

Committee: Finance & Administration Committee
Date: 26 March 2009
Title: Treasury Management & Landsbanki update
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Agenda Item

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Item for
information

Summary

- 1 This report summarises treasury management activity for the period 16 January to 12 March. The report includes details of loans placed during this period and a schedule of balances as at 12 March.
- 2 The Council no longer has any funds placed in Irish financial institutions and only £1m in building societies, which is due to return on 19 March. Apart from the Landsbanki deposit, all other funds are with banks that have access to the UK government credit guarantee scheme.
- 3 There is still no reliable information about the prospects of recovering the Landsbanki deposit or the timetable for determining this. The latest information available is summarised in the report.

Recommendations

The Committee is recommended to note this report.

Background Papers

None.

Impact

Communication/Consultation	No specific implications
Community Safety	No specific implications
Equalities	No specific implications
Finance	Detailed in the report
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 16 January 2009 to 12 March 2009

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

Date of deal	Amount	Institution	Interest rate	Return date
3.2.09	£1,000,000	Nationwide BS	1.69%	31.3.09
3.2.09	£1,000,000	Clydesdale Bank	1.67%	31.3.09
16.2.09	£1,000,000	Clydesdale Bank	1.85%	18.5.09
25.2.09	£1,000,000	Royal Bank of Scotland	1.90%	26.5.09
2.3.09	£1,000,000	Nationwide BS	0.96%	19.3.09
3.3.09	£1,000,000	Royal Bank of Scotland	1.90%	3.6.09

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

6 The following are the deposited balances as at 12 March 2009.

Date of deal	Amount	Institution	Interest rate	Return date
17.10.07	£2,200,000	Landsbanki	6.15%	15.10.08
25.9.08	£1,000,000	Principality BS	6.25%	19.3.09
3.2.09	£1,000,000	Nationwide BS	1.69%	31.3.09
3.2.09	£1,000,000	Clydesdale Bank	1.67%	31.3.09
16.2.09	£1,000,000	Clydesdale Bank	1.85%	18.5.09
25.2.09	£1,000,000	Royal Bank of Scotland	1.90%	26.5.09
2.3.09	£1,000,000	Nationwide BS	0.96%	19.3.09
3.3.09	£1,000,000	Royal Bank of Scotland	1.90%	3.6.09

7 In addition, the following balances were held with on call deposit accounts as at 12 March:

£1,995,084	Abbey National Business Reserve	0.60%
£706	Allied Irish Bank Treasury Account	0.65%
£995,044	Bank of Scotland Corporate Base Plus Account	0.51%
£1,700,786	Barclays Bank	1.50%

Counterparty list

- 8 The Council is restricting investments only to the 7 banks (Abbey, Barclays, Clydesdale, HSBC, Lloyds/TSB/Bank of Scotland, Nationwide BS, Royal Bank of Scotland) that have access to the UK Government guarantee scheme, other local authorities and the Government deposit account.
- 9 A limit of £2m per bank is operated. Because the total funds available for deposit can exceed £20m at some points during the year, the Council will become reliant on the Government deposit account facility, which pays a significantly lower rate of interest (see below).
- 10 From 1 April the number of counterparties available to the Council will reduce further because credit ratings for Lloyds TSB and Bank of Scotland have been downgraded to a level below that specified in the 2009/10 strategy. (They are compliant with the 2008/09 strategy).
- 11 This places further restriction on investment activity and would entail increased reliance on the Government deposit account.
- 12 As these banks have access to the UK government guarantee, there is no significant risk and it may therefore be appropriate to amend the 2009/10 strategy to allow counterparties to remain on list provided that they have access to the government guarantee, irrespective of credit ratings.
- 13 The situation will be assessed in early April and the Chief Finance Officer, acting under delegated powers and in consultation with the Finance & Administration Committee Chairman, will amend the strategy if appropriate. The advice of Arlingclose will be taken into account. Any changes to the strategy made under delegated powers will be reported to the Committee.

Interest Rates

- 14 On 5 March the Base Rate was reduced to 0.5%, the lowest ever rate. Consequently rates available to the Council have reduced. For 3 month investments, available rates currently range from 0.4% with the Government deposit account to 1.6% with commercial banks.
- 15 As mentioned above, increased reliance on the Government deposit account is likely, with a consequent effect on the level of investment income. The 2009/10 budget assumes that £105,000 of investment income will be earned but this is based on an estimated average return of 1.25%. This may prove to be too optimistic.

Landsbanki

- 16 On 20 February Landsbanki issued indicative financial information to creditors. The information shows that the bank's liabilities, of which nearly 40% are deposits, are nearly three times the value of assets.
- 17 Whether local authorities, as wholesale depositors, have preferential creditor status under Icelandic law needs to be resolved. If this were the case, it could materially enhance local authority creditors' prospects of recovery. The issue is legally complex and further legislation is due to be passed in Iceland which may have a bearing on this. All appropriate steps are being taken to clarify the issue of whether local authority deposits have preferential status.
- 18 Meanwhile, it is not possible to accurately estimate the likely level of recovery.
- 19 The Government has enabled legislation which defers the financial effect of accounting for reductions in the value of Icelandic investments until 2010/11. The possibility exists that a material hit to revenue balances will be required in 2010/11. There is no provision for this in the Medium Term Financial Strategy, but the Strategy states that in the event of any favourable revenue budget variances arising, opportunities will be taken to divert funds to a Landsbanki liability provision.
- 20 On 11 March, the Icelandic Business Affairs Minister said that the Icelandic government may offer creditors of failed banks the option of becoming equity holders in new banks, and may try to persuade creditors to accept longer maturities. The Minister expected that these developments would occur as early as April 2009. The Committee has already delegated (on 27 November 2008) authority to the Leader of the Council, Finance & Administration Committee Chairman, Chief Executive and Chief Finance Officer to determine the Council's response to any settlement terms offered.
- 21 A House of Commons select committee has been examining the issue of local authority investments and the role of external auditors and independent advisers. The committee's findings and recommendations are awaited.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Volatility in the financial sector creates risk that funds deposited by the Council may be unsafe	1	4	Funds are placed with UK Government-backed banks and the Government deposit account facility. Proactive advice from independent Treasury Management consultants.
Investment income may fall below budgeted levels	2	2	The situation will be closely monitored but security of funds will be the prime consideration.
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. Favourable budget variances will be diverted to a Landsbanki liability provision. Reliance 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.