Transformational Government	Not applicable

Consultees	None
Background papers	The CIPFA Code of Practice on Treasury Management The Council's Treasury Management Strategy The Council's Borrowing and Debt Rescheduling Strategies The Council's Investment Policy and Strategy These documents are located in Room 35.
Recommendations	**THAT MEMBERS NOTE THIS REPORT AND COMMENT AS APPROPRIATE.**

1.0 BACKGROUND.

1.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is defined as "the management of the Council's cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks". This Council adopted the CIPFA Code on 2 July 2002, re-affirmed the adoption on 15 June 2009, and **complies with its requirements**.

The Council adopted a Treasury Management Policy Statement on 24 August 2004 and re-affirmed the adoption on 15 June 2009. **The Council's current Treasury Strategy, including the Annual Investment Strategy, Borrowing Strategy, Debt Rescheduling Strategy and Prudential Indicators were approved by Council on 23 February 2012.**

1.2 In March 2009 CIPFA released a Treasury Management Panel Bulletin on Treasury Management in Local Authorities – Post Icelandic Banks Collapse, providing interim advice to local authorities on treasury management practices in the light of the Icelandic banks collapse in 2008 and the continuing 'credit crunch'. In order to enshrine best practice it is suggested that authorities report formally to Members on treasury management activities at least twice a year and preferably quarterly.

1.3 Financial year 2012/13 is the fourth year in which treasury management activity has been reported to Members during the year. This report is the first in-year report of 2012/13, to inform Members of the Council's treasury activity and enable scrutiny of the performance. It will 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 has been:

(a) 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 2012.
(d) confirms compliance with treasury limits and Prudential Indicators.

3.0 THE ECONOMIC BACKGROUND.

- The UK economy is in recession with quarter 2 2012 GDP recording - 0.5%.
- Consumer price inflation is now within the target range set for the Bank of England, with CPI at 2.6% and RPI at 3.2% in July. The Bank of England remains convinced that inflation will continue to move lower during 2012.
- The UK unemployment remains high at 8.1% as at Quarter 2 2012.
- The Bank of England's Monetary Policy Committee has maintained the Bank Rate at 0.5% since March 2009, and increased the amount of Quantitative Easing to £375bn.
- The US Federal Reserve has indicated that the rates will remain at 0.25% until 2014 whilst the ECB has reduced rates to 0.5% in response to weak economic activity. The major ongoing worries in Europe include sovereign debt weakness in Portugal, Italy, Ireland, Greece and Spain, the exposure of the continent's banking sector to the sovereign and corporate debt of these nations and the risk of contagion extending to other countries.

4.0 THE COUNCIL'S TREASURY POSITION.

4.1 The Council's gross / net debt and investment positions as at 31 August 2012 are as follows:

DEBT	Balance at 01/4/2012 £m	%	Maturing loans £m	Premature redemption s £m	New Borrowing £m	Balance at 31/8/2012 £m	%
Long-term fixed rate	£89.475m	100	£0m	£0m	£0m	£89.475m	100
Long-term variable rate	£0m	0	£0m	£0m	£0m	£0m	0
Temporary Borrowing	£0m	0	£0m	£0m	£0m	£0m	0
Total borrowing	£89.475m	100	£0m	£0m	£0m	£89.475m	100
Other long-term liabilities	£0.141m					£0.141m	
TOTAL EXTERNAL DEBT	**£89.616m**					**£89.616m**	
INVESTMENTS	Balance at 01/4/2012 £m	%	Maturities £m	Sales £m	New Investments £m	Balance at 31/8/2012 £m	%
Internally Managed	£7.342m	100	£69.887m	£0m	£73.106m	£10.561m	100
Investments with maturities up to 1 year,	£7.342m	100	£69.887m	£0m	£69.887m	£10.561m	100
Investments with maturities in excess of 1 year	£0m	0	£0m	£0m	£0m	£0m	0
Externally Managed Investments	£0m	0	£0m	£0m	£0m	£0m	0
TOTAL INVESTMENTS	£7.342m		£0m	£0m	£0m	£10.561m	
NET DEBT	**£82.274m**					**£79.055m**	

4.2 Members will note the increase value of investments, and corresponding reduction in the Council's net debt during the period, of £3.219m. A number of factors brought about this situation.

- The Council traditionally benefits from receipt of major income streams (e.g. Council Tax & NNDR) during the first ten months of the financial year.
- The Council's traditional pattern of revenue expenditure is more evenly weighted throughout the financial year.

- The Council's expenditure of its capital programme is heavily weighted towards the latter part of the financial year because of the time required to schedule programmes of work and award contracts, which are paid upon completion.
- The above patterns of income and expenditure are reflected in the Council's cash flow projections, which are monitored and revised on a daily basis. The above position is forecast to unwind in the latter stages of the financial year and this is in line with our traditional experience.

5.0 BORROWING ACTIVITY.

5.1 The Council's Borrowing Strategy, approved by Council on 23 February 2012 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.

5.2 The Council's estimated borrowing requirement for the current financial year is a net repayment of £850k and for the two subsequent financial years is to repay £963k in 2013/14 and £978k in 2014/15.

5.3 No new long term loans were raised during the period. Additionally, no existing loans requiring replacement matured during the period.

5.4 There was no temporary borrowing during the period.

6.0 DEBT RESCHEDULING ACTIVITY.

6.1 The Council's policy on debt rescheduling, as approved by Council on 23 February 2012, is to maintain 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.

All rescheduling activity will comply with the accounting requirements of the local authority SORP and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573 as amended by SI 2008/414).

6.2 The Council undertook no debt rescheduling activity during the period.

6.3 The Council's portfolio of loans will continue to be monitored for debt rescheduling opportunities that comply with the Council's Policy and rationale.

7.0 INVESTMENT POLICY AND ACTIVITY.

7.1 The Council's specific policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital;

- liquidity of the invested capital; and,
- an optimum yield which is commensurate with security and liquidity.

The revised counterparty list, approved by Council on 23 February 2012 restricts new deposits to the following:

- the Debt Management Office
- Other local authorities
- AAA-rated Stable Net Asset Value Money Market Funds
- Nationwide Building Society
- Banks which have, as a minimum, **all** of the following credit ratings

Fitch short term credit rating of F1+
Moody's short term credit rating of P-1
Standard & Poors short term credit rating of A-1+

7.2 There were 95 investments during the period, totalling £80.448m.

7.3 **The average rate of return on the Council's investment balances during the period was 0.61%.** For comparison purposes, the benchmark return (average 7-day BID/BOR rate) for the same period was 0.52%.

All investments made during the period complied with the council's agreed Treasury Management Investment Strategy, Prudential Indicators, and Treasury Management Practices and prescribed limits.

All maturing investments were repaid to the Council on the due date and in full, including interest.

8.0 COMPLIANCE WITH TREASURY LIMITS AND TREASURY-RELATED PRUDENTIAL CODE INDICATORS.

8.1 The Council at its meeting on 23 February 2012 approved the Prudential Indicators for 2012/13. These are set out and described below.

(a) **Authorised Limit**: This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved Treasury Policy and Strategy and also provides headroom over and above for unusual cash movements. **This limit was approved at £97.725m for 2012/13.**

(b) **Operational Boundary**: This limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and is based on the Authorised Limit excluding the headroom for unusual cash movements. **For 2012/13 the limit was approved at £95.225m.**

The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. **The Council maintained its total**

external borrowing and other long-term liabilities within both limits; at its peak this figure was £89.475m.

(c) Upper Limits for Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Estimated %	Actual %
Upper Limit for Fixed Rate exposure	100%	100%
Upper Limit for Variable Rate exposure	50%	0%

(d) Maturity Structure of Fixed Rate borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper limit %	Lower limit %	Actual Borrowing as at 31/8/2012 £	Percentage of total as at 31/8/2012 %
under 12 months	10%	0%	£7.440	**8.32%**
12 months and within 24 months	10%	0%	£0	**0%**
24 months and within 5 years	10%	0%	£1.000m	**1.11%**
5 years and within 10 years	20%	0%	£14.000m	**15.65%**
10 years and within 20 years	30%	0%	£21.500m	**24.03%**
20 years and within 30 years	50%	0%	£43.785m	**48.93%**
30 years and within 40 years	50%	0%	£0	**0%**
40 years and within 50 years	50%	0%	£1.750m	**1.96%**
50 years and above	50%	0%	£0	**0%**

(e) Total principal sums invested for periods longer than 364 days

This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days. **For 2012-13 this limit was approved at £5m. During the period the Council undertook no investments for longer than 364 days.**