

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

**TREASURY MANAGEMENT AND INVESTMENT STRATEGY
QUARTER 2 REPORT 2017/18**

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 This is a report on treasury performance in 2017/18 to date. The benchmark for measuring performance is the treasury strategy which the council set at its meeting on 25 February 2017.
- 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 whilst retaining adequate liquidity
 - Proactively shifted some into larger, general Money Market Funds
 - Generated an average return of 0.2% for the year to date.
 - Maintained up to £11.5m short-term borrowing during the period via the inter-Local Authority market
 - 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 the Treasury Management Policy Statement.
- 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 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 2017-18

- 3.2 The strategy for 2017-18 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 and the financial media.

The Investment Strategy

- 3.3 The Investment Strategy for 2017/18 aims to reduce risk by;
- Limiting the maximum investment period to twelve months
 - Applying a maximum investment limit of £5m or lower for counterparties (except the council's own bankers and Debt Management Office)
 - 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

- 3.4 The Borrowing Strategy for 2017/18 aims 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.
- Use leasing for vehicle purchases where appropriate.

How the council performed

3.5 The Treasury Strategy forecasts an ongoing need for additional borrowing in 2017/18. Liquidity is maintained via temporary inter-LA loan transactions during the period

3.6 Throughout the period efforts were made to keep investment balances sufficient to mitigate liquidity risk but not too high so as to create counterparty access issues or overall credit concerns. Interest received was only slightly lower than the previous year at £4.4k compared to £4.8k in the same period in 2016/17. This shortfall was more than offset by a much larger saving on borrowing costs as maturing loans were replaced at lower cost.

3.7 The level of cash flow balances meant that most investments had to be made short term to manage liquidity risk

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

- The closing investment balance was £7.4m, a decrease of £1.1m on the previous quarter. Borrowings increased by £0.8m in the same period as a result of additional short-term cash flow loans being taken.

3.9 The key borrowing statistics were (see details at appendix 2b):

- Both short term and long term borrowing will be required this year but only short-term loans were taken in Q2.
- Three short term loans were arranged via the inter-local authority market
- With the Authority's internal borrowing capacity now fully deployed 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.

Total debt of £151.0m at 30th June 2017 was reduced by repayments of £6.6m in the period, with new/replacement debt added to leave total debt outstanding of £151.8m at 31st August 2017.

- The average borrowing rate dropped from 3.95% to 3.85% during the quarter as a result of older, maturing borrowing being replaced with new, shorter term debt.
- 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 2017/18 has seen an extension of external borrowing to meet short and long-term needs as anticipated in the Treasury Strategy.

4.2 The S151 Officer meets regularly with operational Treasury staff in order to provide oversight and receive assurance in respect of the treasury functions..

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 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 2017-18 financial year to date

DIRECTOR: GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report

[2017-18 Treasury Management Strategy](#)

[2017-20 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

GOVERNMENT INSTITUTIONS							
Debt Management Office							Unlimited
Local authorities							
Parish Councils							£0.05m
District Council's							£4m
All Other LA's							£5m
Fire Authorities							£5m
Police authorities							£5m

NOTE: Credit Ratings correct at 1 September 2017.

Investment Record 2017-18

Counterparty Name	Deal Type Description	Deal Ref	Opening Balance	Investments Made	Maturities / Investments Sold	Closing Balance	Average Rate	Average Term (days)
Bank of Scotland plc	Call	Total	£2,500,031.56	£318.50	£0.00	£2,500,350.06	0.1500%	0
	Total	Total	£2,500,031.56	£318.50	£0.00	£2,500,350.06	0.1500%	0
Barclays Bank plc	Call	Total	£1,476,219.69	£34,256,124.47	(£34,841,756.30)	£890,587.86	0.2000%	0
	Total	Total	£1,476,219.69	£34,256,124.47	(£34,841,756.30)	£890,587.86	0.2000%	0
BlackRock ICS Institutional Sterling Liquidity Heritage Dis	MMF	Total	£2,000,000.00	£2,000,000.00	(£1,000,000.00)	£3,000,000.00	0.1905%	0
	Total	Total	£2,000,000.00	£2,000,000.00	(£1,000,000.00)	£3,000,000.00	0.1905%	0
CCLA The Public Sector Deposit 4	MMF	Total	£500,000.00	£2,000,000.00	(£2,500,000.00)	£0.00	0.1913%	0
	Total	Total	£500,000.00	£2,000,000.00	(£2,500,000.00)	£0.00	0.1913%	0
DMADF (Debt Management Account Deposit Facility)	Fixed	Total	£0.00	£9,000,000.00	(£9,000,000.00)	£0.00	0.1000%	6
	Total	Total	£0.00	£9,000,000.00	(£9,000,000.00)	£0.00	0.1000%	6
GS Sterling Liquid Reserve Institutional Inc	MMF	Total	£2,000,000.00	£4,000,000.00	(£5,000,000.00)	£1,000,000.00	0.1568%	0
	Total	Total	£2,000,000.00	£4,000,000.00	(£5,000,000.00)	£1,000,000.00	0.1568%	0
HSBC Bank plc	Call	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
	Total	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
Lloyds Bank plc	Call	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
	Total	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
National Westminster Bank plc	Call	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
	Total	Total	£0.00	£0.00	£0.00	£0.00	0.0000%	0
Total	Total	Total	£8,476,251.25	£51,256,442.97	(£52,341,756.30)	£7,390,937.92	0.1740%	1

Borrowing from other Local Authorities 2017-18

Date	Lender	Principal	Maturity	Rate
25/04/2017	W Yorks Police	£3,000,000	25/07/2017	0.35%
25/04/2017	Pembrokeshire	£2,000,000	25/07/2017	0.35%
28/04/2017	Harlow	£4,000,000	30/10/2017	0.38%
25/07/2017	Wealden District Council	£2,000,000	16/01/2018	0.25%
31/07/2017	Vale of Glamorgan	£2,500,000	07/09/2017	0.15%
29/08/2017	Tees Valley Combined Authority	£3,000,000	29/11/2107	0.20%

APPENDIX 3

PRUDENTIAL GUIDELINE INDICATORS

	2017/18	Q2 2017/18
	Budget £m	Actual £m
(i) capital expenditure	91.8	9.3
(ii) General Fund ratio of financing costs to the net revenue stream	10.91%	9.59%
(iii) The capital financing requirement (full year projection)	240.7	234.2
(iv) the authorised limit for external debt including borrowing and other long term liabilities	302	151.8
(v) the operational boundary for external debt including borrowing and other long term liabilities	247	151.8
	%	%
(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	50)
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