

# SECTOR



## Treasury Management Presentation

Lincolnshire County Council

Chris Scott, Director

21<sup>st</sup> February 2012

Proven expertise Innovative advice

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# The Code - Reporting requirements

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- Full Council to receive reports on:
- Treasury Management Strategy Statement (TMSS) – overall strategy for borrowing and investing for the year ahead
- Annual MRP Policy
- Annual Investment Strategy – determination of which investment instruments to use (can be combined with TMSS)
- Mid year (as a minimum) TMSS and AIS review
- Annual Report – review of previous financial year

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## Current situation in summary

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- Continued concern around the sovereign debt crisis in the Euro zone and sovereign downgrades
- Growth figures now lower than previously expected. Little prospect of significant growth over next 3 to 4 years
- QE now firmly back on the agenda
- CPI Inflation expected to be back to target over 2 to 3 year time horizon
- From a treasury perspective -
- Borrowing rates lower than expected – value in medium and longer term rates
- Investment returns to remain depressed
- Counterparty risk remains high

# U.K. Interest Rate Forecasts

Bank Rate															
	NOW	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's View	<b>0.50%</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
UBS	<b>0.50%</b>	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	<b>0.50%</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
	NOW	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's View	<b>2.22%</b>	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
UBS	<b>2.22%</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	<b>2.22%</b>	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
10yr PWLB Rate															
	NOW	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's View	<b>3.26%</b>	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
UBS	<b>3.26%</b>	3.45%	3.45%	3.50%	3.60%	3.65%	-	-	-	-	-	-	-	-	-
Capital Economics	<b>3.26%</b>	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-
25yr PWLB Rate															
	NOW	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's View	<b>4.06%</b>	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
UBS	<b>4.06%</b>	4.80%	4.90%	4.90%	4.90%	4.90%	-	-	-	-	-	-	-	-	-
Capital Economics	<b>4.06%</b>	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	3.90%	-	-	-	-	-
50yr PWLB Rate															
	NOW	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's View	<b>4.08%</b>	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
UBS	<b>4.08%</b>	4.80%	4.95%	4.95%	5.00%	5.00%	-	-	-	-	-	-	-	-	-
Capital Economics	<b>4.08%</b>	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	-	-	-	-	-

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# Managing Risk ~ Security v Liquidity v Yield (SLY)

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## Security

- Likelihood of getting investment back on terms invested
  - Strong = low return
  - Weak = high return

## Liquidity

- Length of investment
  - Return linked to
    - status of counterparty
    - Interest rate outlook

## Yield

- Combination of the above

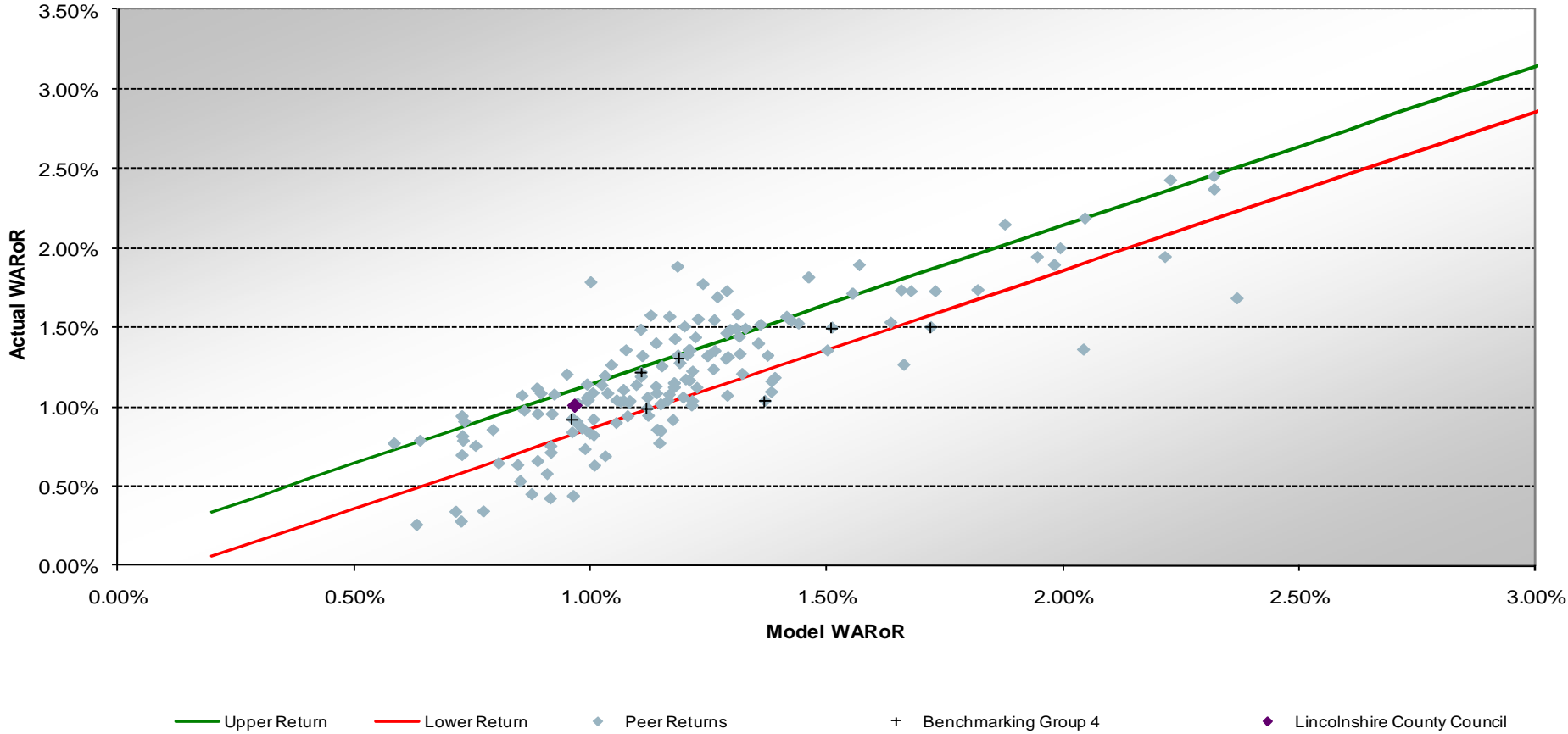
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# Investment Strategy

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- Portfolio to average £200m-£250m during the next year
- Risk averse policy. Minimum AA- long term rating, except part nationalised UK banks
- Specified Investments (up to 1 year, highly rated, low risk)
- Non-specified Investments (1 year +, max £40m)
- Comparison with other Local Authorities in benchmarking group
- Lincolnshire CC – 1.01%
- Benchmarking Group – 1.18%
- Other Counties – 1.12%

# Comparisons



# Portfolio Characteristics

## Portfolio Characteristics

W ARoR 101%

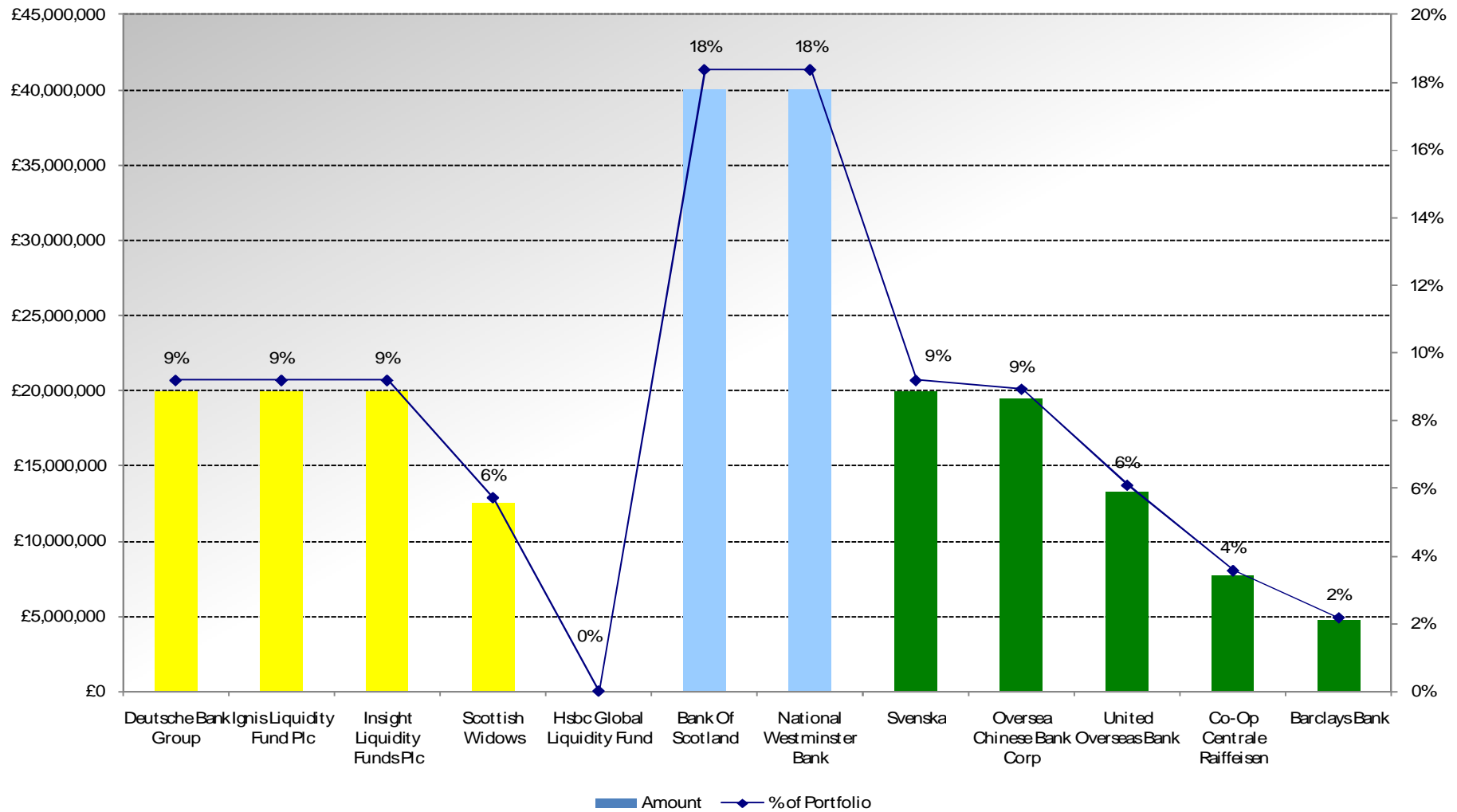
W AM 28

W A Risk 32

Y	P	B	O	R	G	N/C
1	2	3	4	5	6	7
1825	730	365	365	180	90	0



# Counterparty Exposure – January 2012



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## Investment Strategy - Scrutiny Focus:

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- Limits - Individual / Group / Sovereign limits?
- Counterparty list?
- Maturity Profiles?
- Financial Instruments?
- Officers' level of understanding?
- Members' level of understanding?
- Scrutiny Level / Quarterly Reporting?
- Risk Appetite / Risk management?
- Benchmarking – risk and return?

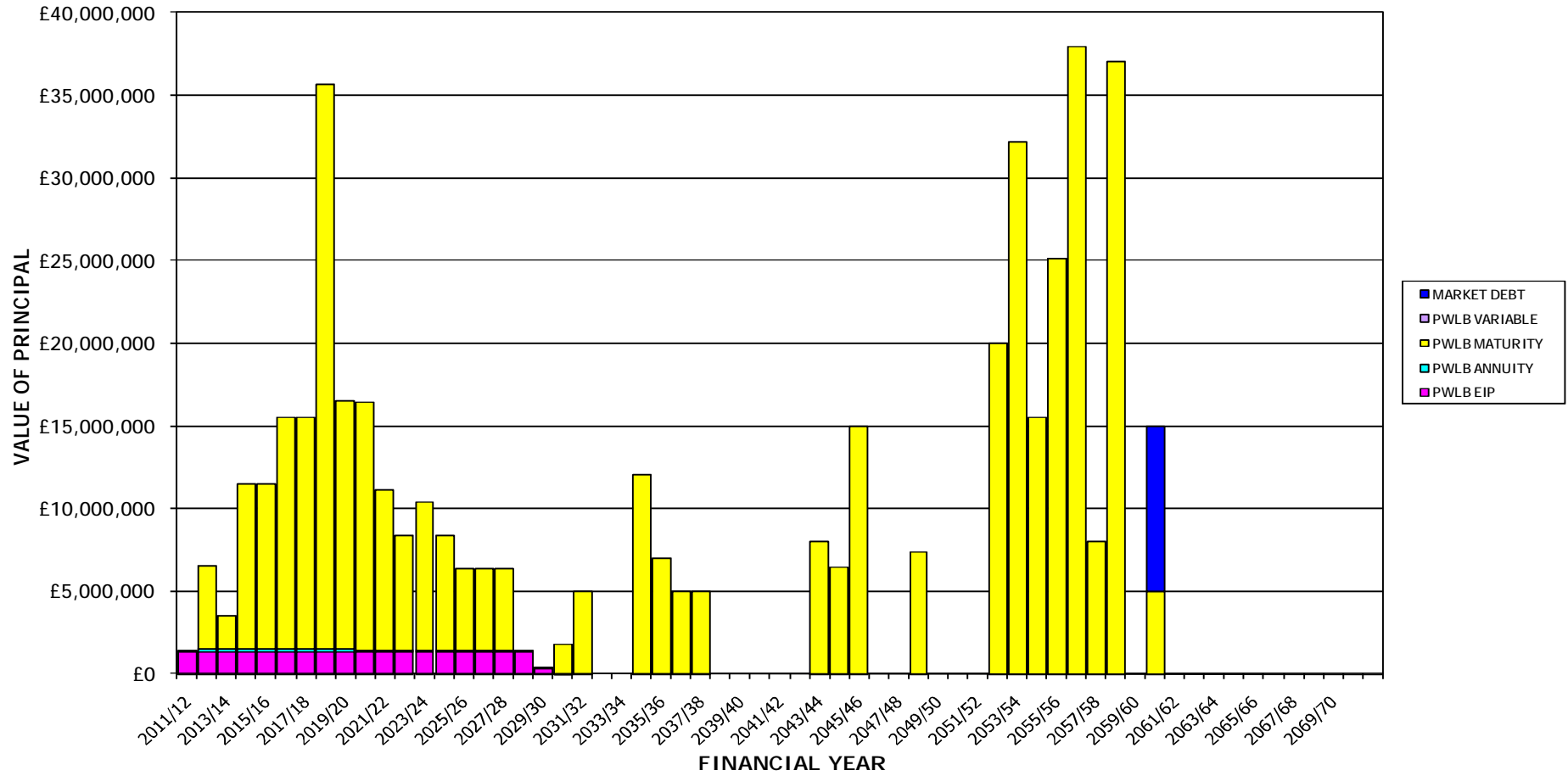
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# Debt Management

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- CFR at 31/3/2012 forecast = £519m
- External debt at 31/12/2012 = £450m
- Borrowed from PWLB (£440m) and Banks (£10m)
- Average rate 4.15% all fixed rate
- Low compared to most Councils
- Therefore potential borrowing requirement of £69m at 31/3/2012 which is currently internally funded
- CFR rises by a further £142m by end 2014/15

# Maturity Profile



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## Debt / Borrowing – Scrutiny Focus

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- How much needs to be borrowed?
- External vs. Internal borrowing?
- Sustainable strategy in the longer term?
- Which type of external borrowing (PWLB / LOBO)
- How long to borrow for?
- Fixed or variable rate?
- What limit should there be on LOBOs as a % of borrowing
- Are there any extraordinary issues coming up?
- 3 year ahead time frame under the Prudential Code