

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**TREASURY MANAGEMENT AND INVESTMENT STRATEGY  
ANNUAL REPORT 2015/16**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 This is a report on treasury performance in 2015/16. The benchmark for measuring performance is the treasury strategy which the council set at its meeting on 24 February 2015.
- 1.2 The report covers
- The legal and regulatory framework
  - How the council performed
- 1.3 The key points are that the council
- Has made fewer longer term investments, within the 12 month limit
  - Generated an average return of 0.5% for the year
  - Deferred borrowing for the capital programme until Quarter 4
  - 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 2015-16**

3.3 The strategy for 2015/16 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 2015-16 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)
- 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 2015-16 aimed to;

- Borrow at the most advantageous point possible
- Track short-and long-term interest rates alongside investment rates to determine that point
- Consider borrowing from a range of institutions to ensure the best value for money
- Generally borrow only to support the capital programme
- Borrow for shorter periods if cash flow requires or to avoid long term borrowing for a period.

## How the council performed

- 3.6 The Treasury Strategy envisaged a return to borrowing in 2015/16. This first took place on the 17<sup>th</sup> December, 2015 when the Council had to borrow short term for cash flow purposes over the Christmas period. A mix of long and short term borrowing has been made since that date to meet obligations and ensure a small positive cash balance.

It allowed us to manage investment risk but this did mean a lower return on interest received. Interest received was a lot lower than the previous year, £79k compared to £162k. However, there was a saving on borrowing costs by delaying borrowing as long as possible.

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

- The smaller cash flow balances meant that most investments had to be made short term 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.

- The other investments were:

Counterparty	Start Date	End Date
Leeds Building Society	01-Apr-15	09-Oct-15
Nationwide Building Society	20-Apr-15	19-Jun-15
Lloyd's Banking Group 32 Day Notice	22-May-15	26-Jun-15
Lloyd's Banking Group 32 Day Notice	29-Jun-15	31-Jul-15
Lloyd's Banking Group 32 Day Notice	27-Aug-15	28-Sep-15
Lloyd's Banking Group 32 Day Notice	26-Oct-15	27-Nov-15

- The closing investment balance was £1.0m (after borrowing £10m short term over the year end), a decrease of £5.1m on the starting balance of £6.1m.
- 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):

- Both short term and long term borrowing was required this year.
- Two long term loans (25 years) were arranged on an annuity basis with the Public Works Loan Board, at a lower interest rate than any existing loans::

AMOUNT OF LOAN	DATE BORROWED	MAT.	RATE %
£ 10,000,000	26.02.16	26.02.41	2.59
£ 10,000,000	18.03.16	18.03.41	2.73

- Temporary borrowing was taken out as required. This included a period over the year end until grant, council tax and NNDR income flows resumed. Other Local Authorities offered the cheapest source of short-term funds. This option was taken:

NAME	AMOUNT	% INTEREST RATE	DATE OUT	DATE REPAID
Greater Manchester	£ 10,000,000	0.35%	17/12/2015	06/01/2016
East Riding	£ 5,000,000	0.52%	28/01/2016	29/02/2016
Brentwood Borough	£ 1,500,000	0.47%	11/03/2016	18/03/2016
London Borough of Ealing	£ 10,000,000	0.53%	24/03/2016	11/04/2016

- At the end of 2015/16 debt financing costs of 9.39% of revenue stream still remained below the council's guideline range of 10% - 12%.
- Total debt of £105.8m at 31<sup>st</sup> March 2015 was reduced by repayments of £1.9m in year, leaving a debt outstanding of £123.4m at 31<sup>st</sup> March 2016, after the new borrowing of £20m referred to above.
- 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.

3.9 The long-term borrowing made in 2015/16 is the first since 2007/8. Over that period the Council has used cash balances for internally funded capital schemes and to repay debt. Those balances are now spent and going forward new borrowing will be required to support the programme and to repay debt.

#### 4. ANALYSIS OF OPTIONS

4.1 This is a report on past performance and there are no options to consider. However 2015/16 saw a resumption 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.

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.

#### 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 2015-16 financial year.

**DIRECTOR OF POLICY AND RESOURCES**

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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

**COUNTERPARTY LIST**

<b>BANKS</b>	<b>Fitch</b>		<b>Moody's</b>		<b>Standard &amp; Poor's</b>		<b>Counterparty Limit</b>
	<b>ST</b>	<b>LT</b>	<b>ST</b>	<b>LT</b>	<b>ST</b>	<b>LT</b>	<b>£</b>
<b>United Kingdom</b>							
Barclays Bank	F1	A	P1	A2	A-2	A	£14,000,000
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	Aa3	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+	

<b>BUILDING SOCIETIES</b>	<b>Fitch</b>		<b>Moody's</b>		<b>Standard &amp; Poor's</b>		<b>Counterparty Limit</b>
	<b>ST</b>	<b>LT</b>	<b>ST</b>	<b>LT</b>	<b>ST</b>	<b>LT</b>	<b>£</b>
Nationwide	F1	A	P1	A1	A-1	A	£7,000,000
Coventry	F1	A	P1	A2			£4,000,000
Leeds	F1	A-	P1	A2			£4,000,000
Principality	F2	BBB+	P3	Baa3			£4,000,000
Skipton	F2	BBB+	P2	Baa2			£4,000,000
Yorkshire	F1	A-	P2	A3			£4,000,000

<b>GOVERNMENT INSTITUTIONS</b>							
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

<b>MONEY MARKET FUND</b>	<b>Fitch</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>
Funds rated by at least one agency as:	AAAMmf	Aaa-mf	AAAm

**NOTE:** Credit Ratings correct at 19 May 2016.

## Appendix 2

### Investment Record 2015-16

<b>Investments at start and end of year</b>	<b>Limit</b>	<b>01.04.15</b>	<b>31.03.16</b>
	<b>£</b>	<b>£</b>	<b>£</b>
<b>UK Clearing Banks</b>			
Lloyds Banking Group	7,000,000	579	4,776
RBS Group	4,000,000	5,900	5,882
Barclays Banking Group	14,000,000	6,088,333	84,544
HSBC Bank PLC	7,000,000	318	318
<b>Building Societies</b>			
<b>Local Authorities</b>			
<b>Money Market Funds</b>	5,000,000	25,000	925,000
<b>TOTAL INVESTED</b>		<b>6,120,130</b>	<b>1,020,520</b>

### Other organisations where funds were deposited during the year 2015/16

Leeds Building Society  
Nationwide Building Society

## Appendix 3

### PRUDENTIAL GUIDELINE INDICATORS

	2015/16	2015/16
	Budget	Actual
	£'m	£'m
(i) capital expenditure	52.9	39.5
(ii) General Fund ratio of financing costs to the net revenue stream *	9.69%	9.39%
	£'000	£'000
(iii) The capital financing requirement	190.2	184.3
(iv) the authorised limit for external debt including borrowing and other long term liabilities	250.0	250.0
(v) the operational boundary for external debt including borrowing and other long term liabilities	195.0	195.0
	%	%
(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