Report of the Director of
Policy & Resources

Agenda Item No: 5
Meeting 15 June 2015

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

**TREASURY MANAGEMENT AND INVESTMENT STRATEGY
ANNUAL REPORT 2014/15**

1. OBJECT AND KEY POINTS IN THIS REPORT

1.1 This is a report on treasury performance in 2014/15. The benchmark for measuring performance is the treasury strategy which the council set at its meeting on 24 February 2014

1.2 .

1.3 The report covers

- The legal and regulatory framework
- How the council performed
- The latest position on our investments

1.4 The key points are that the council

- Has made more longer term investments, within the 6 month limit
- Generated an average return of 0.5% for the year
- Again deferred borrowing for the capital programme
- Kept the total cost of borrowing 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. The Audit Committee receives progress reports at each meeting and an annual report on the outturn position.

2.3 It 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. As part of this ongoing process 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
- and the prudential indicators for external debt and treasury management.

The Strategy for 2014-15

3.3 The strategy for 2014/15 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, advisors and the financial press.

The key projections were:

- An average bank base rate of 0.5%
- An average loan rate of 4%

The Investment Strategy

3.4 The Investment strategy for 2014-15 aimed to reduce risk by;

- Investing for up to twelve months (was 6 months).
- Investing in institutions with adequate credit ratings or with equivalent or greater security (DMO, local authorities)
- Applying a maximum limit of £7m (except the council’s bank, £14m and the DMO)
- Applying the limit on the banking group not the individual institution
- Only directly investing in UK financial institutions
- At the same time keeping an appropriate maturity profile of investments to minimize exposure to liquidity risk and interest rate risk.

(see Appendix 1 for list of approved counterparties)

The Borrowing Strategy

3.5 The Borrowing Strategy for 2014-15 aimed ;

- To plan to borrow for capital purposes
- To borrow only to support the cost of the capital programme, net of the Minimum Revenue Provision
- Retaining the option to borrow for cash flow purposes should this be necessary
- To borrow for capital investment purposes at the optimal time. The Council will not normally borrow more than or in advance of its needs. Any decision to borrow in advance will be considered carefully to ensure value for money and that the Council can ensure security of such funds
- To borrow using the most appropriate loan type (whether fixed rate or variable rate and either maturity, annuity or Equal Installment of Principal loan, from the most appropriate counterparty and best value for money option
- To only consider debt rescheduling if the cost of premiums significantly decrease.

How the council performed

3.6 It should be noted that investments made during this year were set against a generally improving global economic environment with a greater degree of optimism, and increased levels of certainty regarding the future stability of market conditions.

This allowed us to employ a still prudent, but slightly less cautious approach within the requirements of the strategy. This degree of caution was still considered necessary to maximise security and liquidity of council funds.

3.7 The key investment statistics follow with further detail at appendix 2:

- Increased use has been made of a Money Market Fund during this year, with 42% of all investments being made using this vehicle.
- 35% of all investments made were placed in instant access call accounts held with high street banks to maximise liquidity.
- The remaining 23% of investments were made on a fixed term basis.
- Throughout the year the majority of these investments were very short term, with 67% of all fixed rate investments being for 30 days or less.
- The average fixed term investment period was 31 days, with the maximum duration being one investment of 183 days.
- To maximise the security of our investments extensive use has been made throughout the year of investing with highly rated building societies (94% of all fixed term investments) and highly rated banks (3%).
- No investments were made directly in foreign banks.
- Investments were made in building societies only where they met the same minimum credit rating applied to bank investments.
- To reduce risk, where institutions were given a negative rating watch or were under review for possible downgrade, no new investments were made if the resulting rating would then be likely to fall below the minimum criteria.
- The average balance invested was £35.1m.

- This was in the form of 243 separate investments totalling £364m.
- Generating an average return of 0.5% for the year. The return reflects the risk averse investment strategy, together with the continuing trend by the major institutions to reduce the rates being offered in their call accounts.
- The closing investment balance was £6.1m, a decrease of £11.1m on the starting balance of £17.2m.
- The historically low base rate and the continuing overall emphasis of security over yield has meant that returns on investment have remained low.

3.8 The key borrowing statistics were (also see related performance indicators at appendix 3):

- Overall capital spending of £71m against a revised budget of £84m.
- Requests for capital programme expenditure rephasing of £12.5m into 2015-16.
- Debt financing costs of 9.00% of revenue stream, below the council's guideline range of 10% - 12%, in part due to the decision to defer new borrowing
- Total debt kept within the authorised and operational boundaries set in the strategy
- And the maturity profile of debt also within the limits set
- No short term borrowing was needed as cash balances remained positive during the year.

3.9 The decision to defer new borrowing for capital purposes continues the practice started in 2008/09. This avoids the short-term cost of paying the differential between the rates at which we can borrow and rate of return on our investment. It makes temporary use of cash balances which would otherwise be exposed to potential loss in volatile financial markets. Between 2008/09 to 2012/13 £87.7m of borrowing was deferred. A further £23.7m has been deferred in 2014/15.

4. ANALYSIS OF OPTIONS

4.1 This is a report on past performance and there are no options to consider.

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

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

5.2 Staff time has been effectively dedicated to the gathering of intelligence and the building up of research capacity to aid, sustain and inform the treasury management function in making borrowing and investment decisions. The Council continues to be an active member of the CIPFA Treasury Management Network and to promote staff training.

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 council notes the performance outlined in the Treasury Management and Investment Strategy Annual Report 2014/15:

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Background Papers used in the preparation of this report

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

Appendix 1

COUNTERPARTY LIST

BANKS	**Fitch**		**Moody's**		**Standard & Poor's**		**Counterparty Limit**
	ST	**LT**	**ST**	**LT**	**ST**	**LT**	**£**
United Kingdom							
Barclays Bank	F1	A	P1	A2	A-1	A	£14,000,000
HSBC Bank plc	F1+	AA-	P1	Aa3	A-1+	AA-	£7,000,000
Santander UK	F1	A	P1	A2	A-1	A	£7,000,000
Standard Chartered Bank	F1+	AA-	P1	Aa2	A-1	A+	£7,000,000
Lloyds Banking Group							£7,000,000
Bank of Scotland	F1	A+	P1	A1	A-1	A	
Lloyds TSB Bank	F1	A+	P1	A1	A-1	A	
RBS Group							£4,000,000
National Westminster Bank	F2	BBB+	P2	Baa1	A-2	A-	
Royal Bank of Scotland	F2	BBB+	P2	Baa1	A-2	A-	

BUILDING SOCIETIES	**Fitch**		**Moody's**		**Standard & Poor's**		**Counterparty Limit**
	ST	**LT**	**ST**	**LT**	**ST**	**LT**	**£**
Nationwide	F1	A	P1	A2	A-1	A	£7,000,000
Coventry	F1	A	P2	A3			£4,000,000
Leeds	F1	A-	P2	A3			£4,000,000
Principality	F2	BBB+	P3	Baa3			£4,000,000
Skipton	F2	BBB	P3	Baa3			£4,000,000
Yorkshire	F2	BBB+	P2	Baa2			£4,000,000
GOVERNMENT INSTITUTIONS							
Debt Management Office							Unlimited
Local authorities							
District Council's							£3,000,000
All Other LA's							£5,000,000
Fire Authorities							£5,000,000
Police authorities							£5,000,000

MONEY MARKET FUND	**Fitch**	**Moody's**	**Standard & Poor's**
Funds rated by at least one agency as:	AAAMmf	Aaa-mf	AAAm

NOTE: Credit Ratings correct at 28 May 2015.

Appendix 2

Investment Record 2014-15

Investments at start and end of year	Limit	01.04.14	31.03.15
	£	£	£
UK Clearing Banks			
Lloyds Banking Group	7,000,000	4,967,118	579
RBS Group	4,000,000	626,340	5,900
Barclays Banking Group	14,000,000	9,982,280	6,088,333
HSBC Bank PLC	7,000,000	2,207	318
Building Societies			
Local Authorities			
Money Market Funds	5,000,000	1,631,000	25,000
TOTAL INVESTED		**17,208,945**	**6,120,130**

Other organisations where funds were deposited during the year 2014/15

Coventry Building Society

Leeds Building Society

Nationwide Building Society

Virgin Money PLC

Yorkshire Building Society

Appendix 3

PRUDENTIAL GUIDELINE INDICATORS

	2014/15	2014/15
	Budget	Actual
	£'000	£'000
(i) capital expenditure	83,919	71,021
(ii) General Fund ratio of financing costs to the net revenue stream *	9.06%	9.00%
	£'000	£'000
(iii) The capital financing requirement	177,063	177,011
(iv) the authorised limit for external debt including borrowing and other long term liabilities	238,000	238,000
(v) the operational boundary for external debt including borrowing and other long term liabilities	183,000	183,000
	%	%
(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	15	)
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

* Definition changed during 2014/15.