

## NORTH LINCOLNSHIRE COUNCIL

### AUDIT COMMITTEE

## QUARTERLY TREASURY MANAGEMENT AND STRATEGY REPORT

### 1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To provide a regular review of the treasury strategy approved each year by council.
- 1.2 This is a report on treasury management performance between April and August 2010. The report explains how the strategy was implemented during the first part of the year, the state of the financial markets, what action was taken to address the challenges and the results of that action.
- 1.3 The report also provides an update on the latest position with regard to our Icelandic investments.

### 2. BACKGROUND INFORMATION

2.1 The **investment strategy for 2010/2011** aims to reduce risk by

- Investing for shorter periods
- Investing In UK institutions with high credit ratings or equivalent
- Applying a maximum investment limit of £5m for most
- Applying a maximum limit to financial groups rather than separate institutions
- Using the option of highly rated foreign banks when prudent to do so.

2.2 The **borrowing strategy for 2010/2011** aims to

- Delay borrowing in the plan period as long as it is prudent
- Borrow only to support the capital programme
- Borrow at a time which is most advantageous on cost
- Maximize borrowing through the Public Works Loans Board (PWLB)
- Retain the option to borrow for shorter periods and

- Consider debt rescheduling.

2.3 The council's budget was framed against the current state of financial markets. This includes a Bank of England Base Rate of 0.5% since 5 March 2009 with an expectation that rates will remain at 0.5% at least until autumn 2010. Given the uncertainties surrounding the UK economic outlook the council's budget therefore takes a prudent view by building in short-term investment returns closely aligned to the average of market projections: 1% for 2010/11, 2% for 2011/12 and 3% for 2012/13.

2.4 The budget also projects an average cost of borrowing equivalent to a 25 year maturity rate of 5% from the Public Works Loans Board for the plan period 2010/13; and sets a range of prudential indicators which the Service Director Finance is required to monitor. The performance against each measure is reported here.

### 3. **OPTIONS FOR CONSIDERATION**

3.1 The report considers the implementation of an agreed strategy. There are therefore no options to consider.

### 4. **ANALYSIS OF OPTIONS**

#### **Investment strategy**

4.1 We have continued to apply a range of criteria to reduce risk by narrowing further the investment options allowed by the strategy until the banking sector recovers greater stability and the implications of a change in government work through fully:

- A maximum term of one month as the norm for investments
- No new investments in foreign banks
- No use of Money Market Funds
- Investment only in those building societies which achieve the same minimum credit ratings as applied to banks
- To reduce risk further where an institution is given a negative rating watch or is under review for a possible downgrade no new investments are made
- Except that, for institutions backed by the UK government liquidity and capitalization scheme, overnight and seven day deposits can be made as in effect cash is on call. This includes the council's own bankers Natwest/RBS

Wider data has been used to determine the financial health of institutions including the CIPFA treasury forum, financial press, stock market data and other market intelligence as ratings cannot be relied upon in isolation.

4.2 As a result investments have been made in a narrow range of UK institutions: UK banks, the Nationwide building society and

governmental bodies including the Debt Management Office and other local authorities. All investments due to be realised during the period were returned with interest or reinvested. Outstanding investments at the end of August 2010 were £36.2m, including £7.3m with the council's own bankers (see appendix 1).

- 4.3 The price of increased security has been that interest earned has been below target: actual achieved April to August 2010 was 0.54% against an average base rate in the same period of 0.5% and a budget target of 1%. In cash terms the return to date is £0.087m against a full year target of £0.49m.

#### **Borrowing strategy**

- 4.4 However, in line with the strategy, borrowing to finance the capital programme has been delayed. To date borrowing of £6.3m and £13.5m to fund the 2008/09 and 2009/10 capital programme has been deferred substituted by 'internal borrowing' from council cash balances. Similarly planned borrowing of £30.6m for the 2010/11 programme will be deferred for the time being. At this point it is estimated that this will save £0.97m in borrowing costs in 2010/11, a net £0.82m saving after deducting interest foregone on cash investments.
- 4.5 The logic is that by applying cash in hand to fund spending in the short term reduces cash balances and provides a short term financial benefit (typical cost of PWLB borrowing 5%, average investment return between 0.5% and 1%). The amount of cash exposed to risks in the financial markets is also reduced. However this needs to be kept under review to make sure that we change our policy at the appropriate time depending on risks diminishing in the banking sector, and the gap closing between borrowing and lending rates.
- 4.6 A comparison of actual to plan for the key performance indicators is in appendix 2. There are no forecast changes to most indicators. The phasing of capital programme spending is likely to be revised at the September and December budget reviews, but is shown here at the latest budgeted level.

#### **Icelandic Investments**

- 4.7 The council has taken steps to recover investments with Icelandic banks in concert with other local authorities through the Local Government Association.
- 4.8 The administration of Heritable is progressing well. The latest advice is to expect a return of 85 pence in the pound. A third interim dividend of 6.19p (£217,899 for North Lincolnshire Council) was paid to creditors on 30 March 2010 and a fourth interim dividend of 6.27p (£220,761 for North Lincolnshire Council) was paid to creditors on 16 July 2010. The amount received to date by the Council is now £1.451m on our claim

totalling £3.518m. The next interim dividend is expected in October 2010.

4.9 For deposits with Landsbanki the latest advice is to expect a return of 95 pence in the pound assuming that local authorities' status as preferential depositors is upheld. This is to be tested shortly in the Icelandic courts, as a number of other creditors have challenged the priority status of local authorities.

## **5. RESOURCE IMPLICATIONS**

5.1 No additional costs at this stage. The shortfall in interest is more than offset by the saving made through deferred borrowing (see para. 4.3).

## **6. OTHER IMPLICATIONS**

6.1 The agreed treasury strategy aims to minimise risk to the council finances from any further instability in financial markets.

## **7. OUTCOMES OF CONSULTATION**

7.1 Not applicable.

## **8. RECOMMENDATIONS**

8.1 That the Audit Committee consider the assurance provided by this report on the effectiveness of arrangements for treasury management, and

8.2 That the Audit Committee notes the treasury management performance for the period.

## **SERVICE DIRECTOR FINANCE**

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Date: 3 September 2010

### **Background Papers used in the preparation of this report**

LAAP Bulletin 82 'guidance on the impairment of deposits with Icelandic banks',  
CIPFA

**APPENDIX 1**

**INVESTMENTS MADE AND REALISED APRIL TO AUGUST 2010**

REF	INVESTMENT INSTITUTION	DATE INVESTED	AMOUNT	STATUS/DUE DATE OF PAYMENT
<b>INVESTMENTS MADE IN 2010/2011</b>				
3734	Barnsley Borough Council	14/05/2010	2,200,000.00	Repaid
3787	Birmingham City Council	21/07/2010	2,000,000.00	Repaid
3771	Blaenau Gwent County Borough Council	30/06/2010	2,000,000.00	Repaid
3797	Blaenau Gwent County Borough Council	03/08/2010	2,000,000.00	<b>03.09.10</b>
3794	Cheltenham Borough Council	30/07/2010	2,500,000.00	Repaid
3746	City of Plymouth Council	01/06/2010	2,000,000.00	Repaid
3767	City of Plymouth Council	28/06/2010	1,000,000.00	Repaid
3786	City of Plymouth Council	21/07/2010	2,000,000.00	Repaid
3711	Debt Management Office	06/04/2010	4,800,000.00	Repaid
3712	Debt Management Office	06/04/2010	4,800,000.00	Repaid
3716	Debt Management Office	14/04/2010	3,550,000.00	Repaid
3726	Debt Management Office	04/05/2010	4,990,000.00	Repaid
3728	Debt Management Office	05/05/2010	795,000.00	Repaid
3729	Debt Management Office	06/05/2010	3,090,000.00	Repaid
3731	Debt Management Office	10/05/2010	4,000,000.00	Repaid
3732	Debt Management Office	11/05/2010	3,700,000.00	Repaid
3744	Debt Management Office	27/05/2010	4,000,000.00	Repaid
3747	Debt Management Office	02/06/2010	1,500,000.00	Repaid
3748	Debt Management Office	02/06/2010	5,700,000.00	Repaid
3749	Debt Management Office	02/06/2010	1,500,000.00	Repaid
3750	Debt Management Office	02/06/2010	2,800,000.00	Repaid
3755	Debt Management Office	11/06/2010	1,000,000.00	Repaid
3757	Debt Management Office	15/06/2010	7,500,000.00	Repaid
3758	Debt Management Office	15/06/2010	2,335,000.00	Repaid
3773	Debt Management Office	01/07/2010	2,300,000.00	Repaid
3774	Debt Management Office	05/07/2010	1,000,000.00	Repaid
3775	Debt Management Office	06/07/2010	5,690,000.00	Repaid
3781	Debt Management Office	15/07/2010	2,000,000.00	Repaid
3810	Debt Management Office	23/08/2010	2,000,000.00	Repaid
3769	Dumfries and Galloway Council	28/06/2010	2,000,000.00	Repaid
3770	Merthyr Tydfil Borough Council	29/06/2010	1,000,000.00	Repaid
3718	Nationwide Building Society	15/04/2010	3,000,000.00	Repaid
3727	Nationwide Building Society	05/05/2010	2,000,000.00	Repaid

3736	Nationwide Building Society	17/05/2010	3,000,000.00	Repaid
3752	Nationwide Building Society	08/06/2010	2,000,000.00	Repaid
3760	Nationwide Building Society	18/06/2010	3,000,000.00	Repaid
3778	Nationwide Building Society	12/07/2010	2,000,000.00	Repaid
3784	Nationwide Building Society	20/07/2010	3,000,000.00	Repaid
3802	Nationwide Building Society	13/08/2010	2,000,000.00	<b>14.09.10</b>
3807	Nationwide Building Society	20/08/2010	3,000,000.00	<b>21.09.10</b>

3768	Northamptonshire County Council	28/06/2010	1,000,000.00	Repaid
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3720	Reigate and Banstead Borough Council	20/04/2010	3,000,000.00	Repaid
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3715	Salford City Council	13/04/2010	3,000,000.00	Repaid
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3741	Sheffield City Council	25/05/2010	3,000,000.00	Repaid
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3761	Sheffield City Council	18/06/2010	3,000,000.00	Repaid
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3789	Sheffield City Council	23/07/2010	3,000,000.00	Repaid
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3791	Stafford Borough Council	23/07/2010	1,000,000.00	Repaid
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3723	Stirling District Council	26/04/2010	2,000,000.00	Repaid
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3783	Swindon Borough Council	19/07/2010	3,000,000.00	Repaid
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3808	Swindon Borough Council	20/08/2010	3,000,736.44	Repaid
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3803	Thurrock Borough Council	16/08/2010	3,000,000.00	<b>17.09.10</b>
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3790	Torfaen County Borough Council	23/07/2010	1,470,000.00	Repaid
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3740	West Yorkshire Fire & Rescue Service	24/05/2010	3,000,000.00	Repaid
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3764	West Yorkshire Fire & Rescue Service	25/06/2010	3,000,000.00	Repaid
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#### **INVESTMENTS MADE BEFORE 1 APRIL 2010**

**£**

3705	Bank of Scotland Fixed Term Deposit	25/03/2010	1,000,000.00	Repaid
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3706	Basildon District Council	26/03/2010	3,000,000.00	Repaid
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3305	Heritable Bank Limited	01/09/2008	1,625,521.80	In administration
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3319	Heritable Bank Limited	12/09/2008	650,208.72	In administration
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3290	Landsbanki Islands	08/08/2008	1,000,000.00	In receivership
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3306	Landsbanki Islands	01/09/2008	1,000,000.00	In receivership
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3702	Stirling District Council	25/03/2010	2,000,000.00	Repaid
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## INVESTMENT POSITION 31 AUGUST 2010

### CALL ACCOUNT BALANCES

£

Bank of Scotland plc	4,928,820.68	On call
Barclays Bank PLC	5,000,000.00	On call
HSBC Bank plc	5,005,295.47	On call
NatWest Special Interest Bearing Account	7,272,350.74	On call
Santander UK plc	4,740.63	On call

### OTHER INVESTMENTS

Blaenau Gwent Borough Council	2,000,000.00	Repayment at term
Heritable Bank Limited	2,056,280.52	In administration
Landsbanki Islands	2,000,000.00	In receivership
Nationwide Building Society	5,000,000.00	Repayment at term
Thurrock Borough Council	3,000,000.00	Repayment at term

### TOTAL

**36,267,488.04**

**PRUDENTIAL GUIDELINE INDICATORS AT 31 AUGUST 2010**

**APPENDIX 2**

	2010/11 Budget £'000	2010/11 Forecast £'000
(i) estimates of capital expenditure*	88,587	88,159
(ii) General Fund ratio of financing costs to the net revenue stream	5.39%	no change
(iii) an estimate of the capital financing requirement	154,000	no change
(iv) the authorised limit for external debt borrowing	242,000	
other long term liabilities	5,000	no change
total	247,000	
(v) the operational boundary for external debt borrowing	162000	
other long term liabilities	5,000	no change
total	167,000	
(vi) upper limit for fixed rate exposure	% 100	no change
(vii) upper limit for variable rate exposure	20	no change
(viii) upper and lower limits for maturity structure of borrowing		
UPPER LIMIT		
under 12 months	15	
12 months and within 24 months	15	
24 months and within 5 years	50	no change
5 years and within 10 years	75	
10 years and above	90	
LOWER LIMIT		
under 12 months	0	
12 months and within 24 months	0	
24 months and within 5 years	0	no change
5 years and within 10 years	0	
10 years and above	25	
(ix) total principal sums invested for periods longer than 364 days	£000 0	£000 0

\* Changes to the capital programme are a rephasing of schemes from 2009/10 and additional external funding approvals received since the budget was set