NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 6 DECEMBER 2017

Title of Report	**TREASURY MANAGEMENT ACTIVITY REPORT – APRIL TO OCTOBER 2017**
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Purpose of Report	To inform Members of the Authority's Treasury Management activity undertaken during the period April to October 2017.
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 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 Authority. Could impact upon 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 Not Applicable
Consultees	None
Background Papers	Treasury Management Strategy Statement 2017/18 – Council Meeting 07 February 2017
Recommendations	**THAT MEMBERS:** **1) APPROVE THIS REPORT AND COMMENT AS APPROPRIATE**

	2) NOTE THAT THE PRESENTATIONAL FORMAT OF THIS REPORT IS UNDER REVIEW AND THAT COMMENTS REGARDING FUTURE FORMAT ARE WELCOMED

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 07 February 2017.

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 second of three in-year reports to be presented in 2017/18, 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 October 2017;
d) Reports on breaches of or compliance with treasury limits and Prudential Indicators.

3.0 THE U.K. ECONOMY AND OTHER FACTORS.

- An economic and Interest rate forecast has been provided by our Treasury Advisers (Arlingclose Ltd).

UK Monetary Policy:
In a 7-2 vote, the MPC increased Bank Rate in line with market expectation to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Further potential movement in bank rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

Growth, Inflation and Employment:
Recent economic data has improved: UK Q3 2017 GDP growth was 0.4% after a 0.3% expansion in Q2. Unemployment is continuing to decline and house prices have remained relatively resilient.

Household consumption growth has softened following a contraction in real wages, despite both savings rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth.

Depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone expansion.

Near-term global growth prospects have continued to improve and broaden and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

Geo-political risks remain elevated and helps to anchor safe-haven flows into the UK Government bond (gilt) market.

CPI Inflation has risen further above the 2% target as companies pass on the higher costs stemming from the lower level of sterling. Unemployment has continued to fall and the extent of spare capacity in the economy now seems limited.

Moreover, the pace at which the economy can grow without generating inflationary pressure has fallen over recent years. Over the MPC's forecast period, conditioned on a path for bank rate rises to 1% by the end of 2020, demand is projected to grow at a pace that uses up slack in the economy.

As imported inflationary pressures wane, domestic pressures build. Inflation is projected to remain slightly above the 2% target at the 3 year point. At its meeting ending on 1 November 2017, the MPC voted to increase bank rate to 0.5%

4.0 THE AUTHORITY'S TREASURY POSITION.

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

DEBT	Balance at 01/04/2017 £m	%	Maturing Loans £m	Premature Redemptions £m	New Borrowing £m	Balance at 29/10/2017 £m	%
Total Long-term fixed rate (PWLB & Bonds)	**£83.427**		**£0.536**	**£0.000**	**£0.000**	**£82.891**	
Split to - HRA &	*£75.072*	*89.87*	*£0.536*	*£0.000*	*£0.000*	*£74.536*	*89.80*
GENERAL FUND	*£8.355*	*10.00*	*£0.000*	*£0.000*	*£0.000*	*£8.355*	*10.07*
Long-term variable rate	£0.000		£0.000	£0.000	£0.000	£0.000	
Temporary Borrowing	£0.000		£0.000	£0.000	£0.000	£0.000	
Total Borrowing	**£83.427**	99.87	**£0.536**	**£0.000**	**£0.000**	**£82.891**	99.87
Other long-term liabilities (HBBC)	£0.112	0.13	£0.000	£0.000	£0.000	£0.112	0.13
TOTAL EXTERNAL DEBT	**£83.539**	**100**	**£0.536**	**£0.000**	**£0.000**	**£83.003**	**100**
INVESTMENTS	**Balance at 01/04/2017 £m**	**%**	**Maturities £m**	**Sales £m**	**New Investments £m**	**Balance at 29/10/2017 £m**	**%**
Internally Managed	**£36.349**	**92.1**	**£24.384**	**£0.000**	**£27.421**	**£39.386**	**81.7**
Investments with maturities up to 1 year	*£24.349*	*61.7*	*£21.384*	*£0.000*	*£24.421*	*£27.386*	*56.8*
Investments with maturities in excess of 1 year	*£12.000*	*30.4*	*£3.000*	*£0.000*	*£3.000*	*£12.000*	*24.9*
Pooled Funds and Externally Managed Investments *	**£3.100**	**7.9**	**£64.600**	**£0.000**	**£70.300**	**£8.800**	**18.3**
TOTAL INVESTMENTS	**£39.449**	**100.0**	**£88.984**	**£0.000**	**£97.721**	**£48.186**	**100**
NET DEBT	**£44.090**					**£34.817**	

*Represents investments held in Money Market Funds

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, and capital receipts, payments to other precepting authorities or central government and interest on treasury activity.

4.3 In the period April 2017 to October 2017, the capacity for investment has currently increased by £8.7m. The volatility of balances is normal throughout the year and a number of factors contribute to this:

a) The Authority traditionally benefits from the receipt of Council Tax and Business Rates during the first ten months of the financial year;
b) Revenue expenditure is more evenly weighted throughout the financial year;
c) 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.
d) 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 drop 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 2017/18, approved by Council on 07 February 2017, 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 £1.425m. In the two subsequent financial years this is estimated to be £1.014m in 2018/19 and £0.396m in 2019/20, as presented to Council in the "Treasury Management Strategy Statement 2017/18 and Prudential Indicators 2017/18 to 2019/20" on 07 February 2017.

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 2017/18 is £1.079m.

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 2017/18, which was approved by Council on 07 February 2017, 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 2017/18, which was approved by Council on 07 February 2017, 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 2017/18 and are monitored by the Authority's Treasury Management Advisors. The counterparties and amounts currently invested are shown below:

Counterparty	**Length of Investment**	**Rate***	**£m**
Lloyds Bank (Current Account)	Overnight	0.15%	0.1
Bank of Scotland	Overnight	0.15%	1.5
Black Rock MMF	Overnight	0.07%	3.4
Goldman Sachs MMF	Overnight	0.14%	4.2
Aberdeen Asset Management MMF	Overnight	0.09%	0.2
CCLA Investment Management Ltd MMF	Overnight	0.19%	1.0
Lloyds Bank Notice Account	32 days	0.32%	0.3
National Counties Building Society	91 days	0.34%	1.0
Surrey Heath BC	94 days	0.22%	1.0
Santander 95 Day Notice Account	95 Days	0.40%	1.5
Lancashire County Council	184 days	0.45%	1.5
Thurrock Borough Council	210 days	0.32%	1.0
Thurrock Borough Council	213 days	0.42%	2.0
Cheshire East Borough Council	214 days	0.42%	5.0
Leeds City Council	265 days	0.35%	2.0
Fife Council	269 days	0.32%	1.5
Moray Council	364 days	0.47%	2.0
Salford City Council	364 days	0.40%	1.0
Salford City Council	364 days	0.44%	2.0
Lloyds Bank Fixed Term Deposit	364 days	0.80%	1.5
Leeds City Council	364 days	0.38%	2.5
The City of Liverpool	640 days	0.65%	2.0
Lancashire County Council	2 Years	0.55%	2.0
Northumberland County	3 Years	0.99%	3.0
Blaenau Gwent County Borough Council	3 years	1.20%	2.5
Newcastle City Council	3 Years	1.13%	2.5
Total Invested			**48.2**

*The interest rate shown is based on the average for October 2017.

7.5 The average rate of return on the Authority's investment balances during the period was 0.44%. For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) at the end of September 2017 was 0.11%. The average 7 day London Interbank Offered Rate (LIBOR) rate at the end of September 2017 was 0.24%. 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 2017/18.

7.6 Short and long term interest rates are beginning to rise marginally since the increase of the base rate by the Bank of England on 2 November 2017 to 0.5%. Our Treasury advisers are forecasting that the Base Rate will remain at this level over the medium term. This will mean that interest rates on investments will increase from the current position and therefore allow a return to a lengthening of investment periods to enable the authority to lock into slightly higher rates of return.

7.7 There were 68 investments made during the period, totalling £97.7m. The average balance held for the period was £47.9m.

7.8 Fourteen fixed term investments were taken out during the period. These investments were for amounts ranging from £1m to £5m. Thirteen 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.

7.9 The Authority has budgeted to achieve £120,000 of income from its investment activity in 2017/18. Investment activity from April to October 2017 has achieved £212,630 in interest for the financial year. The current forecast that is estimated to be achieved is £225,364.

7.10 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 £15,922 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.

7.11 The estimated remaining balance of interest (£209,442) 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 2017/18, the budgeted investment income is apportioned as follows: £132,891 General Fund and £76,551 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	£76,140	£132,891
HRA	£43,860	£76,551
Sub-Total	**£120,000**	**£209,442**
External Balances	£0	£15,922
Total	**£120,000**	**£225,364**

7.12 All 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 October 2017, the Authority can confirm that it has complied with its Prudential Indicators, which were approved on 07 February 2017 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 October 2017. 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 October 2017, it has complied with its Treasury Management Practices.

9.0 FUTURE REPORTS

9.1 Members should note that the presentational format of this report is currently under review. It is anticipated that the next Treasury Management Activity Report scheduled for review by the Committee in March 2018, will include more graphical representations of the Council’s treasury position and activity undertaken in order to ease understanding for report readers and aid comparability with prior periods. Member comments or suggestions are welcomed.