

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

QUARTERLY TREASURY MANAGEMENT AND STRATEGY REPORT 2012/13

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To provide a regular review of the treasury strategy approved each year by council.
- 1.2 This is a report on treasury management performance up to December 2012. The report explains how the strategy has been implemented to date, and the response to changing conditions in financial markets.
- 1.3 The report also provides an update on our Icelandic investments.

2. BACKGROUND INFORMATION

- 1.2 2.1 The **investment strategy for 2012/2013** aims to reduce risk by
 - Investing for shorter periods up to six months
 - Only investing in UK institutions with a minimum of an adequate credit rating or equivalent
 - Applying a maximum investment limit of £5m for most counterparties
 - Applying a maximum limit to financial groups rather than separate institutions
 - Removing any foreign institutions from the counterparty list.
- 2.2 The **borrowing strategy for 2012/2013** aims to
 - Suspend external borrowing in the plan period for as long as is prudent
 - Track the differential between short-and long-term interest rates to determine when it is prudent to resume borrowing
 - Borrow only to support the capital programme
 - Maximize borrowing through the PWLB while this gives best value for money
 - Borrow for shorter periods if cash flow requires and
 - Consider debt rescheduling.

- 2.3 The council's budget was framed against the state of financial markets at that time and prospects for the year ahead. This included a Bank of England Base Rate of 0.5% since 5 March 2009. Most economists' expectations were that rates would remain at this all-time low until 2013.
- 2.4 The budget also projects an average cost of external borrowing of 5% from the Public Works Loans Board in later years when internal borrowing is no longer an option, based on a mix of borrowing terms; and sets a range of prudential indicators which the Director of Policy & Resources monitors. This target rate is still achievable should the council decide to borrow.

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 Markets have been volatile with recurring concerns about
- The reversal of economic recovery resulting in both the U.K. and Europe slipping into a double-dip recession.
 - The ability of governments to sustain the burden of debt culminating in the possibility of one or more euro-zone periphery countries being forced to leave the single currency.
 - The likely turmoil and uncertainty this would cause, and the implications for the solvency of the banking sector.
- 4.2 Therefore the focus of cash management has been to maximise security and liquidity. Cash is currently being held in a range of call accounts with UK banks, on short (1 month maximum) deposit with building societies who maintain an adequate credit rating or as short-term (6 month maximum) investments with other local authorities and the Debt Management Office. The approved list of banks and building societies with whom we can make investments, together with their current ratings are shown at Appendix 2.
- 4.3 All investments due to be realised during the period were returned with interest or reinvested. At the end of December outstanding investments were £31.8m, details being shown in appendix 1 and 1A.
- 4.4 Currently the council is in the process of transferring from NatWest to Barclays for the provision of banking services. During this handover period the counterparty limits continue to be observed. However, until the transfer arrangements are fully completed it has been necessary to split investment between the two banks.

- 4.5 The historically low base rate means returns on investments continue to be very modest, an average of 0.5% achieved in 2012/13 year to date against a base rate in the same period of 0.5% and a budget target of a similar level. The current forecast is that this level of income will be slightly overachieved during the year.

Borrowing strategy

- 4.6 In line with the approved strategy, there has been no new borrowing to finance the capital programme and internal borrowing has continued to give best value for money. This is the fifth year in which the council has used cash balances to fund capital investment and the saving on debt costs has been factored into the budget.
- 4.7 Scheduled debt repayments continue and by the end of December further repayments will have reduced debt outstanding to £109.4m, with this reducing yet further to £108.9m by March 2013.
- 4.8 Key performance indicators have been updated to reflect the latest phasing of the capital programme:

Key Indicator	2012/13 Target	2012-13 Estimate
(i) Estimates of Capital Expenditure	£47.17m	£38.38m
(ii) General Fund ratio of financing costs to the net revenue stream % (based on Prudential Code 2011)	7.77%	8.11%
(iii) Estimated Capital Financing Requirement	£164,744m	£160,862m

- Indicator (ii); The slippage of £7.4m of grant and external funding has reduced the level of the net revenue stream however financing costs which relate to capital spend in earlier financial years have not reduced to the same extent. The ratio remains below the 10%-12% level set at Council on 21st February 2012.
- Indicator (iii); The reduction in the level of capital expenditure in 2011-12 has reduced the underlying need to finance capital expenditure by £4.3m. The impact of this reduction is reflected in the ongoing financing requirement.

Icelandic Investments

- 4.9 Recovery of funds placed with Icelandic banks before October 2008 is progressing well. So far the council has received repayment of £3.58m which is just over 64.5% of the councils claim. Total recovery is currently estimated to be £5.03m which represents 90.6%. Dividends continue to be received from both Heritable and Landsbanki.

Institution	Claim	Paid	Estimated Recovery
Heritable	£3.52m	£2.62m	£3.00m
Landsbanki	£2.03m	£0.96m	£2.03m
	£5.55m	£3.58m	£5.03m

5. RESOURCE IMPLICATIONS

5.1 The projected revenue cost of financing debt is within budget. A positive outcome is still expected on the return of Icelandic investments as around three quarters of the investment in Heritable Bank has now been realised, and almost half of the Landsbanki investment now recovered.

6. OTHER IMPLICATIONS

6.1 The agreed treasury strategy aims to minimise risk to the council finances from any further instability in financial markets.

7. OUTCOMES OF CONSULTATION

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.

DIRECTOR OF POLICY & RESOURCES

Civic Centre
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB
Author: SC/MP
Date: 4 January 2013

Background Papers used in the preparation of this report

LAAP Bulletin 82 'Guidance on the impairment of deposits with Icelandic banks',
CIPFA – Treasury Management in the Public Services. Code of Practice and Cross-Sectoral Guidance Notes: Fully Revised Second Edition 2009.
CIPFA –The Prudential Code for Capital Finance on Local Authorities; Fully Revised Second Edition 2009

APPENDIX 1

INVESTMENT POSITION AS AT 31 DECEMBER 2012

CALL ACCOUNT BALANCES

£

Barclays Bank plc Call Account	5,000,000	On call
Bank of Scotland Plc Call Account	4,967,778	On call
HSBC Bank Plc Call Account	4,917,030	On call
National Westminster Bank Plc Special Interest Bearing Account	8,726,138	On call

OTHER INVESTMENTS

Virgin Money Plc	1,500,000	Repayment at term
Nationwide Building Society	3,500,000	Repayment at term
Coventry Building Society	2,000,000	Repayment at term
Heritable Bank Limited	891,029	In administration
Landsbanki Islands	1,055,923	In receivership

SUB-TOTAL

32,557,898

LESS:

Impairments brought to account in 2011/12 relating to Icelandic Investments	752,422
---	---------

TOTAL

31,805,476

APPENDIX 1A

INVESTMENTS MADE AND REALISED BETWEEN 1/09/12 to 31/12/2012

INVESTMENT INSTITUTION	DATE INVESTED	AMOUNT £	STATUS/DUE DATE OF PAYMENT
<u>INVESTMENTS MADE FROM 1st SEPTEMBER 2012</u>			
Coventry Building Society	04/09/2012	2,000,000	Repaid
Coventry Building Society	04/09/2012	3,000,000	Repaid
Coventry Building Society	11/09/2012	3,000,000	Repaid
Coventry Building Society	18/09/2012	3,000,000	Repaid
Coventry Building Society	25/09/2012	3,000,000	Repaid
Coventry Building Society	02/10/2012	3,000,000	Repaid
Coventry Building Society	04/10/2012	2,000,000	Repaid
Coventry Building Society	09/10/2012	3,000,000	Repaid
Coventry Building Society	16/10/2012	3,000,000	Repaid
Coventry Building Society	23/10/2012	3,000,000	Repaid
Coventry Building Society	30/10/2012	3,000,000	Repaid
Coventry Building Society	05/11/2012	2,000,000	Repaid
Coventry Building Society	06/11/2012	3,000,000	Repaid
Coventry Building Society	12/11/2012	2,000,000	Repaid
Coventry Building Society	13/11/2012	1,500,000	Repaid
Coventry Building Society	15/11/2012	1,500,000	Repaid
Coventry Building Society	19/11/2012	2,000,000	Repaid
Coventry Building Society	22/11/2012	1,500,000	Repaid
Coventry Building Society	22/11/2012	1,500,000	Repaid
Coventry Building Society	26/11/2012	1,200,000	Repaid
Coventry Building Society	29/11/2012	3,000,000	Repaid
Coventry Building Society	03/12/2012	2,000,000	Repaid
Coventry Building Society	06/12/2012	3,000,000	Repaid
Coventry Building Society	10/12/2012	2,000,000	Repaid
Coventry Building Society	13/12/2012	3,000,000	Repaid
Coventry Building Society	17/12/2012	2,000,000	Repaid
Coventry Building Society	20/12/2012	3,000,000	Repaid
Coventry Building Society	21/12/2012	2,000,000	02/01/2013
Debt Management Office	03/09/2012	1,000,000	Repaid
Debt Management Office	17/09/2012	3,000,000	Repaid
Debt Management Office	19/09/2012	4,000,000	Repaid
Debt Management Office	19/09/2012	1,500,000	Repaid
Debt Management Office	24/09/2012	5,700,000	Repaid

Debt Management Office	27/09/2012	1,700,000	Repaid
Debt Management Office	02/10/2012	1,000,000	Repaid
Debt Management Office	02/10/2012	1,500,000	Repaid
Debt Management Office	08/10/2012	1,500,000	Repaid
Debt Management Office	11/10/2012	1,550,000	Repaid
Debt Management Office	15/10/2012	2,000,000	Repaid
Debt Management Office	15/10/2012	2,940,000	Repaid
Debt Management Office	18/10/2012	500,000	Repaid
Debt Management Office	22/10/2012	1,000,000	Repaid
Debt Management Office	22/10/2012	3,500,000	Repaid
Debt Management Office	01/11/2012	4,000,000	Repaid
Debt Management Office	01/11/2012	4,000,000	Repaid
Debt Management Office	05/11/2012	1,000,000	Repaid
Debt Management Office	08/11/2012	500,000	Repaid
Debt Management Office	15/11/2012	2,116,000	Repaid
Debt Management Office	15/11/2012	1,000,000	Repaid
Debt Management Office	22/11/2012	1,500,000	Repaid
Debt Management Office	22/11/2012	2,290,000	Repaid
Debt Management Office	17/12/2012	7,250,000	Repaid
Debt Management Office	20/12/2012	2,715,000	Repaid
Nationwide Building Society	17/09/2012	1,500,000	Repaid
Nationwide Building Society	01/10/2012	1,500,000	Repaid
Nationwide Building Society	17/10/2012	1,500,000	Repaid
Nationwide Building Society	01/11/2012	1,000,000	Repaid
Nationwide Building Society	01/11/2012	500,000	Repaid
Nationwide Building Society	05/11/2012	2,000,000	Repaid
Nationwide Building Society	19/11/2012	1,500,000	Repaid
Nationwide Building Society	03/12/2012	1,500,000	03/01/2013
Nationwide Building Society	05/12/2012	2,000,000	07/01/2013
Northern Rock Plc	04/09/2012	2,000,000	Repaid
Northern Rock Plc	07/09/2012	1,000,000	Repaid
Northern Rock Plc	11/09/2012	2,000,000	Repaid
Northern Rock Plc	17/09/2012	1,000,000	Repaid
Northern Rock Plc	19/09/2012	2,000,000	Repaid
Northern Rock Plc	24/09/2012	1,000,000	Repaid
Northern Rock Plc	26/09/2012	2,000,000	Repaid
Northern Rock Plc	01/10/2012	1,000,000	Repaid
Northern Rock Plc	03/10/2012	2,000,000	Repaid
Northern Rock Plc	08/10/2012	1,000,000	Repaid
Northern Rock Plc	10/10/2012	1,000,000	Repaid
Virgin Money Plc	15/10/2012	2,000,000	Repaid

Virgin Money Plc	17/10/2012	1,000,000	Repaid
Virgin Money Plc	22/10/2012	2,000,000	Repaid
Virgin Money Plc	02/11/2012	1,500,000	Repaid
Virgin Money Plc	09/11/2012	1,500,000	Repaid
Virgin Money Plc	15/11/2012	1,500,000	Repaid
Virgin Money Plc	16/11/2012	1,500,000	Repaid
Virgin Money Plc	22/11/2012	1,500,000	Repaid
Virgin Money Plc	23/11/2012	1,000,000	Repaid
Virgin Money Plc	03/12/2012	2,000,000	Repaid
Virgin Money Plc	07/12/2012	1,000,000	Repaid
Virgin Money Plc	10/12/2012	2,000,000	Repaid
Virgin Money Plc	19/12/2012	1,500,000	02/01/2013

Counterparties Currently Meeting the Councils Investment Criteria

		FITCH RATING		MOODY'S RATING		STANDARD & POOR'S	
		ST	LT	ST	LT	ST	LT
Banks							
	Bank of Scotland Plc	F1	A	P-1,	A2,	A-1	A
	Barclays Bank Plc	F1	A	P-1,	A2,	A-1	A+
	Co-operative Bank PLC	F2	BBB+	P-2,	A3		
	HSBC Bank PLC	F1+	AA-	P-1,	AA3,	A-1+	AA-
	National Westminster Bank Plc	F1	A	P-2,	A3,	A-1	A
	Northern Rock (Asset Management) Plc	WD	WD	P-1,	AA3,	A-1	A
	Santander UK Plc	F1	A	P-1,	A2,	A-1	A
	Lloyds TSB Bank PLC	F1	A	P-1,	A2,	A-1	A
	Royal Bank of Scotland	F1	A	P-2,	A3,	A-1	A
	Standard Chartered Bank	F1+	AA-	P-1,	A1,	A-1+	AA-
	Virgin Money PLC	F3	BBB			A-2	BBB+
Building Societies							
	Coventry Building Society	F1	A	P-2,	A3,		
	Leeds Bldg Soc	F2	A-	P-2,	A3		
	Nationwide Building Society	F1	A+	P-1,	A2,	A-1	A+
	Yorkshire Building Society	F2	BBB+	P-2,	Baa2,	A-2	A-