NORTH LINCOLNSHIRE COUNCIL

COUNCIL

TREASURY MANAGEMENT AND INVESTMENT STRATEGY ANNUAL REPORT 2010/11

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 This is a report on treasury performance in 2010/11. The benchmark for measuring performance is the treasury strategy which the council set at its meeting on 25 February 2010.
- 1.3 The report covers
 - The legal and regulatory framework
 - How the council performed
 - The latest position on our investments with Icelandic banks.
- 1.4 The key results were that the council
 - Invested with a narrow range of counterparties
 - Generated an average return of 0.62% for the year, 0.12% above base rate
 - Deferred borrowing for the capital programme
 - Kept the cost of borrowing below 6% of revenue stream
 - Recovered further sums from Heritable bank, the UK subsidiary of Landsbanki.

2. BACKGROUND INFORMATION

The legal and regulatory framework

- 2.1 The annual treasury management and investment strategy was prepared in line with
 - The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management April 2009.
 - The Prudential Code
 - The Local Government Finance Act 2003
 - And guidance on Local Government Investments from the former Office of the Department for Communities & Local Government (DCLG).

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.

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 sets prudential indicators for external debt and treasury management.

The Strategy for 2010-11

3.2 The strategy for 2010/11 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 PWLB loan rate of 5% (25 year maturity)

The Investment Strategy

- 3.3 The Investment strategy for 2010-11 aimed to reduce risk by;
 - Investing for short periods
 - Investing in UK institutions with high credit ratings or equivalent
 - Applying a maximum limit to financial groups rather than separate institutions
 - Applying a maximum investment limit of £5m for most groups
 - Using the option of highly rated foreign banks when prudent to do so.

(see Appendix 1 for list of approved counterparties)

The Borrowing Strategy

- 3.4 The Borrowing Strategy for 2010-11 aimed to;
 - Delay borrowing in the plan period as long as was prudent to do so
 - Borrow only to support the capital programme
 - Borrow at a time most advantageous on cost
 - Maximise borrowing through the Public Works Loans Board (PWLB)
 - Retain the option to borrow for shorter periods
 - Consider debt rescheduling

How the council performed

- 3.5 The key investment statistics follow with further detail at appendix 2:
 - From April to August a maximum term of three months was the norm for investments. This was extended to six months from early September, where additional returns were justified.
 - No new investments were made in foreign banks
 - No use was made of Money Market Funds
 - 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.
 - That is with the exception of institutions with access to the UK government's liquidity and capitalisation scheme, where overnight and seven day deposits were made, as in effect cash remained on call. This included the council's bankers Natwest (RBS)
 - The average balance invested was £42.9m
 - In the form of 265 separate investments totalling £480m
 - Generating an average return of 0.62% for the year compared to a target of average base plus 0.1% i.e. 0.6%
 - The closing balance was £20.05m, a decrease of £11.39m on the starting balance of £31.44m.
 - The historically low base rate has meant that returns on investment have remained low
- 3.6 The key borrowing statistics were (also see related performance indicators at appendix 3):
 - Overall capital spending of £62.9m against a revised budget of £67.1m
 - Debt financing costs of 5.3% of revenue stream, within the council's guideline of 6%, 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
- 3.7 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 (typically 5%) and rate of return on our investment (between 0.5% and 1%). It makes temporary use of cash balances which would otherwise be exposed to potential loss in volatile financial markets. Between 2008/09 to 2009/10 £19.8m of borrowing was been deferred. A further £22.8m has been deferred in 2010/11. The strategy will be followed as long as it is prudent to do so, while cash reserves are sufficient.

Icelandic Investments

- 3.8 The council has investments with two Icelandic owned institutions, Landsbanki and Heritable. These investments pre-date the collapse of Lehman brothers, and the systemic threat to the world banking system which followed. North Lincolnshire Council's Icelandic investments were frozen in October 2008 and joint action to recover these funds continues in concert with other local authorities through the Local Government Association.
- 3.9 The administration of Heritable is progressing well. The latest advice is to expect a return of 85 pence in the pound. The table below shows the current position against a claim of £3.518m.

Interim Payment Number	Date Received	Cumulative Pence in the Pound Received	Amount Received	Cumulative Amount Received
		р	£	£
1	30.07.09	16.13	567,384	567,384
2	18.12.09	28.79	445,414	1,012,798
3	30.03.10	34.98	217,899	1,230,697
4	16.07.10	41.25	220,761	1,451,458
5	18.10.10	45.39	145,571	1,597,029
6	14.01.11	50.1	165,964	1,762,993
7	19.04.11	56.3	218,697	1,981,690

The next interim payment is expected in July 2011.

- 3.10 For deposits with Landsbanki (£2m) the latest advice is to expect a return of 85 to 90 pence in the pound. Following a hearing on test cases in February the Icelandic District Court has ruled that deposits placed by UK wholesale depositors such as local authorities- have priority status in the winding up of Landsbanki. This confirms the Winding up Board's position on the issue. The decision is likely to be subject to appeal by the other parties, whose claims are not secured.
- 3.11 In line with government and formal guidance requirements a charge of £853k has been made to the accounts in 2010/11 to cover the potential combined losses. This is the best current estimate based on the expected returns reported here.

4. ANALYSIS OF OPTIONS

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

5. **RESOURCE IMPLICATIONS**

- 5.1 The financial implications to this report are reflected in the 2010/11 outturn report also on this agenda.
- 5.2 More staff time has been dedicated to the treasury function to sustain and build up research capacity and to inform borrowing and investment decisions. The council continues to be an active member of the CIPFA Treasury Forum.

6. **OTHER IMPLICATIONS**

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

7. OUTCOMES OF CONSULTATION

7.1 Not applicable

8. **RECOMMENDATIONS**

8.1 That council notes the Treasury Management and Investment Strategy Annual Report 2010/11.

DIRECTOR OF FINANCE

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Date: 15 June 2011

Background Papers used in the preparation of this report

CIPFA Code of Practice in the Public Service Fully Revised Second Edition 2009 CIPFA The Prudential Code Fully Revised Second Edition 2009 DCLG Guidance, April 2010 Local Government Act 2003

COUNTERPARTY LIST

BANKS	Fit	ch	Mod	ody's	Stan	dard	Counterparty
					& Poor's		
	ST	LT	ST	LT	ST	LT	Limit
Canada							£m
Bank of Montreal	F1+	AA-	P1	Aa2	A-1	A+	5,000,000
Bank of Nova Scotia	F1+	AA-	P1	Aa1	A-1	AA-	5,000,000
Canadian Imperial							, ,
Bank of Commerce	F1+	AA-	P1	Aa2	A-1	A+	5,000,000
National Bank of							
Canada	F1	A+	P1	Aa2	A-1	Α	3,000,000
Royal Bank of							
Canada	F1+	AA	P1	Aaa	A-1	AA-	5,000,000
Toronto-Dominion Bank	□ 4.		D4	A	۸ ۵	Λ Λ	5 000 000
Denmark	F1+	AA-	P1	Aaa	A-1	AA-	5,000,000
Danske Bank	- 4	۸.	D4	۸-0	۸ ،	^	E 000 000
France	F1	A+	P1	Aa3	A-1	Α	5,000,000
Groupe Caisse							
Federal de Credit							
Mutuel							5,000,000
Credit Industriel et							3,000,000
Commercial	F1+	AA-	P1	Aa3	A-1	A+	
Groupe Caisse						, , ,	
D'Epargne							3,000,000
Credit Foncier de							
France	F1	A+	P1	Aa3	A-1	Α	
Groupe Credit							
<u>Agricole</u>							5,000,000
Calyon	-4		D.4		Α-		
Credit Agricole	F1+	AA-	P1	Aa3	1+ A-	AA-	
Credit Agricole	F1+	AA-	P1	Aa1	1+	AA-	
Societe Generale	F1+	A+	P1	Aa2	A-1	A+	
BNP Paribas	F1+	AA	P1	Aa2	A1+	AA	
Natixis	F1+	AA+	P1	Aa3	A-1	A+	
Germany		, , , , ,		7100	7、1	, , ,	
Commerzbank Group							3,000,000
Commerzbank	F1+	A+	P1	Aa3	A-1	Α	0,000,000
Deutsche Bank	F1+	AA-	P1	Aa1	A-1	A+	
DZ Bank AG	F1	A+	P1	Aa3	A-1	A+	
Landesbank Hessen-		'.'	• •			` ` `	
Thuringen	F1+	A+	P1	Aa2	A-1	Α	
Netherlands							
ING Bank NV	F1+	AA+	P1	Aa3	A-1	A+	5,000,000
Norway							•

Spain Banco Santander Group F1+ AA- P1 Aa3 1+ AA Banco Espanol de Credito (Banesto) F1+ AA P1 Aa3 1+ AA Banco Santander F1+ AA P1 Aa3 A-1 AA Alliance & Leicester F1+ AA- P1 Aa2 1+ AA BBVA Group Banco Bilbao F1+ AA- P1 Aa2 1+ AA Vizcaya Argentaria Banco Popular Espanol F1+ AA- P1 Aa3 A-1 A Sweden Nordea Bank Group Nordea Bank Finland plc F1+ AA- P1 Aa2 1+ AA- Skandinaviska Enskilda Banken F1+ AA- P1 Aa1 1+ AA-
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(SEB) F1 A+ P1 A1 A-1 A
Handelsbanken F1+ AA- P1 Aa2 A-1 AA-
Switzerland
Credit Suisse F1+ AA- P1 Aa1 A-1 A+ 5,000,000
UBS AG F1+ A+ P1 Aa2 A-1 A+ 5,000,000
United Kingdom
Barclays Bank A- A-
F1+ AA- P1 Aa3 1+ AA- 5,000,000
HSBC Bank plc
Lloyds Banking
Group 5,000,000
Bank of Scotland F1+ AA- P1 Aa3 A-1 A+
Lloyds TSB Bank F1+ AA- P1 Aa3 A-1 A+
RBS Group 10,000,000
National Westminster
Royal Bank of F1+ AA- P1 Aa3 A-1 A+
Scotland F1+ AA- P1 Aa3 A-1 A+
Ulster Bank Ireland
Ltd F1+ A+ P1 A2 A-1 A
Ulster Bank Ltd F1+ A+ P1 A2 A-1 A

Northern Rock Asset Management Standard Chartered	F1+	A+	P1	Aa3	A-1	А	5,000,000
Bank	F1	A+	P1	A2	A-1	A+	3,000,000
United States of America							
Bank of America NA	F1+	A+	P1	Aa3	A-1	A+	5,000,000
Bank of New York					A-		
Mellon	F1+	AA-	P1	Aaa	1+	AA	5,000,000
Citibank NA	F1+	A+	P1	A1	A-1	A+	5,000,000
J P Morgan Chase					A-		
Bank	F1+	AA-	P1	Aa1	1+	AA-	5,000,000
State Street Bank &							
Trust Co	F1+	A+	P1	Aa2	A-1	AA-	5,000,000
Wachovia Bank NA					A-		
	F1+	AA	P1	Aa1	1+	AA	5,000,000

NOTE

Country limits of £5m apply except for the UK

BUILDING SOCIETIES	Society Assets	Fit	ch	Моо	dy's		dard oor's	Counterparty Limit
	£m	ST	LT	ST	LT	ST	LT	£m
Nationwide	201,101	F1+	AA-	P1	Aa3	A-1	A+	5,000,000
Coventry	20,163	F1	Α	P2	A3			3,000,000
Leeds	10,156	F1	Α	P1	A2			3,000,000
GOVERNMENT INSTITUTIONS Debt management								unlimited
office Local authorities								3,000,000
Fire Authorities Police authorities								3,000,000 3,000,000

Investment Record 2010-11

Investments at start and end of year	Limit £	01.04.10 £	31.03.11 £
UK Clearing Banks	~	2	2
LLOYDS BANKING GROUP	5,000,000	4,918,941	398,198
SANTANDER UK PLC	5,000,000	4,986,980	4,741
RBS GROUP	10,000,000	7,259,059	7,400,851
BARCLAYS BANKING GROUP	5,000,000	5,000,000	5,000,000
HSBC BANK PLC	5,000,000	0	1,916
Building Societies			
Local Authorities			
BASILDON DISTRICT COUNCIL	3,000,000	3,000,000	0
STIRLING DISTRICT COUNCIL	3,000,000	2,000,000	0
SALFORD CITY COUNCIL	5,000,000	0	3,500,000
Other Investment Institutions			
LANDSBANKI ISLANDS	5,000,000	2,000,000	2,000,000
HERITABLE BANK LIMITED	5,000,000	2,275,731	1,746,528
TOTAL INVESTED		31,440,711	20,052,235

Other organisations where funds were deposited during the year 2010/11

DEBT MANAGEMENT OFFICE

COVENTRY BUILDING SOCIETY

NATIONWIDE BUILDING SOCIETY

ABERDEEN CITY COUNCIL

BARNSLEY BOROUGH COUNCIL

BASILDON DISTRICT COUNCIL

BIRMINGHAM CITY COUNCIL

BLAENAU GWENT COUNTY BOROUGH COUNCIL

BRISTOL CITY COUNCIL

CHELTENHAM BOROUGH COUNCIL

CITY OF SOUTHAMPTON COUNCIL

DUMFRIES AND GALLOWAY COUNCIL

LANCASHIRE COUNTY COUNCIL

LEEDS CITY COUNCIL

MERTHYR TYDFIL BOROUGH COUNCIL

MID LOTHIAN COUNCIL

NEWCASTLE UPON TYNE CITY COUNCIL

NORTH LANARKSHIRE COUNCIL

NORTHAMPTONSHIRE COUNTY COUNCIL

PLYMOUTH CITY COUNCIL

REIGATE AND BANSTEAD BOROUGH COUNCIL

SALFORD CITY COUNCIL

SHEFFIELD CITY COUNCIL

SOUTHEND ON SEA BOROUGH COUNCIL

STAFFORD BOROUGH COUNCIL

STIRLING DISTRICT COUNCIL

SWINDON BOROUGH COUNCIL

THURROCK BOROUGH COUNCIL

TORFAEN COUNTY BOROUGH COUNCIL

WEST YORKS FIRE & RESCUE SERVICE

Appendix 3

PRUDENTIAL GUIDELINE INDICATORS

PRODENTIAL GOIDELINE INDICATORS	2010/11	2010/11
	Budget	Actual
	£'000	£'000
(i) capital expenditure	67,064	62,879
(ii) General Fund ratio of financing costs to the net revenue stream	5.4%	5.3%
	£'000	£'000
(iii) The capital financing requirement	154,000	142,707
(iv) the authorised limit for external debt including borrowing and other long term liabilities	247,000	247,000
(v) the operational boundary for external debt including borrowing and other long term liabilities	167,000	167,000
	%	%
(vi) upper limit for fixed rate exposure	100	no change
(vii) upper limit for variable rate exposure (viii) upper and lower limits for maturity structure of borrowing	20	no change
UPPER LIMIT		
under 12 months	15)
12 months and within 24 months	15)
24 months and within 5 years	50	} no change
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	} no change
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