

**EXETER CITY COUNCIL**  
**SCRUTINY COMMITTEE – RESOURCES**  
**17 JUNE 2009**

**EXECUTIVE**  
**29 JUNE 2009**

**TREASURY MANAGEMENT – 2008-09**

**1. PURPOSE OF REPORT**

- 1.1 To report the overall performance for the 2008-2009 financial year and the position regarding investments and borrowings at 31 March 2009.

**2. FINAL NET INTEREST POSITION**

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

	<b>Estimate</b>		<b>Actual</b>	<b>Variation</b>
	<b>£</b>		<b>£</b>	<b>£</b>
<b>Interest paid</b>	(50,000)		(69,875)	(19,875)
<b>Interest earned</b>				
Interest from portfolio	1,380,000		1,189,224	(190,776)
Temporary investment interest	500,000		(42,295)	(542,295)
Other interest earned	5,000		3,668	(1,332)
Less				
Interest to HRA	(445,000)		(382,720)	62,280
Interest to s106 agreements	(75,000)		(39,346)	35,654
Interest to Trust Funds	(15,000)		(18,586)	(3,586)
Lord Mayors Charity	0		(623)	(623)
GF interest received	<u>1,350,000</u>		<u>709,323</u>	<u>(640,677)</u>
Net interest	<u>1,300,000</u>		<u>639,448</u>	<u>(660,552)</u>

- 2.2 The other interest earned relates principally to car loan repayments and various repayments of interest.

- 2.3 The reduction against budget has been caused by a number of factors. Please see section 3 for a detailed explanation.

### 3. INVESTMENT INTEREST

3.1 The managed cash funds have reduced during the year from £23.4 million to £20.1 million as at 31 March 2009. A withdrawal of £4.7m has been made during the year to manage cashflow.

3.2 The unprecedented financial crisis has resulted in significant interest rate cuts around the world. As our investment manager had invested for up to 1 year during the early to mid part of 2008-09, they had locked into some high interest rates and therefore have outperformed the benchmark by 3.41% during the past financial year. However the removal of £4.7 million during last summer and accounting rules that don't allow the Council to recognise some £268,000 of unrealised profit in its accounts, until the investments mature, means that performance has been below estimate. As the unrealised profit will be recognised in next year's accounts, there should be an improvement against next year's budget.

3.3 Interest of £1,189,224 was earned by the fund and in addition the fund has also generated £267,853 of unrealised profits, which will be recognised in the accounts in the current financial year. This equates to an overall rate of return of 7.15% (5.71% net of the unrealised profit) compared to a benchmark return of 3.74%.

3.4 Performance in the last five years has been generally solid, with the exception of 2006-07. However, the current economic downturn has provided Investec with the opportunity to make an exceptional return this year:

	Performance	Benchmark	Variation
2004-2005	4.72%	4.48%	+0.24%
2005-2006	4.57%	4.48%	+0.09%
2006-2007	4.21%	4.82%	-0.61%
2007-2008	5.80%	5.63%	+0.17%
2008-2009	7.15%	3.74%	+3.41%

3.5 Temporary investment interest has been weak this year as a result of a poor cashflow position, which has meant that the Council has spent most of the year undertaking temporary borrowing rather than investing surplus funds. Indeed only six short term investments have been made this year, although the Council also made use of its call account facility with the Bank of Scotland and the public sector reserve account held at the Co-operative Bank.

3.6 Additionally, 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. This has meant that the anticipated interest receipts have not been received and that we have had to remove the amount accrued in the accounts for 2007-08. This has ensured that the interest earned is significantly below budget.

- 3.7 Recent guidance has been published by CIPFA, recommending an appropriate level of write-down for the investments held in Icelandic banks.

#### **Glitnir**

In respect of Glitnir, CIPFA note that the LGA's current legal advice places local authority deposits as priority claims, and that the latest public presentation of Glitnir's affairs indicates that the bank's assets are significantly greater than their liabilities owed to depositors. They suggest that this indicates that a full repayment of the amount invested plus interest accrued up to 14 November 2008 is likely. If this is the case then the Council would lose 21 days interest only. The key issue is whether Council deposits are classed as priority claims. If they were not then the amount recoverable would be substantially lower. The current expectation is for repayment during 2009-10 financial year.

#### **Landsbanki**

In respect of Landsbanki, CIPFA again note that the LGA's current legal advice places local authority deposits as priority claims, and that the latest public presentation of Landsbanki's affairs indicates that the bank's assets are sufficient to repay approximately 90% of customers deposits plus interest up to 14 November 2008. As our deposit would have matured on 3 November 2008, this therefore includes our entire interest claim from Landsbanki. CIPFA believe that full repayment remains possible and therefore give a range of 90%-100% repayment. We have therefore written down the asset to 95% of its value in line with the recommended guidance. In cash terms the range of recovery at this level would be between £2.87m and £3.19m. Again the key issue is whether Council deposits are classed as priority claims. If they are not then the amount recoverable would be substantially lower. Repayment is expected to be more complex and likely to be over a number of years up to 2012.

In respect of both banks this is the latest available information and is subject to change, therefore the amount actually received could go up or down.

### **4. BORROWINGS**

- 4.1 The Council has had to borrow temporarily for cashflow purposes throughout the year and incurred interest of £69,875 during the year. Interest rates have been very low towards the end of the year and have meant that interest payable in the year is actually lower than in 2007-08. At 31 March 2009 the Council had £18,000,000 of borrowing which is being repaid by June 2009. 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 between 0.35 and 0.40% for 1-2 months. Borrowing over 25 years through the PWLB remains around 4.5%.
- 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, Barclays and RBS to take money for a couple of weeks and we have been using our Public sector reserve with the Co-op and call account with the Bank of Scotland.
- 5.3 It remains imperative that the fund manager performs above the benchmark to maximise the return for the Council. However they are also limited by the very low interest rates and little value in the gilt market. Therefore investment interest returns for 2009-10 will be considerably lower.
- 5.4 During the year the Icelandic authorities should agree the final assets and liabilities of the banks and the position in respect of our investments should become clearer.

## **6. RECOMMENDATION**

- 6.1 That the Treasury Management report for the 2008-2009 financial year be noted.

HEAD OF TREASURY SERVICES

CORPORATE SERVICES DIRECTORATE

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

**Background papers used in compiling the report:**

None