

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 24 SEPTEMBER 2014

Title of report	TREASURY MANAGEMENT STEWARDSHIP REPORT 2013/14
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Purpose of report	To inform Members of the Authority's Treasury Management activity undertaken during the financial year 2013/14.
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 Assessment	Not applicable
Human Rights	Not applicable
Transformational Government	Not applicable
Consultees	None

Background papers	<p>Treasury Management Strategy Statement 2013/14 and 2014/15 – Council Meeting 26 February 2013 (presented as part of the Budget and Council Tax 2013/14 Report) <u>Budget and Council Tax 2014/15 Report</u> http://minutes-1.nwleics.gov.uk/CeListDocuments.aspx?Committeeld=129&MeetingId=431&DF=26%2f02%2f2013&Ver=2</p> <p>Report to Audit and Governance Committee – 25 September 2013 <u>Treasury Management Activity Report - April to August 2013</u> http://minutes-1.nwleics.gov.uk/CeListDocuments.aspx?Committeeld=125&MeetingId=265&DF=25%2f09%2f2013&Ver=2</p> <p>Report to Audit and Governance Committee – 11 December 2013 <u>Treasury Management Activity Report - April to November 2013</u> http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=125&MId=148&Ver=4</p> <p>Report to Audit and Governance Committee – 26 March 2014 <u>Treasury Management Activity Report – April 2013 to February 2014</u> http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=125&MId=149&Ver=4</p>
Recommendations	THAT MEMBERS APPROVE THIS REPORT.

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 This report fulfils the Authority's legal obligation under the Local Government Act 2003, to have regard to both the CIPFA Code and the CLG Investment Guidance.
- 1.3 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."
- 1.4 The Authority's current Treasury Management Strategy Statement, including the Borrowing Strategy, Debt rescheduling Strategy, Annual Investment Strategy, Prudential Indicators and Annual Minimum Revenue Position Statement for 2013-14 were approved by Council on 26 February 2013.

1.5 The Treasury Management Stewardship Report is supplemented by three in-year reports to the Audit and Governance Committee on 25 September 2013, 11 December 2013 and 26 March 2014.

2.0 THE U.K. ECONOMY AND EVENTS

- The UK economy showed stronger than anticipated activity and growth. GDP in Q4 2014 showed year-on-year growth of 2.7%. Much of the improvement was due to the service sector and an increase in household consumption buoyed by the pick-up in housing transactions. This was driven by higher consumer confidence, greater availability of credit and strengthening house prices.
- Business Investment had yet to recover convincingly and the recovery was not accompanied by meaningful productivity growth.
- CPI fell from 2.8% in March 2013 to 1.7% in February 2014, the lowest rate since October 2009. This was helped largely by the easing commodity prices and discounting by retailers, reducing the pressure on the Bank to raise rates.
- Unemployment fell from 7.8% in March 2013 to 7.2% in January 2014 but this hid a stubbornly high level of underemployment. Real wage growth (after inflation) remained negative.
- The Bank of England implied that when official interest rates were raised, the increases would be gradual – this helped underpin the ‘low for longer’ interest rate outlook, despite the momentum in the economy.

3.0 THE AUTHORITY’S TREASURY POSITION.

3.1 The Authority’s gross / net debt and investment positions are as follows:

DEBT	Balance at 01/4/2013 £m	%	Maturing loans £m	Premature redemptions £m	New Borrowing £m	Balance at 31/03/2014 £m	%
Long-term fixed rate	£88.510m	100	£0.987m	£0.000m	£0.000m	£87.523m	100
Long-term variable rate	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	0
Temporary Borrowing	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	0
Total borrowing	£88.510m	100	£0.987m	£0.000m	£0.000m	£87.523m	100
Other long-term liabilities	£0.149m		£0.013m	£0.000m	£0.000m	£0.136m	
TOTAL EXTERNAL DEBT	£88.659m		£1.000m	£0.000m	£0.000m	£87.659m	
INVESTMENTS	Balance at 01/4/2013 £m	%	Maturities £m	Sales £m	New Investments £m	Balance at 31/03/2014 £m	%
Internally Managed	£14.053m	100	£143.926m	£0.000m	£150.601m	£20.728m	100
Investments with maturities up to 1 year,	£14.053m	100	£143.926m	£0.000m	£150.601m	£20.728m	100
Investments with maturities in excess of 1 year	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	0
Externally Managed Investments	£0.000m	0	£0.000m	£0.000m	£0.000m	£0.000m	0
TOTAL INVESTMENTS	£14.053m		£143.926m	£0.000m	£150.601m	£20.728m	
NET DEBT	£74.606m					£66.931m	

- 3.2 Two PWLB loans, taken out as part of the self-financing system of Council Housing in 2011/12, were on an annuity basis and have repayment of principal included. This is shown in the table in the column 'Maturing Loans'.
- 3.3 In 2013/2014, the capacity for investment has increased by £6.7m. 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 reflected in the Authority's cash flow projections. This is monitored and revised daily.
- 3.4 The increased capacity for investment is: in part due to the allocation of the Decent Homes Grant (£7.3m) which is offset by increased expenditure on the Decent Homes Improvement Programme; sales of houses under the 'Right to Buy' scheme and other Housing property in 2013/14 (£2m) and the timing of income and expenditure.

4.0 BORROWING ACTIVITY.

- 4.1 The Authority's Borrowing Strategy 2013/14, approved by Council on 26 February 2013, 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.
- 4.2 No existing loans requiring replacement matured during 2013/14.
- 4.3 The Authority did not undertake any new long-term borrowing during the year and interest payments totalling £2.94m were made in respect of existing debt.
- 4.4 The Authority's cash flow remained positive during the period. The Authority did not require any temporary loans during the period.
- 4.5 The Authority has approximately £3.4m of internal debt at 31 March 2014 as this is currently judged to be the most cost effective means of funding the capital programme.
- 4.6 The Minimum Revenue Provision (MRP) charge that was made to the revenue account for 2013/14 was £1.6m and includes both Housing (£0.987m) and General Fund (£0.617m). The MRP is intended to ensure that the capital financing debt is paid off over the longer term.

5.0 DEBT RESCHEDULING ACTIVITY.

- 5.1 The Authority's Debt Rescheduling Strategy 2013/14, which was approved by Council on 26 February 2013, 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 Authority has undertaken no debt rescheduling activity during the period.

5.3 The Authority's portfolio of fourteen loans - eight PWLB loans and four market loans - will continue to be monitored for debt rescheduling opportunities that comply with the Authority's Policy and rationale.

6.0 INVESTMENT ACTIVITY

6.1 The Authority's Investment Policy and Strategy 2013/14, which was approved by Council on 26 February 2013, established that the major policy objective is to invest its surplus funds prudently.

6.2 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.

6.3 The counterparties that the Authority currently utilise all meet the criteria set out in the Treasury Management Strategy Statement 2013/14 and are monitored by the Authority's Treasury Management Advisors. The minimum long term rating for counterparties is A- or equivalent. The counterparties and amounts invested at 31 March 2014 are shown below:

Counterparty	£m
Goldman Sachs MMF	1.1
CCLA Investment Management Ltd MMF	0.5
HSBC	2.2
Lloyds Banking Group / Bank of Scotland	2.5
Nationwide Building Society	2.0
Santander	3.0
Close Brothers Ltd	3.0
Handelsbanken	2.5
Black Rock MMF	1.9
Staffordshire Moorlands District Council	2.0
Total Invested	20.7

6.4 The average rate of return on the Authority's investment balances during the year was 0.566%. For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) for 2013/14 was 0.35%. The average 7 day London Interbank Offered Rate (LIBOR) for 2013/14 was 0.48%. 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 2013/14.

- 6.5 The Authority budgeted to achieve £68,000 of income from its investment activity in 2013/14. The average cash balances representing the Authority's reserves, capital receipts and working balances were £20m during the year (2013/13 £14.3m). The total interest earned on investments was £111,957 (2012/13 £74,667). Of this total interest, £15,333 is applied to balances held on external income (2012/13 £7,980). This external income represents balances from S106 contributions for schemes such as Healthcare, affordable housing and recreation that have not yet been spent.
- 6.6 The remaining balance of interest (£96,623) received on investment income is budgeted to be apportioned between General Fund and the Housing Revenue Account based on an estimated cash flow position. For 2013/14, the budgeted investment income is apportioned as follows: £43,000 General Fund and £25,000 Housing Revenue Account and the over achievement of interest is apportioned on this basis. The outturn position of investment income achieved for 2013/14 is: £61,100 General Fund and £35,523 HRA.

7.0 THE AUTHORITIES' BANKER

- 7.1 Co-op Bank is currently the Authority's banker and will, until such time that a new banking arrangement is in place, continue to be used for operational and liquidity purposes. However, the Co-op has indicated that it is exiting the Local Government market and the Authority remains on high alert for signs of regulatory action occurring with the bank.
- 7.2 The Authority has put in place contingency banking arrangements with Lloyds Bank to enable the Authority to continue making and receiving payments should the Co-op cease operations.
- 7.3 In addition, with weekends the most likely time for regulatory action to occur, and with the bail-in system whereby the Authority would be an 'unsecured creditor', in order to mitigate this risk, the Authority makes every effort to keep the ledger balance in the bank account at close to zero at the close of each business day by following the Authority's existing treasury management practices. To supplement the actions already being taken, an additional secondary daily check has commenced to further mitigate the risks outlined.

8.0 SUMMARY

- 8.1 The Authority can confirm that it has complied with its Prudential Indicators for 2013/14, which were approved on 26 February 2013 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 during 2013/14. No indicators have been breached and 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 2013/14, it has complied with its Treasury Management Strategy Statement, policies and Treasury Management Practices.