Report of the Director of Policy & Resources

Agenda Item No: 8
Meeting: 23rd September 2014

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 2014. The report explains how the strategy has been implemented to date, and the response to changing conditions in financial markets.

2. BACKGROUND INFORMATION

2.1 The investment strategy for 2014/2015 aims to reduce risk by

Investing for periods up to twelve months
Only investing directly in UK institutions with a minimum of an adequate credit rating or equivalent
Applying a maximum investment limit of £7m or lower for counter-parties (except the council's own bankers)
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 2014/2015 aims to

Resume borrowing for capital investment in 2014/15
Track short-and long-term interest rates to determine the best timing of that borrowing
Consider borrowing from a range of institutions to ensure the best value for money
Generally borrow only to support the capital programme
Borrow for shorter periods if cash flow requires.

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 minutes of the latest Monetary Policy Committee showed that two (out of nine) members had voted for an increase in the rate. This was the first non-unanimous vote to hold rates static in the past 3 years. However, there has also been contradictory economic data which suggests that rates will not be required to be raised. Overall, the current expectation is that the base rate won't be increased until the beginning of 2015 at the earliest.

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 0.8% in the three months to June 2014. This had led the British Chamber of Commerce to increase its growth forecast for 2014 from 3.1% to 3.2% and for 2015 to 2.8%. In March the government's independent fiscal watchdog, the Office for Budget Responsibility (OBR) also forecast 2014 growth of 2.7%, and the Bank of England has also upgraded its growth forecast for the year from 3.4% to 3.5%.The economy within the rest of the European zone is struggling to make a sustained recovery with minimal and inconsistent growth, high unemployment and the risks of lower inflation hindering confidence.

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 or, on short (3 month maximum) deposit with banks and building societies, who maintain an adequate credit.

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 £31.9m, including £14.0m with the council's own bankers (**see Appendix 1).**

4.5 The continuing low base rate means returns on investments continue to be very modest, an average of 0.4426% achieved in 2014/15 year to date. Although the investment limits and risk criteria set in the strategy have been relaxed a little this year to maximise potential yields when funds are at their highest, this has been negated somewhat by short term cash flow requirements which have prevented significant funds being invested to the limits allowed within the strategy.

Borrowing strategy

4.6 Scheduled debt repayments continue and by the end of September 2014 further repayments of principal of £0.5m will reduce debt outstanding to £107.2m, with this reducing yet further to £105.8m by the end of March 2015.

4.7 The current funding requirement for the 2014/15 capital programme includes an assumption of £25m of internal funding. It had initially been anticipated that this would be met from borrowing. In view of the council's existing cash balances and the potential for programme slippage it is unlikely that full borrowing will be necessary.

4.8 The requirement for additional borrowing continues to be monitored and in addition, to ensure that borrowing is undertaken at the optimum time to gain the most competitive rate, monitoring of the current available lending rates is also undertaken.

4.9 Key performance indicators have been updated following the rephasing of the capital programme. These are shown at **Appendix 2**.

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

5.1 The projected revenue costs of financing debt are within budget.

5.2 There has been an adjustment to the capital programme for 2014/15 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.

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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 AUGUST 2014

CALL ACCOUNT BALANCES	£	
Barclays Bank plc Flexible Interest Bearing Current Account	13,997,227	On call
Bank of Scotland Plc Call Account	5,998,527	On call
HSBC Bank Plc Call Account	5,589,754	On call
National Westminster Bank Plc Special Interest Bearing Account	24,711	On call
OTHER INVESTMENTS		
Bank of Scotland Fixed term deposit	1,000,000	Repayment at term
Nationwide Building Society	5,000,000	Repayment at term
CCLA Public Sector Deposit Fund	327,500	Money Market Fund
TOTAL (Including Regional Growth Fund)	**31,937,718**	
TOTAL (Excluding Regional Growth Fund)	**25,737,881**	

In addition to those specified above, counterparties with whom investments have been placed in the 2014/15 from 1stApril up until 31stAugust 2014 are as follows :

Coventry Building Society
Leeds Building Society
Virgin Money Plc

APPROVED PRUDENTIAL GUIDELINE INDICATORS **APPENDIX 2**

	2014/15 Budget (Feb 2014)	2014/15 Revised
(i) Estimates of capital expenditure	£m 61,482.000	£m 72,192.000
(ii) General Fund ratio of financing costs to the net revenue stream % (Based on Prudential Code 2011)	% 7.77	% 7.23
(iii) an estimate of the capital financing requirement	£m 180,208.00	£m 183,564.00
(iv) the authorised limit for external debt borrowing other long term liabilities total	£m 233,000 5,000 238,000	£m no change
(v) the operational boundary for external debt borrowing other long term liabilities total	£m 181,000 2,000 183,000	 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	 15 15 50 75	 no change

10 years and above	90	
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	 0 0 0 0 25	no change
(ix)	£000	£000
total principal sums invested for periods longer than 364 days	0	0

(i). Capital Programme expenditure has changed for rephasing of spending and additional grant contributions

(ii). The ratio has been influenced by slippage of grant funded schemes which have reduced the value of the net revenue streams in 2014-15. This has been disproportionate to the reduction in financing costs. The ratio remains below the 10-12% maximum level set at Council in February 2014.