

EXETER CITY COUNCIL
SCRUTINY COMMITTEE – RESOURCES
22 JUNE 2011

EXECUTIVE
5 JULY 2011

COUNCIL
19 JULY 2011

TREASURY MANAGEMENT – 2010/11

1. PURPOSE OF REPORT

- 1.1 To report the overall performance for the 2010/11 financial year and the position regarding investments and borrowings at 31 March 2011.

2. FINAL NET INTEREST POSITION

- 2.1 The General Fund shows a net reduction in interest receivable and paid compared to the estimate, the position is:

	Estimate		Actual	Variation
	£		£	£
Interest paid	67,000		76,349	9,349
Interest earned				
Interest from portfolio	(300,000)		(23,874)	276,126
Temporary investment interest	(40,000)		(39,923)	77
Other interest earned	(3,000)		(2,135)	865
Less				
Interest to HRA	153,000		58,068	(94,932)
Interest to s106 agreements	15,000		8,822	(6,178)
Interest to Trust Funds	8,000		4,173	(3,827)
Lord Mayors Charity	0		60	60
GF interest received	<u>(167,000)</u>		<u>5,191</u>	<u>172,191</u>
Net interest (received) / paid	<u>(100,000)</u>		<u>81,540</u>	<u>181,540</u>

- 2.2 The other interest earned relates to car loan repayments.

- 2.3 The reduction against budget has been caused by one principal factor. Please see section 3 for a detailed explanation.

3. INVESTMENT INTEREST

- 3.1 A decision has been taken to withdraw completely our investments held with Investec in order to further reduce the reliance on borrowing. The Fund was closed in February 2011 and the remaining £8 million returned to the Council. In a year when we had budgeted for a return of around 3% in line with the central advice from Investec, their return was actually 0.74% resulting in the large variation against not only the General Fund budget, but also the HRA interest budget and the amounts set aside for Trust Funds and Section 106 monies. This has had the effect of reducing our investment interest for the year but has also enabled us to reduce the amount of borrowing. It has additionally reduced our risk exposure. Any surplus funds are now short term and placed in Call Accounts (immediate access) at the Bank of Scotland and Nat West.
- 3.2 The managed cash funds have therefore reduced during the year from £9.7 million to zero as at 31 March 2011.
- 3.3 Interest of £23,874 was earned by the fund, which includes the £41,492 of unrealised losses that were not charged during 2009/10 in accordance with accounting standards. The overall rate of return for the Fund was 0.74% during 2010/11. This performance represents a 0.31% increase over the 7-day benchmark of 0.43%.
- 3.4 The closure of the Investec Fund has also resulted in a saving of £16,000 a year in management fees.
- 3.5 The £5m invested in two Icelandic banks back in late 2007, remains frozen, after the Icelandic government stepped in to ensure that the Icelandic banking system did not collapse in October 2008.
- 3.6 Guidance regarding the treatment of Icelandic investments from CIPFA for 2010/11 has recently been received along with regular updates from the LGA.

Glitnir & Landsbanki

The Reykjavik District Court issued a verdict on 1 April 2011 confirming that local authorities' claims qualified for priority under Article 112 of the Icelandic Bankruptcy legislation. This related to both Glitnir and Landsbanki and also confirmed the position in relation to interest. These decisions are being appealed to the Icelandic Supreme Court, however the current court ruling confirms the priority stance.

The District Court decisions also confirmed the position in relation to interest in the authorities' favour. Where deposits matured between 6 October 2008 and 22 April 2009, local authorities claims should be on the value of the matured deposit plus interest of at least the contractual rate on the maturity value for the period from maturity to 22 April 2009 (the decisions are contractual interest for Glitnir and 8% interest for Landsbanki). Both our deposits matured within the dates.

In respect of Glitnir, it is anticipated that payment will be made in December 2011 and assuming that priority status is maintained after the Supreme Court ruling this will be at 100%.

Landsbanki is more complex. Assuming that priority status is maintained after the Supreme Court ruling the total payment is estimated at 94.85% of the initial investment plus interest. This is likely to be received in tranches up to December 2018, with close to a quarter being repaid during 2011.

In respect of both banks this is the latest available information and is subject to change dependant mainly on the outcome of the appeal.

4. BORROWINGS

- 4.1 The Council has had to borrow temporarily for cashflow purposes throughout the year and incurred interest of £76,349 during the year. Interest rates have been very low throughout the year. At 31 March 2011 the Council had £15m of short term borrowing. The Council continues to have no long term debt.

5. FUTURE POSITION

- 5.1 As interest rates remain very low the Council will continue to use short term borrowing to manage its cashflow. Current rates for borrowing are approximately 0.80% for 6 months. Borrowing over 25 years through the PWLB has increased to around 5.20% as a result of the Government's decision to increase the gap between the interest rate on Gilts and PWLB rates to 1%.
- 5.2 The internal investment strategy has been tightly restricted to UK only banking operations meaning that it is difficult to invest at the moment. There is very little desire from HSBC and Barclays to take money for a couple of weeks and we have been using our public sector reserve with the Co-op and call accounts with the Bank of Scotland and Nat West.
- 5.3 During the year the Council will also look to make use of a money market fund. These spread the risk by investing in a wide range of instruments. The funds are also immediately available for repayment. The Council will use the fund when it has excess fund over and above its limits on its call accounts and will only use a fund that is AAA rated (the highest rating).
- 5.4 During the year the Icelandic Supreme Court should hear the appeals in respect of the two banks and the position in respect of our investments should become much clearer.

6. RECOMMENDATION

- 6.1 That Council note and approve the Treasury Management report for the 2010/11 financial year.

HEAD OF TREASURY SERVICES

CORPORATE SERVICES DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)

Background papers used in compiling the report:

None