

2011/12 Treasury Management Progress Report to 31 December 2011

Report of Head of Financial Services

1. Introduction

This report is in line with the reporting requirements of the CIPFA Code of Practice on Treasury Management, which is a technical area. To assist with its understanding, a glossary of terms commonly used in Treasury Management is attached at **Annex A**. In addition, the Councillor's Guide to Local Government Finance also has a section on treasury and cash management and this is available through the Member Information section on the Intranet.

2. Summary

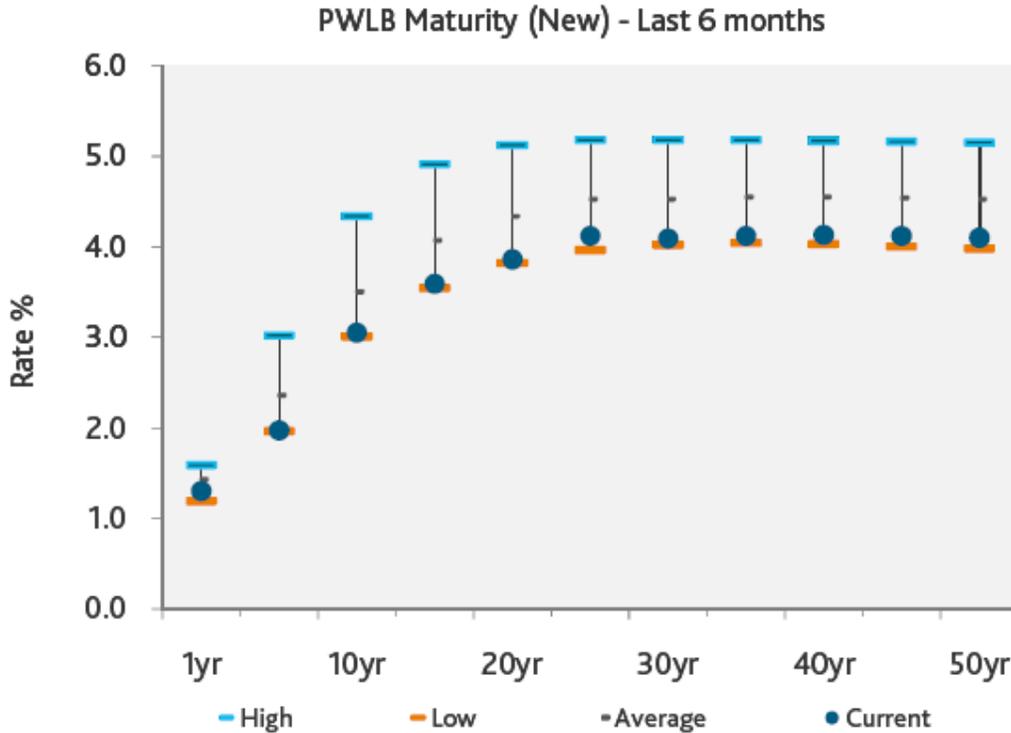
- There has been limited further information from the Icelandic banks since the positive news in the last quarter. Further information is awaited regarding repayment dates and amounts.
- On other treasury matters there have been no changes to the debt portfolio. No temporary borrowing was required during the quarter and no new long term debt has been taken on.
- There have been no material breaches of any prudential indicators or counterparty limits in the quarter and no other major risks have been identified.

3. Icelandic Investments Update

Since the good news reported at quarter 2 about the Council's Icelandic investments, little further information has been received. The Council awaits something concrete in terms of repayment plans from Glitnir and Landsbanki although material receipts are anticipated before the end of the financial year.

4. Current Borrowing Rates.

The following graph shows that the pattern seen since January 2009 has persisted, with a marked spread between short term and long term borrowing. Further, rates remain at their depressed levels even compared to the range seen over the last 6 months and have been on a downward trend, fuelled by the Eurozone crisis.



Extract from Sector weekly debt monitor 16/1/2012

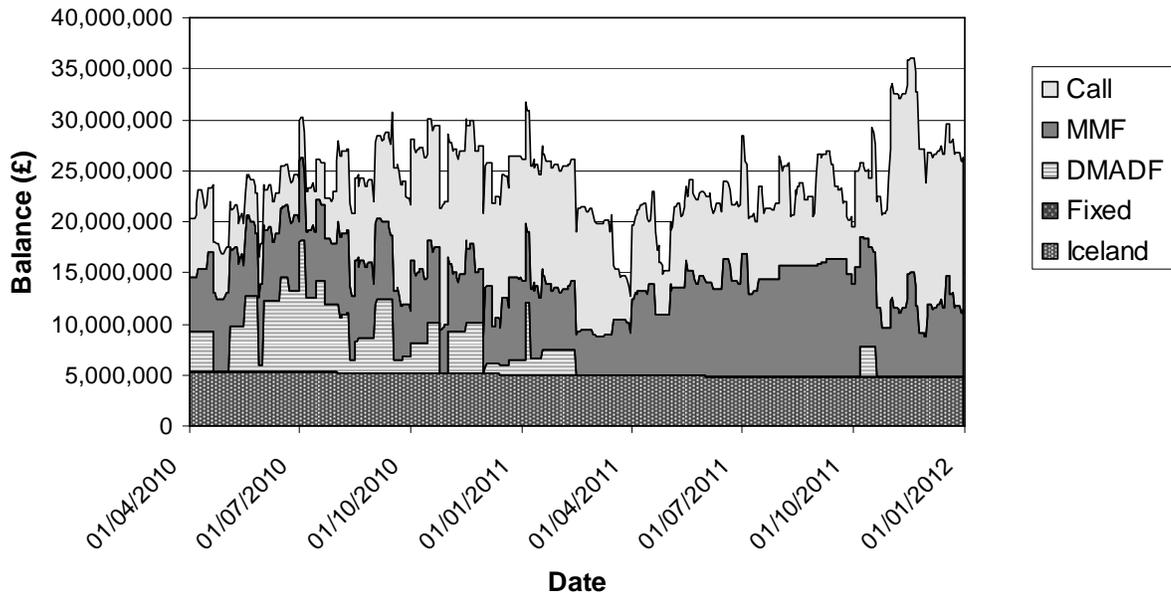
This is good for the Council as it faces taking on new borrowing before the end of the financial year, in relation to the HRA subsidy buy out. The projections from Sector are that these rates will rise before the self financing buy out but will still remain relatively low. The spread of rates also means that structuring the maturity profile rather than relying on long term maturity loans would be beneficial in terms of interest cost, although it would commit the Council to either repayment or re-financing sooner than if long term loans were used.

5. Investing Activities

As laid down in the approved Investment Strategy, the aim is to prioritise security and liquidity of the Council's investments. This is to ensure that the Council has sufficient cash to support its business, but also to minimise any further chance of a counterparty failing and the Council not being able to remove its deposits, as happened with the Icelandic banks.

All investment activity has been in line with the approved Treasury Strategy for 2011/12. No fixed term investments have been placed; surplus cash has been managed on a day to day basis using the call accounts and Money Market Funds (MMF). A full list of the investments at the end of Quarter 3 is enclosed at **Annex B**.

Investment values over the prior 2 years



In addition, the Council has opened a call account with Barclays which came into use during the quarter. Although this does not pay as high a rate as some other Call offerings, it is judged to be more secure and would form part of the 'specified' investments unlike the other call accounts that are included on the investment list, partly on the basis of their access to Government support. In addition, the Council has started placing deposits with the County Council again, following a review of the facility.

The quarter has been another turbulent one in terms of counterparty security. Barclays limit was reduced from £6M to £3M, Santander dropped from £6M to £3M and Yorkshire bank has been removed from the list having previously had a limit of £3M. The lending list is now very limited and focuses on a small number of high quality counterparties. In terms of spreading risk, the Council has two money market funds which indirectly diversify the portfolio. In addition, the use of the County Call account has increased the pool of quality counterparties and the 2012/13 investment strategy will look at ways of increasing the use of this facility. (Note that in Quarter 4, no funds are now placed with Santander.)

6. Summary of Budget Position and Performance

In terms of performance against external benchmarks, the return on investments compared to the 7 day LIBID and bank rates over the year to date is as follows:

Base Rate	0.50%
7 day LIBID	0.61%
Lancaster CC investments	0.62%

The return is just above base but matches the 7 day LIBID. The Council has focused on secure and highly liquid deposits that have mainly been on instant access, hence the relatively poor rate of return in absolute terms, however, for the type of investment the Council is making, it is achieving a reasonable rate.

In terms of performance against budget, the details are as follows:

Annual budget (revised)	£268K
Actual to date	£90K (see details in Annex B)
“Icelandic” to date	£134K (see details in Annex B)
Total	£224K
Variance	£19K favourable against evenly profiled budget

There is a £19K favourable variance which is jointly due to the real cash income and the impact of Icelandic investments. The cash budget is expected to fall back over the last quarter as balances reduce down towards year end. This is because Council Tax and NNDR are generally collected over the first 10 periods.

7. Risk management

There has been no material change in the policy or operation of the treasury function over the quarter, in recognition of the considerable uncertainty that exists within the economy and financial sector. The view is, therefore, that residual risk exposure for investment remains comparatively low.

There is now no option to borrow early from the PWLB for HRA self-financing, as all loans must be agreed on 26 March 2012 for payment to authorities on the 28 March 2012. Officers have been liaising with the PWLB to ensure the logistics for agreeing loans are in place.

Finally, as per the previous quarterly updates, recovery of Icelandic investments is still being managed with legal support organised through the Local Government Association.