

Committee: Finance & Administration

Agenda Item

Date: 29 January 2009

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Title: Treasury Management and Landsbanki update

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Item for decision

Summary

1. This report summarises treasury management activity for the period 1 November to 15 January. The report includes details of loans placed during this period and a schedule of balances as at 15 January.
2. New Treasury Management advisers have been appointed, Arlingclose Ltd, replacing Butlers. Arlingclose's track record in providing proactive tailored investment advice distinguishes them from their competitors. As a result of Arlingclose advice, officers will not be placing any more funds with Irish institutions or UK building societies (except Nationwide).
3. As requested by Members at the last committee, a quotation has been obtained from an independent third party to carry out a review of the Council's counterparty policy. The amount quoted is £5,000-£6,000.
4. The report details the latest position on the discussions held with DCLG about using capitalisation of revenue costs as a means of alleviating the budget pressure caused by loss of investment income.
5. There is no reliable information about the prospects of recovering the Landsbanki deposit.
6. The 2009/10 Treasury Management Strategy 2009/10 will be brought to this Committee on 10 February ahead of final determination by Full Council on 19 February.

Recommendations

7. The Committee is recommended to:
 - a) Note the treasury management activity and current position as set out in this report
 - b) Note that a capitalisation approval is expected which if confirmed will alleviate pressure on the Council's revenue budget
 - c) Decide whether or not to commission a third party independent review of the Council's counterparty arrangements, at a cost of £5,000 - £6,000.

Background Papers

8. None.

Communication/Consultation	No specific implications.
Community Safety	No specific implications.
Equalities	No specific implications.
Finance	Reducing interest rates mean that the level of investment income is falling. This has been taken into account in budget projections. The Council may have discretion to transfer costs from the revenue budget to capital to alleviate this pressure.
Human Rights	No specific implications.
Legal implications	No specific implications.
Sustainability	No specific implications.
Ward-specific impacts	No specific implications.
Workforce/Workplace	No specific implications.

Treasury Management Activity 1 November 2008 to 15 January 2009

9. The following are the deposits made during the above period.

Date of deal	Amount	Institution	Interest rate	Return date
3.11.08	£1,000,000	Newcastle BS	6.02%	9.2.09
3.11.08	£1,000,000	Skipton BS	6.00%	3.2.09
3.11.08	£1,200,000	Barclays	3.05%	4.11.08
4.11.08	£1,000,000	Coventry BS	4.50%	19.11.08
7.11.08	£1,000,000	Yorkshire BS	4.50%	18.2.09
17.11.08	£700,000	Barclays	1.70%	19.11.08
1.12.08	£1,000,000	Coventry BS	3.85%	5.3.09
1.12.08	£1,000,000	Nationwide BS	3.50%	2.3.09
15.12.08	£1,000,000	Irish Permanent	2.85%	2.2.09
15.12.08	£1,000,000	Anglo Irish Bank	2.90%	16.2.09
15.1.09	£1,000,000	Nationwide BS	1.10%	22.1.09

10. All deposits made complied with the Council's approved counterparty policy operating at the time the deal was made.

11. The following are the deposited balances as at 15 January 2009.

Date of deal	Amount	Institution	Interest rate	Return date
17.10.07	£2,200,000	Landsbanki	6.15%	15.10.08
1.9.08	£1,000,000	Norwich & P'borough BS	5.98%	18.2.09
1.9.08	£1,000,000	EBS BS	5.94%	18.2.09
25.9.08	£1,000,000	Principality BS	6.25%	19.3.09
1.10.08	£1,000,000	EBS BS	6.37%	22.1.09
1.10.08	£1,000,000	Norwich & P'borough BS	6.35%	2.3.09
1.10.08	£1,000,000	Britannia BS	6.26%	23.2.09
3.11.08	£1,000,000	Newcastle BS	6.02%	9.2.09
3.11.08	£1,000,000	Skipton BS	6.00%	3.2.09
7.11.08	£1,000,000	Yorkshire BS	4.50%	18.2.09
1.12.08	£1,000,000	Coventry BS	3.85%	5.3.09
1.12.08	£1,000,000	Nationwide BS	3.50%	2.3.09
15.12.08	£1,000,000	Irish Permanent	2.85%	2.2.09
15.12.08	£1,000,000	Anglo Irish Bank	2.90%	16.2.09
15.1.09	£1,000,000	Nationwide BS	1.10%	22.1.09

12. In addition, the following balances were held with on call deposit accounts as at 15 January:

£1,995,084	Abbey National Business Reserve	1.60%
£1,995,132	Allied Irish Bank Treasury Account	1.65%
£995,044	Bank of Scotland Corporate Base Plus Account	1.67%

Treasury Management Advisers

13. The Council's contract with Butlers expired on 31 December and so the opportunity was taken to test the market. The 3 main treasury management advisory firms were invited to tender and were interviewed on 18 December.

14. Arlingclose Ltd are a relatively new and small company but have already established a distinguished track record in providing proactive investment advice. For example, they have been advising their clients not to invest with Icelandic institutions since 2006. They are independent of any financial institution or broker, and their fee proposal was very competitive. Accordingly Arlingclose were appointed as the Council's advisers with effect from 1 January.

15. Arlingclose have offered to attend this committee on 10 February to assist with discussing the 2009/10 Treasury Management Strategy.
16. All companies interviewed were invited to provide a critique of the Council's counterparty policy. All companies indicated that there was an over-dependency on the building societies sector and recommended diversification. Officers will be working to do this as soon as opportunities arise, assisted by Arlingclose advice. Increased emphasis will be placed on Money Market Fund accounts operated by UK Government-backed banks, and the Government's deposit account facility. These accounts are in the process of being set up.
17. At the last Committee, Members requested that the possibility of obtaining a third party independent view of the Council's investment arrangements be investigated. The need for this has somewhat diminished as a result of changing the appointed adviser and the critiques received from the three tendering companies. However, a quotation to provide an independent review has been obtained from PricewaterhouseCoopers in the range £5,000 - £6,000. Members are asked to determine whether to proceed with this review.

Irish Banks

18. Arlingclose has advised the Council not to place any funds with Irish banks. Deposits with EBS, Irish Permanent and Anglo Irish (see paragraph 11 above) will, if not required for payments due, be transferred to UK government-backed banks and/or the Government deposit account facility. The balance held with the Allied Irish Bank Treasury Account (see paragraph 12 above) is due to be used on 19 January as monthly precepts are due for payment on that date.
19. On 15 January, the Anglo Irish Bank was taken into state ownership by the Irish Government. On 15 December the Council placed £1,000,000 with this bank, due to return on 16 February. The Irish Finance Minister stated:

"This decision has been taken after consultation with the Central Bank and the Financial Regulator which has confirmed that Anglo Irish Bank remains solvent. Anglo Irish Bank is a major financial institution whose viability is of systemic importance to Ireland. Anglo has a balance sheet of some €100bn with a substantial deposit base which the State is determined to safeguard. The Government has made clear that it will ensure its continued viability. Anglo Irish Bank will continue to trade normally as a going concern, with appropriate Government support as necessary. All Anglo employees remain employed by the company."
20. Anglo Irish Bank was securely rated at the time the deposit was made and remains securely rated as at 16 January. The bank is covered by the terms of the Irish Government guarantee. There are no immediate grounds for concern over the security of this deposit.

Landsbanki

21. There is no new information available about the possibility of recovering the some or all of the Landsbanki deposit, or the timescale for determining this.
22. The LGA continues to act on the collective behalf of the affected councils, and to lobby central government for more support. The LGA's latest communication on this subject, issued 19 December, stated that some speculative asset realisation figures had been presented, but they were of no use in understanding the likely level of payout to creditors.
23. We await feedback from a creditor committee held on 8 January. A meeting for all creditors is scheduled for 20 February. A verbal update will be provided at the meeting based on the latest information available.

Capitalisation

24. A delegation from UDC met with the Local Government Minister in November to explain the difficulties caused by the Landsbanki issue, including the loss of investment income putting pressure on the revenue budget, and the risk to financial stability of a possible substantial write off.
25. Shortly after this meeting, the Minister announced regulations which preclude the need to make any accounting adjustment until at least 2011/12.
26. The Minister undertook to consider an application from UDC to capitalise the lost investment income; an application was duly submitted, as reported to the Council on 16 December.
27. Subsequently, the Council received guidance that DCLG will not allow capitalisation of Landsbanki-related costs. Instead, DCLG officials advised the Council to submit an application to capitalise pensions costs, which if approved, would have a similar effect on the revenue budget i.e. transfer revenue costs to capital and in the process increase revenue balances.
28. During January, several discussions and exchanges of correspondence were held with DCLG officials. As a result of these discussions, the Council has received a provisional notification that pensions costs to a value of £1.1m may be capitalised. This is subject to formal confirmation which is expected by the end of January. If confirmed, the effect would be to transfer approximately £0.6m from the 2008/09 revenue budget to capital, and approximately £0.5m from revenue budgets in the years 2009/10 to 2012/13. This compensates for the loss of investment income and will assist the Council to manage the financial challenges ahead. A consequence of this is that the Council may need to borrow to finance the capital programme earlier than expected.
29. The confirmed position on the capitalisation together with recommendations on how to implement it will be brought to this Committee on 10 February and Full Council on 19 February as part of the 2009/10 budget determination.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Volatility in the financial sector creates risk that funds deposited by the Council may be unsafe	2	4	Funds will be transferred to UK Government-backed banks and the Government deposit account facility as soon as opportunities arise Counterparty policy being updated to minimise and spread risk Proactive advice from independent Treasury Management consults
There is a risk that some or all of the Landsbanki deposit may not be recoverable	4	4	Claim has been lodged with the relevant authorities LGA is lobbying on behalf of all affected councils Reliant on the Government enacting regulations to avoid having to write off any loss to revenue balances

- 1 = Little or no risk or impact
 2 = Some risk or impact – action may be necessary.
 3 = Significant risk or impact – action required
 4 = Near certainty of risk occurring, catastrophic effect or failure of project.