

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

**TREASURY MANAGEMENT AND INVESTMENT STRATEGY
ANNUAL REPORT 2016/17**

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 This is a report on treasury performance in 2016/17. The benchmark for measuring performance is the treasury strategy which the council set at its meeting on 23 February 2016.
- 1.2 The report covers
- The legal and regulatory framework
 - How the council performed
- 1.3 The key points are that the council has
- Sought to minimise cash balances
 - Generated an average return of 0.3% for the year
 - Undertaken borrowing throughout the year mainly via PWLB and the inter-Local Authority market which offers access to short-term funding at low rates
 - 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 a Treasury Management Policy Statement (Appendix 4).

- 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 TMPs have been revised and these were approved by Audit Committee in July 2017.

3 **OPTIONS FOR CONSIDERATION**

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

The Strategy for 2016-17

- 3.3 The strategy for 2016-17 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 2016-17 aimed to reduce risk by;
- Limiting the maximum investment period to twelve months
 - Applying a maximum investment limit of £7m or lower for counter-parties (except the council's own bankers and Debt Management Office)
 - Applying a maximum limit to financial groups rather than separate institutions
 - 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

- 3.5 The Borrowing Strategy for 2016-17 aimed 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

- 3.6 The Treasury Strategy envisaged a need for additional borrowing in 2016/17. There was a significant level of transactions throughout the year as a result of this borrowing need being met primarily from the short-term inter-local authority marketplace.

Throughout the year efforts were made to keep investment balances close to zero. Combined with the unexpected (at the time of Strategy setting) reduction in rates in June 2016, meant a lower return on interest received. Interest received was again lower than the previous year, £22k compared to £79k. However, there was a much larger saving on borrowing costs by delaying borrowing as long as possible.

- 3.7 The key investment statistics follow with further detail at Appendix 2a:

- The smaller cash flow balances meant that most investments had to be made short term to manage liquidity risk and the best interest rate offered was from either the Council's own banker's flexible interest bearing call account (Barclays FIBCA) or the CCLA Money Market Fund. Rates fell significantly from the end of Q1 onwards.
- From July 2016 onwards the Authority proactively shifted a proportion of its investments to the UK Government's Debt Management Office. Use of this 'safe haven' reduced from October onwards after the markets settled.
- The closing investment balance was £7.6m, an increase of £6.6m on the starting balance of £1m after borrowings increased by £28.1m in the same period.

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

- Both short term and long term borrowing was required this year.
- Three long term loans were arranged on an annuity basis with the Public Works Loan Board, at a lower interest rate than any existing loans:

AMOUNT	DATE	MAT.	RATE
OF LOAN	BORROWED		%
£ 10,000,000	13.02.17	13.08.26	1.37
£ 10,000,000	20.03.17	18.09.26	1.26
£ 5,000,000	30.03.17	25.03.22	1.03

- Temporary borrowing was taken regularly during the year to meet cash flow need. However, as the Authority's internal borrowing capacity had been full deployed as at 1.4.2016 this borrowing is expected to need terming out 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. Inter-LA borrowing undertaken during the year is shown in Appendix 2b:-

- At the end of 2016/17 debt financing costs of £11.487m of revenue stream still remained below the council's guideline range of 10% - 12% (See Appendix 3).
- Total debt of £133.4m at 31st March 2016 was reduced by repayments of £1.9m in year, with new/replacement debt added to leave total debt outstanding of £161.5m at 31st March 2017,
- 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.

4. ANALYSIS OF OPTIONS

- 4.1 This is a report on past performance and there are no options to consider. However 2016/17 saw 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 Council notes the Treasury Management performance for the 2016-17 financial year.

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Background Papers used in the preparation of this report

[2016-17 Treasury Management Strategy](#)

[2016-20 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

COUNTERPARTY LIST

BANKS	Fitch		Moody's		Standard & Poor's		Counterparty Limit
	ST	LT	ST	LT	ST	LT	£
<u>United Kingdom</u>							
Barclays Bank	F1	A	P1	A1	A-2	A-	£10,000,000
HSBC Bank plc	F1+	AA-	P1	Aa2	A-1+	AA-	£7,000,000
Santander UK	F1	A	P1	Aa3	A-1	A	£7,000,000
Standard Chartered Bank	F1	A+	P1	A1	A-1	A	£7,000,000
<u>Lloyds Banking Group</u>							£7,000,000
Bank of Scotland	F1	A+	P1	A1	A-1	A	
Lloyds Bank	F1	A+	P1	A1	A-1	A	
<u>RBS Group</u>							£4,000,000
National Westminster Bank	F2	BBB+	P2	A3	A-2	BBB+	
Royal Bank of Scotland	F2	BBB+	P2	A3	A-2	BBB+	

BUILDING SOCIETIES	Fitch		Moody's		Standard & Poor's		Counterparty Limit
	ST	LT	ST	LT	ST	LT	£
Nationwide	F1	A+	P1	Aa3	A-1	A	£7,000,000
Coventry	F1	A	P1	A2			£7,000,000
Leeds	F1	A-	P1	A2			£7,000,000
Principality	F2	BBB+	P3	Baa3			£4,000,000
Skipton	F1	A-	P2	Baa1			£4,000,000
Yorkshire	F1	A-	P2	A3			£4,000,000

GOVERNMENT INSTITUTIONS							
Debt Management Office		AA		Aa1		AA	Unlimited
Local authorities							
District Council's							£4,000,000
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 22 May 2017.

Investment Record 2016-17

Counterparty Name	Deal Type Description	Opening Balance	Investments Made	Maturities / Investments Sold	Closing Balance	Average Rate	Average Term (days)
Barclays Bank plc	Call	£4,251,403.14	£208,734,229.80	(£207,393,962.39)	£5,591,670.55	0.2792%	0
	Total	£4,251,403.14	£208,734,229.80	(£207,393,962.39)	£5,591,670.55	0.2792%	0
CCLA The Public Sector Deposit 4	MMF	£5,000,000.00	£21,075,000.00	(£24,075,000.00)	£2,000,000.00	0.3881%	0
	Total	£5,000,000.00	£21,075,000.00	(£24,075,000.00)	£2,000,000.00	0.3881%	0
DMADF (Debt Management Account Deposit Facility)	Fixed	£0.00	£114,120,000.00	(£114,120,000.00)	£0.00	0.1999%	7
	Total	£0.00	£114,120,000.00	(£114,120,000.00)	£0.00	0.1999%	7
HSBC Bank plc	Call	£318.56	£0.47	(£319.03)	£0.00	0.2408%	0
	Total	£318.56	£0.47	(£319.03)	£0.00	0.2408%	0
Lloyds Bank plc	Call	£4,775.68	£720,467.86	(£725,243.54)	£0.00	0.3274%	0
	Total	£4,775.68	£720,467.86	(£725,243.54)	£0.00	0.3274%	0
National Westminster Bank plc	Call	£5,882.22	£6.17	(£5,888.39)	£0.00	0.1792%	0
	Total	£5,882.22	£6.17	(£5,888.39)	£0.00	0.1792%	0
Total	Total	£9,262,379.60	£344,649,704.30	(£346,320,413.35)	£7,591,670.55	0.2727%	2

Appendix 2b

Borrowing from other Local Authorities 2016-17

NAME	START DATE	AMOUNT	% INTEREST RATE	MATURITY DATE
West Yorkshire Combined Authority	11/04/2016	£ 5,000,000.00	0.35%	22/04/2016
Greater Manchester Combined Authority	23/05/2016	£ 5,000,000.00	0.38%	23/06/2016
Shropshire & Wrekin Fire Authority	23/05/2016	£ 2,000,000.00	0.38%	23/06/2016
Manchester City Council	03/06/2016	£ 3,000,000.00	0.38%	01/07/2016
Greater Manchester Combined Authority	23/06/2016	£ 5,000,000.00	0.38%	25/07/2016
South Yorkshire Combined Authority	23/06/2016	£ 5,000,000.00	0.60%	23/03/2017
Manchester City Council	01/07/2016	£ 3,000,000.00	0.38%	01/08/2016
West Yorkshire Police Commissioners	06/07/2016	£ 3,000,000.00	0.55%	06/02/2017
Vale of Glamorgan Council	06/07/2016	£ 2,000,000.00	0.50%	06/01/2017
Basildon Borough Council	06/07/2016	£ 2,000,000.00	0.47%	07/11/2016
Middlesborough Council	29/09/2016	£ 3,000,000.00	0.20%	06/10/2016
Portsmouth Council	25/11/2016	£ 3,000,000.00	0.36%	02/12/2016
Cheshire West and Chester Council	19/12/2016	£ 3,000,000.00	0.28%	19/01/2017
Cheshire West and Chester Council	19/01/2017	£ 3,000,000.00	0.22%	20/02/2017
Leicester City Council	27/01/2017	£ 3,000,000.00	0.35%	20/03/2017
Cheshire West and Chester Council	20/02/2017	£ 6,000,000.00	0.23%	17/03/2017
Middlesborough Council	24/02/2017	£ 3,000,000.00	0.33%	17/03/2017
Middlesborough Council	17/03/2017	£ 9,000,000.00	0.37%	20/04/2017
Harlow District Council	20/03/2017	£ 3,000,000.00	0.42%	20/04/2017
Derbyshire CC Pension Fund	23/03/2017	£ 5,000,000.00	0.45%	24/04/2017
		<u>£ 76,000,000.00</u>		

Appendix 3

PRUDENTIAL GUIDELINE INDICATORS

	2016/17	2016/17
	Budget £m	Actual £m
(i) capital expenditure	39.6	33.1
(ii) General Fund ratio of financing costs to the net revenue stream	10.38%	9.26%
(iii) The capital financing requirement	203.5	196.1
(iv) the authorised limit for external debt including borrowing and other long term liabilities	262	161
(v) the operational boundary for external debt including borrowing and other long term liabilities	207	161
	%	%
(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	20)
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

The Treasury Management Policy Statement

1. The Council defines its treasury management activities as:

The management of the Council's investments and cash flows, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.
3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.