NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 9 OCTOBER 2019

Title of report	**TREASURY MANAGEMENT ACTIVITY REPORT APRIL 2019 TO AUGUST 2019**
Contacts	Councillor Nick Rushton 01530 412059 nicholas.rushton@nwleicestershire.gov.uk Head of Finance / S151 Officer 01530 454707 tracy.bingham@nwleicestershire.gov.uk
Purpose of report	To inform Members of the council's Treasury Management activity undertaken during the period April 2019 to August 2019.
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 council. Could impact on 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 This relates to the new ways in which Councils are being asked to deliver their services
Consultees	None
Background papers	Treasury Management Strategy Statement 2019/20 – Council 26 February 2019
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 As a minimum, the code requires that the council reports on the performance of the Treasury Management function at least twice yearly (mid-year and at year end). This is the first of three in-year reports to be presented in 2019/20, 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 which includes the Borrowing Strategy; Debt Rescheduling Strategy; Annual Investment Strategy; Apportionment of Interest Strategy; Prudential Indicators and Annual Minimum Revenue Provision was approved by Council on 26 February 2019.

1.4 Investing or borrowing activities expose the council to financial risks including the loss of invested funds and revenue effects 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 UK ECONOMY AND OTHER FACTORS

2.1 Economic and interest rate forecasts are provided on a regular basis by our treasury advisors (Arlingclose). The summary below is based on the Monetary Policy Committee meeting which was held in September 2019.

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 18 September 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion. Since the MPC's previous meeting, the trade war between the United States and China has intensified, and the outlook for global growth has weakened. Monetary policy has been loosened in many major economies. Shifting expectations about the potential timing and nature of Brexit have continued to generate heightened volatility in UK asset prices, in particular the sterling exchange rate has risen by over 3½%.

Brexit-related developments are making UK economic data more volatile, with GDP falling by 0.2% in 2019 Q2 and now expected to rise by 0.2% in Q3. The Committee judges that underlying growth has slowed, but remains slightly positive, and that a degree of excess supply appears to have opened up within companies. Brexit uncertainties have continued to weigh on business investment, although consumption growth has remained resilient, supported by continued growth in real household income. The weaker global backdrop is weighing on exports. The Government has announced a significant increase in departmental spending for 2020-21, which could raise GDP by around 0.4% over the MPC's forecast period, all else equal.

CPI inflation fell to 1.7% in August, from 2.1% in July, and is expected to remain slightly below the 2% target in the near term. The labour market appears to remain tight, with the unemployment rate having been just under 4% since the beginning of this year. Annual pay growth has strengthened further to the highest rate in over a decade. Unit wage cost growth has also risen, to a level above that consistent with meeting the inflation target in the medium term. The labour market does not appear to be tightening further, however, with official and survey measures of employment growth softening.

For most of the period following the EU referendum, the degree of slack in the UK economy has been falling and global growth has been relatively strong. Recently, however, entrenched Brexit uncertainties and slower global growth have led to the re-emergence of a margin of excess supply. Increased uncertainty about the nature of EU withdrawal means that the economy could follow a wide range of paths over coming years. The appropriate response of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the sterling exchange rate.
It is possible that political events could lead to a further period of entrenched uncertainty about the nature of, and the transition to, the United Kingdom's eventual future trading relationship with the European Union. The longer those uncertainties persist, particularly in an environment of weaker global growth, the more likely it is that demand growth will remain below potential, increasing excess supply. In such an eventuality, domestically generated inflationary pressures would be reduced.

In the event of a no-deal Brexit, the exchange rate would probably fall, CPI inflation rise and GDP growth slow. The Committee's interest rate decisions would need to balance the upward pressure on inflation, from the likely fall in sterling and any reduction in supply capacity, with the downward pressure from any reduction in demand. In this eventuality, the monetary policy response would not be automatic and could be in either direction.

In the event of greater clarity that the economy is on a path to a smooth Brexit, and assuming some recovery in global growth, a significant margin of excess demand is likely to build in the medium term. Were that to occur, the Committee judges that increases in interest rates, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target.

In all circumstances, the Committee will set monetary policy appropriately to achieve the 2% inflation target. The MPC judges at this meeting that the existing stance of monetary policy is appropriate.

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 01/04/19 £m	**Net Movement £m**	**Balance at 02/09/2019 £m**

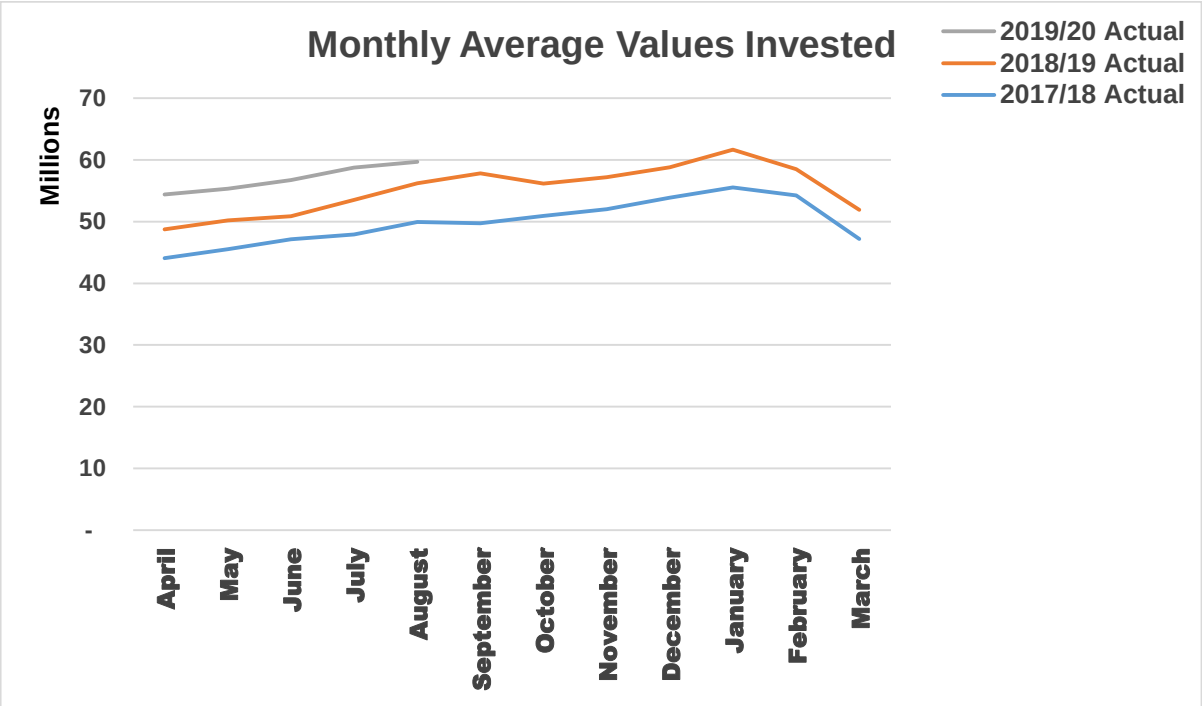
Long term borrowing - HRA	£72.8	£0	£72.8
Long term borrowing – General Fund	£8.4	£0	£8.4
Other long-term liabilities - HBBC	£0.1	£0	£0.1
Total Borrowing	**£81.3**	**£0**	**£81.3**
Long term investments – greater than 1 year	£3.0	£0	£3.0
Short term investments – less than 1 year	£39.6	£0.6	£40.2
Pooled funds and Money Market Funds	£5.8	£8.9	£14.7
Total Investments	**£48.4**	**£9.5**	**£57.9**
Net debt	**£32.9**	**(£9.5)**	**£23.4**

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 2019 to August 2019, the capacity for investment has increased by £9.5m. The volatility of balances is normal throughout the year and a number of factors contribute to this during the financial year:

- 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;
- 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.

3.4 The average value of investments per month are represented in the graph below, illustrating the cash flow trends throughout the year. The current pattern is in line with previous years. The council's cash flow projections are monitored and revised daily as part of the treasury management process.



4.0 BORROWING ACTIVITY

4.1 The council's Borrowing Strategy 2019/20, 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 updated borrowing strategy for 2019/20 shows that the council does not need to borrow in 2019/20. Borrowing may be required by 2020/21, and further assessments are being undertaken.

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 currently 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 2019/20 is £1.128m.

4.5 During the reporting period of April 2019 to August 2019, the council's cash flow remained positive and did not require any temporary loans.

5.0 DEBT RESCHEDULING ACTIVITY

5.1 The council's Debt Rescheduling Strategy 2019/20 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.

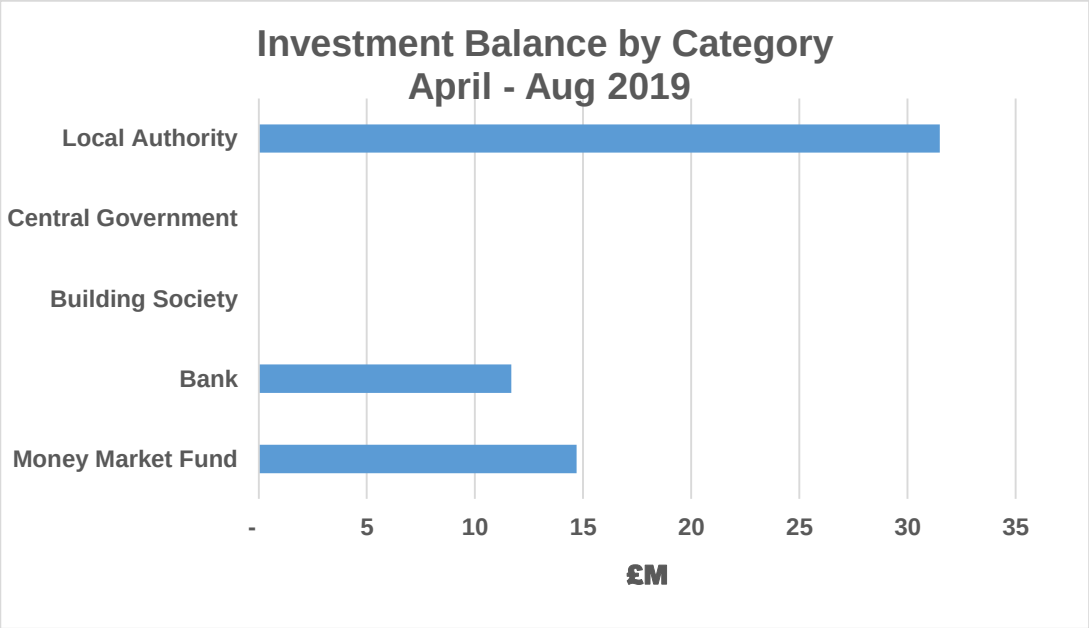
6.0 INVESTMENT ACTIVITY

6.1 The main objective of the council's Investment Policy and Strategy 2019/20 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 graph below shows the type 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 2019/20 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 The average rate of return on the council's investment balances during the period was 0.86% for comparison purposes, the benchmark return at the end of August 2019 for the average 7-day London Interbank Bid Rate (LIBID) was 0.56% and the average 7 day London Interbank Offered Rate (LIBOR) rate was 0.68%. This shows that we are achieving a good rate of return against the benchmark.

6.6 The council's Treasury Management Advisors produce investment benchmarking quarterly. The latest available benchmarking data is at the 30 June 2019. The rate of return achieved by the council is compared to 54 other district councils and the average of 134 local authorities, the yield is itemised by types of investments. The current internal investment return for the council of 0.86% is comparable to 0.88% achieved by 54 district councils and 0.85% achieved by the average of 134 of the local councils. The full benchmarking summary can be seen in **Appendix B.**

6.7 Short and long term interest rates have not changed significantly and base rate by the Bank of England remains at 0.75%. Our treasury advisors are forecasting that rates will stay at 0.75% over the projected period, and suggest that base rate will remain low over the medium term due to the increase in magnitude of political and economic risks facing the UK economy.

6.8 There were 60 investments made during the period totalling £104.2m and 61 maturities totalling £94.8m. The average balance held for the period was £57.4m.

6.9 The fixed term investments for the period were for amounts ranging between £1m and £6m.

6.10 The budget for investment income for 2019/2020 for General Fund and Housing Revenue Account is £297,000. Investment activity from April to August 2019 has generated £339,016 in interest for the financial year. The current outturn forecast is estimated to be £362,060.

6.11 Of this total forecast, 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 £73,447 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.

6.12 The estimated remaining balance of £288,708 will be budgeted to be apportioned between General Fund and the Housing Revenue Account based on the estimated cash flow position. The current budget and forecast is shown in the table below:

	Budget 2019/20	Projected
General Fund	£188,450	£183,190
Housing Revenue Account	£108,550	£105,520
Sub-Total	**£297,000**	**£288,708**
External Balances		£73,447
Total	**£297,000**	**£362,060**

7.0 SUMMARY

7.1 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 2019 to August 2019. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

7.2 For the reporting period April to August 2019, the council can confirm that it has complied with its Prudential Indicators, which were approved by Council as part of the Treasury Management Strategy Statement.

7.3 For the reporting period, the council can confirm that it has complied with its Treasury Management practices.

Appendix A

LIST OF COUNTERPARTIES, CURRENT INVESTMENT AND RATE

Counterparty	**Length**	**Amount**	**Rate**
Goldman Sachs MMF	Overnight	2,600,000.00	0.69%
Blackrock MMF	Overnight	3,300,000.00	0.63%
Aberdeen Asset Management MMF	Overnight	4,800,000.00	0.77%
Federated Investors MMF	Overnight	3,000,000.00	0.76%
CCLA MMF	Overnight	1,000,000.00	0.75%
Lloyds Main	Overnight	144,877.83	0.65%
Bank of Scotland	Overnight	1,294,970.00	0.65%
Lloyds Notice Account	32 days	250,000.00	0.95%
Santander Notice Account	95 days	1,495,000.00	0.85%
Northumberland County Council	1096 days	3,000,000.00	0.99%
Eastleigh Borough Council	315 days	2,000,000.00	0.90%
Thurrock Council	184 days	1,000,000.00	0.95%
Highland Council	269 days	2,000,000.00	1.05%
Slough Borough Council	306 days	2,000,000.00	1.00%
Close Brothers Ltd	185 days	1,000,000.00	1.10%
Thurrock Council	365 days	1,000,000.00	1.00%
North Lincolnshire Council	183 days	3,000,000.00	0.85%
Surrey Heath Borough Council	184 days	1,000,000.00	0.85%
Lloyds Bank Fixed Term Deposit	184 days	1,500,000.00	1.00%
West Dunbartonshire Council	267 days	5,000,000.00	0.90%
Conwy County Borough Council	183 days	2,000,000.00	0.80%
Lancashire County Council	183 days	3,000,000.00	0.80%
Monmouthshire County Council - Caldicot	192 days	2,500,000.00	0.80%
Barclays Treasury Direct Facility	184 days	1,500,000.00	0.70%
Nationwide Building Society	184 days	1,500,000.00	0.81%
Coventry Building Society	186 days	1,500,000.00	0.85%
Surrey Heath Borough Council	186 days	2,000,000.00	0.74%
Conwy County Borough Council	184 days	2,000,000.00	0.75%
Leeds Building Society	93 days	1,500,000.00	0.71%
Total		**57,884,847.83**	

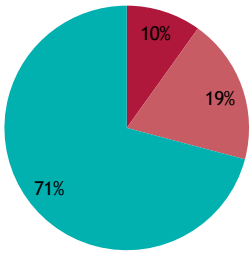
Appendix B

arlingclose

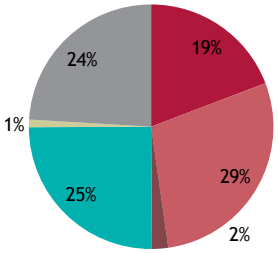
Investment Benchmarking
30 June 2019

	NW Leicestershire	54 English Non-Met Districts Average	134 LAs Average
Internal Investments	£57.2m	£28.4m	£63.9m
Cash Plus & Short Bond Funds	£0.0m	£1.2m	£2.0m
Strategic Pooled Funds	£0.0m	£10.4m	£10.5m
TOTAL INVESTMENTS	**£57.2m**	**£39.9m**	**£76.4m**
Security			
Average Credit Score	4.00	4.28	4.31
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.85	4.25	4.20
Average Credit Rating (time-weighted)	AA-	AA-	AA-
Number of Counterparties / Funds	24	14	14
Proportion Exposed to Bail-in	29%	63%	62%
Liquidity			
Proportion Available within 7 days	22%	37%	44%
Proportion Available within 100 days	55%	57%	66%
Average Days to Maturity	105	81	28
Market Risks			
Average Days to Next Rate Reset	115	90	61
Strategic Fund Volatility	-	2.1%	2.7%
Yield			
Internal Investment Return	0.87%	0.88%	0.85%
Cash Plus & Short Bond Fund - Total Return	-	1.22%	1.19%
Strategic Funds - Total Return	-	4.00%	3.95%
Total Investments - Total Return	**0.87%**	**1.75%**	**1.37%**
All External Funds - Income Only Return	-	3.86%	3.78%
All External Funds - Capital Gains/Losses	-	-0.29%	-0.33%
Total Investments - Income Only Return	**0.87%**	**1.74%**	**1.41%**

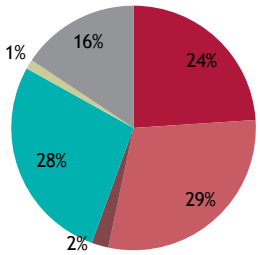
NW Leicestershire



English Non-Met Districts



All Arlingclose Clients



- Bank Unsecured
- Fund Unsecured
- Bank Secured
- Government
- Corporate/RP
- Strategic Funds

Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.