

Committee:	Finance & Administration	Agenda Item 7
Date:	17 June 2010	
Title:	Treasury Management & Landsbanki update	
Author:	Stephen Joyce, Chief Finance Officer	Item for information

Summary

- 1 This report summarises Treasury Management activity since the last meeting, and gives an update on Landsbanki.
- 2 This period has seen the precautionary suspension of certain institutions from the counterparty list. At no stage has there been any concern about the security of Council funds.
- 3 There is a more optimistic estimate of Landsbanki recoveries, but litigation continues and the outlook is not yet certain.

Recommendations

- 4 The Committee is requested to note this report.

Background Papers

- Arlingclose advice
- CIPFA accounting guidance

Impact

Communication/Consultation	The Chief Finance Officer is regular contact with Arlingclose, the LGA and its legal advisers.
Community Safety	None
Equalities	None
Finance	Detailed in the report.
Health and Safety	None
Human Rights	None
Legal implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Treasury Management – Summary

Schedule of Deposits

- 5 A list of deposits made since the last report is at Appendix A. All deposits complied with policy.

Suspension of Money Market Funds

- 6 In 2009/10, the Council opened two Money Market Funds in accordance with Treasury Management Strategy and Arlingclose advice. MMFs are a relatively safe investment vehicle that enable the Council to achieve a good balance between having monies on deposit and monies immediately available.
- 7 On 16 April it was announced that Goldman Sachs is facing prosecution in the US, and it was subsequently announced that they are to undergo investigation in the UK. The Council had £1m placed in the Goldman Sachs Money Market Fund. Although there were no grounds for concern about the MMF, which is entirely separate from Goldmans Sachs' own finances, the outcomes of the investigation are hard to predict amidst volatile and unprecedented economic circumstances generally. As a precautionary move monies were withdrawn on 21 April and use of the account has been suspended.
- 8 The Council also had £1m placed with the Black Rock Money Market Fund. On 1 April, the Council's new Treasury Management Strategy took effect which includes a new strict UK-only policy. Enquiries determined that the Black Rock MMF is domiciled in Ireland. Although there were no grounds for concern, use of the Fund fell outside the scope of the Council's Strategy, so the monies were withdrawn, and use of the account suspended. (The Goldman Sachs MMF is also domiciled in Ireland.)
- 9 Research shows that only one MMF is domiciled in the UK ("Prime Rate") and officers intend to open an account.

Suspension of Santander UK from Counterparty list

- 10 On 28 April it was announced that the long-term sovereign credit rating of Spain was downgraded, with an outlook of "negative". Arlingclose issued the following advice: "Santander UK plc (formerly Abbey National plc) is a wholly owned subsidiary of Banco Santander. It is however a UK incorporated bank with its own separate banking licence, and also remains a UK authorised institution. We emphasise that we do not have any outstanding credit concerns about Santander UK plc, but advise that as a prudent measure clients temporarily limit new investments with Banco Santander UK plc to one month until we can fully assess any impact."

- 11 The Council had £3m placed in an instant access account with Santander UK. The money was withdrawn on 29 April and use of the account suspended pending the results of the Arlingclose assessment, which are awaited as at 4 June.

Effect of suspensions

- 12 Possible effects of the above suspensions are:
 - Further increased reliance on the Government deposit account facility, which pays a very low rate of interest.
 - It is harder to achieve the optimum balance between monies held on deposit and monies held in an instant access account.
- 13 Although this has not yet caused any particular difficulties, the Chief Finance Officer considers it necessary to carry out an interim review of Treasury Management Strategy. Although the prime objective of Security is being achieved, lesser objectives of Liquidity and Yield are potentially at risk. The advice of Arlingclose is to be sought and proposals brought to Members at the next meeting. Meanwhile, the Chief Finance Officer will continue to consult with the F&A Chairman as required.

Landsbanki latest

- 14 On 20 April the Full Council agreed in principle that offers to purchase the Landsbanki deposit could be examined, and set criteria for judging the merits of any such offer. Despite indications to the contrary earlier this year, no offer has been received as at 4 June and none are expected in the near future. Potential purchasers' uncertainty over the Icelandic litigation progress (see below) is the main reason for the lack of offers.
- 15 It remains the case that the Landsbanki administrators have accepted UK local authorities' claims (including Uttlesford's) as preferential claims. However, non-preferential creditors are challenging the ruling through the Icelandic courts in a process which is expected to take until Spring 2011. The administrators of a different failed Icelandic bank, Glitnir, determined that UK local authorities were not preferential creditors. This is also the subject of litigation.
- 16 Meanwhile, a new estimate of the recoverable amount has been issued by CIPFA, based upon information supplied by the LGA and its legal advisers. The new estimate is that preferential creditors shall receive 95% of their money back by October 2018 (an improvement on the previous estimate of 83% over 10 years). The estimated recovery for non-preferential creditors is 38%.

- 17 CIPFA advice is to assume that our status as preferential creditors will prevail. The impairment in the deposit value produced by CIPFA guidance, which has to be shown in the 2009/10 accounts and written off against General Fund balances in 2010/11, is £826,000. (Money in the future is worth less than money now, so the value of expected future payments is discounted, producing a higher impairment charge.)
- 18 The impairment charge based on a non-preferential claim would be around £1.8 million; therefore depending on the outcome of the Icelandic litigation, the Council is looking at having to account for an impairment in the range £0.8 million to £1.8 million. Advice is being sought from the LGA's lawyers on the likely probability of either scenario.
- 19 The balance on the Landsbanki Contingency Fund is £1m plus whatever amount is decided to be added as part of determining the 2009/10 outturn, to be discussed earlier on today's agenda.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Icelandic losses may be greater than estimated	2 (possibility of preferential status being overturned)	4 (potential loss of up to £1.8 million)	Maintain Landsbanki Contingency Fund at prudent level. Continue to be open to offers.
Failure of banking counterparty	2 (banking sector has stabilised but risks remain)	4 (if a bank fails, potential losses could be very significant)	Follow TM strategy and Arlingclose advice
Insufficient liquidity due to reduced use of instant access accounts	2 (low risk of large unforeseen payment affects liquidity)	2 (possibility of limited disruption to payments if overdraft facilities could not be negotiated)	Detailed cash flow forecasting Open new UK Money Market Fund Review TM strategy
Investment income lower as a result of increased reliance on Government Deposit Account	3 (use of DMO already increasing)	2 (a prudent amount has been assumed in the budget)	Tolerate risk pending review of TM strategy

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.

APPENDIX A**DEPOSITS MADE 13 MARCH TO 2 JUNE 2010**

Deposit Date	Amount	Institution	Interest Rate	Return date
15.3.10	£1.2m	Government DMO	0.25%	22.3.10
1.4.10	£0.5m	Government DMO	0.25%	15.4.10
8.4.10	£1m	Bank of Scotland	1.9%	7.4.11
8.4.10	£1m	Bank of Scotland	1.15%	8.7.10
9.4.10	£2.2m	Government DMO	0.25%	19.4.10
13.4.10	£1m	Government DMO	0.25%	19.4.10
15.4.10	£1.2m	Government DMO	0.25%	19.4.10
15.4.10	£1m	Government DMO	0.25%	22.4.10
27.4.10	£1m	Government DMO	0.25%	5.5.10
29.4.10	£3m	Government DMO	0.25%	19.5.10
4.5.10	£3m	Nationwide BS	0.7%	22.9.10
4.5.10	£1m	Government DMO	0.25%	20.5.10
7.5.10	£1m	Government DMO	0.25%	20.5.10
17.5.10	£1m	Government DMO	0.25%	20.5.10
17.5.10	£1m	Government DMO	0.25%	24.5.10
17.5.10	£1.5m	Government DMO	0.25%	3.6.10
24.5.10	£1m	Government DMO	0.25%	1.6.10
1.6.10	£3.5m	Government DMO	0.25%	18.6.10
1.6.10	£1.2m	Government DMO	0.25%	8.6.10

APPENDIX A (continued)

DEPOSITED BALANCES AS AT 2 JUNE 2010

Deposit date	Amount	Institution	Interest rate	Return date
17.10.07	£2.3m	Landsbanki	6.15%	15.10.08
8.4.10	£1m	Bank of Scotland	1.9%	7.4.11
8.4.10	£1m	Bank of Scotland	1.15%	8.7.10
4.5.10	£3m	Nationwide BS	0.7%	22.9.10
17.5.10	£1.5m	Government DMO	0.25%	3.6.10
1.6.10	£3.5m	Government DMO	0.25%	18.6.10
1.6.10	£1.2m	Government DMO	0.25%	8.6.10

**BALANCES WITH ON CALL & CURRENT ACCOUNTS
 AS AT 2 JUNE 2010**

Amount	Institution	Interest rate
£1m	Bank of Scotland	0.5%
£2.6m	Barclays	0.6%