NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 4 DECEMBER 2019

Title of Report	**TREASURY MANAGEMENT ACTIVITY REPORT APRIL 2019 TO OCTOBER 2019**	
Presented by	Anna Wright Finance Team Manager and Deputy S151 Officer	
Background Papers	Treasury Management Strategy Statement 2019/20 Council 26 February 2019	**Public Report:** Yes
Purpose of Report	To inform Members of the council's Treasury Management activity undertaken during the period April 2019 – October 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 second 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. The first report covered the reporting period April to August 2019 and was reported to this Committee on 09 October 2019.

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 on 7 November 2019.

In November 2019 the Monetary Policy Committee (MPC) kept Bank Rate at 0.75%. Inflation projections are now based on the assumption of an orderly transition to a deep free trade agreement between the United Kingdom and the European Union.
Looking through Brexit-related volatility, underlying UK GDP growth has slowed materially this year and a small margin of excess supply has opened up. That slowdown reflects weaker global growth, driven by trade protectionism, and the domestic impact of Brexit-related uncertainties. CPI inflation remained below target at 1.7% in September and is expected to decline to 1.25% in the near term, due to energy and water prices declining. The unemployment rate remained constant in the three months to August, at 3.8%. Annual pay growth has been relatively strong in recent months. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction to ensure a sustainable return of inflation to the 2% target.

MPC's key judgements: Global GDP growth is projected to remain slow in the first part of the forecast period, partly reflecting the impact of trade protectionism, before rising gradually towards potential rates. Supply growth is subdued. Uncertainty is reduced by the Withdrawal Agreement — providing some support to UK demand growth. CPI inflation declines further below 2% in the near term given lower utilities prices, before rising slightly above the target by the end of the forecast owing to building domestic price pressures.

Global economic and financial market developments: Underlying UK GDP growth has slowed materially over the past year and been volatile because of Brexit-related factors, underlying activity has weakened. Quarterly growth over 2019 as a whole is expected to have averaged only 0.2%, roughly half the average in the previous three years and below the MPC's assessment of the economy's potential rate of growth.
Subdued underlying UK GDP growth partly reflects the impact of weaker global growth. The world economy has experienced a marked, broad-based slowdown, and is now expanding at its slowest pace since 2009. The principal drivers of the slowdown are the rise in trade protectionism, the impact of the past tightening in global financial conditions and domestic weakness in some large emerging market economies. Weak world activity has reduced demand for UK exports. Greater protectionism has increased global uncertainty, which is dampening investment spending in many countries, including the UK.

Demand and output: UK growth has been volatile this year, largely because of Brexit-related factors. GDP increased by 0.6% in Q1, with activity boosted by stock building in the UK and elsewhere in the EU ahead of the original March Brexit deadline. Abstracting from temporary factors, underlying growth has slowed. Surveys suggest that growth will remain weak in Q4. The slowdown in UK growth can be partly explained by Brexit and partly by the weakening world economy. Investment by businesses has been particularly affected, falling in five of the past six quarters.

The labour market and supply: While employment growth has softened, the labour market remains tight. Pay growth has risen to its highest rate since 2008 and productivity growth has remained weak, which has led to unit labour cost growth picking up and raising domestic inflationary pressures.

Outlook for inflation: CPI inflation is projected to decline in the near term reflecting the impact of lower regulated energy and utilities prices. Over the coming quarters, inflation will be affected by developments in a number of regulated prices. The price cap affecting household gas and electricity bills has fallen, which will reduce the contribution of energy prices to inflation, as will the fall in sterling oil prices over the past year. Water bills are also

projected to fall in April 2020 in line with the draft determination of the regulator, Ofwat. CPI inflation is expected to fall to an average of 1.2% in Q2 2020 as a result. Further out along the time horizon inflation rises, supported by building excess demand, as those temporary effects begin to fade towards the end of 2020. Wage growth is projected to be around 3.75% over the second half of the forecast period, supported by low unemployment. Taken together with weak productivity growth means unit labour cost growth is robust. CPI inflation is projected to rise to 2.0% in the second year of the MPC's forecast, and 2.2% in the third year.

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.

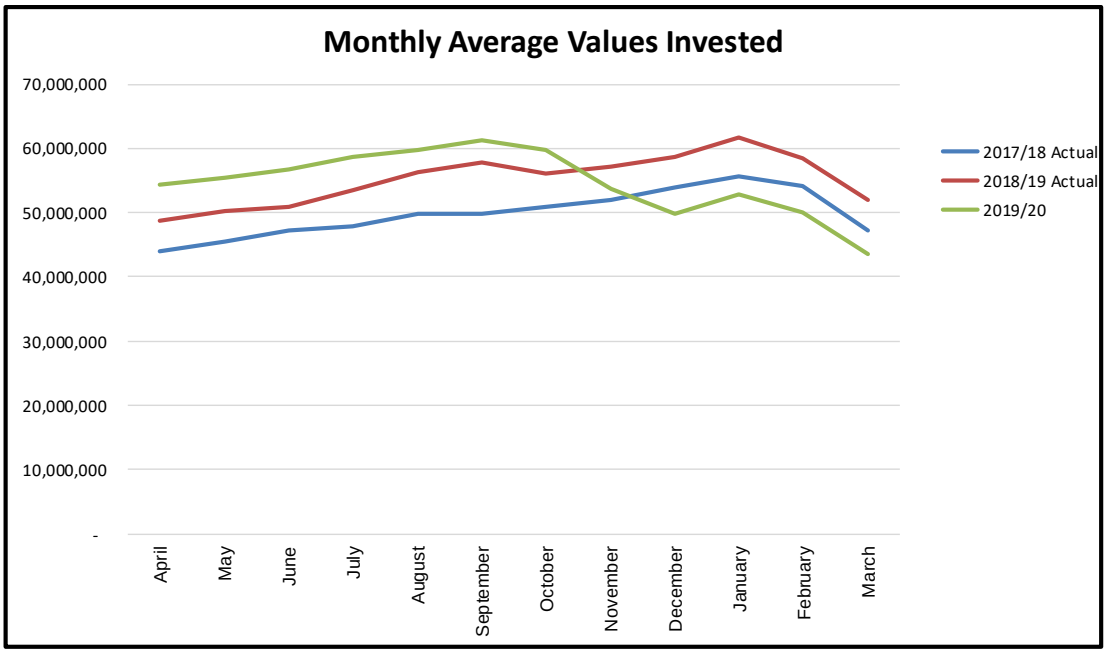
	Balance at 01/04/19 £m	Net Movement £m	Balance at 03/11/2019 £m
Long term borrowing - HRA	£72.8	£0.6	£72.2
Long term borrowing – General Fund	£8.4	£0	£8.4
Other long-term liabilities - HBBC	£0.1	£0	£0.1
Total Borrowing	**£81.3**	**£0**	**£80.7**
Long term investments – greater than 1 year	£3.0	£0	£3.0
Short term investments – less than 1 year	£39.6	£0.2	£39.8
Pooled funds and Money Market Funds	£5.8	£12.7	£18.5
Total Investments	**£48.4**	**£13.5**	**£61.3**
Net debt	**£32.9**	**(£13.5)**	**£19.4**

3.2 As previously reported the investment position will vary 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 October 2019, the capacity for investment has increased by £13.5m. 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 can be 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 October 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.

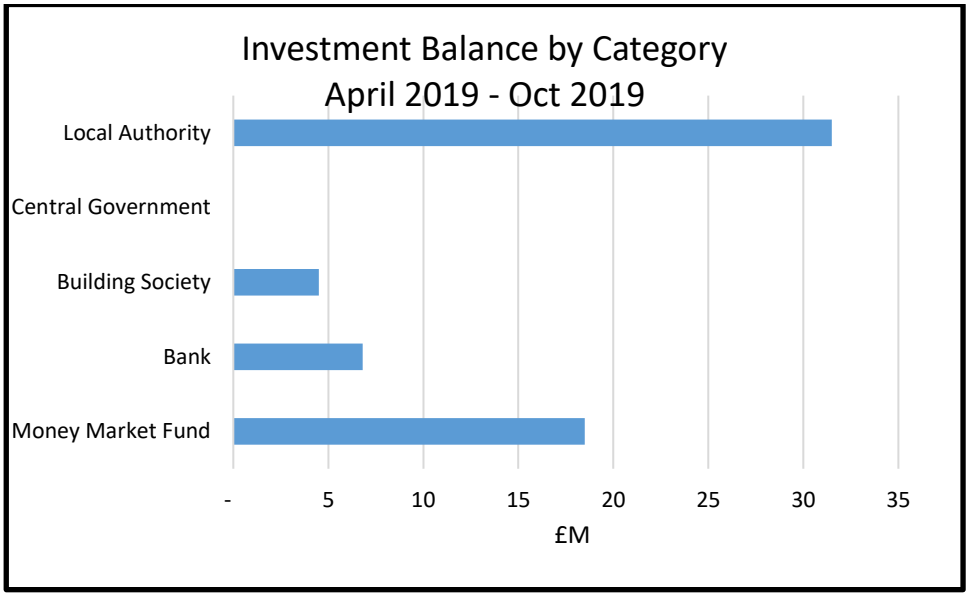
6.0 INVESTMENT ACTIVITY

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 October 2019 for the average 7-day London Interbank Bid Rate (LIBID) was 0.57% and the average 7 day London

Interbank Offered Rate (LIBOR) rate was 0.69%. 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 September 2019. The total rate of return achieved by the council takes into account the full year effect to date and is compared to 53 other district councils and the average of 139 local authorities, the yield is itemised by types of investments. The current internal investment return for the council of 0.80% is comparable to 0.86% achieved by 53 district councils and 0.83% 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 have maintained the Base Rate forecast at 0.75% for the foreseeable future, although there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy. Arlingclose judges that the risks are significantly weighted to the downside.

6.8 There were 80 investments made during the period totalling £139.89m and 79 maturities totalling £127.3m. The average balance held for the period was £55.1m.

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 October 2019 has generated £392,927 in interest for the financial year. The current outturn forecast is estimated to be £448,634

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 £75,369 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 Estimated interest for the year of £373,265 will 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	£236,841
Housing Revenue Account	£108,550	£136,423
Sub-Total	**£297,000**	**£373,265**
External Balances		£75,369
Total	**£297,000**	**£448,634**

6.13 During the reporting period there was a breach in which the council went into an unapproved overdraft position. The council had a £1,000,000.00 deposit with Close Brothers at a rate of 1.1% for the period of 29 March 2019 to 30 September 2019. This trade was agreed through the broker on 28 March 2019. The funds were not credited in the Council's current bank account (as stated on the trade confirmation) on the 30 September 2019, or by 1 October

2019. The £1,000,000 deposit plus interest earned of £5,575.34 was received by the council on the 2 October 2019. This resulted in the council's bank account being overdrawn and bank charges incurred. The reason for the breach was that deal was repaid to another bank account. The overdraft charges and loss of 2 days interest has been fully reimbursed by Close Brothers.

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 October 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 October 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 (with the exception of section 6.13), the council can confirm that it has complied with its Treasury Management practices.

Appendix A

LIST OF COUNTERPARTIES, CURRENT INVESTMENT AND RATE

Counterparty	Length	From	To	Amount	Rate
Goldman Sachs MMF	Overnight	18/11/2019	19/11/2019	4,600,000.00	0.66%
Blackrock MMF	Overnight	18/11/2019	19/11/2019	5,400,000.00	0.61%
Aberdeen Asset Management MMF	Overnight	18/11/2019	19/11/2019	4,500,000.00	0.25%
Federated Investors MMF	Overnight	18/11/2019	19/11/2019	3,000,000.00	0.73%
CCLA MMF	Overnight	18/11/2019	19/11/2019	1,000,000.00	0.71%
Lloyds Main	Overnight	18/11/2019	19/11/2019	475,869.21	0.65%
Bank of Scotland	Overnight	18/11/2019	19/11/2019	1,595,000.00	0.65%
Lloyds Notice Account	32 days	18/11/2019	20/12/2019	250,000.01	0.95%
Santander Notice Account	95 days	18/11/2019	21/02/2020	1,495,000.00	0.85%
Northumberland County Council	1096 days	03/04/2017	03/04/2020	3,000,000.00	0.99%
Highland Council	269 days	26/02/2019	22/11/2019	2,000,000.00	1.05%
Slough Borough Council	306 days	29/03/2019	29/01/2020	2,000,000.00	1.00%
Thurrock Council	365 days	02/04/2019	01/04/2020	1,000,000.00	1.00%
Surrey Heath Borough Council	184 days	15/05/2019	15/11/2019	1,000,000.00	0.85%
Lloyds Bank Fixed Term Deposit	184 days	20/05/2019	20/11/2019	1,500,000.00	1.00%
West Dunbartonshire Council	267 days	28/05/2019	19/02/2020	5,000,000.00	0.90%
Conwy County Borough Council	183 days	03/06/2019	03/12/2019	2,000,000.00	0.80%
Lancashire County Council	183 days	10/06/2019	10/12/2019	3,000,000.00	0.80%
Monmouthshire County Council - Caldicot	192 days	28/06/2019	06/01/2020	2,500,000.00	0.80%
Barclays Treasury Direct Facility	184 days	15/07/2019	15/01/2020	1,500,000.00	0.70%
Nationwide Building Society	184 days	17/07/2019	17/01/2020	1,500,000.00	0.81%
Coventry Building Society	186 days	08/08/2019	10/02/2020	1,500,000.00	0.85%
Kingston-upon-Hull City Council	182 days	06/09/2019	06/03/2020	3,000,000.00	0.75%
Surrey Heath Borough Council	186 days	15/08/2019	17/02/2020	2,000,000.00	0.74%
Conwy County Borough Council	184 days	28/08/2019	28/02/2020	2,000,000.00	0.75%
Leeds Building Society	93 days	28/08/2019	29/11/2019	1,500,000.00	0.71%
Guilford Borough Council	91 days	16/09/2019	16/12/2019	3,000,000.00	0.68%
Total				**61,315,869.22**	

Appendix B

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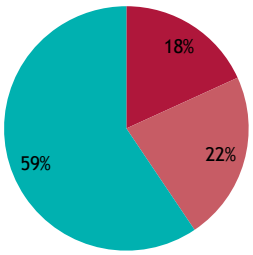
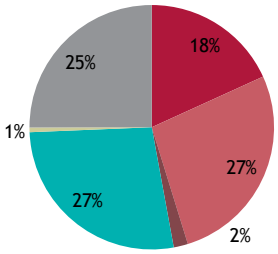
Investment Benchmarking
30 September 2019

	NW Leicestershire	53 English Non-Met Districts Average	139 LAs Average
Internal Investments	£58.1m	£30.2m	£65.2m
Cash Plus & Short Bond Funds	£0.0m	£1.7m	£1.8m
Strategic Pooled Funds	£0.0m	£10.9m	£11.0m
TOTAL INVESTMENTS	**£58.1m**	**£42.8m**	**£78.1m**
Security			
Average Credit Score	4.18	4.26	4.28
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	4.07	4.22	4.19
Average Credit Rating (time-weighted)	AA-	AA-	AA-
Number of Counterparties / Funds	24	15	14
Proportion Exposed to Bail-in	41%	61%	62%
Liquidity			
Proportion Available within 7 days	25%	33%	42%
Proportion Available within 100 days	61%	55%	68%
Average Days to Maturity	80	80	28
Market Risks			
Average Days to Next Rate Reset	90	91	64
Strategic Fund Volatility	-	2.0%	2.8%
Yield			
Internal Investment Return	0.80%	0.86%	0.83%
Cash Plus & Short Bond Fund - Total Return	-	1.30%	1.26%
Strategic Funds - Total Return	-	3.58%	3.32%
Total Investments - Total Return	**0.80%**	**1.58%**	**1.22%**
All External Funds - Income Only Return	-	3.71%	3.68%
All External Funds - Capital Gains/Losses	-	-0.55%	-0.79%
Total Investments - Income Only Return	**0.80%**	**1.68%**	**1.34%**

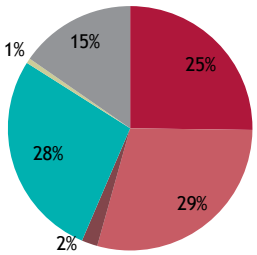
NW Leicestershire



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.

Policies and other considerations, as appropriate	
Council Priorities:	Value for Money
Policy Considerations:	Treasury Management Strategy Statement 2019/20 Council 26 February 2019
Safeguarding:	Not applicable
Equalities/Diversity:	Not applicable
Customer Impact:	Not applicable
Economic and Social Impact:	Not applicable
Environment and Climate Change:	Not applicable
Consultation/Community Engagement:	Not applicable
Risks:	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.
Officer Contact	Anna Wright Finance Team Manager and Deputy S151 Officer anna.wright@nwleicestershire.gov.uk 01530 454492