

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – 24 JUNE 2015**

Title of report	<b>TREASURY MANAGEMENT STEWARDSHIP REPORT 2014/15</b>
Contacts	<p>Councillor Nick Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a></p> <p>Head of Finance 01530 454520 <a href="mailto:ray.bowmer@nwleicestershire.gov.uk">ray.bowmer@nwleicestershire.gov.uk</a></p> <p>Financial Planning Team Manager 01530 454707 <a href="mailto:pritesh.padaniya@nwleicestershire.gov.uk">pritesh.padaniya@nwleicestershire.gov.uk</a></p>
Purpose of report	To inform Members of the Authority's Treasury Management activity undertaken during the financial year 2014/15.
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 2014/15 – Council Meeting 25 February 2014 (presented as part of the Budget and Council Tax 2014/15 Report)  <a href="http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=160&amp;Ver=4">http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=160&amp;Ver=4</a></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  <a href="http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=161&amp;Ver=4">http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=161&amp;Ver=4</a></p> <p>Additional Costs Of the Decent Homes Improvement Programme 2014/15 and updated HRA Business Plan – Council Meeting 16 September 2014.  <a href="http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=1344&amp;Ver=4">http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=129&amp;MId=1344&amp;Ver=4</a></p> <p>Treasury Management Activity Report , April 2014 to August 2014 – Audit and Governance Committee 24<sup>th</sup> September 2014  <a href="http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=125&amp;MId=1327&amp;Ver=4">http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=125&amp;MId=1327&amp;Ver=4</a></p> <p>Treasury Management Activity Report , April 2014 to October 2014 – Audit and Governance Committee 10<sup>th</sup> December 2014  <a href="http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=125&amp;MId=1328&amp;Ver=4">http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=125&amp;MId=1328&amp;Ver=4</a></p> <p>Treasury Management Activity Report , April 2014 to February 2015 – Audit and Governance Committee 25<sup>th</sup> March 2015  <a href="http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=125&amp;MId=1329&amp;Ver=4">http://minutes-1.nwleics.gov.uk/ieListDocuments.aspx?CId=125&amp;MId=1329&amp;Ver=4</a></p>
Recommendations	<b>THAT MEMBERS APPROVE THIS REPORT.</b>

## 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 2014-15 were approved by Council on 25 February 2014.
- 1.5 The Treasury Management Stewardship Report is supplemented by three in-year reports to the Audit and Governance Committee on 24 September 2014, 10 December 2014 and 25 March 2015.

## 2.0 THE U.K. ECONOMY AND EVENTS

- **Growth and Inflation:** The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.
- Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to \$44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.
- **Labour Market:** The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.5%, while the rate of unemployment fell to 5.5% from 7.2% a year earlier. Comparing the three months to February 2015 with a year earlier, employee pay increased by 1.9% including bonuses and by 2.2% excluding bonuses.
- **UK Monetary Policy:** The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn.

### 3.0 THE AUTHORITY'S TREASURY POSITION.

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

<b>DEBT</b>	<b>Balance at 01/4/2014 £m</b>	<b>%</b>	<b>Maturing loans £m</b>	<b>Premature redemptions £m</b>	<b>New Borrowing £m</b>	<b>Balance at 31/03/2015 £m</b>	<b>%</b>
Long-term fixed rate (PWLB & Bonds)	£87.523m		£2.009m	£0.000m	£0.000m	£85.514m	
Long-term variable rate	£0.000m		£0.000m	£0.000m	£0.000m	£0.000m	
Temporary Borrowing	£0.000m		£0.000m	£0.000m	£0.000m	£0.000m	
<b>Total borrowing</b>	<b>£87.523m</b>	<b>99.84</b>	<b>£2.009m</b>	<b>£0.000m</b>	<b>£0.000m</b>	<b>£85.514m</b>	<b>99.85</b>
Other long-term liabilities	£0.136m	0.16	£0.010m	£0.000m	£0.000m	£0.126m	0.15
<b>TOTAL EXTERNAL DEBT</b>	<b>£87.659m</b>	<b>100</b>	<b>£2.019m</b>	<b>£0.000m</b>	<b>£0.000m</b>	<b>£85.640m</b>	<b>100</b>
<b>INVESTMENTS</b>	<b>Balance at 01/4/2014 £m</b>	<b>%</b>	<b>Maturities £m</b>	<b>Sales £m</b>	<b>New Investments £m</b>	<b>Balance at 31/03/2015 £m</b>	<b>%</b>
<b>Internally Managed</b>	<b>£20.728m</b>	<b>100</b>	<b>£155.269m</b>	<b>£0.000m</b>	<b>£155.786m</b>	<b>£21.246m</b>	<b>100</b>
Investments with maturities up to 1 year,	£18.728m	90.35	£155.269m	£0.000m	£152.786m	£16.246	76.47
Investments with maturities in excess of 1 year	£2.000m	9.65	£0.000m	£0.000m	£3.000m	£5.000m	23.53
<b>Externally Managed Investments</b>	<b>£0.000m</b>	<b>0</b>	<b>£0.000m</b>	<b>£0.000m</b>	<b>£0.000m</b>	<b>£0.000m</b>	<b>0</b>
<b>TOTAL INVESTMENTS</b>	<b>£20.728m</b>	<b>100</b>	<b>£155.269m</b>	<b>£0.000m</b>	<b>£155.786m</b>	<b>£21.246m</b>	<b>100</b>
<b>NET DEBT</b>	<b>£66.931m</b>					<b>£64.394m</b>	

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 A market loan with a value of £1m was also repaid in the year and is shown in the above table in the column 'Maturing Loans'

3.4 In 2014/2015, the capacity for investment has increased by £0.5m. 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 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.

3.5 The increased capacity for investment is: in part due to the allocation of the Decent Homes Grant (£7.4m) 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 2014/15 (£1.2m) and the timing of income and expenditure.

#### **4.0 BORROWING ACTIVITY.**

- 4.1 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.
- 4.2 No loans that matured in 2014/15 require replacement.
- 4.3 The Authority did not undertake any new long-term borrowing during the year and interest payments totalling £2.91m 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 had approximately £4.8m of internal debt at 31 March 2015 as this is currently judged to be the most cost effective means of funding the capital programme.
- 4.6 The Estimated Minimum Revenue Provision (MRP) charge that was made to the revenue account for 2014/15 was £1.579m and includes both Housing (£1.009m) and General Fund (£0.570m). The Housing MRP equates to the repayments made in relations to loans taken out as part of the Housing self financing in 2011/12. 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 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.
- 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 13 loans - 10 PWLB loans and three 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 2014/15, which was approved by Council on 25 February 2014, 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 2014/15 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 2015 are shown below:

<b>Counterparty</b>	<b>Length of Investment</b>	<b>£m</b>
HSBC	Overnight	1.0
Lloyds Banking Group / Bank of Scotland	Overnight	2.0
Santander	Overnight	1.0
Handelsbanken	Overnight	0.5
Black Rock MMF	Overnight	0.0
Goldman Sachs MMF	Overnight	0.0
Scottish Widows Investment Partnership	Overnight	0.0
CCLA Investment Management Ltd MMF	Overnight	0.5
Barclays Treasury Direct	3 Months	2.7
Nationwide Building Society	100 days	1.5
Leeds Building Society	100 days	1.0
Cumberland Building Society	100 days	1.0
Barnsley Metropolitan Borough Council	364 days	3.0
North Tyneside Council	364 days	2.0
Staffordshire Moorland	3 Years	2.0
Greater London Authority	3 Years	3.0
<b>Total Invested</b>		<b>21.2</b>

6.4 The average rate of return on the Authority's investment balances during the year was 0.6038%. For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) for 2014/15 was 0.44%. The average 7 day London Interbank Offered Rate (LIBOR) for 2014/15 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 2014/15.

6.5 The Authority budgeted to achieve £68,000 of income from its investment activity in 2014/15. The average cash balances representing the Authority's reserves, capital receipts and working balances were £30.4m during the year (2013/14 £20.9m). The total interest earned on investments was £188,046 (2013/14 £111,957). Of this total interest, £16,487 is applied to balances held on external income (2013/14 £15,333). 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 (£171,559) 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 2014/15, 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 2014/15 is: £108,486 General Fund and £63,073 HRA.

2014/15	Budget	Actual
General Fund	£43,000	£108,486
HRA	£25,000	£63,073
External Balances	£ 0	£16,487
<b>Total</b>	<b>£68,000</b>	<b>£188,046</b>

## 7.0 THE AUTHORITY'S BANKER

- 7.1 The Authority now has an active daily banking account in place with Lloyds bank. The Lloyds bank account bears interest on daily cleared balance at a rate 0.10% below the Bank of England base rate. A transition period has been put in place to ensure all transactions are processed on the new account before the Co-op General Bank account is closed.
- 7.2 A new billing Co-op Bank account has been setup which will only be used to accommodate receipt of PayPoint payments. This account will be monitored and emptied into the new Lloyds Bank account on a daily basis.
- 7.3 In addition, with weekends the most likely time for regulatory action to occur on the Co-op bank account, and with the bail-in system whereby the Authority would be an 'unsecured creditor', in order to mitigate this risk, the Authority will continue to make every effort to keep the ledger balance in the Co-op bank account at close to zero at the close of each business day by following the Authority's existing treasury management practices. The additional secondary daily check will continue to further mitigate the risks outlined.

## 8.0 SUMMARY

- 8.1 The Authority can confirm that it has complied with its Prudential Indicators for 2014/15, which were approved on 25 February 2014 and the subsequent update on 16 September 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 during 2014/15. 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 2014/15, it has complied with its Treasury Management Strategy Statement, policies and Treasury Management Practices.