Accounts, Audit and Risk Committee

Overview of Treasury Management Performance Q4

23 June 2010

Report of Head of Finance

PURPOSE OF REPORT

This report details the actual return on investments for the period to March 2010, 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 Accounts, Audit and Risk Committee is recommended to:

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

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 March 2010 was £2,031k compared with a budget of £2,825k a variance of £794k. 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 12 months ended March 2010 is:

Fund	Amount at 31 March 2010	Q4 Interest Budget	Q4 Actual Interest	Variance	Rate of return %
TUK	25,000,000	1,429,153	1,300,238	(128,915)	4.73
Investec	20,010,000	736,038	336,738	(399,300)	1.33
In House	22,320,000	660,388	394,302	(266,085)	1.87
Total	**67,320,000**	**2,825,579**	**2,031,279**	**(794,300)**	**2.70**

1.5 The actual variance at the end of this financial year is £794,300. This is higher than anticipated and projected at Q3. As can be seen in the table above the main variance from our budget for the year has arisen through lower than expected returns from the Investec portfolio and lack of investment opportunities to enable us to maximize returns on our In House 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 of £600k has been utilised to offset a significant element the above Interest shortfall.

1.7 The following loans were negotiated during Q4

Loans Agreed

Fund	Lent To	Date	Amount £s	Interest £s
In House	Newcastle BS	02/03/10	1,000,000	£16,454
Investec	Com Bk Australia	06/01/10	2,000,000	
Investec	HSBC	14/01/10	500,000	
Investec	Barclays	15/02/10	1,400,000	
Investec	RBS	22/02/10	2,100,000	
Investec	Nationwide BS	30/03/10	2,000,000	

1.8 The following loans matured or were sold by Investec during Q4

Loans Maturing / Sold

Fund	Lent To	Date	Amount £s	Interest £s
In House	Skipton BS	18/02/10	1,000,000	23,600
In House	Clydesdale Bank	18/02/10	4,000,000	90,000
In House	Chelsea BS	02/03/10	1,500,000	36,750
In House	Cumberland BS	17/03/10	1,000,000	17,815
In House	Nottingham BS	17/03/10	1,000,000	17,815

In House	Kent Reliance BS	17/03/10	1,000,000	17,815
In House	Progressive BS	18/03/10	1,000,000	17,479
TUK	West Bromwich BS	29/03/10	2,500,000	153,329
TUK	Close Brothers	29/03/10	2,500,000	11,704
Investec	Credit Agricole	25/01/10	300,000	370
Investec	Nationwide BS	25/01/10	600,000	757
Investec	Banco Bilbao Viz.	25/01/10	2,700,000	3,195
Investec	Credit Agricole	15/02/10	1,500,000	5,473
Investec	RBS	15/02/10	500,000	1,676
Investec	Credit Agricole	15/02/10	500,000	1,006
Investec	Nationwide BS	22/02/10	200,000	309
Investec	Nordea Group	22/02/10	3,900,000	5,172
Investec	Nationwide BS	30/04/10	3,200,000	10,857
Investec	UK Comm. Paper	25/01/10	2,600,000	647

1.9 The 28 loans that the Council is engaged in at 31st March 2010 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 March 2010.

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 £2m from Edinburgh City Council for 12 days at an interest rate of 0.30% and £1.5m from Dacorum Borough Council also at 0.30% for 11 days. This was not due to a cash shortage, but rather timing of receipts and payments.

1.12 We have reduced Investec's fund to £20m by the council taking receipt of the accrued interest of £6.2m, which was being held by Investec. Our Investment managed by Tradition UK was reduced by £4m to £25m. This has helped to rebalance the three investment streams. Our in House fund was boosted by the receipt of £9.2m of Eco Town funding at the end of March 2010. Any interest associated with these funds will be held in Eco Town Interest Account.

1.13 After a joint procurement exercise with Oxford City Council our contract for Treasury Advisors was awarded to Sector with effect from 1 April 2010.

Conclusion

1.14 We have utilised our Interest risk reserve to significantly offset our interest shortfall and as such our performance for 2009/10 is within budget tolerances. This has been detailed within our Revenue Outturn report taken to Executive on 7th June 2010.

Background Information

Investments in Iceland

The Council is one of over 100 local authorities that were affected by the collapse of Icelandic banking institutions. The Council currently has a total of £6.5 million in 3 investments with Glitnir and is in the process of trying to recover these funds through the applicable legal process.

Decisions on the priority status of local authority deposits will be made by the Icelandic courts. Allowing for the court cases to be heard, and for the appeals process to run its course, it is considered unlikely that there will be a settled position on priority status before the second quarter of 2011.

The Local Authority Accounting Panel considers, on the basis of the legal advice obtained by local authorities and advice provided by the Local Government Association, that it remains the most likely outcome that the claims will enjoy priority status. Based on this assessment, the Local Authority Accounting Panel recommends that the estimated recoverable amount to be included in the balance sheet is based on the assumption that local authority deposits will enjoy priority status.

The value (recoverable amount) of these deposits at 31 March 2010 has been reassessed in line with FRS 2 which states that the recoverable amount of financial assets carried at amortised cost is the present value of the expected future cash flows discounted at the instrument's original effective interest rate.

In line with guidance provided and latest available information on the likelihood of recovery the Council has reassessed the future cash flows of the deposits with Glitnir on the assumption that we receive preferential creditor status and receive 100% of principle and interest by June 2011 and this results in an impairment charge.

Although the Council remains confident of getting all of its investment back as a priority creditor the Council has considered the possibility of an outcome where we only receive 29% of the principle. This strategy has been built into our Medium Term Financial Forecast.

This contingency fund does not prejudice the Council's claim against the administrators, which is being pursued on behalf of the Council and all affected councils by Bevan Brittan and the Local Government Association, with the objective of recovering as much money as possible.

The non-return of the deposit has not caused any immediate cash flow problems for the Council except for the loss of investment income due to its non-availability for reinvestment. At the current low base rate of 0.5% this equates annually to £32,500.

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. The shortfall in interest income has significantly been offset by our Interest Risk reserve and is therefore within budget tolerances. 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 **Appendix 2** **EXEMPT Para 3**	Year To Date Performance and Comparison Loans as at 31 March 2010 and compliance with strategy
Background Papers	
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