Accounts, Audit and Risk Committee

Overview of Treasury Management Performance Q2

26 October 2009

Report of Head of Finance

PURPOSE OF REPORT

This report details the actual return on investments for the period to September 2009, details the counterparties that have been used for investments and considers compliance with the investment strategy.

This report is public

Appendix 2 to this report is exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972

Recommendations

The meeting is recommended:

(1) Note the contents of the report and performance to date.

(2) Note the procurement process and timetable for the retender of the treasury management advisory contract.

Executive Summary

Introduction

1.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.

1.2 The actual return on investments for the quarter to September 2009 was £1,204k compared with a budget of £1,412 a variance of £208k. The primary reason for the variance is the current base rate of 0.5%. At the time of setting the 2009/10 budget, the assumption was that a minimum level of 2% would be achieved for all new loans entered into during 2009/10.

1.3 The budget was split as follows:

2009/10 Budget by Fund Manager

Fund	Amount Managed	Average % rate	Interest Receivable	Monthly equivalent
TUK	29,000,000	4.93%	1,429,153	119,096

Investec	26,230,000	2.81%	736,038	61,336
In House (avg)	29,000,000	2.28%	660,388	55,032
Total	**84,230,000**	**3.35%**	**2,825,579**	**235,464**

1.4 The actual return for the 6 months ended September 2009 is:

Fund	Amount at 30 Sept 2009	Q2 Interest Budget	Q2 Actual Interest	Variance	Rate of return %
TUK	29,000,000	714,576	730,367	15,790	5.04
Investec	26,230,000	368,019	229,616	-138,403	1.84
In House	21,968,383	330,194	244,082	-86,112	1.95
Total	**77,198,383**	**1,412,789**	**1,204,065**	**-208,725**	**3.02**

1.5 The variance at September 2009 is expected to be £500,000 by the end of this financial period and results in a major variance to 2008/09 which can be seen in Appendix 1.

1.6 The interest rate decline has been continually monitored and as a result an interest rate risk reserve was created as part of the review of reserves in conjunction with the preparation of the 2008/09 statutory accounts. The reserve balance is £500k and latest projections show that this is adequate to meet the budgeted shortfall. The net result is that the shortfall will be covered form this specific reserve.

1.7 The following loans were negotiated during Q2

Fund	Lent To:	Date	Amount £s
Investec	Nationwide	09/07/2009	2,500,000
Investec	Nationwide	20/07/2009	600,000
Investec	Barclays Bank	20/07/2009	1,800,000
Investec	Nationwide	07/08/2009	200,000
Investec	Barclays Bank	07/08/2009	2,200,000
Investec	Calyon	14/08/2009	1,500,000
Investec	RBS	24/08/2009	1,000,000
Investec	Barclays Bank	10/09/2009	2,600,000
Investec	Calyon	15/09/2009	500,000
Investec	RBS	15/09/2009	500,000
Investec	RBS	01/09/2009	2,500,000

1.8 The following loans matured or were sold by Investec during Q2

Fund	Lent To	Date	Amount £'s	Interest £'s
TUK	Chelsea BS	25/09/2009	2,500,000	187,671
Investec	Nationwide	09/07/2009	2,100,000	7,853
Investec	Nordea Bank	09/07/2009	400,000	947
Investec	Barclays Bank	20/07/2009	1,800,000	111,306
Investec	Bilbao Vizcaya	20/07/2009	400,000	947
Investec	Nationwide	07/08/2009	200,000	676
Investec	Barclays Bank	07/08/2009	2,200,000	6,932
Investec	RBS	14/08/2009	1,500,00	90,300
Investec	Nordea Bank	14/08/2009	800000	47,980
Investec	Calyon	01/09/2009	2,500,000	4,983
Investec	Rabobank	15/09/2009	1,000,000	1,487
Investec	Barclays Bank	10/09/2009	1,800,000	596.
Investec	Barclays Bank	10/09/2009	800,000	262

Investec	Lloyds Bank	30/09/2009	1,200,000	71,194
Investec	Calyon	01/09/2009	2,500,072	4,777
Investec	Rabo Bank	15/09/2009	1,000,045	1,196

1.9 The 40 loans that the Council is engaged in at 30 September 2009 are listed in the exempt Appendix 2. This table reports on the duration of the loan, maturity date, amount, interest rate and interest value together with an indication as to whether it is in accordance with the investment strategy revised in July 2009.

1.10 Adopting this revised strategy has driven a change to the profile of our investment portfolio. The investments at the date of revision remain sound and as such there was no need for any of the changes to be retrospective. It was agreed a smooth transition over time will be achieved by applying the new criteria to investments entered into after the effective date of adoption.

1.11 For the first time since 2003 but in line with policy Cherwell had a need to borrow funds in September 2009. This was not due to a cash shortage, but rather timing of receipts and payments. We borrowed £4m from Nottingham Police Authority for 3 weeks at an interest rate of 0.26%.

1.12 We have produced our claim in relation to our investments with the failed Icelandic Bank Glitner and this is currently being reviewed by legal firm Bevan Brittan. We will meet with the LGA to discuss preferential creditor status on 6 November 2009 and the administration committee of the bank is expected to review claims on 17 December 2009. According to the latest information available we would expect to receive payments prior to 31 March 2010.

1.13 Our contract for treasury advice has expired and we are currently preparing to retender so that we have a new contract in place for 1 April 2010. We are in discussions with neighbouring authorities on a joint procurement process which we aim to carry out in January 2010. We will report to this committee on this process at the next meeting.

Proposals

1.14 We plan to meet with fund managers and our treasury advisors in early October 2009. As part of this meeting we will discuss what mitigating action can be taken to address the shortfall in interest and the plans for new loans in light of the revised counterparty list.

1.15 All new loans negotiated will be in line with revised investment strategy.

Conclusion

1.16 The performance is in line with expectations and within budget tolerances. The investment income will be monitored on a monthly basis and a Q3 report will be presented to the committee in January 2010.

1.17 We will look to retender the treasury management advisory contract in partnership with at least 1 neighbouring authority.

Background Information

Investment Strategy

2.1 In March 2009, as part of our on-going commitment to regular review and maintaining best practice the Executive supported an independent review of the investment strategy. The Portfolio Holder for Resources and the Strategic Director for Customer Service and Resources commissioned Price Waterhouse Coopers (PWC) to undertake the review.

2.2 The process involved consultation with a wide range of Members and Senior Officers covering the full range of Treasury activities in order to establish views and synchronise the parameters of the strategy accordingly. The review covered all aspects of the investment strategy , recent guidance from audit commission and select committee and gave particular regard to the following specific aspects:

> Ownership and accountability; risk appetite; the monitoring of performance and compliance; the role of the external advisors, the in house team and the external fund managers; the nature of the investment instruments ; the counterparty criteria; the use of credit reference agencies and the management of working capital.

2.3 The revised investment strategy was approved at Full Council on July 21 2009 and as a result of the minor amendments

Investments in Iceland

2.4 The Council currently has a total of £6.5 million in short term investments (i.e. those with maturity periods of up to one year) with one of the affected banks Glitner.

2.5 At this stage we are confident of receiving 100% of our principal and the by 31 March 2010 on the basis that the Local Government Association has obtained legal opinion that local authority deposits will be given preferential status in the administration process.

2.6 The latest guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) is that interest which would have accrued up to 22 April this year – around £551,000 is also likely to be honoured.

2.7 Those creditors who are not currently thought to have preferential status are expected to mount a challenge and Cherwell has a meeting along with other authorities with the LGA on 6 November to review the situation. The LGA has engaged specialist law firm Bevan Brittan to represent all local authorities in attempts to reclaim their investments.

2.8 All claims must be registered with Glitnir's liquidators by Thursday 26 November 2009. Cherwell has already completed this process and is awaiting Bevan Brittan's approval before it will be signed and submitted by the council ahead of this date.

2.9 The administration committee of the Glitner bank will meet on 17 December 2009 to review claims and make their proposals.

Key Issues for Consideration/Reasons for Decision and Options

3.1 Compliance with Policy and CIPFA published guidance.

3.2 The need to ensure governance arrangements adhered to.

The following options have been identified. The approach in the recommendations is believed to be the best way forward

Option One	Note the contents of the report
Option Two	Ask officers to review loan arrangements in place.

Consultations

Treasury Advisors	The performance of each fund had been reviewed and discussed with Butlers.

Implications

Financial:	There are no financial implications arising out of this report but the shortfall in interest income has been considered in Q2 revenue projection in conjunction with the reserve set up regarding interest rates. Comments checked by Karen Muir, Corporate System Accountant 01295 221559
Legal:	There are no legal implications arising from this report. The arrangements to report on compliance comply with the CIPFA Code of Practice Comments checked by Liz Howlett,, Head of Legal and Democratic Services, 01295 221686
Risk Management:	Risk of capital loss – the prime objective of treasury management activities is to ensure the security of the amounts invested. In the past this has primarily been managed by using a counterparty list which only includes organisations having a suitable credit rating and which has a maximum amount that can be invested with each organisation at any one time. This report considers compliance with strategy and performance monitoring. Comments checked by Karen Muir, Corporate System Accountant 01295 221559

Wards Affected

All

Document Information

Appendix No	Title
Appendix 1	September 2009 vs. September 2008 Performance
EXEMPT Appendix 2	Loans as at 30 September 2009 and compliance with strategy

Background Papers	
None	
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