

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 21 JUNE 2017

Title of report	TREASURY MANAGEMENT STEWARDSHIP REPORT 2016/17
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Purpose of report	To inform Members of the Authority's Treasury Management activity undertaken during the financial year 2016/17.
Reason for Decision	These are statutory requirements
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 on 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	<u>Treasury Management Strategy Statement</u> – Council 23 February 2016

	<p><u>Treasury Management Activity Report April to August</u> – Audit and Governance 21 September 2016</p> <p><u>Treasury Management Activity Report April To October</u> – Audit and Governance 7 December 2016</p> <p><u>Treasury Management Activity Report April to February</u> – Audit and Governance 22 March 2017</p>
Recommendations	THAT MEMBERS APPROVE THIS REPORT

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 This report fulfils the Authority's legal obligation under the Local Government Act 2003, to have regard to both the CIPFA Code and the CLG Investment Guidance.
- 1.3 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."
- 1.4 The Authority's current Treasury Management Strategy Statement, including the Borrowing Strategy, Debt Rescheduling Strategy, Annual Investment Strategy, Prudential Indicators and Annual Minimum Revenue Position Statement for 2015-16 were approved by Council on 23 February 2016.
- 1.5 The Treasury Management Stewardship Report is supplemented by three in-year reports to the Audit and Governance Committee on 21 September 2016, 7 December 2016 and 22 March 2017.

2.0 THE U.K. ECONOMY AND GLOBAL EVENTS

2.1 The following economic update has been supplied by the Authority's treasury advisors Arling Close:

Growth, Inflation, Employment: Economic activity grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. The sharp fall in then sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year on year in April 2016 to 2.3% year on year in March 2017.

UK Monetary Policy: The Bank of England's Monetary Policy Committee (MPC) cut the bank rate to 0.25% in August and embarked on further gilt and corporate bond purchases as well as providing cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Global Influences: The US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, setting in motion the 2-year exit period from the EU, was triggered on 29 March 2017. Interest rates in the United States were raised in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

3.0 THE AUTHORITY'S TREASURY POSITION.

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

DEBT	Balance at 01/04/2016 £m	%	Maturing loans £m	New Borrowing £m	Balance at 31/03/2017 £m	%
Long-term fixed rate:	£84.482		£1.055	£0.000	£83.427	
• <i>HRA</i>	£76.127	90.0	£1.055	£0.000	£75.072	89.9
• <i>General Fund</i>	£8.355	9.9	£0.000	£0.000	£8.355	10.0
Long-term variable rate	£0.000m		£0.000	£0.000	£0.000	
Temporary Borrowing	£0.000m		£0.000	£0.000	£0.000	
Total borrowing	£84.482	99.9	£1.055	£0.000	£83.427	99.9
Other long-term liabilities	£0.119	0.1	£0.007	£0.000	£0.112	0.1
TOTAL EXTERNAL DEBT	£84.601	100	£1.062	£0.000	£83.539	100
INVESTMENTS	Balance at 01/04/2016 £m	%	Maturities £m	New Investment £m	Balance at 31/03/2017 £m	%
Internally Managed:	£30.601	95.9	£50.233	£55.981	£36.349	95.9
• <i>Investments with maturities up to 1 year</i>	£18.601	58.3	£46.233	£51.981	£24.349	66.1
• <i>Investments with maturities in excess of 1 year</i>	£12.000	37.6	£4.000	£4.000	£12.000	29.8
Externally Managed Investments *	£1.300	4.1	£91.350	£93.150	£3.100	4.1
TOTAL INVESTMENTS	£31.901	100	£141.583	£149.131	£39.449	100
NET DEBT	£52.700				£44.090	

*Represents investments held in money market funds

- 3.2 The 'Maturing Loans' column contains the annual repayments on two PWLB annuity loans taken out as part of the self-financing system of Council Housing in 2011/12.
- 3.3 In 2016/17, the capacity for investment has increased by £8.6m.
- 3.4 The capacity for investment can be affected by various factors - for example: Increased income, contribution to/from reserves, setting aside expenditure to repay borrowing (MRP) and fortuitous income. In 2016/17 some of the highlights that have impacted on the increased capacity are: sales of assets - houses under the 'Right to Buy' scheme, other Housing and General Fund property generated approx £3m; MRP is £0.54m; increased income from various activities across the authority of circa £0.5m including recycling income (£0.32m) and Planning Fees (£0.16m); and cash flow timing of receipts and payments.

4.0 BORROWING ACTIVITY.

- 4.1 The Authority's Borrowing Strategy 2016/17, approved by Council on 23 February 2016, 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.
- 4.2 None of the loans which matured in 2016/17 require replacement.
- 4.3 The Authority did not undertake any new long-term borrowing during the year and interest payments totalling £2.79m were made in respect of existing debt.
- 4.4 The Authority's cash flow remained positive during the period. The Authority did not require any temporary loans during the period.
- 4.5 The Authority had approximately £5.4m of internal debt (the value by which the Authority has avoided new external borrowing by using internal cash balances to finance new capital expenditure or to replace maturing external debt) at 31 March 2017, as this is currently judged to be the most cost effective means of funding the capital programme.
- 4.6 The Estimated Minimum Revenue Provision (MRP) is intended to ensure that the capital financing debt is paid off over the longer term. The MRP charge that was made to the General Fund revenue account for 2016/17 was £0.535m. For Housing, MRP is classed as the principal repayments made in respect of two PWLB annuity loans taken out as part of the Housing self financing in 2011/12. In 2016/17, this repayment was £1.055m

5.0 DEBT RESCHEDULING ACTIVITY.

- 5.1 The Authority's Debt Rescheduling Strategy 2016/17, approved by Council on 23 February 2016, 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 Authority has undertaken no debt rescheduling activity during the period.

5.3 The Authority's portfolio of 13 loans - 10 PWLB loans and three market loans - will continue to be monitored for debt rescheduling opportunities that comply with the Authority's Policy and rationale.

6.0 INVESTMENT ACTIVITY

6.1 The Authority's Investment Policy and Strategy 2016/17, approved by Council on 23 February 2016, established that the major policy objective is to invest its surplus funds prudently.

6.2 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.

6.3 The counterparties that the Authority currently utilise all meet the criteria set out in the Treasury Management Strategy Statement 2016/17 and are monitored by the Authority's Treasury Management Advisors. The counterparties and amounts invested at 31 March 2017 are shown below:

Counterparty	Length of Investment	Rate *	£m
Lloyds Bank (Current Account)	Overnight	0.15%	0.6
Bank of Scotland	Overnight	0.15%	1.5
Goldman Sachs MMF	Overnight	0.21%	2.1
CCLA Investment Management Ltd MMF	Overnight	0.25%	1.0
Lloyds 32 Day Notice Account	32 days	0.32%	0.8
Santander 95 Day Account	95 Days	0.65%	1.5
Birmingham City Council	123 days	0.35%	1.0
Leeds City Council	181 days	0.30%	2.0
Fife Council	182 days	0.35%	2.0
Eastleigh Borough Council	182 days	0.35%	2.0
Thurrock Council	214 days	0.41%	1.0
North Lanarkshire Council	214 days	0.47%	2.0
Leeds City Council	364 days	0.38%	2.5
Moray Council	364 Days	0.47%	2.0
Salford City Council	364 Days	0.40%	1.0
Salford City Council	364 Days	0.44%	1.0
Salford City Council	364 Days	0.44%	1.0
Lancashire County Council	364 Days	0.60%	1.5
Lloyds Bank Fixed term deposit	1 year	1.05%	1.0
The City of Liverpool	21 months	0.65%	2.0

Lancashire County Council	2 Years	0.55%	2.0
Greater London Authority	3 Years	1.50%	3.0
Blaenau Gwent County Borough Council	3 Years	1.20%	2.5
Newcastle City Council	3 Years	1.13%	2.5
Total Invested			39.5

* Rate as at 31st March 2017

- 6.4 The average rate of return on the Authority's investment balances during the year was 0.557%. For comparison purposes, the benchmark return (cumulative average 7-day London Interbank Bid Rate or LIBID rate) for 2016/17 was 0.20%. The cumulative average 7 day London Interbank Offered Rate (LIBOR) for 2016/17 was 0.33%. 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 2016/17.
- 6.5 The Authority budgeted to achieve £182,000 of income from its investment activity in 2016/17. The average cash balances representing the Authority's reserves, capital receipts and working balances were £43m during the year. The total interest earned on investments was £283,462. Of this total interest, £20,028 is applied to balances held on external income. This external income represents balances from S106 contributions for schemes such as Healthcare, affordable housing and recreation that have not yet been spent.
- 6.6 The remaining balance of interest (£263,434) received on investment income is budgeted to be apportioned between General Fund and the Housing Revenue Account based on an estimated cash flow position. For 2016/17, the budgeted investment income is apportioned as follows: £115,480 General Fund and £66,520 Housing Revenue Account and the over achievement of interest is apportioned on this basis. The outturn position of investment income achieved for 2016/17 is: £167,150 General Fund and £96,284 HRA.

	Budget	Actual
General Fund	£115,480	£167,150
HRA	£66,520	£96,284
Sub-Total	£182,000	£263,434
External Balances	£ 0	£20,028
Total	£182,000	£283,462

7.0 SUMMARY

- 7.1 The Authority can confirm that it has complied with its Prudential Indicators for 2016/17 approved on 23 February 2016.
- 7.2 In compliance with the requirements of the CIPFA Code of Practice, this report provides members with a summary report of the Treasury Management activity during 2016/17. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.
- 7.3 The Authority can confirm that during 2016/17, it has complied with its Treasury Management Strategy Statement, policies and Treasury Management Practices.