

REPORT TO	DATE OF MEETING
GOVERNANCE COMMITTEE	12 JANUARY 2009

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SUBJECT	PORTFOLIO	AUTHOR	ITEM
TREASURY MANAGEMENT PROGRESS REPORT	FINANCE & RESOURCES	M Nuttall	7

## SUMMARY AND LINK TO CORPORATE PRIORITIES

This report provides an update on Treasury Management activity, and performance in 2009/10 and compliance with the Treasury and Investment Strategies.

## RECOMMENDATIONS

That the Governance Committee accept the report, commenting as appropriate on its contents.

## DETAILS AND REASONING

### Executive Summary

This report provides an update on Treasury Management activity, and performance in 2009/10 and compliance with the Treasury and Investment Strategies. It also summarises the latest position regarding the recovery of Council deposits currently frozen in two Icelandic banks, Heritable and Landsbanki.

The report advises that, on average, the Council had balances of £14.1m available for investment, on which it received a return of 1.81%, in the period to 18 December 2009. Earnings, net of interest paid, are within budget.

It also reports on compliance with the investment guidelines specified in the Investment Strategy and with prudential limits.

The Treasury Strategy is currently being reviewed with support from our Treasury Management advisors, Butlers. The revised Strategy will be reported for consideration at the next meeting of the Committee before formal adoption by the Council prior to start of the new financial year.

## Introduction

This report advises members on treasury performance in the period to 18 December 2009. It also confirms compliance with the Treasury Management and Investment Strategy last reviewed by the Council on 29<sup>th</sup> July 2009.

## Treasury Activity

### Investments

The following table summarises investment activity in the year to 18 December 2009:

	Average daily investment £'000	Interest earned £	Av. rate %
Long term deposits	3,000	144,064	6.69
Short term deposits	4,828	19,941	0.58
Call accounts	3,497	16,796	0.67
Debt Management Office	1,307	2,649	0.28
Short term - totals	9,632	39,386	0.57
Retained at Council's own bank	1,471	0	0.00
Total	14,103	183,450	1.81

The points to note in the above table are:

- It excludes the Icelandic investments in Heritable of £2m and Landsbanki £3m.
- The average amount of investments plus cash each day is £14.103m.
- The average earned was 6.69% on the long term deposit (made in 2007) and 0.57% on current short term deposits.
- The DMO account provides maximum security but in return it earns the lowest rate of return 0.28%.
- Cash is retained at the Council's own bank to provide liquidity, and also on those occasions when it is not economical to place it elsewhere.

### Borrowing

At its meeting on 29<sup>th</sup> July the Council approved the repayment of PWLB borrowings totalling £2.836m. This had two benefits, the achievement of revenue savings in reduced interest costs, and also a reduction in investment counterparty risk as a result of a reduction in cash investments.

The interest rate forecast of the Council's treasury adviser, Butlers, is that base rate is unlikely to increase until the June quarter 2010. In view of this, and the adequacy of

current cash resources, no additional borrowing is envisaged in the remainder of this financial year.

## Treasury Performance

The benchmark against which investment performance is judged is the 7 day London Interbank Rate (LIBID). This represents a minimum level of return on cash invested for a minimum period. The average 7 day LIBID rate for the year to 18 December was 0.43%. The actual return, as above, was 1.81%.

The comparison between budgeted and actual interest costs is as follows:

	Budget for the year £'000	Current annual forecast £'000
Interest payable	190	60
Interest receivable	(361)	(253)
Net (surplus)	(171)	(193)

This statement does not include anything in respect of the Icelandic investments, nor does it include the discount of £25,000 received on premature redemption of the PWLB borrowings. This repayment is the principal reason for the fall in interest payable and the fall in interest receivable.

## Landsbanki & Heritable

Efforts to secure recovery of our frozen Icelandic deposits in Heritable (£2 million) and Landsbanki (£3 million) continue. We are working proactively with the Local Government Association (LGA) which has appointed specialist legal advisors to act collectively on behalf of all local authorities with deposits in Icelandic banks. Whilst we have a degree of clarity regarding our deposits in Heritable, the situation in respect of Landsbanki continues to unfold slowly as we are now embroiled in “developing” Icelandic legal processes.

Specifically, the latest position as regards each of the two banks can be summarised 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 their April update remained 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%;
- A further dividend payment of 12.66% in the sum of £255,042 was received on 21 December;
- We have submitted our claim to Landsbanki in relation to the guarantee of Heritable liabilities that Landsbanki, as the parent company, made in 2004. However, as an unsecured creditor in Landsbanki, it is not expected that the guarantee will realise any assets for Heritable.

## Landsbanki

- Our claim has been accepted as having preferential creditor status. This position will be challenged by the unsecured creditors of Landsbanki, however the LGA's specialist legal advisors remain very confident of being able to fend off such a challenge.
- Agreement has now been reached on the terms of the deal that will compensate creditors of "old" Landsbanki (including local authorities) in relation to assets transferred to "new" Landsbanki (which was set up to ensure the maintenance of a banking system in Iceland following the collapse of the old banks).
- As anticipated, the "forecast" recovery rate continues to fluctuate as time moves on and better information becomes available. The latest valuation forecast would suggest that recoveries will now be equal to (or exceed) the previous estimate of 83p in the pound, i.e. c90%.

## Accounting related issues

The Government invited local authorities to apply for approval to capitalise potential impairment charges in respect of Icelandic deposits. We submitted an application by the deadline of 15 December 2009 in the sum of £0.91 million. If approved, this would give us the ability to write-down the potential unrecoverable element of any Icelandic deposits over a number of financial years, as opposed to impacting all in one year.

We will probably find out if our application has been successful in late January/early February 2010. If successful, this will provide us with a further option in determining how we treat the accounting impairment when preparing our year end accounts. The current assumption in the financial strategy is that the impairment will be deferred to 2010/11 in accordance with the Government legislation permitting this.

## Compliance with prudential limits and indicators

All prudential limits are being complied with- i.e.

	Limit set	Current actual
Operational limit (i.e based on the expected amount of borrowing plus long term liabilities)	£4.8m	£2.1m
Authorised limit (this is the outer boundary – "affordable but not sustainable")	£6.0m	£2.1m
Upper limit for fixed rate exposure (i.e. the maximum amount of the Council's borrowings less investments that are to be at fixed rates)	100%	100%
Upper limit variable rate exposure (i.e.the maximum amount of borrowings less investments that can be at variable rates)	25%	nil
Upper limit investments over 1 year	£6m	£3m

## Investment compliance

The Investment Strategy for 2009/10 specifies maximum amounts and periods for different classes of counterparty. A list of the term deposits made in the year to 18 December is at Appendix A; also shown are the balances in the call accounts, and in the Council's bank account on that date.

All investments complied with the limits specified in the Strategy with the following exceptions:

- Balances in the call accounts have marginally exceeded the limits following the credit of interest
- The balance at the Council's own bank has exceeded the permissible limit of £3m for on four separate occasions. This only happens when it is not practicable to place the money elsewhere because of the short period involved

## **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.

<b>FINANCIAL</b>	As set out in the appendices to this report.
<b>LEGAL</b>	None.
<b>RISK</b>	The Council's Treasury Management Strategy is designed to mitigate risk exposure and manage it within agreed parameters.
<b>OTHER (see below)</b>	

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**

1. Treasury Management Strategy for 2008/09 – Cabinet 13<sup>th</sup> February 2008/Council 5<sup>th</sup> March 2008
2. Treasury Management Strategy – Council 5<sup>th</sup> November 2008
3. Treasury Management Strategy – Council 4<sup>th</sup> March 2009.
4. Treasury Management Strategy Update and Debt Repayment Proposals– Governance Committee, 30 June 2009
5. Treasury Management Strategy Update and Debt Repayment Proposals – Cabinet 15 July and Council 29 July
6. Treasury Management – Update - Governance Committee, 22 September 2009

## Investments

Counterparty	Tier	Amount	Rate	From	To
<b>Term Deposits to 18 December 2009</b>		<b>£m</b>			
DMADF	Tier 1	2.00	0.35%	03/04/2009	21/04/2009
NATIONWIDE	Tier 4	2.00	0.40%	07/04/2009	21/04/2009
RBS	Tier 4	1.00	0.68%	09/04/2009	08/05/2009
NATIONWIDE	Tier 4	2.00	0.78%	21/04/2009	21/05/2009
RBS	Tier 4	1.00	0.70%	21/04/2009	21/05/2009
BARCLAYS	Tier 4	1.00	0.55%	21/04/2009	21/05/2009
BARCLAYS	Tier 4	1.00	0.55%	01/05/2009	01/06/2009
DMADF	Tier 1	1.37	0.30%	01/05/2009	05/05/2009
RBS	Tier 4	1.00	0.60%	08/05/2009	08/06/2009
DMADF	Tier 1	3.00	0.30%	18/05/2009	29/05/2009
DMADF	Tier 1	3.80	0.30%	22/05/2009	29/05/2009
NATIONWIDE	Tier 4	2.00	0.57%	29/05/2009	29/06/2009
NATIONWIDE	Tier 4	2.00	0.53%	29/06/2009	29/07/2009
BARCLAYS	Tier 4	1.00	0.45%	02/06/2009	02/07/2009
RBS	Tier 4	1.00	0.46%	04/06/2009	06/07/2009
RBS	Tier 4	1.00	0.46%	08/06/2009	08/07/2009
DMADF	Tier 1	0.90	0.30%	11/06/2009	26/06/2009
DMADF	Tier 1	1.60	0.30%	15/06/2009	26/06/2009
DMADF	Tier 1	2.00	0.30%	22/06/2009	06/07/2009
DMADF	Tier 1	2.00	0.30%	26/06/2009	06/07/2009
DMADF	Tier 1	1.00	0.30%	01/07/2009	07/07/2009
BARCLAYS	Tier 4	1.00	0.45%	01/07/2009	03/08/2009
DMADF	Tier 1	1.00	0.25%	08/07/2009	15/07/2009
RBS	Tier 4	1.00	0.41%	08/07/2009	10/08/2009
DMADF	Tier 1	1.50	0.25%	15/07/2009	11/08/2009
BARCLAYS	Tier 4	1.00	0.40%	15/07/2009	17/08/2009
RBS	Tier 4	1.00	0.39%	15/07/2009	17/08/2009
RBS	Tier 4	1.00	0.35%	17/08/2009	17/09/2009
DMADF	Tier 1	1.00	0.25%	22/07/2009	11/08/2009
NATIONWIDE	Tier 4	1.00	0.65%	31/07/2009	30/09/2009
DMADF	Tier 1	1.30	0.25%	03/08/2009	12/08/2009
NATIONWIDE	Tier 4	1.00	0.79%	12/08/2009	12/11/2009
BARCLAYS	Tier 4	1.00	0.70%	17/08/2009	17/11/2009
RBS	Tier 4	1.00	0.64%	17/08/2009	17/11/2009
BARCLAYS	Tier 4	1.00	0.35%	17/08/2009	17/09/2009
RBS	Tier 4	1.00	0.30%	17/09/2009	19/10/2009
BARCLAYS	Tier 4	1.00	0.30%	17/09/2009	19/10/2009
DMADF	Tier 1	5.00	0.25%	15/10/2009	23/10/2009
BARCLAYS	Tier 4	1.00	0.50%	06/11/2009	08/02/2010
NATIONWIDE	Tier 4	1.00	0.48%	06/11/2009	08/02/2010
RBS	Tier 4	1.00	0.35%	06/11/2009	08/01/2010
DMADF	Tier 1	1.00	0.25%	06/11/2009	30/11/2009
BANK OF SCOTLAND	Tier 4	2.00	1.08%	06/11/2009	08/02/2010
NATIONWIDE	Tier 4	1.00	0.53%	12/11/2009	12/02/2010
BARCLAYS	Tier 4	1.00	0.33%	17/11/2009	08/01/2010

## Investment holdings as at 18 December 2009

Counterparty	Category (Appendix A)	Maturity	Interest Rate %	Principal £
<b>Deposit /Call Accounts</b>				
The Royal Bank of Scotland	Tier 4/6	Call Account	0.70	1,000,000
Abbey	Tier 4/6	Call Account	0.60	2,000,000
HSBC	Tier 4/6	Deposit Account	0.00 *	2,023,697
<b>Total</b>				<b>5,023,697</b>
<b>Fixed Term Deposits : short-term</b>				
The Royal Bank of Scotland	Tier 4	8 January 2009	0.35	1,000,000
Barclays	Tier 4	8 January 2009	0.33	1,000,000
Barclays	Tier 4	8 February 2009	0.50	1,000,000
Nationwide Building Society	Tier 4	8 February 2009	0.48	1,000,000
Bank of Scotland	Tier 4	8 February 2009	1.08	2,000,000
Nationwide Building Society	Tier 4	12 February 2009	0.53	1,000,000
<b>Total</b>				<b>7,000,000</b>
<b>Fixed Term Deposits : long-term</b>				
Clydesdale Bank	See note **	28 June 2010	6.69	3,000,000
<b>Total</b>				<b>3,000,000</b>
<b>Fund Total (excluding Icelandics)</b>				
<b>Icelandic deposits:</b>				
Heritable Bank	See note **	23 Oct 2008	5.85	1,000,000
Heritable Bank	See note **	21 Nov 2008	6.00	1,000,000
Landsbanki Islands	See note **	22 June 2009	6.65	3,000,000
<b>Total</b>				<b>5,000,000</b>
<b>Grand Total</b>				<b>20,023,697</b>

\* based on base rate less a tiered rate of interest

\*\* counterparty removed from approved list for further investments