

NORTH LINCOLNSHIRE COUNCIL

Audit Committee

QUARTERLY TREASURY MANAGEMENT AND STRATEGY REPORT 2015/16

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To provide a review of the treasury strategy approved by council as part of the 2015/16 budget. The report gives details of progress to date.
- 1.2 It covers treasury management performance for the year up to the 18th March, 2016. The report explains how the strategy has been implemented during the year, the state of the financial markets, and the response to changing conditions in those markets.

2. BACKGROUND INFORMATION

2.1 The investment strategy for 2015/2016 aims to;

- Limit the maximum investment period to twelve months
- Apply a maximum investment limit of £7m or lower for counter-parties (except the council's own bankers)
- Apply a maximum limit to financial groups rather than separate institutions
- Invest in a range of financial institutions including UK institutions with a minimum of an adequate credit rating or equivalent and Money Market Funds.
- Invest in additional instruments such as Certificates of Deposit

2.2 The borrowing strategy for 2015/2016 aims to;

- Borrow at the most advantageous point possible
- Track short-and long-term interest rates alongside investment rates to determine that point
- 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 or to avoid long term borrowing for a period.

- 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. The Monetary Policy Committee voted unanimously to maintain Bank Rate at 0.5% on the 17th March, 2016.
- 2.4 The strategy for 2015/16 anticipated that the council would be required to move to external borrowing during the financial year.
- 2.5 The budget for 2015/16 provides for an average annual cost of interest at 4% and principal repayment over 20 years for future external borrowing once internal borrowing is no longer an option. For future years, provision is on an annuity basis.
- 2.6 Existing debt is based on a mix of borrowing terms. The rates are taken into account when the council sets prudential indicators for the treasury function. Performance is monitored against these targets to ensure the capital investment programme remains affordable and 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 With the continuing low level of CPI inflation the Bank of England has continued to hold the bank base rate at 0.5%. While this is seen as a positive for business investment this rate offers little for those seeking returns from investments, as is suggested by the rates currently offered by the Councils counter parties.
- 4.2 The low base rate means returns on investments continue to be very modest. So far an average return of 0.5% has been achieved. Our "small" investments, in terms of period and size (compared to the market), can only attract lower interest rates.
- 4.3 The strategy to run cashflow balances to a low level in order to avoid both short term and long term borrowing has meant that the income achieved from investment opportunities has also reduced. The income target of £86k is likely to be under-achieved by £7k by the year end.
- 4.4 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 who maintain an adequate credit rating.

- 4.5 In addition to this 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 counter parties while diversifying credit and interest rate risk.
- 4.6 Investments realised during the year were all returned with interest or reinvested. At the 18th of March outstanding investments were £6.6m, mostly with the Council's own bankers. The other minor deposits were just to keep their respective accounts open. (**Appendix 1**).

Borrowing strategy

- 4.7 In setting the current strategy it had been anticipated that the level of repayment of maturing debt, the extent of capital investment to be funded directly by the council and a reduction in the level of surplus balances would mean that the council would be unable to continue the practice of internal borrowing during 2015-16.
- 4.8 In order to ensure value for money for the council, a balance was struck between avoiding long term external borrowing in the short-term to maximise revenue savings now, by short term borrowing. This has resulted in both short term and long term borrowing (**Appendix 2**). In particular the committee should note that £20m has been borrowed long term, the first since December 2007.
- 4.9 Scheduled debt repayments have continued and the debt outstanding at the 31st March on the current borrowing (including the latest £20m) will be £123.4m.
- 4.10 Over the next three financial years the council will be required to repay a total of £15.1m of maturing debt. Having used set aside funds in place of borrowing over the last seven years it will be necessary to borrow to cover these commitments. The timing of such borrowing will be crucial and early borrowing to achieve lower rates may provide better value for money over the long term than borrowing at higher rates at the time of repayment. The interest rates continue to be carefully monitored and an appropriate case for borrowing will be made at the most opportune time.

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 and the prudential ratio of financing costs to net revenue streams below the 10% -12% range set by council.

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 notes the treasury management performance.

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Background Papers used in the preparation of this report

Treasury Management Strategy Report 2015/16
Bank of England Monetary Policy Committee Minutes 17 March 2016

APPENDIX 1**INVESTMENT POSITION AS AT 18 MARCH 2016****CALL ACCOUNT BALANCES**

<u>Financial Institution</u>	<u>Interest Rate</u>	<u>Amount</u>
		£'000
Barclays Bank plc Flexible Interest Bearing Current Account	0.45%	6,530
Bank of Scotland Plc Call Account	0.40%	5
HSBC Bank Plc Call Account	0.30%	0
National Westminster Bank Plc Corporate Cash Manager Plus	0.25%	6
OTHER INVESTMENTS		
CCLA Public Sector Deposit Fund (On Call)	Variable	25
	Total	6,566

In addition to those specified above, the only counterparties with whom any investments have been placed in the period up until 18th March 2016 are :

Leeds Building Society
Nationwide Building Society

APPENDIX 2**IN YEAR BORROWING AS AT 18 MARCH 2016**

NAME	DATE OF LOAN	AMOUNT	% INTEREST RATE	REPAYMENT DATE
Short Term Borrowing				
Greater Manchester	17/12/15	10,000,000	0.35%	06/01/16
East Riding of Yorkshire Council	28/01/16	5,000,000	0.52%	29/02/16
Brentwood Borough Council	11/03/16	1,500,000	0.47%	18/03/16
Long Term Borrowing (25 year annuity)				
PUBLIC WORKS LOAN BOARD	26/02/16	10,000,000	2.59%	26/02/41
PUBLIC WORKS LOAN BOARD	18/03/16	10,000,000	2.73%	18/03/41