

REPORT TO	DATE OF MEETING
Governance Committee	1st December 2011



Report template revised June 2008

SUBJECT	PORTFOLIO	AUTHOR	ITEM
Treasury Management - Update	Finance & Resources	G Whitehead	6

1 Summary and link to corporate objectives

This additional treasury report is primarily presented to update members on the implications of the Icelandic Court decision. It also updates the performance data previously reported, and advises on other treasury developments. The annual review of the Treasury and Investment Strategies will be presented to members in February

2 Recommendations

Governance Committee is asked to note the report.

3 Icelandic Investments

Landsbanki

On October 28th the Icelandic Supreme Court announced its decision to uphold the priority status of Local Authority deposits in Landsbanki. This decision is final and cannot be challenged further. At this stage it only applies to the test case authorities and confirmation is awaited that the Winding Up Board will apply it to the other, non test case, authorities

The Winding Up Board has not yet made public the date and amount of the first distribution. It is known however that payments will be made in euros, sterling, dollars and Icelandic krona. The Council has opened foreign currency bank accounts to enable receipt of these sums.

The latest advice from the Administrator is that Authorities could recover as much as 98% of sums deposited, but that it will take a number of years for this to be achieved. In preparing the Council's Statement of Accounts at 31/03/2011 recovery of 95% over a period extending to 2018 was assumed.

Heritable

A further repayment was received in October (4.18%). This raises the total recovered to 64.6%. The Administrator's latest communication, dated 4 November, advises that he expects to repay between 86% and 90%. The Council's accounts provides for recovery of 85%.

4 Treasury activity to 21 November 2011

Investment activity is summarised in the following table:

	Average Daily investment. £'000	Earnings to 21/11/2011 £	Average Rate %
DMO	6	10	0.25
Other fixed term deposits	5,400	53,835	1.55
Call accounts	6,826	28,679	0.65
Money Market Fund	493	2,486	0.78
Council's own bank	59	0	0
	<u>12,784</u>	<u>85,010</u>	<u>1.03</u>

The above table excludes the Icelandic loans. It does include, for the first time, data relating to an investment in the Prime Rate Money Market Fund. Current investments are listed at Appendix A.

The interest earning benchmark is the average LIBID 7 day rate. This was 0.48% as at 21/11/2011. The authority has outperformed the benchmark.

The following table compares the budgets for interest receivable against the latest projection. The forecast additional income has grown to £43k. primarily as a result of the higher than budgeted levels of cash balances

	Budget for year £'000	Actual to 21/11/2011 £'000	Forecast for year £'000
Interest earned			
On current investments	(95)	(85)	(134)
On Icelandic loans	(175)	(131)	(179)
Net cost/(surplus)	(270)	(216)	(313)

5 Market Turmoil

The Council's investment strategy continues to be that the maximum term for deposits in the partly nationalised banks should be one year, with other banks meeting the credit criteria, three months, and with other Local Authorities one year.

6 Lancashire County Council:

The County Council has received a credit rating of AA1 from Moody's. This is the second highest rating (after AAA). The County Council has gone to the expense and trouble of obtaining this rating in order to position itself should it wish to raise capital finance, at any time in the future, from the money markets as opposed to the PWLB, by issuing bonds or other financial instruments.

It has no direct relevance to the Council, other than to afford comfort as to the security of sums borrowed by the County from this, and other, District Councils. The Treasury Strategy permits deposits of up to £3m for up to one year with other Local Authorities.

7 WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

FINANCIAL	The financial implications are outlined within the report.		
LEGAL	Compliance with various Regulations and statutory Codes of Practice		
RISK	The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.		
OTHER (see below)			
<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

BACKGROUND DOCUMENTS

Financial Strategy/Budget and Council Tax 2011/12
 Treasury Management in the Public Services: Code of Practice
 CIPFA Prudential Code for Capital Finance in Local Authorities

Appendix A

Investments as at 25 November 2011

Counterparty	Type	Amount £'000	Rate %	Date of investment	Maturity
Santander	Term	1,000	1.20	11/11/11	11/01/12
Lancashire County Council	Term	1,000	1.53	26/01/11	25/01/12
Nationwide BS	Term	1,000	1.03	28/06/11	03/01/12
Bank of Scotland	Term	1,000	1.80	28/06/11	28/03/12
Bank of Scotland	Term	1,000	2.05	28/06/11	26/06/12
Bank of Scotland	Term	1,000	2.10	03/10/11	01/10/12
Santander	Call	400	0.75		
Royal Bank of Scotland	Call	1,400	0.80		
Lancashire County Council	Call	450	0.70		
Prime Rate Money Market Fund	Call	3,000	0.78		
Total		11,250			

In addition the Council has approximately £0.75m on deposit with its own bank HSBC

Outstanding Icelandic Loans have a book value of £2.952m at the end of November 2011