

REPORT TO	DATE OF MEETING
Governance Committee	26 September 2012



Report template revised June 2008

SUBJECT	PORTFOLIO	AUTHOR	ITEM
Treasury Management Activity Mid year review	Finance & Resources	G Whitehead	6

1 Summary and link to corporate objectives

To review the Treasury and Investment Strategies approved by the Council on 29 February 2012, and to report on performance in the first half of the year and compliance with prudential indicators. This report will be submitted for approval to the Council in November. No changes in the Strategies are proposed.

2 Recommendations

Governance Committee is asked to note the report.

3 Details and reasoning

The Code of Practice for Treasury Management specifies that Councils should review their Treasury Strategy and activity half yearly. This report meets that requirement.

4 Interest rate forecast

The following table shows the interest rate forecast of the Council's Treasury Advisor, Sector Treasury Services Ltd.

	Now %	Dec 2011 %	Mar 2012 %	June 2012 %	Sep 2012 %	Mar 2013 %	June 2013 %	Dec 2013 %	Mar 2014 %
Base rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
5 yr PWLB	1.70	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.00
10 yr PWLB	2.50	2.50	2.50	2.50	2.60	2.70	2.80	2.90	3.00
25 yr PWLB	3.90	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10
50 yr PWLB	4.10	3.90	3.90	3.90	4.00	4.00	4.10	4.20	4.30

Comparison with the forecast of six months ago, when the Treasury Strategy was drafted, shows that the timing of the first assumed increase in base rate has slipped in all periods. This reflects the continuing economic uncertainty and lack of confidence.

5 Review of the Treasury Strategy:

The Treasury Management and Investment Strategies for 2012/13 were approved by Council on 29 February 2012. They defined the Council's investment priorities as the security of capital sums invested and the maintenance of liquidity. Consistent with these priorities the optimum return (yield) on investments would be sought.

No changes in strategy are proposed. This means that counterparties will continue to be restricted to British financial institutions and that the Sector scoring system will continue to be used in assessing credit worthiness (this uses credit ratings, adjusted for any “rating watches” and market sentiment as indicated by the “price” of credit default risk). The limits on investments, both of duration and amount, will also be unchanged, (currently all institutions other than those which are part nationalised are restricted to a maximum term of 3 months).

A complete list of the institutions with whom the Council deals is attached. The only change in the half year is that an additional Money Market Fund account has been opened with the Ignis MMF, and it is intended to open a third in the near future. This will give additional flexibility at times when cash balances are at their maximum.

6 Treasury activity

Investment activity in the half year is summarised in the following table:

	Average Daily investment.	Earnings to 31/8/2012	Average Rate
	£'000	£	%
DMO	39	41	0.25
Other fixed term deposits	6,921	52,649	1.82
Call accounts	5,402	13,869	0.61
Money Market Funds	2,290	6,937	0.72
Sub Total	14,654	73,496	1.20
Iceland deposit		30,000	6.65
		103,496	

A full list of investments currently held is shown at Appendix A.

The interest earning benchmark is the average LIBID 7 day rate. This was 0.43% for the period reported, compared to the rate achieved of 1.20%.

The following table compares the budgets for interest receivable against the latest projection. There is no reason to suppose that there will be a significant variation from the budget.

	Budget for year	Actual to 31/8/2012	Forecast for year
	£'000	£'000	£'000
Interest earned	266	103	266

7 Icelandic Loans

Members have been advised that following the successful court action, a first repayment of the Landsbanki deposit was made in February 2012. A further repayment of 12% was made in May giving a total recovery to date of 43%. There are two on-going issues potentially affecting future repayments to all creditors. The first is the Icelandic currency controls which require that any distribution has to be sanctioned by the Icelandic Central Bank, to which additional powers were granted after the first distribution. There is no way of knowing how this will affect future repayments. The second issue is the possible challenge to the decision by the Winding Up Board to use the exchange rates on 22/4/09 as a single basis for measuring the amounts owed to and settled with, the various claimants. Neither of these factors alter the expectation that 100% recovery will ultimately be achieved.

The currency controls referred to above potentially apply to all currencies. There have always been specific restrictions on the release of Icelandic Krona (ISK), and ISK4.665m, part of the first

repayment, has been held in escrow on behalf of the Council since November 2011. There is the possibility of an offer from the Iceland Central Bank to release this at the official exchange rate plus 10%. Authority to act on any such offer was delegated to the Chief Financial Officer in July.

Regarding the Heritable deposits further repayments were made in April and July and the total recovery is now 74.55%. The next repayment is expected in January 2013. The Administrator advises that he expects a recovery of between 86 and 90%, with a stressed case return of 74 to 80%.

8 Borrowing:

The Treasury Strategy indicated that no borrowing was necessary over the next 2 to 3 years. This remains the case and no borrowing is planned.

9 Prudential Indicators:

It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits" which were reported in the approved Treasury Management Statement.

The following table shows the approved limits and the current position:

Prudential Indicator	March 2012 Indicator £'000	Actual £'000
Capital Financing Requirement (CFR) March 2012	5,547	5,455
Gross borrowing	0	0
Investments (note 1) actual as at 31/8/12	(7,736)	(18,445)
Net borrowing/(investments) actual at 31/8/12	(7,736)	(18,445)
Authorised limit for external debt (note 2)	3,300	1,230
Operational boundary for external debt (note 2)	1,300	1,230
Limit of fixed interest rates (based on net debt)	1,200	1,230
Limit of variable interest rates (based on net debt)	100% on inv cash	100%
Principal sums invested for periods exceeding 364 days	0	0
Maturity structure of borrowing limits		
Under 12 months	N/A	N/A
12 months to 2 years	N/A	N/A
2 years to 5 years	N/A	N/A
5 years to 10 years	N/A	N/A
10 years and above	N/A	N/A

Note 1 - The prudential indicators assumed investments, excluding outstanding Icelandic loans, of £7.736m at March 2012 falling to £5.106m at March 2013. The actual value at March 2012 was £12.0m and is currently £18.4m. This is expected to fall significantly by year end.

Note 2 – The figure of £1.230m is not borrowings, but amounts owing under finance lease arrangements. The actual shown is as at March 2012.

10 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 2012/13
 Treasury Management in the Public Services: Code of Practice
 CIPFA Prudential Code for Capital Finance in Local Authorities

Appendix A

Investments as at 31 August 2012

Counterparty	Type	Amount £'000	Rate %	Date of investment	Maturity
Bank of Scotland	Term	1,000	2.10	03/10/11	01/10/12
Barclays	Term	1,000	0.76	16/07/12	16/10/12
Nationwide	Term	1,000	0.58	06/08/12	06/11/12
Nationwide	Term	1,000	0.56	21/08/12	21/11/12
Barclays	Term	1,000	0.63	21/08/12	21/11/12
Lancashire County Council	Term	1,000	1.84	11/01/12	11/01/13
Lancashire County Council	Term	1,000	1.87	31/01/12	29/01/13
Bank of Scotland	Term	1,000	3.00	11/04/12	11/04/13
Bank of Scotland	Term	1,000	3.00	04/07/12	04/07/13
Royal Bank of Scotland	Call	3,000	0.80		
Lancashire County Council	Call	1,000	0.70		
Prime Rate MMF	Call	3,000	0.63		
HSBC	Call	2,445	0.30		
Total		18,445			

Notes

- 1 Outstanding Icelandic Loans have a book value of £1.555m at September 1 2012.
- 2 A decision has already been taken to place £2m @ 1.75% for a period of 1 year with the National Westminster Bank from 5 October 2012

Appendix B

Current list of Financial Institutions and Investment Criteria

Investment Group	Category	Institutions	Sector Colour Code	Sovereign rating	Max period	Limit per Institution
Tier 1	Sovereign or Sovereign "type"	DMADF			6 months	No limit
		Local Authority			1 year	£3m
		UK Govt backed Money market funds			n/a instant access	£3m
Tier 2	UK Nationalised Institutions	None (N Rock deposits no longer guaranteed)				
Tier 3	Institutions guaranteed by other governments	None (Irish Banks removed from list)				
Tier 4A (nb 1 and 2)	UK Partly nationalised institutions.	RBS group (inc Nat West)	Blue	AAA stable from all 3 agencies	12 months	£3m per group
		Lloyds Group (inc HBoS & Lloyds)	Blue		12 months	£3m per group
Tier 4B (nb 1 and 2)	Independent UK Institutions	HSBC	Orange	AAA stable from all 3 agencies	All restricted to 3 months	£2m
		Nationwide	Red			£2m
		Barclays,	green			£2m
Tier 5	Money Market Funds	Prime Rate Ignis	AAA only		instant access	£3m
Tier 6	Deposit/Call Account	HSBC			Instant access	£3m
	Call accounts	HBOs group RBS group			Call accounts with instant access	£3m less value of term deposits

The Sector colour coding suggests time limits of Green (3 months), Orange (6 months), red (1 year), purple (2 yrs) and blue (1 year)

The Credit Guarantee Scheme gives access to eligible institutions to liquidity from HM Treasury