

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

**TREASURY MANAGEMENT AND INVESTMENT STRATEGY
QUARTER 3 REPORT 2017/18**

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 This is a report on treasury performance in 2017/18 to date. The benchmark for measuring performance is the treasury strategy which the Council set at its meeting on 16 February 2017.
- 1.2 The report covers
- The legal and regulatory framework
 - How the council performed mid-year
- 1.3 The key points are that the council
- Has sought to minimise cash balances whilst retaining adequate liquidity
 - Invested in larger, diversified Money Market Funds
 - Generated an average return of 0.28% for the quarter.
 - Maintained up to £20m short-term borrowing during the period via the inter-Local Authority market
 - Kept capital financing costs to below 10% of the revenue stream

2. BACKGROUND INFORMATION

The legal and regulatory framework

- 2.1 The annual treasury management and investment strategy was prepared in line with
- CIPFA Code of Practice in the Public Service Fully Revised 2011
 - CIPFA The Prudential Code Fully Revised Second Edition 2011
 - DCLG Guidance
 - Local Government Act 2003
- 2.2 The code of practice requires that full Council receive a report on treasury management strategy at the start of the financial year, at mid-year and at year end. In addition the Audit Committee receives reports quarterly to provide it with assurance on the effectiveness of treasury management arrangements.

- 2.3 The High Level objectives of the Council's treasury management activities are set out in the Treasury Management Policy Statement.
- 2.4 The Code also requires the Council to maintain suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve its Treasury Management policies and objectives, and prescribing how it will manage and control those activities. The Treasury Management Practices adopted by the Council are reviewed on a regular basis.

3. OPTIONS FOR CONSIDERATION

- 3.1 There are no options for consideration. However the performance against the approved strategy can be evaluated. The annual strategy covers:
- the investment strategy
 - the borrowing strategy
 - the prudential indicators for external debt and treasury management.

The Strategy for 2017-18

- 3.2 The strategy for 2017-18 was based on the council's views on interest rates and appropriate counterparties for investment and borrowing based on experience, market intelligence including that provided by credit rating agencies, brokers and the financial media.

The Investment Strategy

- 3.3 The Investment Strategy for 2017/18 aims to reduce risk by;
- Limiting the maximum investment period to twelve months
 - Applying a maximum investment limit of £5m or lower for counterparties (except the council's own bankers and Debt Management Office)
 - Investing in a range of financial institutions including UK institutions with a minimum of an adequate credit rating or equivalent and Money Market Funds.
 - Investing in additional instruments such as Certificates of Deposit
- (see Appendix 1 for list of approved counterparties)

The Borrowing Strategy

- 3.4 The Borrowing Strategy for 2017/18 aims to;
- Borrow long-term to support the cost of the capital programme but also consider short-term borrowing for cash flow purposes or to delay long-term borrowing.

- To borrow at the most advantageous point possible
- Prefer Annuity profile loans for long-term borrowing
- Consider debt rescheduling.

How the council performed during Quarter 3 2017/18

- 3.5 The Treasury Strategy forecasts an ongoing need for additional borrowing in 2017/18. Liquidity is maintained via temporary inter-LA loan transactions during the period. Two longer term loans were taken in the period in respect of the planned capital programme.
- 3.6 Throughout the period efforts were made to keep investment balances sufficient to mitigate liquidity risk but not too high so as to create counterparty access issues or overall credit concerns. Interest received was higher than the previous year at £13.5k compared to £4.5k in the same period in 2016/17 partly reflecting the rate rise mid-quarter and partly due to higher balances being maintained for liquidity purposes.
- 3.7 The level of cash flow balances meant that most investments had to be made short term to manage liquidity risk
- 3.8 The key investment statistics are shown at Appendix 2a:
- Market expectation of rate rises commencing in November meant that certain negotiable instruments anticipated the increase and the council was able to secure some UK Government Treasury Bills at higher rates as early as October. At the same time, most of the temporary loans had been booked in the previous quarter so there was little impact on that side at least in the short term.
 - The closing investment balance on 27 December was £12m, an increase of £0.1m on the position at 30 September 2017. Borrowings increased by £6.9m in the same period to fund the Authority's capital spending plans.
- 3.9 The key borrowing statistics were (see details at appendix 2b):
- Two long-term loans were taken in the period totalling £10.9m. £5.9m was linked directly to the capital programme and a further £5m was taken after rate expectations eased in early November. This latter loan was part of a strategy recognising that the Council will need more long-term borrowing in the year and that rates may finally be on an upward trajectory and so a regular pattern of transactions going forward will average out the overall rate paid.
 - Seven short term loans were arranged via the inter-local authority market at an average rate of 0.30%.
 - With the Authority's internal borrowing capacity now fully deployed this sum is expected to need converting to external long term borrowing in future periods. For the time being however, liquidity

and rates available from the inter-Local Authority market make it the most advantageous route to securing borrowing but consideration will now be given to longer term loans once need can be confirmed and while rates remain historically low.

Total debt of £156.7m at 30 September 2017 was reduced by repayments of £21m in the period, with new/replacement debt added to leave total debt outstanding of £163.6m at 31 December 2017.

- Interest paid in the quarter was £122k lower than in 2016 despite the overall higher level of borrowing. Our average borrowing rate has dropped from 4.49% to 3.51% over the past 12 months as a result of older, maturing borrowing being replaced with new, shorter term debt.
- Total debt was within the authorised and operational boundaries set in the strategy and the maturity profile of debt also remained within the limits set.

3.10 All the Prudential Indicators set in the 2017/18 Treasury Management Strategy were complied with during the period and the Director of Governance and Partnerships does not foresee any issues in maintaining compliance throughout the remainder of the financial year.

3.11 National Policy Direction

- At its meeting in November the Bank of England Monetary Policy Committee (MPC) increased the base rate from 0.25% to 0.5%. It is broadly expected that interest rates will slowly rise over the next few years. Whilst this will bring a welcome uplift in the income generated from our investments the cost of new borrowing the Council undertakes will increase.
- The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes by the end of 2017 for implementation in 2018/19. More detail will be provided when Council reviews its strategy in February 2018.
- Finally, the Management in Financial Instruments Directive II (MiFID II) will change the regulatory environment for the Council's dealings with counterparties from January 2018. Work has been undertaken to ensure the widest possible access to markets is maintained as this is seen as the key to ongoing management of financial risks.

4. ANALYSIS OF OPTIONS

4.1 This is a report on mid-year performance and there are no options to consider. However 2017/18 has seen an extension of external borrowing to meet short and long-term needs as anticipated in the Treasury Strategy.

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

5.1 The financial implications to this report are covered in section 3.

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 considers 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 2017/18 financial year to date.

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report

[2017-18 Treasury Management Strategy](#)
[2017-20 Capital Programme](#)

CIPFA Code of Practice in the Public Service Fully Revised 2011
CIPFA The Prudential Code Fully Revised Second Edition 2011
DCLG Guidance
Local Government Act 2003

GOVERNMENT INSTITUTIONS							
Debt Management Office							Unlimited
Local authorities							
Parish Councils							£0.05m
District Council's							£4m
All Other LA's							£5m
Fire Authorities							£5m
Police authorities							£5m

NOTE: Credit Ratings correct at 15 December 2017.

Appendix 2a

Investment Record Q3 2017-18

Counterparty Name	Deal Type Description	Deal Ref	Opening Balance	Investments Made	Maturities / Investments Sold	Closing Balance	Average Rate	Average Term (days)
Bank of Scotland plc	Call	Total	£500,997.45	£0.00	£0.00	£500,997.45	0.3073%	0
	Total	Total	£500,997.45	£0.00	£0.00	£500,997.45	0.3073%	0
Barclays Bank plc	Call	Total	£8,391,557.68	£44,817,714.04	(£51,751,553.99)	£1,457,717.73	0.3391%	0
	Total	Total	£8,391,557.68	£44,817,714.04	(£51,751,553.99)	£1,457,717.73	0.3391%	0
BlackRock ICS Institutional Sterling Liquidity Heritage Dis	MMF	Total	£2,000,000.00	£5,000,000.00	(£5,000,000.00)	£2,000,000.00	0.2398%	0
	Total	Total	£2,000,000.00	£5,000,000.00	(£5,000,000.00)	£2,000,000.00	0.2398%	0
CCLA The Public Sector Deposit 4	MMF	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
	Total	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
DMADF (Debt Management Account Deposit Facility)	Fixed	Total	£0.00	£38,500,000.00	(£32,500,000.00)	£6,000,000.00	0.2337%	8
	Total	Total	£0.00	£38,500,000.00	(£32,500,000.00)	£6,000,000.00	0.2337%	8
GS Sterling Liquid Reserve Institutional Inc	MMF	Total	£1,000,000.00	£6,900,000.00	(£5,900,000.00)	£2,000,000.00	0.2391%	0
	Total	Total	£1,000,000.00	£6,900,000.00	(£5,900,000.00)	£2,000,000.00	0.2391%	0
HSBC Bank plc	Call	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
	Total	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
Lloyds Bank plc	Call	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
	Total	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
National Westminster Bank plc	Call	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
	Total	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
UK Government	Fixed	Total	£0.00	£7,498,516.69	(£7,498,516.69)	£0.00	0.3223%	13
	Total	Total	£0.00	£7,498,516.69	(£7,498,516.69)	£0.00	0.3223%	13
Total	Total	Total	£11,892,555.13	£102,716,230.73	(£102,650,070.68)	£11,958,715.18	0.2753%	4

Borrowing from other Local Authorities 2017-18

Lender	Date Agreed	Start Date	Maturity	Amount	Rate
PWLB	31/10/2017	01/11/2017	01/11/2057	£5,906,000.00	2.7800%
PWLB	08/11/2017	10/11/2017	10/11/2047	£5,000,000.00	2.6200%
Vale of Glamorgan Council	04/12/2017	26/09/2017	07/12/2017	£2,500,000.00	0.2200%
Basildon Borough Council	04/12/2017	26/09/2017	19/12/2017	£1,500,000.00	0.2300%
Aberdeenshire Council	04/12/2017	29/09/2017	22/12/2017	£5,000,000.00	0.4000%
Wealden District Council	04/12/2017	25/07/2017	16/01/2018	£2,000,000.00	0.2500%
Wigan Metropolitan Borough Council	04/12/2017	07/12/2017	03/04/2018	£3,000,000.00	0.4500%
Northern Ireland Housing Executive	04/12/2017	01/12/2017	04/04/2018	£5,000,000.00	0.4700%
Basildon Borough Council	04/12/2017	30/10/2017	30/04/2018	£2,000,000.00	0.4500%
Braintree District Council	04/12/2017	31/10/2017	30/04/2018	£2,000,000.00	0.4500%
Pembrokeshire County Council	04/12/2017	25/04/2017	25/07/2017	£2,000,000.00	0.3500%
West Yorkshire Police and Crime Commissioner	04/12/2017	25/04/2017	25/07/2017	£3,000,000.00	0.3500%
Vale of Glamorgan Council	04/12/2017	31/07/2017	07/09/2017	£2,500,000.00	0.1500%
Harlow District Council	04/12/2017	28/04/2017	30/10/2017	£4,000,000.00	0.3800%
Tees Valley Combined Authority	04/12/2017	29/08/2017	29/11/2017	£3,000,000.00	0.2000%
Swansea City and Borough Council	06/12/2017	21/12/2017	23/04/2018	£5,000,000.00	0.4500%
				£53,406,000.00	0.8409%

Appendix 3

PRUDENTIAL GUIDELINE INDICATORS

	2017/18	2017/18
	Budget £m	Actual £m
(i) capital expenditure	91.8	22.1
(ii) General Fund ratio of financing costs to the net revenue stream	10.91%	9.50%
(iii) The capital financing requirement (full year projection)	240.7	234.2
(iv) the authorised limit for external debt including borrowing and other long term liabilities	302	161.5*
(v) the operational boundary for external debt including borrowing and other long term liabilities	247	161.5*
	%	%
(vi) upper limit for fixed rate exposure	100	Target Met
(vii) upper limit for variable rate exposure	20	Target Met
(viii) upper and lower limits for maturity structure of borrowing		
UPPER LIMIT		
under 12 months	50)
12 months and within 24 months	15)
24 months and within 5 years	50	} Target Met
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	} Target Met
5 years and within 10 years	0)
10 years and above	25)
(ix) total principal sums invested for periods longer than 364 days	none	none

*Peak borrowing