NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 21 MARCH 2018

Title of Report	**TREASURY MANAGEMENT ACTIVITY REPORT – APRIL TO FEBRUARY 2018**
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Purpose of Report	To inform Members of the Authority's Treasury Management activity undertaken during the period April to February 2018.
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	Treasury Management Strategy Statement 2017/18 – Council Meeting 23 February 2017; Treasury Management Activity Report – April to August 2017 – Audit & Governance Committee 27 September 2017; Treasury Management Activity Report – April to October 2017 – Audit & Governance Committee 6 December 2017 Treasury Management Strategy Statement 2018/19 – Council meeting 27 February 2018
Recommendations	**THAT MEMBERS APPROVE THIS REPORT AND COMMENT AS APPROPRIATE.**

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 23 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 third 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 February 2018;
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).

> The MPC has raised expectations for further rises in Bank Rate, both sooner and to a higher level than previously anticipated by markets. Reiterating the view of the UK economy's impaired supply capacity and survey data of higher private sector earnings growth, meaning inflationary outcomes are more likely, the MPC also revised the UK's economic growth prospects slightly higher due to the pull of global economic momentum.
>
> Significantly, the MPC also decided to shorten the forecast horizon over which inflation will be brought back to the CPI target.
>
> The MPC believes that soft domestic consumption will recover as the inflationary impact of weaker sterling fades. Their projections assume that households and companies base their decisions on a smooth adjustment to the new trading relationship with the EU.
>
> Whilst recent economic data has improved, it has done so from a low base: UK Q4 2017 GDP growth was 0.5% after a 0.4% expansion in Q3. Household consumption growth has softened, despite high employment and low savings rates. Housing markets are also soft.
>
> The depreciation in sterling is assisting the economy to rebalance away from spending. Export volumes have increased, helped by stronger global and Eurozone economic expansions.
>
> 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.

- An overview of the Bank of England's Inflation report of February 2018 has been provided by our Treasury Advisers.

> Inflation is expected to remain around 3% in the short term but gradually fall back over the forecast but remain above the 2% target in the second and third years of the MPC's Projection (2019 and 2020).
>
> The MPC judges that the UK economy has a very limited degree of slack. Wage growth is projected to rise further in response to the tightening labour market. Growth in demand is expected to outpace that of supply.
>
> Monetary policy is expected to be tightened somewhat earlier and by a somewhat greater extent over the forecast period than anticipated at the time of the November report.

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	New Borrowing £m	Balance at 02/03/2018 £m	%
Total Long-term fixed rate (PWLB & Bonds)	**£83.427**		**£0.536**	**£0.000**	**£82.891**	
Split to - HRA &	*£75.072*	*89.9*	*£0.536*	*£0.000*	*£74.536*	*89.8*
GENERAL FUND	*£8.355*	*10.0*	*£0.000*	*£0.000*	*£8.355*	*10.1*
Long-term variable rate	£0.000		£0.000	£0.000	£0.000	
Temporary Borrowing	£0.000		£0.000	£0.000	£0.000	
Total Borrowing	**£83.427**	99.9	**£0.536**	**£0.000**	**£82.891**	99.9
Other long-term liabilities (HBBC)	£0.112	0.1	£0.000	£0.000	£0.112	0.1
TOTAL EXTERNAL DEBT	**£83.539**	**100**	**£0.536**	**£0.000**	**£83.003**	**100**
INVESTMENTS	**Balance at 01/04/2017 £m**	**%**	**Maturities £m**	**New Investments £m**	**Balance at 02/03/2018 £m**	**%**
Internally Managed	**£36.349**	**92.1**	**£40.184**	**£45.177**	**£41.342**	**78.4**
Investments with maturities up to 1 year	*£24.349*	*61.7*	*£37.184*	*£42.177*	*£29.342*	*55.6*
Investments with maturities in excess of 1 year	*£12.000*	*30.4*	*£3.000*	*£3.000*	*£12.000*	*22.8*
Pooled Funds and Externally Managed Investments *	**£3.100**	**7.9**	**£99.400**	**£107.700**	**£11.400**	**21.6**
TOTAL INVESTMENTS	**£39.449**	**100.0**	**£139.584**	**£152.877**	**£52.742**	**100**
NET DEBT	**£44.090**				**£30.261**	

*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 February 2018, the capacity for investment has increased by £13.8m. 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 capacity for investment fluctuates throughout the year and will now decrease towards financial year end. This is in line with the Authority's experience and expectations.

5.0 BORROWING ACTIVITY.

5.1 The Authority's Borrowing Strategy 2017/18, approved by Council on 23 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 £2.262m. In the two subsequent financial years this is estimated to be £2.290m in 2018/19 and £10.702m in 2019/20. These figures have been updated from the previous activity reports from the "Treasury Management Strategy Statement 2018/19 and Prudential Indicators 2018/19 to 2020/21" presented to Council in on 27 February 2018.

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 23 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 23 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 use 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	0.40%	0.2
Bank of Scotland	Overnight	0.40%	1.4
Black Rock MMF	Overnight	0.29%	2.8
Goldman Sachs MMF	Overnight	0.35%	4.3
Aberdeen Asset Management MMF	Overnight	0.29%	3.3
CCLA Investment Management Ltd MMF	Overnight	0.41%	1.0
Lloyds Bank - Notice Account	32 days	0.57%	0.2
Barclays Treasury Direct	89 days	0.36%	1.5
Thurrock Council	90 days	0.50%	1.0
Dumfries & Galloway Council	91 days	0.45%	1.5
Santander - Notice Account	95 Days	0.60%	1.5
National Counties Building Society	98 days	0.57%	1.0
Blackpool Borough Council	120 days	0.62%	2.0
Eastleigh Borough Council	182 days	0.55%	1.0
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	0.60%	3.0
Fife Council	269 days	0.32%	1.5
Thurrock Borough Council	312 days	0.63%	1.0
Salford City Council	321 days	0.60%	1.0
Moray Council	364 days	0.47%	2.0

Lloyds Bank Fixed Term Deposit	364 days	0.80%	1.5
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			**52.7**

*The interest rate shown is based on February 2018.

7.5 The average rate of return on the Authority's investment balances during the period was 0.48% (increased from 0.44% reported in the April to October Report). For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) at the end of February 2018 was 0.37%. The average 7 day London Interbank Offered Rate (LIBOR) rate at the end of February 2018 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 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.

7.7 There were 108 investments made during the period, totalling £152.8m and 88 maturities totalling £139.6m. The average balance held for the period was £49.5m.

7.8 Of the investments and maturities in paragraph 7.7, 25 were fixed term investments taken out during the period and 23 were fixed term investments that have matured during the period. The fixed term investments were for amounts ranging from £1m to £5m.

7.9 The Authority has budgeted to achieve £120,000 of income from its investment activity in 2017/18. Investment activity from April to February 2018 has achieved £246,042 in interest for the financial year. The current forecast that is estimated to be achieved is £249,391.

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 £17,618 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 (£231,773) 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: £76,140 General Fund and £43,860 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	£147,060
HRA	£43,860	£84,713
Sub-Total	**£120,000**	**£231,773**
External Balances	£0	£17,618
Total	**£120,000**	**£249,391**

7.12 The Authority sets maximum investment limits per counterparty in its Investment Policy and Strategy. These limits are specific to the Authority to ensure adherence to S.L.Y (Security; Liquidity; Yield) and to minimise the risk of losses should a counterparty fail or require a bail-in. The Authority's current bank account is included in these limits.

7.13 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.

7.14 On 1st February 2018, the counterparty limit for our banking provider (Lloyds) was breached by £1.4m. An unexpected credit into the bank account for £1.7m was made late in the day. This is not something the Council could have taken action to avoid.

7.15 All investments, except paragraph 7.14, 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 February 2018, the Authority can confirm that it has complied with its Prudential Indicators, which were approved on 23 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 February 2018. 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 February 2018, other than the breach of prescribed limit detailed in paragraph 7.14, it has complied with its Treasury Management Practices.

9.0 REPORT FORMT

9.1 Members will recall that at the last meeting it was planned for a new report format to be delivered for the treasury management activity reports from this meeting.

9.2 Due to unforeseen team capacity issues, the timetable for this has been delayed. A new report format will now be introduced in the new financial year.

9.3 The new report format will include data comparisons, benchmarks and graphical presentations where appropriate with a view to aid members understanding and encourage challenge.