NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – 21 SEPTEMBER 2016

Title of Report	**TREASURY MANAGEMENT ACTIVITY REPORT – APRIL TO AUGUST 2016**
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Purpose of Report	To inform Members of the Authority's Treasury Management activity undertaken during the period April to August 2016.
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 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 Screening	Not Applicable
Human Rights	Not Applicable
Transformational Government	Not Applicable
Consultees	None
Background Papers	Treasury Management Strategy Statement 2016/17 – Council Meeting 23 February 2016

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 Policy and Strategy, Interest Apportionment Policy, Prudential Indicators and Annual Minimum Revenue Position Statement were approved by Council on 23 February 2016.

1.4 The code requires that Authorities report on the performance of the Treasury Management function at least twice yearly (mid-year and at year end).

1.5 This is the first of three in-year reports to be presented in 2016/17, to inform Members of the Authority's treasury activity and enable scrutiny of activity and performance. These reports supplement 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 2016;
d) Reports on breaches of or compliance with treasury limits and Prudential Indicators.

3.0 THE U.K. ECONOMY AND OTHER FACTORS.

- Following the UK's vote to leave the European Union, the economic outlook for the UK has immeasurably altered. It will to a large extent be dependent on the nature of the future relationship negotiated with the EU, particularly in relationship to trade.

- The UK Consumer Prices Index (CPI) rose by 0.6% in the year to July 2016, compared with a 0.5% increase in the year to June 2016. The main contributors to the increase in the rate were motor fuels, alcoholic beverages and accommodation services. These upward pressures were partially offset by falls in social housing rent and falling prices for certain games and toys.

- At its meeting in August 2016, the Monetary Policy Committee voted unanimously to cut Bank Rate from 0.5% to 0.25%, asset purchases were increased from £375bn to £435bn. The cut in bank rate has adversely impacted on the Authority's ability to generate income from its investments and has seen substantial decreases in interest rates.

- The short to medium term outlook is more downbeat due to the uncertainty generated by the EU Referendum result and the forthcoming negotiations. However, the rapid installation of a new prime minister and cabinet has lessened the political uncertainty and the Government / Bank of England have been pro-active in tackling the economic uncertainty.

- Globally, the outlook is uncertain and risks remain weighted to the downside.

4.0 THE AUTHORITY'S TREASURY POSITION.

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

DEBT	Balance at 01/4/2016 £m	%	Maturing loans £m	Premature redemptions £m	New Borrowing £m	Balance at 04/09/2016 £m	%
Long-term fixed rate	£84.482m		£0.000m	£0.000m	£0.000m	£84.482m	
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	
Total borrowing	**£84.482m**	99.9	**£0.000m**	**£0.000m**	**£0.000m**	**£84.482m**	99.9
Other long-term liabilities	£0.119m	0.1	£0.000m	£0.000m	£0.000m	£0.119m	0.1
TOTAL EXTERNAL DEBT	**£84.601m**	100	**£0.000m**	**£0.000m**	**£0.000m**	**£84.601m**	100
INVESTMENTS		**%**	**Maturities £m**	**Sales £m**	**New Investments £m**		**%**
Internally Managed	**£30.601m**	95.9	**£13.229m**	**£0.000m**	**£15.489m**	**£32.861m**	79.4
Investments with maturities up to 1 year	£18.601m	58.3	£13.229m	£0.000m	£15.489m	£20.861m	50.4
Investments with maturities in excess of 1 year	£12.000m	37.6	£0.000m	£0.000m	£0.000m	£12.000m	29.0
Externally Managed Investments*	**£1.300m***	**4.1**	**£29.550m**	**£0.000m**	**£36.750m**	**£8.500m**	**20.6**
TOTAL INVESTMENTS	**£31.901m**	100	**£42.779m**	**£0.000m**	**£52.239m**	**£41.361m**	100
NET DEBT	**£52.700m**					**£43.240m**	

*Represents investments held in Money Market Funds

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

4.3 In the period April 2016 to August 2016, the capacity for investment has currently increased by £9.5m. 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 variable and are compared to previous years. The current patterns are in line with the expected trends. These patterns are reflected in the Authority's cash flow projections which is monitored and revised daily as part of the treasury management process.

4.4 The current increased capacity for investment is expected to drop towards the end of the financial year and this is in line with the Authority's experience.

5.0 BORROWING ACTIVITY.

5.1 The Authority's Borrowing Strategy 2016/17, approved by Council on 23 February 2016, 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 estimated borrowing requirement for the current financial year is £1.682m. In the two subsequent financial years this is estimated to be £0.742m in 2017/18 and £1.368m in 2018/19, as presented to Council in the "Treasury Management Strategy Statement 2016/17 and Prudential Indicators 2016/17 to 2018/19" on 23 February 2016.

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

5.4 The Authority has two PWLB annuity loans as part of the self-financing of the HRA. The repayment element for these in 2016/17 is £1.055m.

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 2016/17, which was approved by Council on 23 February 2016, 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 thirteen loans - ten PWLB loans and three 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 2016/17, which was approved by Council on 23 February 2016, 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 To lower the inherent investment risk, the Authority 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.

7.4 The counterparties that the Authority currently utilise all meet the criteria set out in the Treasury Management Strategy Statement 2016/17 and are monitored by the Authority's

Treasury Management Advisors. The counterparties and amounts currently invested are shown below:

Counterparty	Length of Investment	Rate*	£m
Lloyds Bank (Current Account)	Overnight	0.20%	0.1
Bank of Scotland	Overnight	0.15%	0.8
Handelsbanken	Overnight	0.05%	0.7
Black Rock MMF	Overnight	0.32%	3.0
Goldman Sachs MMF	Overnight	0.39%	2.1
Aberdeen Asset Management MMF	Overnight	0.40%	2.4
CCLA Investment Management Ltd MMF	Overnight	0.38%	1.0
Lloyds Bank Notice Account	32 days	0.32%	0.8
Barclays Treasury Direct	92 days	0.48%	1.5
Santander 95 Day Notice Account	95 Days	0.90%	1.5
National Counties Building Society	183 days	0.75%	1.0
Nationwide Building Society	185 days	0.71%	1.5
Hinckley & Rugby Building Society	186 days	0.50%	1.0
London Borough of Newham	308 days	0.56%	3.0
West Dunbartonshire Council	364 days	0.55%	2.5
Salford City Council	364 days	0.60%	1.0
North Tyneside Council	364 days	0.60%	2.0
Fife Council	364 days	0.60%	1.0
Lancashire County Council	364 days	0.60%	1.5
Lloyds Bank Fixed Term Deposit	1 Year	1.05%	1.0
Lancashire County Council	18 months	0.70%	2.0
Blaenau Gwent County Borough Council	3 years	1.20%	2.5
Staffordshire Moorland District Council	3 Years	1.50%	2.0
Greater London Authority	3 Years	1.50%	3.0
Newcastle City Council	3 Years	1.13%	2.5
Total Invested			**41.4**

*The interest rate shown is based on the average for August 2016.

7.5 The average rate of return on the Authority's investment balances during the period was 0.66%. For comparison purposes, the benchmark return (average 7-day London Interbank Bid Rate or LIBID rate) at the end of August 2016 was 0.31%. The average 7 day London Interbank Offered Rate (LIBOR) rate at the end of August 2016 was 0.44%. 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 2016/17.

7.6 Short and long term interest rates have fallen since the reduction of the base rate by the Bank of England in August 2016. They are predicted to fall further if the Bank of England implements further reductions in the base rate. Whereas previously, a lengthening of investment periods enabled the authority to lock into higher rates of return, this is no longer the case. Borrowing rates are currently so low that longer term rates have dropped due to the potential of further base rate cuts. This has limited the opportunity for longer term investments, which will result in the gradual fall in the authority's rate of return as the current longer term investments mature and are replaced with shorter term investments at a greatly reduced interest rate. This will however, increase the liquidity of the authority.

7.7 There were 49 investments made during the period, totalling £52.2m. The average balance held for the period was £38.6m.

7.8 Six fixed term investments were taken out during the period. These investments were for amounts ranging from £1m to £3m. Three fixed term investments have matured within 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.

7.9 The Authority has budgeted to achieve £182,000 of income from its investment activity in 2016/17. Investment activity from April to August 2016 has achieved £236,827 in interest for the financial year. The current forecast for the year is £246,000.

7.10 Of this total, 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 £21,153 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.

7.11 The estimated remaining balance of interest (£224,847) 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 2016/17, the budgeted investment income is apportioned as follows: £115,480 General Fund and £66,520 Housing Revenue Account. Any over or under achievement of interest is apportioned on this basis and the current forecast is anticipated as follows:

	Budget	**Projected**
General Fund	£115,480	£142,667
HRA	£66,520	£82,180
Sub-Total	**£182,000**	**£224,847**
External Balances	£0	£21,153
Total	**£182,000**	**£246,000**

7.12 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 to August 2016, the Authority can confirm that it has complied with its Prudential Indicators, which were approved on 23 February 2016 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 to August 2016. 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 to August 2016, it has complied with its Treasury Management Practices.