

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

QUARTERLY TREASURY MANAGEMENT AND STRATEGY REPORT

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To provide a review of the treasury strategy approved each year by council.
- 1.2 To report on the treasury management performance between April and August 2013. The report explains how the strategy has been implemented to date, and the response to changing conditions in financial markets.
- 1.3 The report also provides an update on our Icelandic investments.

2. BACKGROUND INFORMATION

2.1 The investment strategy for 2013/2014 aims to reduce risk by;

- Investing for shorter periods up to six months
- Only investing in UK institutions with a minimum of an adequate credit rating or equivalent
- Applying a maximum investment limit of £5m for most counterparties
- Applying a maximum limit to financial groups rather than separate institutions
- Investing in a wider range of institutions through Money Market Funds

2.2 The borrowing strategy for 2013/2014 aims to;

- Suspend external borrowing in the plan period for as long as is prudent
- Track the differential between short-and long-term interest rates to determine when it is prudent to resume borrowing
- Borrow only to support the capital programme
- Maximize borrowing through the PWLB while this gives best value for money
- Borrow for shorter periods if cash flow requires and
- Consider debt rescheduling.

2.3 The council's budget was framed against the state of financial markets at that time of approval and prospects for the year ahead. This included the Bank of England Base Rate which was set on 5th March 2009 at 0.5% and continues at that level. The Monetary Policy Committee has indicated their intention to hold the bank base rate at that level until unemployment falls to a 7% threshold. This is not expected to happen until the middle of 2016.

2.4 The budget assumes a projected average cost of future external borrowing of 4% at the point when internal borrowing is no longer an option. Existing borrowing is based on a mix of borrowing terms. Both are used in setting a range of prudential indicators which are monitored against Council targets to ensure the capital investment programme remains affordable, prudent and is sustainable.

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 Generally the economic position appears more positive than in past quarters. The most recent figures for the UK economy from the Office for National Statistics show growth of 0.6% in the three months to June 2013. This had led the CBI to increase its growth forecast for 2013 from 1% to 1.2% and for 2014 to 2.3%. There are also signs of recovery from recession within the rest of the European zone with GDP across the block growing by 0.3% in the second quarter of the year after 18 months of economic contraction. While it remains early days and the high level of unemployment within Europe (12.1%) remains a cause for concern, improvements in Europe together with a broader global recovery gives cause for optimism.

Although the guidance given by the Bank of England regarding interest rates is seen as a positive for business investment the indication that the base lending rate will remain at 0.5% until mid 2016 offers little to those seeking a return from investment as bank and building society counter parties investment rates remain low.

4.2 Although the economic position appears more positive the focus of cash management remains to maximise security and liquidity. Cash is currently being held in a range of call accounts with UK banks, on short (3 month maximum) deposit with banks and building societies, who maintain an adequate credit rating or as short-term (6 month maximum) investments with other local authorities and the Debt Management Office.

4.3 In addition to this investments have been placed with Money Market funds meeting the council's investment criteria. These offer more

competitive rates that many of the bank and building society counter parties while diversifying credit and interest rate risk.

- 4.4 Investments realised during the period were returned with interest or reinvested. At the end of August outstanding investments were £37.2m, including £9.1m with the council's own bankers (**see Appendix 1 and 1A**).
- 4.5 The continuing low base rate means returns on investments continue to be very modest, an average of 0.425% achieved in 2013/14 year to date. In addition to this the investment limits and risk criteria set in the strategy mean that in the early part of the financial year, when funds are at their highest, investment opportunities with counter parties offering more competitive investment rates are limited. In such circumstances investment with institutions offering less competitive rates such as the DMO may remain the only option.

Borrowing strategy

- 4.6 In line with the approved strategy, there has been no new borrowing to finance the capital programme. Long-term borrowing rates (25 year fixed) have not reached the 5.15% upper trigger point set in the strategy and in addition the differential between borrowing and lending rates has not narrowed to 2.5%. Therefore a judgement has been made that internal borrowing continues to give best value for money. This is the sixth year in which the council has used cash balances to fund capital investment, and the saving on debt costs has been factored into the budget.
- 4.7 Scheduled debt repayments continue and by the end of September 2013 further repayments of £0.5m will reduce debt outstanding to £108.4m, with this reducing yet further to £107.8m by the end of March 2013.
- 4.8 The added benefit of this approach is to progressively reduce the amount of cash exposed to risk in the financial markets and the underlying balance is reducing (£37.2m in August).
- 4.9 Key performance indicators have been updated following the rephrasing of the capital programme. These are shown at **Appendix 2**.

Icelandic Investments

- 4.10 Recovery of funds placed with Icelandic banks before October 2008 is progressing well. So far the council has received repayment of £4.28m which is 77.1% of the councils claim. Originally recovery from Heritable bank was estimated at between 85 to 90 pence in the pound. So far 94.02 pence in the pound has been achieved and additional payments remain a possibility.

Institution	Claim	Paid	% Recovery
Heritable	£3.52m	£3.31m	94.0
Landsbanki	£2.03m	£0.97m	47.8
	£5.55m	£4.28m	77.1

- 4.11 Maximising the timely recovery of funds remains a priority and to further progress this, on the 13th August a report was presented to the Policy and Resources Cabinet Member requesting approval to negotiate, acting collectively with other Local Authority Creditors, the sale of the Council's Landsbanki Claim. Approval was granted and the Local Government Association has procured a partner to negotiate on behalf of the Local Authority Creditors.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 The projected revenue costs of financing debt are within budget. A positive outcome is still expected on the return of Icelandic investments as around 94% of the investment in Heritable Bank has now been realised, and over 48% of the Landsbanki investment recovered. There is also a potential for the early return of funds through the sale of the Landsbanki claim as final settlement is not anticipated for some years.
- 5.2 There has been an adjustment to the capital programme for 2013/14 largely due to a rephasing of schemes spending and changes to programme financing. This is reflected in Appendix 2.
- 5.3 The agreed treasury strategy primarily aims to minimise risk to the councils' finances from any further instability in financial markets while seeking to achieve a favourable return from investment income.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 6.1 Not applicable

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

- 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.

DIRECTOR OF POLICY & RESOURCES

Civic Centre
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: Steve Cowlbeck
Date: 2nd September 2013

Background Papers used in the preparation of this report

CIPFA – Treasury Management in the Public Services. Code of Practice and Cross-Sectoral Guidance Notes: 2011 edition.

The Prudential Code for Capital Financing in Local Authorities 2011 edition.

INVESTMENT POSITION AS AT 31 AUGUST 2013**CALL ACCOUNT BALANCES**

£

Barclays Bank plc Flexible Interest Bearing Current Account	9,076,905	On call
Bank of Scotland Plc Call Account	1,989,330	On call
HSBC Bank Plc Call Account	4,989,004	On call
National Westminster Bank Plc Special Interest Bearing Account	4,958,882	On call

OTHER INVESTMENTS

Bank of Scotland Plc	3,000,000	Repayment at term
Leeds Building Society	2,000,000	Repayment at term
Nationwide Building Society	5,000,000	Repayment at term
Virgin Money Plc	1,000,000	Repayment at term
Debt Management Office	1,000,000	Repayment at term
CCLA Public Sector Deposit Fund	3,000,000	Money Market Fund
Heritable Bank Limited	795,936	In administration
Landsbanki Islands	1,055,923	In receivership

SUB-TOTAL**37,865,980****LESS:**

Impairments brought to account in 2011/12 relating to Icelandic Investments	655,407
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TOTAL**37,210,573**

APPENDIX 1A

INVESTMENTS MADE AND REALISED APRIL 2013 TO 31 AUGUST 2013

INVESTMENT INSTITUTION	DATE INVESTED	AMOUNT	STATUS/DUE DATE OF PAYMENT
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£

INVESTMENTS MADE SINCE 1 APRIL 2013

Bank of Scotland Fixed Term Deposit	14.08.13	3,000,000.00	14/11/2013
Coventry Building Society	02.04.13	2,000,000.00	Repaid
Coventry Building Society	02.04.13	3,000,000.00	Repaid
Coventry Building Society	05.04.13	2,000,000.00	Repaid
Coventry Building Society	09.04.13	3,000,000.00	Repaid
Coventry Building Society	12.04.13	2,000,000.00	Repaid
Coventry Building Society	16.04.13	3,000,000.00	Repaid
Coventry Building Society	22.04.13	2,000,000.00	Repaid
Coventry Building Society	23.04.13	3,000,000.00	Repaid
Coventry Building Society	29.04.13	2,000,000.00	Repaid
Coventry Building Society	30.04.13	3,000,000.00	Repaid
Coventry Building Society	07.05.13	3,000,000.00	Repaid
Coventry Building Society	07.05.13	2,000,000.00	Repaid
Coventry Building Society	14.05.13	5,000,000.00	Repaid
Coventry Building Society	21.05.13	5,000,000.00	Repaid
Coventry Building Society	28.05.13	5,000,000.00	Repaid
Coventry Building Society	04.06.13	5,000,000.00	Repaid
Coventry Building Society	11.06.13	5,000,000.00	Repaid
Coventry Building Society	11.07.13	5,000,000.00	Repaid
Coventry Building Society	12.08.13	5,000,000.00	Repaid
Coventry Building Society	22.08.13	3,000,000.00	Repaid
Debt Management Office	08.04.13	1,000,000.00	Repaid
Debt Management Office	11.04.13	3,000,000.00	Repaid
Debt Management Office	12.04.13	2,110,000.00	Repaid
Debt Management Office	15.04.13	4,450,000.00	Repaid
Debt Management Office	16.04.13	2,500,000.00	Repaid
Debt Management Office	16.04.13	3,000,000.00	Repaid
Debt Management Office	18.04.13	500,000.00	Repaid
Debt Management Office	30.04.13	1,270,000.00	Repaid
Debt Management Office	30.04.13	1,500,000.00	Repaid
Debt Management Office	01.05.13	3,710,000.00	Repaid
Debt Management Office	02.05.13	1,000,000.00	Repaid
Debt Management Office	08.05.13	1,000,000.00	Repaid
Debt Management Office	10.05.13	1,000,000.00	Repaid
Debt Management Office	15.05.13	2,500,000.00	Repaid
Debt Management Office	15.05.13	2,500,000.00	Repaid
Debt Management Office	20.05.13	3,730,000.00	Repaid
Debt Management Office	22.05.13	2,000,000.00	Repaid
Debt Management Office	22.05.13	2,500,000.00	Repaid
Debt Management Office	31.05.13	2,130,000.00	Repaid
Debt Management Office	03.06.13	2,000,000.00	Repaid
Debt Management Office	03.06.13	3,000,000.00	Repaid
Debt Management Office	03.06.13	4,000,000.00	Repaid
Debt Management Office	05.06.13	1,500,000.00	Repaid
Debt Management Office	05.06.13	2,000,000.00	Repaid
Debt Management Office	05.06.13	1,000,000.00	Repaid
Debt Management Office	13.06.13	300,000.00	Repaid
Debt Management Office	17.06.13	3,410,000.00	Repaid
Debt Management Office	24.06.13	1,570,000.00	Repaid
Debt Management Office	24.06.13	1,000,000.00	Repaid
Debt Management Office	27.06.13	1,500,000.00	Repaid
Debt Management Office	28.06.13	2,090,000.00	Repaid
Debt Management Office	01.07.13	1,000,000.00	Repaid
Debt Management Office	01.07.13	2,000,000.00	Repaid
Debt Management Office	01.07.13	2,500,000.00	Repaid
Debt Management Office	01.07.13	1,000,000.00	Repaid

INVESTMENT INSTITUTION	DATE INVESTED	AMOUNT	STATUS/DUE DATE OF PAYMENT
		£	
Debt Management Office	01.07.13	670,000.00	Repaid
Debt Management Office	03.07.13	1,260,000.00	Repaid
Debt Management Office	15.07.13	1,000,000.00	Repaid
Debt Management Office	15.07.13	2,025,000.00	Repaid
Debt Management Office	19.07.13	1,620,000.00	Repaid
Debt Management Office	01.08.13	5,476,000.00	Repaid
Debt Management Office	08.08.13	540,000.00	Repaid
Debt Management Office	09.08.13	500,000.00	Repaid
Debt Management Office	12.08.13	2,060,000.00	Repaid
Debt Management Office	12.08.13	2,500,000.00	Repaid
Debt Management Office	15.08.13	3,000,000.00	Repaid
Debt Management Office	15.08.13	1,800,000.00	Repaid
Debt Management Office	22.08.13	1,600,000.00	Repaid
Debt Management Office	23.08.13	1,000,000.00	Repaid
Debt Management Office	27.08.13	1,000,000.00	Repaid
Debt Management Office	27.08.13	1,000,000.00	Repaid
Debt Management Office	30.08.13	1,000,000.00	09/09/2013
Leeds Building Society	30.04.13	3,000,000.00	Repaid
Leeds Building Society	03.07.13	2,000,000.00	03/10/2013
Nationwide Building Society	03.04.13	1,580,000.00	Repaid
Nationwide Building Society	10.04.13	1,420,000.00	Repaid
Nationwide Building Society	01.05.13	2,000,000.00	Repaid
Nationwide Building Society	03.05.13	1,580,000.00	Repaid
Nationwide Building Society	10.05.13	1,420,000.00	Repaid
Nationwide Building Society	03.06.13	2,000,000.00	Repaid
Nationwide Building Society	03.06.13	1,580,000.00	Repaid
Nationwide Building Society	10.06.13	1,420,000.00	Repaid
Nationwide Building Society	03.07.13	2,000,000.00	Repaid
Nationwide Building Society	03.07.13	1,580,000.00	Repaid
Nationwide Building Society	10.07.13	1,420,000.00	Repaid
Nationwide Building Society	05.08.13	2,000,000.00	05/09/2013
Nationwide Building Society	05.08.13	1,580,000.00	05/09/2013
Nationwide Building Society	12.08.13	1,420,000.00	13/09/2013
Virgin Money Plc	02.04.13	3,000,000.00	Repaid
Virgin Money Plc	09.04.13	3,000,000.00	Repaid
Virgin Money Plc	16.04.13	3,000,000.00	Repaid
Virgin Money Plc	23.04.13	3,000,000.00	Repaid
Virgin Money Plc	30.04.13	3,000,000.00	Repaid
Virgin Money Plc	07.05.13	3,000,000.00	Repaid
Virgin Money Plc	14.05.13	3,000,000.00	Repaid
Virgin Money Plc	21.05.13	3,000,000.00	Repaid
Virgin Money Plc	30.05.13	2,000,000.00	Repaid
Virgin Money Plc	31.05.13	1,000,000.00	Repaid
Virgin Money Plc	06.06.13	2,000,000.00	Repaid
Virgin Money Plc	07.06.13	1,000,000.00	Repaid
Virgin Money Plc	08.07.13	3,000,000.00	Repaid
Virgin Money Plc	26.07.13	2,000,000.00	Repaid
Virgin Money Plc	30.07.13	1,000,000.00	Repaid
Virgin Money Plc	30.08.13	1,000,000.00	30/09/2013
Yorkshire Building Society	30.04.13	2,000,000.00	Repaid
Yorkshire Building Society	01.05.13	1,000,000.00	Repaid
Yorkshire Building Society	03.06.13	1,000,000.00	Repaid
Yorkshire Building Society	03.07.13	1,000,000.00	Repaid
Yorkshire Building Society	30.07.13	2,000,000.00	Repaid

APPROVED PRUDENTIAL GUIDELINE INDICATORS

APPENDIX 2

	2013/14 Budget (Feb 2013)	2013/14 Revised
(i) Estimates of capital expenditure	68.045	£'000 69.373
(ii) General Fund ratio of financing costs to the net revenue stream % (Based on Prudential Code 2011)	7.11	6.96
(iii) an estimate of the capital financing requirement	£m 172.35	£m 169.43
(iv) the authorised limit for external debt borrowing other long term liabilities total	268,000 5,000 273,000	no change
(v) the operational boundary for external debt borrowing other long term liabilities total	215,000 2,000 217,000	no change
(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 12 months and within 24 months 24 months and within 5 years 5 years and within 10 years 10 years and above LOWER LIMIT under 12 months 12 months and within 24 months 24 months and within 5 years 5 years and within 10 years 10 years and above	 15 15 50 75 90 0 0 0 0 25	 no change no change
(ix) total principal sums invested for periods longer than 364 days	£000 0	£000 0

(i). Capital Programme expenditure has increased since February 2013 due to programme slippage from 2012-13

(II). There has been a slight reduction in the ratio for 2013-14 following receipt of additional funding from New Homes Bonus and for Social Care.