

# Accounts, Audit and Risk Committee

## Overview of Treasury Management Performance Q3

20 January 2010

### Report of Head of Finance

#### PURPOSE OF REPORT

This report details the actual return on investments for the period to December 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

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The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the report and performance to date.
- (2) Note the update on the procurement process.

#### Executive Summary

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##### 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 £1,664k compared with a budget of £2,119 a variance of £456k. 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

<b>Fund</b>	<b>Amount Managed</b>	<b>Average % rate</b>	<b>Interest Receivable</b>	<b>Monthly equivalent</b>
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
<b>Total</b>	<b>84,230,000</b>	<b>3.35%</b>	<b>2,825,579</b>	<b>235,464</b>

1.4 The actual return for the 9 months ended December 2009 is:

<b>Fund</b>	<b>Amount at 31 Dec 2009</b>	<b>Q3 Interest Budget</b>	<b>Q3 Actual Interest</b>	<b>Variance</b>	<b>Rate of return %</b>
TUK	29,000,000	1,071,864	1,022,730	(49,134)	4.83
Investec	26,230,000	552,028	307,485	(244,543)	1.62
In House	19,100,383	495,291	333,315	(161,976)	1.90
<b>Total</b>	<b>74,330,383</b>	<b>2,119,184</b>	<b>1,663,530</b>	<b>(455,651)</b>	<b>2.83</b>

1.5 The variance is expected to be in the region of £600,000 by the end of this financial period and results in a major variance to 2008/09 which can be seen in Appendix 1. This variance has increased by £100,000 since the last report – this is in the main due to the lower than expected returns from the Investec portfolio.

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 £600k and latest projections show that this will meet the budgeted shortfall. The net result is that the shortfall will be covered from this specific reserve.

1.7 The following loans were negotiated during Q3

<b>Fund</b>	<b>Lent To</b>	<b>Date</b>	<b>Amount £s</b>	<b>Interest £s</b>
TUK	Close Bros	02/10/09	1,500,000	£11,704
TUK	Close Bros	02/10/09	1,000,000	£9,205
TUK	Close Bros	30/10/09	2,500,000	£23,171
Investec	Lloyds	09/10/09	4,000,000	
Investec	Nationwide	09/10/09	3,200,000	
Investec	Calyon	23/10/09	300,000	
Investec	Nationwide	23/10/09	600,000	
Investec	B Bilbao Vizcaya	26/10/09	2,700,000	
Investec	Nationwide	18/11/09	200,000	
Investec	Nordea Bank Finland	18/11/09	3,900,000	
Investec	UKTB Commercial Paper	06/11/09	3,000,000	

1.8 The following loans matured or were sold by Investec during Q3

<b>Fund</b>	<b>Lent To</b>	<b>Date</b>	<b>Amount £s</b>	<b>Interest £s</b>
TUK	Northern Rock	02/10/09	2,500,000	187,671

TUK	Newcastle	30/10/09	2,500,000	126,000
In House	Leeds BS	02/11/09	4,000,000	23,138
Investec	Nationwide	09/10/09	2,500,000	6,490
Investec	Lloyds	09/10/09	2,300,000	139,915
Investec	Nationwide	23/10/09	600,000	1,561
Investec	UBS AG	27/10/09	2,500,000	153,125
Investec	RBS	09/11/09	1,000,000	1,307
Investec	Nationwide	09/11/09	200,000	437
Investec	Barclays	09/11/09	1,400,000	2,884
Investec	ING	20/11/09	4,000,000	164,000
Investec	Lloyds	01/10/09	500,000	30,082
Investec	Nationwide	01/10/09	700,000	42,115
Investec	UK Treasury	02/10/09	520,000	15,308
Investec	UK Treasury	02/10/09	480,000	11,523

- 1.9 The 37 loans that the Council is engaged in at 31<sup>st</sup> December 2009 are listed in 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 We borrowed £4m from Nottingham Police Authority for 3 weeks at an interest rate of 0.26% pending the maturity of a £4m investment on 2/11/09. This was not due to a cash shortage, but rather timing of receipts and payments.
- 1.12 We have advised Investec and Tradition UK that we will be reducing there investment pots during Q4 in order to rebalance internal cashflow. The sports centre modernisation programme is virtually complete and internal cash investments have been used to fund this expenditure. We anticipate having a cash balance at the end of the year of circa £53m.
- 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 have agreed to carry out a joint procurement exercise with Oxford City Council. The tender opportunity will be advertised on January 14<sup>th</sup> 2010 and submissions are due back on 12<sup>th</sup> February 2010.

## Conclusion

- 1.14 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.
- 1.15 All new loans negotiated will be in line with revised investment strategy.

- 1.16 The outcome of the tender process will be presented to this committee in March 2010.

## **Background Information**

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### **Investments in Iceland**

- 2.1 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.
- 2.2 The administration committee of the Glitner bank met on 17 December 2009 to review claims and make their proposals. Whilst they accepted our unsecured claim for principle of £6.5m and interest they did not accept our claim had a priority status. The latest position is that, the Council currently does not have preferential credit status and as such would only recover 31% of this balance. Local Authorities have objected to this creditor status and legal action will be taken as necessary.
- 2.3 Local authorities' objections will now be considered under the processes followed under Icelandic insolvency law, and court action will be taken as necessary.
- 2.4 The LGA is confident that local authorities' priority status as depositors will in due course be secured and 100% recovered.

## **Key Issues for Consideration/Reasons for Decision and Options**

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- 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

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| <b>Option One</b> | Note the contents of the report                    |
| <b>Option Two</b> | Ask officers to review loan arrangements in place. |

## **Consultations**

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| <b>Treasury Advisors</b> | The performance of each fund had been reviewed and discussed with Butlers. |
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## Implications

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<b>Financial:</b>	<p>There are no financial implications arising out of this report but the shortfall in interest income will be considered in Q3 revenue projection in conjunction with the reserve set up regarding interest rates.</p> <p>Comments checked by Karen Muir, Corporate System Accountant 01295 221559</p>
<b>Legal:</b>	<p>There are no legal implications arising from this report. The arrangements to report on compliance comply with the CIPFA Code of Practice</p> <p>Comments checked by Liz Howlett,, Head of Legal and Democratic Services, 01295 221686</p>
<b>Risk Management:</b>	<p>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.</p> <p>Comments checked by Karen Muir, Corporate System Accountant 01295 221559</p>

## Wards Affected

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All

## Document Information

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Appendix No	Title
Appendix 1	Year To Date Performance and Comparison
Appendix 2	Loans as at 31 December 2009 and compliance with
EXEMPT Para 3	strategy
<b>Background Papers</b>	
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