

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**AUDIT AND GOVERNANCE COMMITTEE – 13 JULY 2016**

Title of report	<b>TREASURY MANAGEMENT STEWARDSHIP REPORT 2015/16</b>
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Purpose of report	To inform Members of the Authority's Treasury Management activity undertaken during the financial year 2015/16.
Reason for Decision	These are statutory requirements
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	<a href="#"><u>Treasury Management Strategy Statement 2015/16 – Council Meeting 24 February 2015 (Appendix 4 in the Budget and Council Tax 2015/16 Report)</u></a>  <a href="#"><u>Treasury Management Strategy Statement 2016/17 – Council Meeting 23 February 2016</u></a>  <a href="#"><u>Treasury Management Activity Report , April 2015 to August 2015 – Audit and Governance Committee 23 September 2015</u></a>  <a href="#"><u>Treasury Management Activity Report , April 2015 to October 2015 – Audit and Governance Committee 9 December 2015</u></a>  <a href="#"><u>Treasury Management Activity Report , April 2015 to February 2016 – Audit and Governance Committee 23 March 2016</u></a>
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 2015-16 were approved by Council on 24 February 2015.
- 1.5 The Treasury Management Stewardship Report is supplemented by three in-year reports to the Audit and Governance Committee on 23 September 2015, 9 December 2015 and 23 March 2016.

## 2.0 THE U.K. ECONOMY AND GLOBAL EVENTS

- **Growth, Inflation, Employment:** The UK economy slowed in 2015 with GDP falling to 2.3% from a robust 3% the year before. CPI inflation hovered around 0% through 2015 with deflationary spells in April, September and October. The low inflation was attributed to the continued collapse in oil prices (from \$67 a barrel in May 2015 to just under \$28 in January 2016), the

appreciation of sterling since 2013 that pushed down import prices and weaker wage growth. CPI picked up to 0.3% in February.

The labour market continued to improve through 2015 and in Q1 2016. January 2016 showed the employment rate at 74.1% and the unemployment rate at a 12 year low of 5.1%. After a long period of negative real wage growth (i.e. after inflation), real earnings were positive and growing at their fastest rate in eight years, boosting consumer spending power.

- **UK Monetary Policy:** The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn.
- **Global Influences:** The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and to prospects for global growth as a whole. As the global economy entered 2016, there was high uncertainty about growth and the outcomes of both the US presidential elections and the UK referendum on Europe. Between February and March 2016, sterling had depreciated by around 3% - a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.  
Interest rates in the United States were raised in December 2015 and indicated further potential raises in 2016. However, central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation, including an increase in asset purchasing (quantitative easing).

### 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 31/03/2015 £m</b>	<b>%</b>	<b>Maturing loans £m</b>	<b>New Borrowing £m</b>	<b>Balance at 31/03/2016 £m</b>	<b>%</b>
Long-term fixed rate (PWL & Bonds)	£85.514m		£1.032m	£0.000m	£84.482m	
Long-term variable rate	£0.000m		£0.000m	£0.000m	£0.000m	
Temporary Borrowing	£0.000m		£0.000m	£0.000m	£0.000m	
<b>Total borrowing</b>	<b>£85.514m</b>	<b>99.9</b>	<b>£1.032m</b>	<b>£0.000m</b>	<b>£84.482m</b>	<b>99.9</b>
Other long-term liabilities	£0.126m	0.1	£0.007m	£0.000m	£0.119m	0.1
<b>TOTAL EXTERNAL DEBT</b>	<b>£85.640m</b>	<b>100</b>	<b>£1.039m</b>	<b>£0.000m</b>	<b>£84.601m</b>	<b>100</b>
<b>INVESTMENTS</b>	<b>Balance at 31/03/2015 £m</b>	<b>%</b>	<b>Maturities £m</b>	<b>New Investment £m</b>	<b>Balance at 31/03/2016 £m</b>	<b>%</b>
<b>Internally Managed</b>	<b>£20.755m</b>	<b>97.6</b>	<b>£45.395m</b>	<b>£55.241m</b>	<b>£30.601m</b>	<b>95.9</b>
Investments with maturities up to 1 year,	£15.755	74.1	£45.395m	£50.741m	£21.101m	66.1
Investments with maturities in excess of 1 year	£5.000m	23.5	£0.000m	£4.500m	£9.500m	29.8
<b>Externally Managed Investments</b>	<b>£0.500m</b>	<b>2.4</b>	<b>£96.250m</b>	<b>£97.050m</b>	<b>£1.300m</b>	<b>4.1</b>
<b>TOTAL INVESTMENTS</b>	<b>£21.255m</b>	<b>100</b>	<b>£141.645m</b>	<b>£152.291m</b>	<b>£31.901m</b>	<b>100</b>
<b>NET DEBT</b>	<b>£64.385m</b>				<b>£52.700m</b>	

- 3.2 The 'Maturing Loans' column contains the annual repayments on two PWLB annuity loans that were taken out as part of the self-financing system of Council Housing in 2011/12.
- 3.3 In 2015/16, the capacity for investment has increased by £10.6m.
- 3.4 The capacity for investment can be affected by various factors - for example: Increased income, contribution to/from reserves, setting aside expenditure to repay borrowing (MRP) and fortuitous income. In 2015/16 some of the highlights that have impacted on the increased capacity are: sales of assets - houses under the 'Right to Buy' scheme, other Housing and General Fund property generated approx £2m; MRP is £0.6m; increased income from Planning Fees circa £0.7m and Business Rates £1m (forecasted); and cash flow timing of receipts and payments.

#### **4.0 BORROWING ACTIVITY**

- 4.1 The Authority's Borrowing Strategy 2015/16, approved by Council on 24 February 2015, 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 matured in 2015/16 require replacement.
- 4.3 The Authority did not undertake any new long-term borrowing during the year and interest payments totalling £2.82m 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 £5m of internal debt at 31 March 2016 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) is intended to ensure that the capital financing debt is paid off over the longer term. The MRP charge that was made to the General Fund revenue account for 2015/16 was £0.558m. For Housing, MRP is classed as the principal repayments made in respect of two PWLB annuity loans taken out as part of the Housing self financing in 2011/12. In 2015/16, this repayment was £1.032m

#### **5.0 DEBT RESCHEDULING ACTIVITY**

- 5.1 The Authority's Debt Rescheduling Strategy 2015/16, which was approved by Council on 24 February 2015, 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 2015/16, which was approved by Council on 24 February 2015, 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 2015/16 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 2016 are shown below:

Counterparty	Length of Investment	£m
Lloyds Banking Group / Bank of Scotland	Overnight	1.6
Handelsbanken	Overnight	1.5
Aberdeen Asset Management	Overnight	0.3
CCLA Investment Management Ltd MMF	Overnight	1.0
Lloyds 32 Day Notice Account	32 days	1.0
Santander 95 Day Account	95 Days	1.5
Barclays Treasury Direct	3 Months	1.5
Nationwide Building Society	6 Months	1.5
Lancashire County Council	364 Days	1.5
London Borough of Enfield	364 Days	2.0
West Dunbartonshire Council	364 Days	2.5
North Tyneside Council	364 days	2.0
Fife Council	364 Days	1.0
Salford City Council	364 Days	1.0
Lancashire County Council	18 Months	2.0
Staffordshire Moorlands DC	3 Years	2.0
Greater London Authority	3 Years	3.0
Blaenau Gwent County Borough Council	3 Years	2.5
Newcastle City Council	3 Years	2.5
<b>Total Invested</b>		<b>31.9</b>

6.4 The average rate of return on the Authority's investment balances during the year was 0.618%. For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) for 2015/16 was 0.45%. 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 2015/16.

- 6.5 The Authority budgeted to achieve £145,000 of income from its investment activity in 2015/16. The average cash balances representing the Authority's reserves, capital receipts and working balances were £35.3m during the year (2014/15 £30.4m). The total interest earned on investments was £249,038 (2014/15 £188,046). Of this total interest, £21,406 is applied to balances held on external income (2014/15 £16,497). 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 (£227,632) 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 2015/16, the budgeted investment income is apportioned as follows: £92,000 General Fund and £53,000 Housing Revenue Account and the over achievement of interest is apportioned on this basis. The outturn position of investment income achieved for 2015/16 is: £108,486 General Fund and £63,073 HRA.

2014/15	Budget	Actual
General Fund	£92,000	£144,429
HRA	£53,000	£83,203
External Balances	£ 0	£21,406
<b>Total</b>	<b>£145,000</b>	<b>£249,038</b>

## 7.0 COUNTERPARTY LIMITS

- 7.1 The Authority sets maximum investment limits per counterparty in its Investment Policy and Strategy. The Authority's current bank account is now included in these limits. The previous current account was not included in the limits. The banking provider altered from the Co-op to Lloyds in the recent procurement exercise and the reason that the banking provider is included in the limits is because the account attracts interest.
- 7.2 The major income and expenditure streams are accounted for as part of the daily treasury management operational processes. Variations in income are anticipated by ensuring that there is scope to absorb estimated fluctuations in the bank account. Variations in income of up to £100,000 are a prudent estimate based on historical experience.
- 7.3 The breaches in the following paragraphs (7.4 and 7.5) were reported in the Treasury Management Activity Report – April to August 2015 which was presented to Audit and Governance on 23 September 2015. No further breaches have occurred in the period to March 2016.
- 7.4 On 25<sup>th</sup> June, the counterparty limit was breached by £0.9m as a maturity was returned to the Authority by the investment counterparty one day earlier than requested. This is not something the Council could have taken action to avoid.
- 7.5 The Council has also moved its bank account to Lloyds and because the overall investment limit on the counterparty was not increased this has led to the limit being breached by smaller amounts on two occasions - £47,000 (31<sup>st</sup> July) and £131,000 (31<sup>st</sup> August). These breaches occurred because of fluctuations in transactions in the bank account. The counterparty investment limit for our bank account has been reviewed and updated in the Treasury Management Strategy Statement which was presented to Cabinet and Council in February 2016.

- 7.6 All other 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 The Authority can confirm that it has complied with its Prudential Indicators for 2015/16, which were approved on 24 February 2015.
- 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 2015/16. 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 2015/16, it has complied with its Treasury Management Strategy Statement, policies and Treasury Management Practices other than the breaches reported above.