

**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 2013 and March 2014. The report explains how the strategy has been implemented to date, and the response to changing conditions in financial markets.
- 1.3 To report the successful conclusion to our recovery of 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 counter-parties
- 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 the 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.

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. It is now expected that external borrowing will resume during the 2014/15 financial year. Existing borrowing is based on a mix of borrowing terms. Current debt levels and future borrowing requirements 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 The 2014 Budget presented by the Chancellor of the Exchequer, George Osborne, on 19 March 2014 provided the latest projections for key economic indicators :

- CPI inflation is now in line with the target of 2% and is expected to stabilise around that level.
- Growth in the economy is now well-established and it is expected to continue to grow at a rate of 2.7% in 2014 with similar annual increases in the following years.
- The public sector deficit is projected to fall year on year and reach surplus in 2018/19.

4.2 The 2013/14 Treasury Report highlighted several areas for concern with Sovereign debt levels and the stability of the Eurozone. Most of these concerns have receded during 2013/14. The French, Greek and Portuguese economies remain weak, with Greece finally forecasting an end to its recession later in 2014, and although Spain has exited bailout, there is no consensus on the scale of growth expected. Overall the Eurozone is showing signs of improvement but several of its member states economies remain weak and these countries remain vulnerable.

4.3 Whilst many indicators are showing improvement the council's financial strategy continues to assume short term interest rates will remain at 0.5% offering little to those seeking a return from investment. This impacts on rates available from our bank and building society counter parties.

- 4.4 Although the economic position is 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-term (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.
- 4.5 Efforts have been made throughout the year to ensure the maximum possible level of investment in the council's own bankers Fixed Interest Bearing Current Account which attracts a bonus interest rate. This generates a yield in line with six month fixed investments with other counterparties, whilst still delivering liquidity.
- 4.6 In addition, investments have been placed with Money Market Funds meeting the council's investment criteria. These offer more competitive rates than many of the bank and building society counterparties while diversifying credit and interest rate risk.
- 4.7 Investments realised during the period were returned with interest or reinvested. At the 31 March 2014 outstanding investments were £17.2m, including £10.0m with the council's own bankers (**see Appendix 1**).
- 4.8 The continuing low base rate means returns on investments continue to be very modest, an average of 0.45% achieved in 2013/14, slightly below the target of 0.5%. In addition, the investment limits and risk criteria set in the strategy meant that in the earlier part of the financial year, when funds were at their highest, investment opportunities with counterparties offering more competitive investment rates were still limited. In such circumstances investment with institutions offering less competitive rates such as the DMO at times remained the only option.
- Borrowing strategy**
- 4.9 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 reached the 4.15% upper trigger point set in the strategy on occasion but as the differential between borrowing and lending rates has not narrowed to 2.5% 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.
- 4.10 Scheduled debt repayments continue and debt outstanding has been reduced to £107.8m as at March 2014.
- 4.11 Key performance indicators continue to be monitored following the rephrasing of the capital programme.

## Icelandic Investments

- 4.12 The council has been working with other local authority creditors of the failed Icelandic Banks to recover the money it invested in 2008. The recovery of Heritable debt has been concluded. The percentage recovery was 94% against a forecast of 85-90%. Further repayments are possible but unlikely. The recovery of the money invested with the Icelandic bank, Landsbanki now known as L.B.I. has recently been finalised. The council's claim, in conjunction with the majority of other local authority claimants, has been sold at auction on 30 January 2014. Overall the council has recovered 93% of its investment. This is a very positive outcome.

Institution	Claim	Paid
Heritable	£3.52	£3.31m
LBI (Landsbanki)	£2.03	£1.85m
	£5.55	£5.16m

- 4.13 This table summarises the impact of Icelandic investments on the council's finances, a total of £5.16m has been recovered from the total claim of £5.55m. The conclusion of recovery of funds has allowed the council to release the impairment provision of £2m into balances to support council spending as part of the 2014/15 budget decision.

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

- 5.1 The treasury strategy aims to minimise risk to the council's finances from further instability in financial markets while seeking to achieve a favourable return from investment income.
- 5.2 The projected costs of financing debt are within budget.

## 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

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**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.

## APPENDIX 1

### INVESTMENT POSITION AS AT 31 MARCH 2014

#### CALL ACCOUNT BALANCES

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Barclays Bank plc Flexible Interest Bearing Current Account	9,982,280	On call
Bank of Scotland Plc Call Account	4,967,118	On call
HSBC Bank Plc Call Account	2,207	On call
National Westminster Bank Plc Special Interest Bearing Account	626,340	On call

#### OTHER INVESTMENTS

CCLA Public Sector Deposit Fund	1,631,000	Money Market Fund
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**TOTAL** **17,208,945**

In addition to those specified above, counterparties with whom investments have been placed in the year up until 31st March 2014 are as follows :

Bank of Scotland Fixed Term deposit  
Coventry Building Society  
Debt Management Office  
Leeds Building Society  
Nationwide Building Society  
Virgin Money PLC  
Yorkshire Building Society