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To: Governance and Audit Committee –25 September 2012

Subject: **TREASURY MANAGEMENT UPDATE**

Classification: Unrestricted

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Summary: To report a summary of Treasury Management activity

**FOR ASSURANCE**

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## **INTRODUCTION**

1. This is a quarterly update on treasury management issues.

## **BACKGROUND**

2. The Treasury Management Strategy for 2012/13 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
3. The Code also recommends that members are informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.
4. Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
5. In addition to reporting on risk management related to treasury activities, the Treasury Management Code also requires the Council to report on any financial instruments entered into to manage treasury risks.

## **STATEMENT OF DEPOSITS**

6. A statement of deposits as at 31 August is attached in Appendix 1. This statement is circulated to members of Treasury Advisory Group every Friday.

## **MONTHLY PERFORMANCE REPORT**

7. The Treasury & Investments Manager produces a monthly report for all members of the Treasury Advisory Group. The June report is attached in Appendix 2.

## **SUMMARY OF DEVELOPMENTS**

8. Security of capital has remained the Council's main investment objective and this has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13. During the quarter the use of its approved counterparties and the maximum duration of the Council's investments have taken account of changes to ratings and growing concern over economic developments in Europe.
9. In May Moody's completed its review of banks with global capital market operations, downgrading the long-term ratings of all of them by between one to three notches. The banks on the Council's lending list which were affected by the rating downgrades were Barclays, HSBC and Royal Bank of Scotland. Separately, the agency also downgraded the ratings of Lloyds Bank, Bank of Scotland, NatWest Bank and Santander UK plc. None of the long-term ratings of the banks on the Council's lending list were downgraded to below the Council's minimum A- credit rating threshold.
10. In June, as a precaution, both Royal Bank of Scotland and NatWest were temporarily suspended for new lending as Moody's also downgraded these banks' short-term ratings. New investments with Bank of Scotland and Lloyds TSB Bank were restricted to a maximum period of overnight. Use of Santander UK had been recommenced on 10 April and was suspended on 19 April (the Head of Financial Services' answer on Santander UK at the last meeting referred to it being suspended from July 2010 through to the end of the period of the report which was 31 March 2012). The Council also decided to invest in alternative instruments purchasing £50million of Treasury Bills with maturities ranging from 1 to 6 months, and £50million of 6 month Certificates of Deposit from Standard Chartered.
11. The Treasury Advisory Group met with Arlingclose on 23 July and the focus of attention was the counterparty list. The group agreed to immediately reinstate Royal Bank of Scotland and NatWest, and that Santander UK should be reinstated for overnight deposits with the final decision on timing and amount of this investment being taken by the Cabinet Member for Finance and the Corporate Director of Finance and Procurement. They also agreed that a recommendation go to Cabinet to add to the counterparty list certain Australian and Canadian banks.
12. In early August it was decided that £25million should be placed in a Santander UK business reserve account-this money is placed overnight

and is well within the Arlingclose recommended maximum duration of 35 days. Following advice from Arlingclose regarding increased maximum durations it was agreed that a 3 month £25million deposit should be placed with Lloyds TSB.

13. For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. In August the Council used £55million of its cash reserves to fund the repayment of a maturing PWLB loan. This has lowered overall treasury risk by reducing both external debt and temporary investments. A further £20million loan is due to mature in November and at the present time the intention is to fund this from cash.
14. Current recoveries from Icelandic banks are £32.5m consisting of:
  - Heritable dividends totalling 74.56p in £ or £13.7m
  - Landsbanki - 3 dividends of £7.0m, 41% of the total due
  - Glitnir – in March 2012 a full recovery was made. UK local Council representatives continue to pursue a resolution of the kroner held in an escrow account in Iceland.

### **RECOMMENDATION**

15. Members are asked to note this report for assurance.

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