

REPORT TO	DATE OF MEETING
GOVERNANCE COMMITTEE	22 SEPTEMBER 2009



SUBJECT	PORTFOLIO	AUTHOR	ITEM
TREASURY MANAGEMENT - UPDATE	Finance & Resources	M Nuttall	7

SUMMARY AND LINK TO CORPORATE PRIORITIES

This report is intended to update the Committee on several matters related to the Council's Treasury Management Strategy.

The report supports the corporate priority of being an efficient, effective and exceptional council.

RECOMMENDATIONS

That the Committee comment as appropriate based on the detailed issues set out within this report.

DETAILS AND REASONING

Cash Deposits

The table at Appendix A to this report sets out for information the Council's current cash holdings. As can be seen from the table, with the exception of the funds (£3 million) invested in Clydesdale Bank, the deposits have short maturity dates, ranging from call accounts providing immediate access to three months. The current short term nature of deposits is designed to manage counterparty risk and ensure we are not locked into low interest rates should market conditions change and rates start to increase. This strategy is in accordance with the advice received from our treasury management advisors.

Subsequent to consideration by the Committee at its meeting in June, the Council on the 29 July agreed to amend the counterparty selection criteria, increasing the maximum deposit term for funds invested with "tier 4" counterparties from one month to up to three months. Whilst continuing to strictly manage counterparty risk, the increased maximum term of deposits has allowed the council to take advantage of marginally better interest rates and reduce the administration involved in placing investments. As can be seen from the Appendix A, since amending the counterparty selection criteria the Council has placed investments with Nationwide; Barclays and Royal Bank of Scotland with a maturity of two and three months.

Debt Repayment

At the previous meeting of this Committee consideration was given to a proposal to repay £2.836 million of the Council's long term borrowing. This was subsequently considered and agreed by Cabinet and Council.

The report explained that the benefits of repaying the borrowing were two-fold. Firstly it would reduce counterparty risk as, having repaid the borrowing, we would have less cash to invest. Secondly we would realise a saving that would benefit the revenue budget through reduced interest payments. Determining when to make the early repayment of the borrowing was crucial as this would affect the level of premium payable or discount received. Advice was taken from our treasury management advisors and the repayment was made on 28 July.

The table below sets out the details of the borrowing repaid.

Date of Advance	Value £	Interest Rate %	Normal Repayment date	Premium/ (Discount) £	Interest saving (net**) £
29.01.04	1,200,000	4.80	29.01.30	51,163	45,600
23.01.06	436,000	3.70	29.07.46	(54,790)	11,772
08.03.07	1,200,000	4.25	29.07.52	(20,958)	39,000
TOTAL	2,836,000			(24,585)	96,372

** this takes account of the opportunity cost of using funds previously invested to repay the borrowing

As can be seen from the above table we managed to repay the three loans and produce a net discount (benefit) of £24,585 in addition to a full year revenue budget saving of c£96,000.

As explained in the report setting out the proposal to make the early repayment of borrowing, we may need to replace this borrowing in a couple of years if and when market interest rates and our cashflow position change.

Icelandic Banks

Since the update provided to the last meeting of the Committee, working with the Local Government Association (LGA), we have continued pursue recovery of our frozen Icelandic deposits in Heritable (£2 million) and Landsbanki (£3 million).

The latest information on both banks is as follows:

Heritable

At the end of July, a first payment of 16.13% was made to creditors of Heritable. In our case this amounted to a repayment of £324,882. On 13 August, the administrators issued a formal update to creditors. The report stressed that the base case return of 70-80% outlined in the April update remains unchanged. It also stated that if conditions change over the next few years, the final recovery could be higher than the base case projections; conversely, in more adverse circumstances, they could be lower, with a 'stressed-case' return in the region of 55%-70%. It is expected that a second payment of 10% will be made before the end of 2009.

We are also in the process of submitting our claim to Landsbanki in relation to the guarantee of Heritable liabilities that Landsbanki, as the parent company, made in 2004. This needs to be submitted by the deadline of 30 October 2009. However, as an unsecured creditor in Landsbanki, it is not expected that the guarantee will realise any assets for Heritable.

Landsbanki

Negotiations on the Landsbanki financial instrument between "old" and "new" Landsbanki are ongoing, but it is currently expected that creditors and the resolution committees will reach an agreement with the Icelandic Ministry of Finance by the end of September 2009. The LGA's specialist solicitors, working on behalf of local authorities, are working closely with HM Treasury's legal and financial advisers in relation to the negotiations. They are also pressing the Landsbanki Resolution Committee for details of how it intends to maximise value from the old bank's assets.

On Friday 28 August, the Icelandic Parliament approved the loan deal agreed with the UK and Dutch governments earlier in summer. Under the terms of the deal, the UK government will loan the Icelandic government funds to repay retail depositors in Iceland; the loan will be repaid over a period of 15 years. Although this does not directly impact on wholesale depositors, such as local authorities, it is a welcome evidence of the Icelandic government's commitment to honour its obligations.

Accounting related issues

A revised bulletin (LAAP 82) updating authorities on the accounting treatment of Icelandic deposits was published by CIPFA in early September. This revised guidance has been used to finalise the Statement of Accounts for 2008/9 and is the subject of a report elsewhere on this agenda.

The LGA has stated that it will be writing to the Government to make the case for authorities that want to capitalise the impairment in respect of Icelandic banks should they wish to do so once the regulations allowing deferment to 2010/11 cease to apply. The LGA is seeking early clarity on this issue, to inform budget planning for 2010/11.

CIPFA Revised Treasury Management Code

Appendix B to this report sets out changes being proposed by the Chartered Institute of Public Finance & Accountancy (CIPFA) to the Treasury Management Code. Whilst the consultation closing date will have passed by the date of the Committee any comments the Committee may wish to make can still be submitted to CIPFA.

As regards Training – Point 4 at Appendix B – this is currently being discussed with our treasury management advisors with a view to scheduling an awareness session in the next few months.

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas shown below. The table shows the implications in respect of each of these.

FINANCIAL	As appropriate these are set out in the body of the report
LEGAL	Compliance with the various regulations as covered by the adoption of the CIPFA Code of Practice for Treasury Management in Public Services
RISK	The treasury management strategy and approved counterparty list are designed to manage the risk associated with the Council's treasury management activity. The short term nature of the Council's deposits and restricted counterparty list are aimed at minimising risk in the current low interest rate environment.
OTHER (see below)	

Asset Management	Corporate Plans and Policies	Crime and Disorder Act 1998 – Section 17	Data Protection
Fair Access	Freedom of Information Act 2000	Health and Safety	Human Rights Act 1998
Implementing Electronic Government	Staffing	Sustainability	Training and Development

BACKGROUND DOCUMENTS

Treasury Management Strategy for 2009/2010 – Council 4 March 2009 (Min 84)

Treasury Management Strategy Update and Debt Repayment Proposals – Council 29 July 2009 (Min 25)

Appendix A

DATE INVESTED	PRINCIPAL AMOUNT £	NOTICE / REPAYMENT DATE	DAYS	INTEREST RATE %	FINANCIAL INSTITUTION
Short Term					
29-Jul-09	2,000,000	CALL	CALL	0.75	BANK OF SCOTLAND
31-Jul-09	2,000,000	CALL	CALL	0.60	ABBEY
22-Jul-08	1,000,000	23-Oct-08	93	5.85	HERITABLE BANK LIMITED
23-Sep-08	1,000,000	21-Nov-08	59	6.00	HERITABLE BANK LIMITED
17-Aug-09	1,000,000	17-Sep-09	31	0.35	THE ROYAL BANK OF SCOTLAND PLC
17-Aug-09	1,000,000	17-Sep-09	31	0.35	BARCLAYS BANK
31-Jul-09	1,000,000	30-Sep-09	61	0.65	NATIONWIDE BUILDING SOCIETY
12-Aug-09	1,000,000	12-Nov-09	92	0.79	NATIONWIDE BUILDING SOCIETY
17-Aug-09	1,000,000	17-Nov-09	92	0.64	THE ROYAL BANK OF SCOTLAND PLC
17-Aug-09	1,000,000	17-Nov-09	92	0.70	BARCLAYS BANK
Sub-Total	12,000,000				
Long Term					
26-Jun-07	3,000,000	22-Jun-09	727	6.65	LANDSBANKI ISLANDS
28-Jun-07	3,000,000	28-Jun-10	1096	6.69	CLYDESDALE BANK
Sub-Total	6,000,000				
Deposit Account					
11-Sep-09	2,224,884	20-Aug-09	1	0.0000	HSBC DEPOSIT ACCOUNT
Fund Total	15,224,884	(Less Icelandics)			
Fund Total	20,224,884	(Add Icelandics)			