

By: Cabinet Member for Finance
Director of Finance

To: Cabinet – 11 October 2010

Subject: **TREASURY MANAGEMENT**

Classification: Unrestricted

Summary: To update on Treasury Management.

FOR DECISION

INTRODUCTION

1. Treasury Management is reported on a quarterly basis to the Governance and Audit Committee. In addition, regular reports are now being made to Cabinet to help increase the level of communication on these issues.
2. This process is supported by the Treasury Advisory Group (TAG), an all party sub-group of Cabinet, which is responsible for advising the Cabinet and Director of Finance on treasury management.
3. This report updates Members on issues since the 14 June report.

BORROWING

4. £40m of short term borrowing matured in August. After discussion with our treasury advisers we decided in the short term not to re-finance immediately as rates were not attractive and we had sufficient cashflow to enable us to monitor the situation.
5. By the end of August borrowing rates had once again dropped as concern over a double dip recession came to the fore. Public Works Loan Board (PWLB) rates fell and on 1 September with the agreement of the Director of Finance and Cabinet Member for Finance we borrowed £20m at 3.95% for 49/50 years and £20m at 1.94% for 10 years.

BANKING TENDER

5. After an EU compliant tender process National Westminster Bank have been reappointed as KCC's banker under the Director of Finance's delegated powers and after consultation on the decision with TAG.

COUNTERPARTIES

6. The counterparties currently approved by Cabinet are:
 - Barclays
 - HSBC
 - Lloyds Banking Group
 - Royal Bank of Scotland
 - Nationwide

7. Santander UK was suspended on 30 April 2010 as a result of concerns about the creditworthiness of the Banco Santander group following the downgrading of Spain's long-term sovereign credit rating. Since then, while Spain's long-term sovereign credit rating remains below our criteria, the credit worthiness of the group has improved and on 24 August Arlingclose recommended that the maturity limit for deposits with Santander UK be increased from 1 month to 6 months. We remain concerned about Santander and propose that we keep the position under review with cabinet delegating a decision to reinstate Santander UK to the Cabinet Member for Finance and the Director of Finance in consultation with TAG and with Cabinet members informed.

8. In July officers were able to negotiate a deal with HSBC to start taking short term deposits. This will reduce deposits with the Debt Management Office.

9. In September we placed £20m in longer term deposits with Nationwide.

10. We are investigating the new CCLA Deposit Fund set up for local authorities with the support of the Local Government Association, and the addition of a small number of Money Market Funds to the list of counterparties. This will be reported back to TAG initially and then to Cabinet as part of the annual update of the Treasury Strategy.

ICELAND UPDATE

11. In July a further quarterly dividend was received from Heritable of 6p in the £ or £1.15m. Total recoveries from the £18m deposited are now £7.5m. The Head of Financial Services continues to be actively involved as a member of the Creditors Committee in key decisions over the future administration of the bank.

12. As reported at the June meeting KCC is a test case in Iceland on both Landsbanki and Glitnir. The test cases will be submitted to the District Court in Reykjavik in September and court hearings will take place in early 2011.

RECOMMENDATION

13. Members are asked to:

(1) Note this report.

(2) Agree the proposed decision making process for reinstating the use of Santander UK plc for deposits should this be deemed appropriate in the future

Nick Vickers
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