

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 24 SEPTEMBER 2014

Title of Report	TREASURY MANAGEMENT ACTIVITY REPORT – APRIL TO AUGUST 2014
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Purpose of Report	To inform Members of the Authority's Treasury Management activity undertaken during the period April 2014 to August 2014.
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 CA	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 2014/15 – Council Meeting 25 February 2014 (presented as part of the Budget and Council Tax 2014/15 Report) http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&MId=160&Ver=4</p> <p>Update on HRA Budget, Housing Capital Programme 2014/15, Treasury Management Strategy Statement for 2014/15, Prudential Indicators - Council Meeting 25 March 2014 http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&MId=161&Ver=4</p> <p>Additional Costs Of the Decent Homes Improvement Programme 2014/15 and updated HRA Business Plan – Council Meeting 16 September 2014. http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&MId=1344&Ver=4</p>
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 Strategy, Prudential Indicators and Annual Minimum Revenue Position Statement for 2014-15 were approved by Council on 25 February 2014.

- 1.4 The Prudential Indicators have been updated on 04 March 2014 due to the changes to the Housing Capital Programme as reported.
- 1.5 An additional update on the Prudential Indicators has been undertaken on 29 July 2014 following the review of the Decent Homes Programme.
- 1.6 This report is the first in-year report of 2014/15, to inform Members of the Authority's treasury activity and enable scrutiny of activity and performance. It supplements 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 August 2014;
 - d) Confirms compliance with treasury limits and Prudential Indicators.

3.0 THE U.K. ECONOMY AND EVENTS.

- The recent strong performance of the UK economy continued with output growing at preliminary estimate of 0.8% in Quarter 2 of 2014, with the service sector dominating 0.77% of this.
- The labour market continues to improve with unemployment rate falling to 6.4%. Employment growth was masked by a large number of zero-hour contracts and working part-time involuntarily
- CPI inflation for July fell to 1.6% year-on-year from 1.9%. Clothing and footwear drove the most recent fall, as it seemed the timing of summer sales have shifted.
- There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively.

4.0 THE AUTHORITY'S TREASURY POSITION.

- 4.1 The Authority's gross / net debt and investment positions are as follows:

DEBT	Balance at 01/4/2014 £m	%	Maturing loans £m	Premature redemptions £m	New Borrowing £m	Balance at 31/08/2014 £m	%
Long-term fixed rate	£87.523	100	£0.00m	£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	£87.523m	100	£0.000m	£0.000m	£0.000m	£87.523m	100
Other long-term liabilities	£0.136m		£0.000m	£0.000m	£0.000m	£0.136m	
TOTAL EXTERNAL DEBT	£87.659m		£0.000m	£0.000m	£0.000m	£87.659	
INVESTMENTS	Balance at 01/4/2014 £m	%	Maturities £m	Sales £m	New Investments £m	Balance at 31/08/2014 £m	%

Internally Managed	£20.728	100	£57.239	£0.000m	£61.693	£25.182	100
Investments with maturities up to 1 year,	£20.728	100	£57.239	£0.000m	£61.693	£25.182	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	£20.728m		£57.239m	£0.000m	£61.693m	£25.182	
NET DEBT	£66.931m					£62.477m	

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, capital receipts, payments to other precepting authorities or central government and interest on treasury activity.

4.3 In the period April 2014 to August 2014, the capacity for investment has currently increased by £4.45m. The volatility of balances is normal throughout the year and a number of factors contribute to this:

- The Authority traditionally benefits from the receipt of Council Tax and Business Rates more during the first ten months of the financial year;
- 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.
- The patterns of income and expenditure are reflected in the Authority's cash flow projections. This is monitored and revised daily.

4.4 The current increased capacity for investment is expected to decrease in March 2015 and this is in line with the Authority's experience.

5.0 BORROWING ACTIVITY.

5.1 The Authority's Borrowing Strategy 2014/15, approved by Council on 25 February 2014, 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 revised estimated borrowing requirement for the current financial year is £1.24m. In the two subsequent financial years this is estimated to be £0.749m in 2015/16 and £0.908m in 2016/17. This is was reported in the Additional Costs of the Decent Homes Improvement Programme 2014/15 – Appendix 4, to Council on 25 March 2014.

5.3 The Authority has not undertaken any new long-term borrowing during the period.

5.4 A market loan with a value of £1m is due to be repaid. This loan had an interest rate of 7.99%.

- 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 2014/15, which was approved by Council on 25 February 2014, 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 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.

7.0 INVESTMENT ACTIVITY.

- 7.1 The Authority's Investment Policy and Strategy 2014/15, which was approved by Council on 25 February 2014, 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 The counterparties that the Authority currently utilise all meet the criteria set out in the Treasury Management Strategy Statement 2014/15 and are monitored by the Authority's Treasury Management Advisors. The minimum long term rating for counterparties is A- or as advised by our Treasury Management Advisers. The counterparties and amounts currently invested are shown below:

Counterparty	Length of Investment	£m
Goldman Sachs MMF	Overnight	3.5
CCLA Investment Management Ltd MMF	Overnight	1.0
HSBC	Overnight	1.9
Lloyds Banking Group / Bank of Scotland	Overnight	2.4
Barclays Treasury Direct	3 Months	2.7
Nationwide Building Society	364 days	2.0
Santander	Overnight	3.0
Staffordshire Moorland	3 Years	2.0

Handelsbanken	Overnight	2.6
Black Rock MMF	Overnight	1.0
Greater London Authority	3 Years	3.0
Total Invested		25.1m

- 7.4 The average rate of return on the Authority's investment balances during the period was 0.635%. For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) for the period to the end of August 2014 was 0.35%. The average 7 day London Interbank Offered Rate (LIBOR) for the period to the end of August 2014 was 0.47%. 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 2014/15.
- 7.5 There were 84 investments made during the period, totalling £61.7m. The average balance held for the period was £24.4m.
- 7.6 Short term interest rates remain low resulting in a lengthening of investment periods, where cash-flow permits, in order to lock in higher rates of return. Two fixed term investments of £2.7m and £3m were taken out during the period. One fixed term investment of £3m has matured during the period. The Authority and its advisors remain on a state of alert for signs of credit or market distress that may adversely affect the Authority.
- 7.7 The Authority has budgeted to achieve £68,000 of income from its investment activity in 2014/15. Investment activity from April to August 2014 has achieved £35,636 in interest. The current forecast that is estimated to be achieved is £171,000. Of this total, an element is applied to balances held on external income. This external income represents balances from S106 contributions that have not yet been spent. The estimated amount forecast to be applied is approximately £26,000, subject to the balances remaining at the end of the financial year.
- 7.8 The estimated remaining balance of interest (£145,000) 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 2014/15, the budgeted investment income is apportioned as follows: £43,000 General Fund and £25,000 Housing Revenue Account. Any over or under achievement of interest is apportioned on this basis and the current forecast is anticipated to be £92,000 General Fund and £53,000 HRA.
- 7.9 All investments 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 2014 to August 2014, the Authority can confirm that it has complied with its Prudential Indicators, which were approved on 25 February 2014 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 2014 to August 2014. 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 the period April 2014 to August 2014, it has complied with its Treasury Management Strategy Statement, policies and Treasury Management Practices.