NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 21 MARCH 2018

Title of Report	**TREASURY MANAGEMENT ACTIVITY REPORT – APRIL TO FEBRUARY 2018**
Contacts	Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk Head of Finance / S151 Officer 01530 454707 tracy.ashe@nwleicestershire.gov.uk Finance Team Manager / Deputy S151 Officer 01530 454492 anna.wright@nwleicestershire.gov.uk
Purpose of Report	To inform Members of the Council's Treasury Management activity undertaken during the period April to February 2018.
Reason for Decision	To ensure that 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	Interest earned on balances and interest paid on external debt, impact on the resources available to the Council.
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 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 The code requires that Authorities report on the performance of the Treasury Management function at least twice yearly (mid-year and at year end). This is the third of three in-year reports to be presented in 2017/18, to inform Members of the council's treasury activity and enable scrutiny of activity and performance.

1.3 The council'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 When investing or borrowing, the council is exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risks are therefore central to the council's treasury management strategy.

2.0 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.
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> 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.

3.0 THE COUNCIL'S TREASURY POSITION.

3.1 The council's current strategy is to use internal borrowing to reduce risk and keep interest costs low. The treasury management current position and the change over the reporting period is shown below.

	Balance at 01/04/2017 £m	Net Movement £m	Balance at 02/03/2018 £m
Long term borrowing - HRA	£75.072	(£0.536)	£74.536
Long term borrowing – General Fund	£8.355	£0.000	£8.355
Other long-term liabilities - HBBC	£0.112	£0.000	£0.112
Total Borrowing	**£83.539**	**(£0.536)**	**£83.003**
Long term investments – greater than 1 year	£12.000	£0.000	£12.000
Short term investments – less than 1 year	£24.349	£4.993	£29.342
Pooled funds and externally managed investments*	£3.100	£8.300	£11.400
Total Investments	**£39.449**	**£13.293**	**£52.742**
Net debt	**£44.090**	**£13.829**	**£30.261**

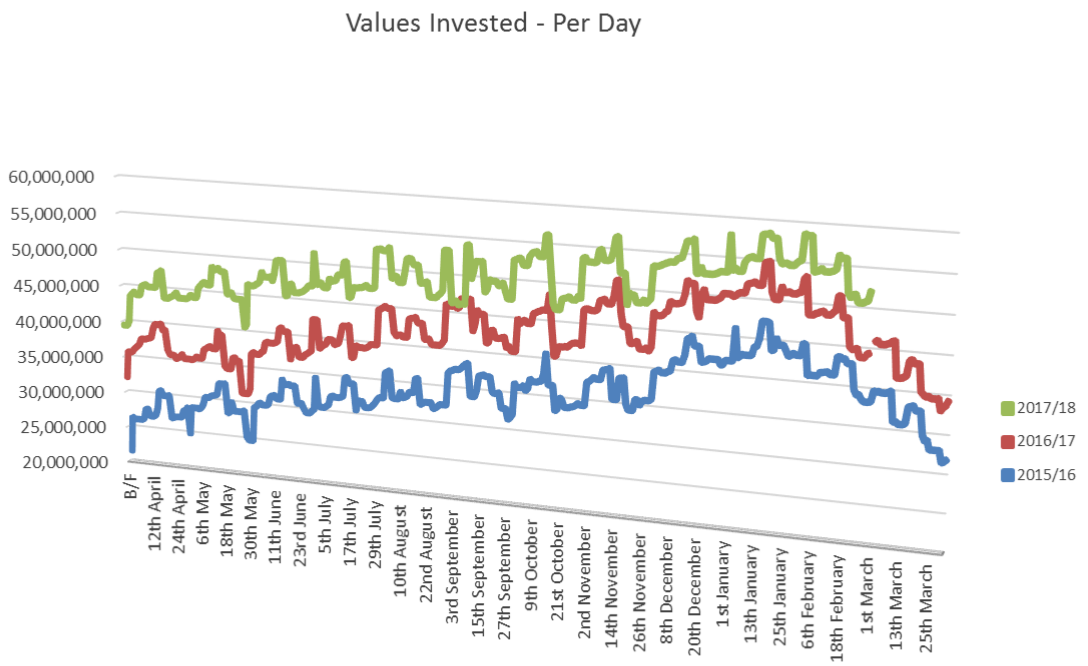
*Represents investments held in Money Market Funds

3.2 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.

3.3 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 have contributed to this:

a) The council (as it typically does) has benefit from the receipt of Council Tax and Business Rates during the first ten months of the financial year whilst revenue expenditure is more evenly weighted throughout the financial year;
b) 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.
c) 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 council's cash flow projections which is monitored and revised daily as part of the treasury management process.

3.4 The values of investments per day is shown in the table below, illustrating the cash flow trends throughout the year whilst at a higher level, are in line with the anticipated trend.



4.0 BORROWING ACTIVITY.

4.1 The council's Borrowing Strategy 2017/18, 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.

4.2 The council'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).

4.3 The council has not undertaken any new long-term borrowing during the period as the levels of cash balances held have meant that we are able to use internal borrowing.

4.4 The council 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.

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

5.0 DEBT RESCHEDULING ACTIVITY.

5.1 The council's Debt Rescheduling Strategy 2017/18, 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 council has undertaken no debt rescheduling activity during the period.

5.3 The council's portfolio of thirteen loans - ten PWLB loans and three market loans - will continue to be monitored for debt rescheduling opportunities

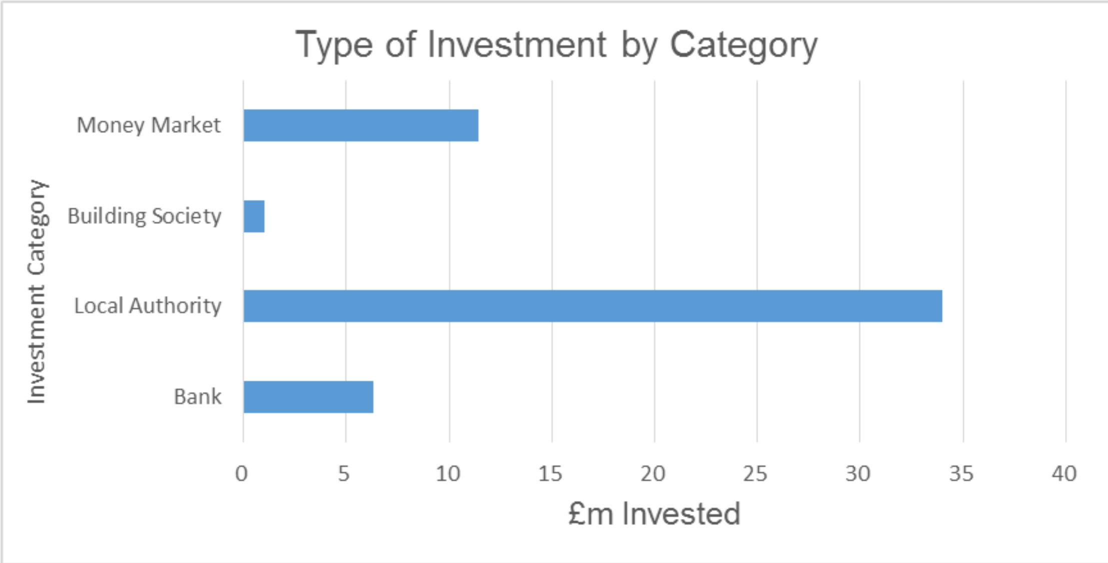
6.0 INVESTMENT ACTIVITY.

6.1 The main objective of the council's Investment Policy and Strategy 2017/18 is to invest its surplus funds prudently.

6.2 The council'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 To lower the inherent investment risk, the council 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. The table below shows the range of counterparties used by the council and the values currently invested.

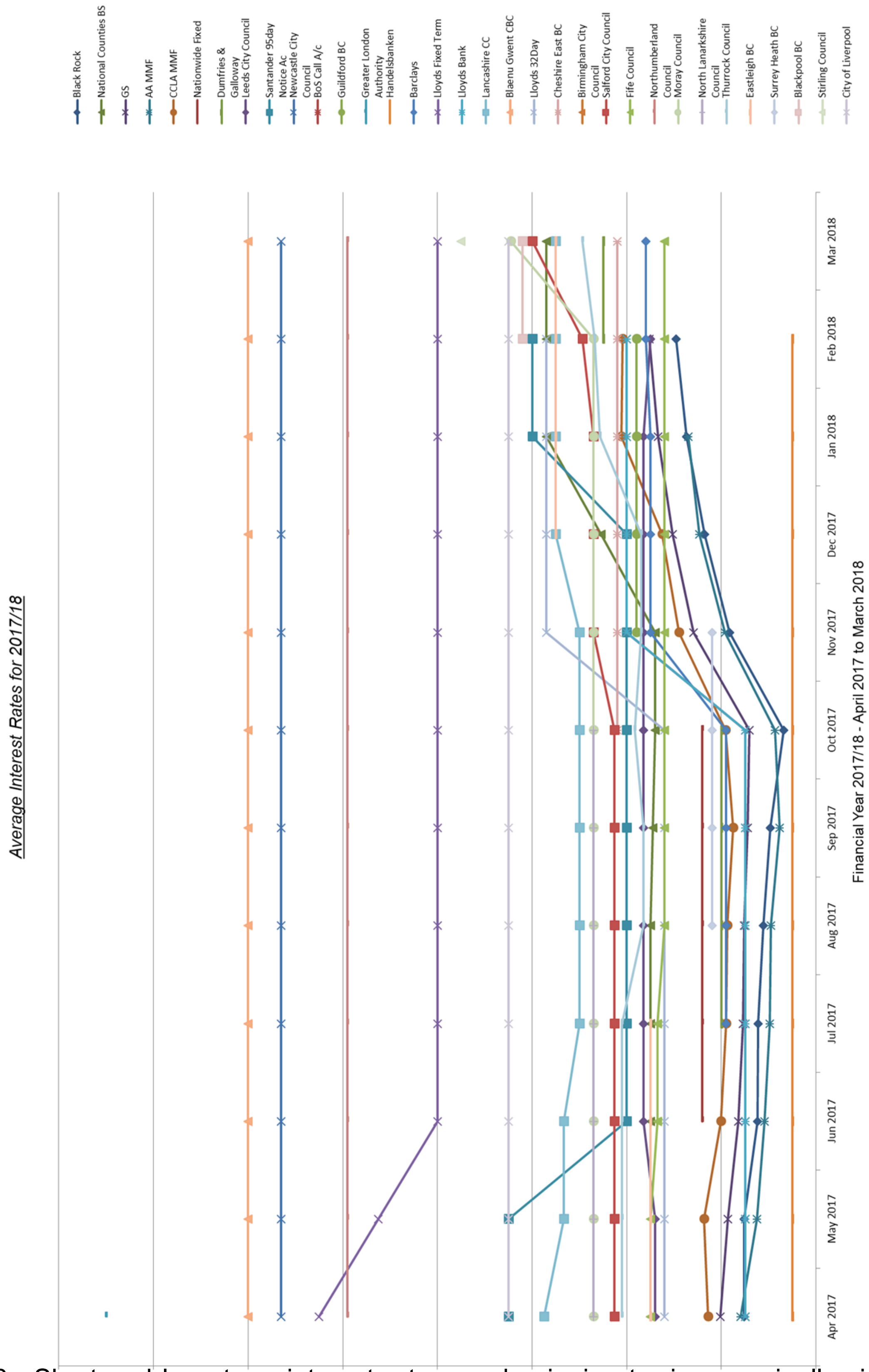


6.4 The counterparties that the council currently use all meet the criteria set out in the Treasury Management Strategy Statement 2017/18 and are monitored by the Treasury Management Advisors. A detailed list of the counterparties used and amounts currently invested can be seen in Appendix A.

6.5 In February 2018, the treasury management advisors circulated an update advising not to lend to Northamptonshire County Council in light of the S114 notice issued by them. A copy of this update is shown in Appendix B.

6.6 The average rate of return on the council'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% and the average 7 day London Interbank Offered Rate (LIBOR) rate at the end of February 2018 was 0.49%. This shows that we are achieving a good rate of return against benchmark.

6.7 Paragraph 6.6 above explains that the current average rate of return of 0.48% has been achieved and how interest rates are moving. The graph below shows the average rate per counterparty to illustrate the range and movement of interest rates.



6.8 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.

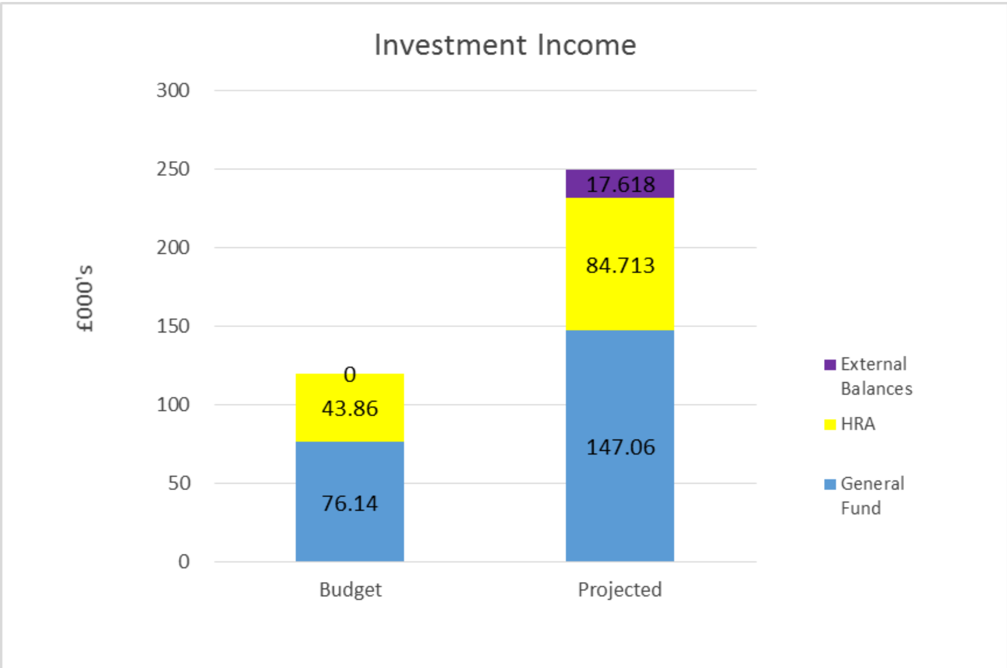
6.9 There were 108 investments made during the period, totalling £152.8m and 88 maturities totalling £139.6m. The average balance held for the period was £49.5m.

6.10 Of the investments and maturities in paragraph 6.8, 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.

6.11 The council 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.

6.12 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.

6.13 The budgeted and projected levels of investment income is represented in the table below.



6.14 The council sets maximum investment limits per counterparty in its Investment Policy and Strategy. These limits are specific to the council 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 council's current bank account is included in these limits.

6.15 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.

6.16 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.

7.0 SUMMARY

7.1 For the period April to February 2018, the council can confirm that it has complied with its Prudential Indicators, which were approved as part of the council's Treasury Management Strategy Statement.

7.2 The council can confirm that during the period April to February 2018, other than the breach of prescribed limit detailed in paragraph 6.16, it has complied with its Treasury Management Practices.

Appendix A

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.

Appendix B

CREDIT UPDATE 365

Arlingclose temporarily advises against lending to Northamptonshire County Council

Arlingclose's Advice:
Arlingclose advises against new lending to **Northamptonshire County Council** for treasury management purposes while their legal power to enter into new agreements is unclear. There is no need to recall existing loans.

On Friday 2nd February 2018, the Chief Financial Officer of Northamptonshire County Council issued a notice under section 114(3) of the *Local Government Finance Act 1988* in light of the severe financial challenge facing the authority and the significant risk that it will not be in a position to deliver a balanced budget by the end of the year.

This report will be considered by a meeting of the County Council on 22nd February. In the meantime, section 115(6) of the Act prevents the Council from entering into new agreements which may involve the incurring of expenditure by the authority in most circumstances. This is likely to include loans that would incur interest expenditure.

We are mindful of the protections afforded to lenders by sections 6 and 13 of the *Local Government Act 2003*, and the ability of the Chief Finance Officer to authorise new agreements in certain circumstances. But given the unusual legal position, **Arlingclose advises clients against lending to Northamptonshire County Council** for treasury management purposes while the prohibition on entering into new agreements is in force. We expect to revise this advice after the forthcoming Council meeting.

There is no impact on loans made before the section 114 notice was issued, and we expect these to be repaid in full on maturity. This advice does not affect any other local authority in Northamptonshire.

We are aware that there will be much sympathy among other local authorities for the Council's situation. Should any client be considering lending to Northamptonshire County Council to support local public services, then this would not be a treasury management loan and is therefore outside the scope of our advice. We would however recommend that legal advice is sought beforehand.