# Joint Audit and Governance Committee

Report of Head of Finance

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To: Joint Audit and Governance Committee

DATE: 28 September 2015

# Treasury Outturn 2014-15

That Joint Audit and Governance Committee:

1. notes the treasury management outturn report 2014/15,

2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy, and

3. make any comments and recommendations to cabinets as necessary.

That Cabinet:

Considers any comments from Joint Audit and Governance Committee and recommends Council to:

1. approve the treasury management outturn report for 2014/15;

2. approve the actual 2014/15 prudential indicators within the report.

## Purpose of report

1. This report fulfils the legislative requirements to ensure the adequate monitoring and reporting of the treasury management activities and that the councils' prudential indicators are reported to the councils at the end of the year. The report provides details of the treasury activities for the financial year 2014/15.

2. This complies with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice on Treasury Management (revised) 2009.

## Strategic objectives

3. Effective treasury management is required in order to meet our strategic objective of managing our business effectively. Managing the finances of the authorities in accordance with the treasury management strategy will help to ensure resources are available to deliver our services and meet the councils' other strategic objectives.

## Background

4. The councils' treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice require a report to be provided to the councils at the end of the financial year.

5. This report provides details on the treasury activity and performance for 2014/15 against prudential indicators and benchmarks set for the year in the 2014/15 treasury management strategy, approved by each council in February 2014. Each council is required to approve this report.

6. Capita Asset Services are the councils' retained treasury advisors. They provide a regular forecast of interest rates and the latest forecast is reproduced at annex 'A'.

## Summary of treasury activities during 2014/15

7. The performance of the two councils is summarised in the table below. Detailed performance review is contain in Appendix 1 (SODC) and Appendix 2 (VWHDC).

| | | South Oxfordshire District Council | Vale of White Horse District Council |
|---|---|---|---|
| 1 | Average investment balance | £127,831,000 | £30,874,514 |
| 2 | Budgeted investment income | £2,090,000 | £355,500 |
| 3 | Actual investment income | £2,492,767 | £430,807 |
| 4 | Surplus/(deficit) (3) – (2) | £421,605 | £75,307 |
| 5 | Rate of return (3) ÷ (1) | 1.950% | 1.395% |
| 6 | Benchmark rate of return:<br>3 month LIBID<br>Industry average* | <br>0.43%<br>0.75% | |
| 7 | Borrowing | Nil | Nil |

*Capita Asset Services - weighted average of 5 fund managers results covering 22 funds.

8. Even with the bank base rate continuing at a half of one percent, which has restricted the investment rates on offer, both councils have exceeded their budgeted income targets. Neither council has had to borrow for long-term capital financing or short-term for cash flow purposes during the year.

9. Both councils continue to invest with regard for security, liquidity and yield, in that order. Detailed reports on the treasury activities for each council are contained in Appendix 1 – South Oxfordshire DC and Appendix 2 – Vale of White Horse DC. A detailed list of both councils' investments as at 31 March 2015 is shown at Annex B.

## Treasury management limits on activity

10. Prudential limits. Both councils are required by the Prudential Code to report on the limits set each year in the Treasury Management Strategy. The purpose of these limits is to ensure that the activity of the treasury function remains within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive they may impair the opportunities to reduce costs/improve performance. During the year none of these limits were exceeded. These limits are shown in annex C.

11. Liquidity and yield. The benchmarks for liquidity are set to ensure that sufficient funds can be accessed at short notice. These are set as targets and not definitive limits. The weighted average life (wal) in days sets an indicator for how long investments should be made and the benchmark is a target set to ensure that investments are not made for too long.

## Debt activity during 2014/15

12. During 2014/15 there has not been a need for either council to borrow and both councils continue to take a prudent approach to their debt strategy. The prudential indicators and limits set out in annex C provide the scope and flexibility for the Council to borrow in the short-term up if such a need arose for cash flow purposes to support the council(s) in the achievement of their service objectives.

## Financial implications

13. The investments made in 2014/15 ensured that both councils exceeded their budgeted targets for investment income. Income earned from investments is used to support the councils' medium term financial plans and contributes to the councils' balances, or supports the in-year expenditure programmes.

14. Looking forward, income is anticipated to remain stable with any increase due to rises in market rates offset by a general reduction in the balances available to invest. This will be reflected in the councils' 2016/17 budgets and medium term financial plans.

## Legal implications

15. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the DCLG Local Government Investment Guidance provides assurance that the councils' investments are, and will continue to be, within their legal powers.

## Conclusion

16. The financial year 2014/15 continued to provide a challenge to treasury management with a difficult environment to invest in. The main factors were:

    - low investment returns and difficulty to place long term investments;
    - increased counterparty risk – reduced choice of counterparties
    - interest rate exposure risk – due to investments held in short-term maturity periods.

17. Despite the uncertainty, both councils continued to make investments during 2014/15 that maintained security and liquidity whilst providing a return that exceeded market benchmarks.

### Background papers

- Chartered Institute of Public Finance and Accounting (CIPFA) code of practice for treasury management in the public sector.
- DCLG Local Government Investment Guidance
- CIPFA treasury management in the public services code of practice and cross sectoral guidance notes
- Treasury Management Strategy 2014/15 – Councils in February 2014.

### Appendices

1. SODC – detailed treasury performance – 1 April 2014 to 31 March 2015
2. VWHDC – detailed treasury performance – 1 April 2014 to 31 March 2015

### Annexes

A – Forecast of interest rates
B – List of investments as at 31 March 2015
C – Prudential indicators
D – Glossary of terms

## Appendix 1

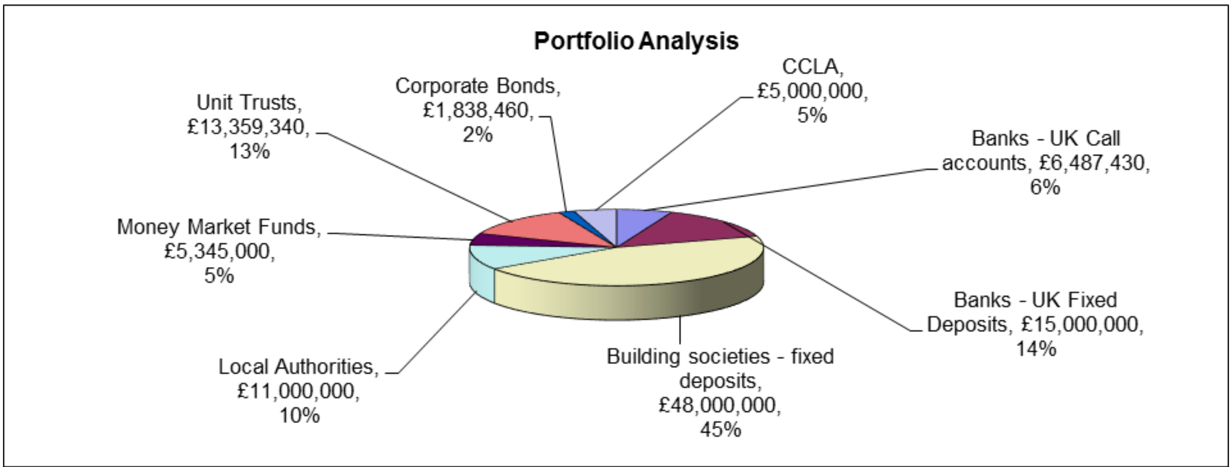
# SODC treasury activities in 2014/15

## Council investments as at 31 March 2015

1 - 1. The Council's investments, analysed by age as at the end of 2014/15, is shown in table 1 below.

| Table 1: maturity structure of investments as at 31 March 2015: | Total £000 | % holding |
|---|---|---|
| **Cash deposits:** | | |
| Call account | 6,487 | 6% |
| Notice account | - | 0% |
| Up to 1 month | 6,500 | 6% |
| 2 month | 8,000 | 8% |
| 3 month | 10,000 | 9% |
| 4 month | 9,500 | 9% |
| 5-6 Month | 8,000 | 8% |
| 7-12 Month | 15,000 | 14% |
| 1 -2 Year | 5,000 | 5% |
| 2-7 Year | 12,000 | 11% |
| Kaupthing Singer & Friedlander | 222 | 0% |
| **Total cash deposits** | **80,710** | **76%** |
| **CCLA pooled property fund** | 5,000 | 5% |
| **Equities** | 13,359 | 13% |
| **Corporate bonds** | 1,838 | 1% |
| **Money market funds** | 5,345 | 5% |
| **Overall total** | **106,253** | **100%** |

1 - 2. A significant proportion of the portfolio is held in the form of fixed interest rate cash deposits. These provide some certainty over the investment return. The chart below shows in percentage terms how the portfolio is spread across the investment types:



## Investment income

1 - 3. The total interest earned on investments during 2014/15 was £2.4 million, compared to the original estimate of £2.1 million, as shown in table 2 below:

| Table 2: Investment interest earned by investment type | | | |
|---|---|---|---|
| | Interest earned | | |
| Investment type | Annual Budget £000 | Actual £000 | Variation £000 |
| Call accounts | 250 | 57 | (193) |
| Cash deposits < 1yr | 560 | 725 | 165 |
| Cash deposits > 1yr | 526 | 219 | (307) |
| MMF | 34 | 17 | (17) |
| Corporate Bonds | 120 | 121 | 1 |
| Equities | 300 | 409 | 109 |
| SOHA | 0 | 623 | 623 |
| CCLA | 300 | 322 | 22 |
| | 2,090 | 2,493 | 403 |

1 - 4. The variation in investment earnings of £403,000 above the original estimate for 2014/15 is due to a number of reasons:

- Interest received on unit trusts was £109,000 higher than forecast due to the overall increase in the value during the year.
- Interest earned on SOHA property was not budgeted as the loan was finalised post budget setting and therefore achieved £623,000 of extra interest income.
- Interest earned on cash deposits was £351,000 lower than forecast due to a significant drop in interest rates achieved.
- Interest earned on CCLA was £22,000 higher due to fluctuations in the price of units held.
- The call accounts earned less interest than forecast as a result of rates reducing on our accounts.
- The unbudgeted SOHA loan had decreased the funds available for other investments.

1 - 5. The actual average interest rate of return achieved for the year was 1.95 per cent.

### Movement in the value of investments

1 - 6. Table 3 below shows the movement in value of the Council's investments at the end of the year.

| Table 3: Investment portfolio values and movements. | 2013/14 £m's | 2014/15 £m's | Movement in Investments |
|---|---|---|---|
| **Cost Values (£m's)** | | | |
| Bank & Building Society deposits | 81.94 | 80.71 | (1.23) |
| Money Market Funds | 0.93 | 5.35 | 4.42 |
| CCLA | 5.00 | 5.00 | 0.00 |
| Equities | 12.51 | 13.36 | 0.85 |
| Corporate Bonds | 1.95 | 1.84 | (0.11) |
| | 102.33 | 106.26 | 3.93 |

The value of investment deposits fluctuates throughout the year due to cash flow and spending patterns.

**Performance measurement**

1 - 7. A list of investments as at 31 March 2015 is shown in annex B. All investments were with approved counterparties. The average level of investments held was £128 million and the average return on these investments is shown below in table 4. This shows in summary the performance of the council's investments against the benchmarks set out in the Treasury Management Strategy. These benchmarks are used to assess and monitor the council's investment performance for each type of investment.

| Table 4: Investment returns achieved against benchmark | Benchmark Return | Actual Return | Growth (Below)/above Benchmark | Benchmarks |
|---|---|---|---|---|
| Bank & Building Society deposits - internally managed | 0.43% | 1.08% | 0.65% | 3 Month LIBID |
| Equities | 3.04% | 4.95% | 1.91% | FTSE All Shares Index |
| Property related investments (excluding SOHA loan)* | 11.98% | 10.12% | (1.86%) | IPD balanced property unit trust index |
| Corporate Bonds | 0.50% | 9.91% | 9.41% | BoE base rate |

*source CCLA Local Authorities Property Fund Report March 2015

Note: the benchmark return for unit trusts reflects the movement in capital value. All other benchmarks reflect earnings of investment income. The total actual return for the whole investment portfolio was 1.95 per cent.

1 - 8. Bank and building society deposits decreased by £1.23 million during the year from £81.94 million as at 1 April 2014 to £80.71 million by 31 March 2015.

1 - 9. Returns on internally managed cash deposits are benchmarked against the three month LIBID rate, which was an average of 0.43 per cent for 2014/15. The performance for the year of 1.08 per cent exceeded the benchmark by 0.65 per cent.

1 - 10. It remained difficult to place investments because of continued financial uncertainty. Some good rates were achieved which contributed to the increase in investment income during the year. The government's Funding for Lending

Scheme (FLS) was introduced in August 2012. As a result interest rates at which banks and building societies accepted deposits from local authorities dropped sharply. After this, investments were primarily held in call accounts which offered a better return than the market rates for deposits.

1 - 11. Local authority market rates for cash deposits have historically been around the same level as the three month LIBID rate. However, actual rates achieved are dictated by changeable factors, such as cash flow and the market demand for funds. For the purposes of providing comparative performance indicators, the market average rates of interest are shown in table 5.

| **Table 5: Cumulative performance against benchmark & industry average** | **Cumulative % returns** |
|---|---|
| **Actual** | **1.08** |
| Benchmark - 3 Month LIBID | 0.43 |
| Variance - (Under)/Over benchmark | 0.65 |
| Industry average* | 0.75 |
| Variance - (Under)/Over Ind Average | 0.33 |

*Source: Capita Asset Services - weighted average of 5 fund managers results covering 22 funds.

## Equities

1 - 12. The council's holdings with the Legal & General (L&G) UK 100 Index Trust were purchased in 2000/01 at an initial cost of £10 million. This is an authorised unit trust incorporated in the United Kingdom and regulated by the FSA. The trust's objective is to track the capital performance of the UK equity market as represented by the FTSE 100 index.

1 - 13. The unit trusts are accounted for in the Council's financial statements at fair value[1]. Table 6 below shows the movement in capital value:

| **Table 6: Unit Trusts - Movement in capital** |
|---|

[1] Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. In some cases this will be the amount paid for purchasing the investment. This may not always be the case, where there have been substantial transaction costs (as in an investment fund), or where interest payable does not reflect market rates or obligations (as in corporate bonds).

| | £ | £ |
|---|---|---|
| Market Value as at 31.3.15 | | 13,359,340 |
| Less: | | |
| Dividends received in year | 228,752 | |
| Accrued dividends | 180,000 | |
| | | (408,752) |
| Add: | | |
| Disposal in year | | - |
| Amended market value as at 31.3.15 | | 12,950,588 |
| Market value as at 1.4.14 | | 12,509,147 |
| Increase in Market Value in year | | 441,441 |

1 - 14. The value quoted in the statement of accounts includes adjustments for accrued interest. In order to assess the true unit trust performance an adjustment must be made to amend the market value[2]. Table 7 below shows the unit trust performance without the accounting adjustments required for the statement of accounts:

1 - 15. The value of the council's unit trusts have increased throughout the year. Volatility in the markets which had previously driven investors to move to safer havens such as gilts, seem to be ignored as investors have moved back to equities in search of better returns, which has seen an increase in equity prices as a whole.

| **Table 7: Unit Trust performance 1.4.14 - 31.3.15** | | |
|---|---|---|
| Increase in FTSE all share was | | 3.04% |
| Increase in Market Value | | 3.53% |
| Under-performance | | 0.49% |
| | £ | |
| Market Value 1.4.14 | 12,509,147 | |
| Plus 3.04% FTSE increase | 380,278 | |
| Benchmark Market Value at 31.3.15 | 12,889,425 | |
| Market Value (amended at 31.3.15) | 12,950,588 | |
| **Over performance 1.4.14 to 31.3.15** | **61,163** | |

1 - 16. Dividends received of £0.2 million were reinvested to acquire additional fund units. The unit trusts are benchmarked against the FTSE All Shares Index, which

[2] Market value: this is the price that would be paid on a specific date.

represents 98-99 per cent of the UK market capitalisation. The index shows the performance of all eligible companies listed on the London Stock Exchange main market and today covers 630 constituents with a combined value of nearly £1.8 trillion. It is recognised as the main benchmark for unit trusts.

**Corporate Bonds**

1 - 17. The Council's corporate bonds are also accounted for in the financial statements at fair value. The opening carrying value for 1 April 2014 was £1.9 million. The closing carrying value at 31 March 2015 was £1.9 million. The carrying values and market values for the corporate bonds are shown in table 8 below:

**Table 8: Corporate bond values**

| Bonds | Original cost £000's | Nominal Value £000's | Carrying Value as at 1.4.14 £000's | Carrying Value as at 1.4.15 £000's | Market value at 1.4.15 |
|---|---|---|---|---|---|
| Santander 11.50% | 422 | 270 | 311 | 299 | 312 |
| RBS 9.625% | 1,973 | 1,500 | 1,589 | 1,549 | 1,526 |
| | 2,395 | 1,770 | 1,900 | 1,848 | 1,838 |

1 - 18. The weighted average return on the Council's corporate bonds for 2014/15 was 9.91 per cent, this significantly exceeded the benchmark return.

1 - 19. The corporate bonds mature on dates between 2015 and 2017. Annual interest earned will remain the same for the whole period a bond is held. Table 9 below shows the redemption yield of the bonds if held until the redemption date.

**Table 9: corporate bond redemption yields if held to maturity**

| Bank | Interest rate % | Original cost £000 | Nominal value £000 | Interest to date | Interest due | Redemption value £000 | Redemption date | Redemption yield |
|---|---|---|---|---|---|---|---|---|
| Santander | 11.50% | 422 | 270 | 334 | 93 | 697 | 04/01/2017 | 5.59% |
| RBS | 9.63% | 1,973 | 1,500 | 1,673 | 239 | 3,412 | 22/06/2015 | 6.20% |

**Money market funds (MMFs)**

1 - 20. Money market funds are commercially run pooled investments. They work rather like unit trusts, but whereas the latter are based upon shares in companies, MMFs rely on loans to companies. As their pooled funds have a high total value, better rates of return can be obtained. Legislation allows authorities to access only those MMFs with the highest possible credit rating (AAA).

1 - 21. Access and liquidity, together with high security, have meant these funds have been used throughout the year. The Council currently invests in three MMFs and the amount held in each at the 31 March 2015 is shown below:

| Table 10: Money market funds | 31/03/2015 £000 |
|---|---|
| Deutsche Bank | 265 |
| Blackrock | 4,690 |
| Goldman Sachs | 390 |
| | **5,345** |

### Icelandic bank default – Kaupthing Singer & Friedlander

1 - 22. The Council invested £2.5 million in July 2007 with the failed Icelandic bank Kaupthing Singer and Friedlander Ltd (KSF). The Council has received £2,144,488 to date in respect of the claim for £2.6 million (£2.5 million investment plus interest).

1 - 23. As a wholesale depositor, the Council is treated as an unsecured creditor in the administration process and ranks equally with all other unsecured creditors. The administrators intend to make further payments at regular intervals. The latest creditors' report now indicates that the estimated total amount to be recovered should be in the range of 84p to 86.5p in the pound. In total terms this would mean receiving between £2,209,901 and £2,275,671.

### Land and property

1 - 24. The Council holds a portfolio of investment property which includes land, industrial estates, depots, garages and shops that are used on a commercial basis. These assets had a net book value of £15.9 million at 31 March 2015 (£15.9 million at 31 March 2014) and generated income (net of any direct service costs) of £1.1 million in 2014/15 (£1.1million in 2013/14) giving a gross rate of return of 6.9 per cent.

1 - 25. The Economy, Leisure and Property (ELP) team manages investment property, ensuring that rent is collected and rent reviews are implemented. The performance of the investment property is assessed annually by ELP to determine if assets should be retained or disposed of and agree any actions to improve or enhance the value of the investment property holdings.

### Liquidity and yield

1 - 26. The amount maintained for liquidity was £12 million and was above the benchmark – this reflected better than market rates negotiated on call accounts and was not as a need for increased liquidity. The actual for the wal of 290.6 days was within the range set. The reason that the actual was above the benchmark is that during the year the council lent out some longer term investments to spread the investment portfolio and access better returns – like many others, the council is struggling to achieve suitable investment returns in the short to medium term investment market.

1 - 27. The year end position against the original benchmarks approved in February 2014 is shown below:

| Table 11: Risk-liquidity against benchmark |
|---|

| | 2014/15 Benchmark £m | 2014/15 Actual £m |
|---|---|---|
| Bank overdraft* | Nil | 0 |
| Short term deposits - minimum available within 1 week | 10 | 12 |
| | **2014/15 Benchmark £m** | **2014/15 Actual £m** |
| Weighted average life (days) | 182.5 | 290.6 |

*Since 1 April 2014, following the re-tender process for the bank contract, the council no longer has an agreed overdraft facility.

## Summary

1 - 28. As at 31 March 2015, the Council's financial investments had a cost value of approximately £107 million. As a result of proactive management of investments held, and despite the low interest rates, during 2014/15 investments generated £2.493 million in investment income, which was £403,000 above the £2.090 million original budgeted estimate.

## Appendix 2

# VWHDC treasury activities in 2014/15

### Council investments as at 31 March 2015

2 - 1 The council's investments at 31 March 2015 were as follows:

**Table 1: maturity structure of investments at 31 March 2015:**

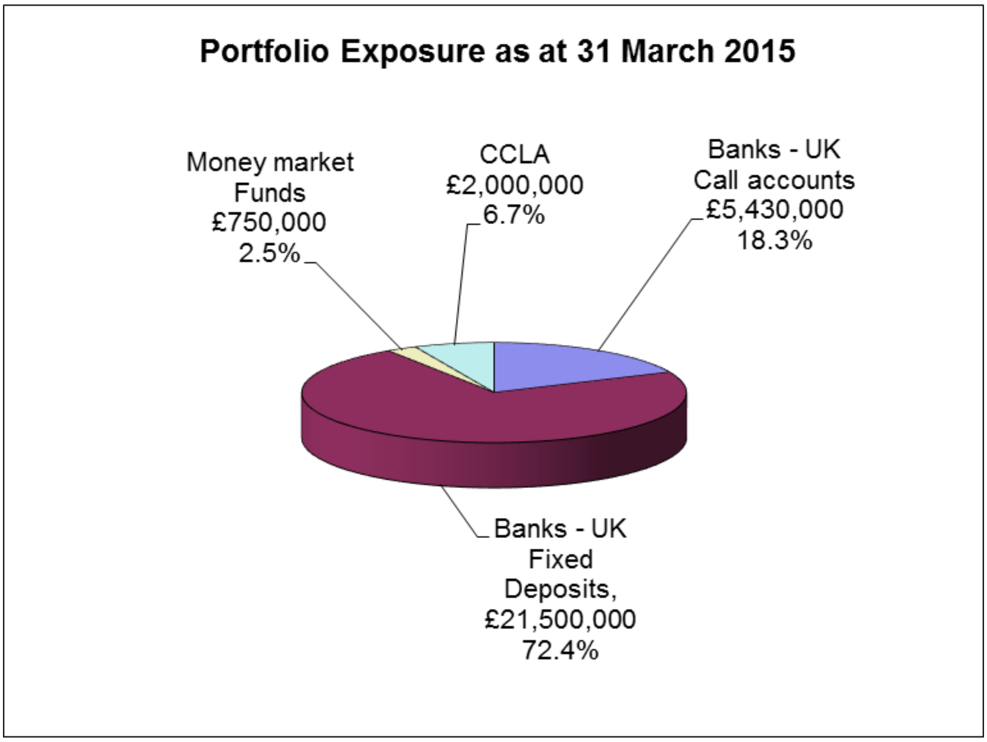
| | £000's | % holding |
|---|---|---|
| Call | 5,430 | 18% |
| Money market fund | 750 | 3% |
| Up to 4 months | 4,000 | 13% |
| 5-6 months | - | 0% |
| 6 months to 1 year | 13,500 | 45% |
| Over 1 year | 4,000 | 13% |
| **Total cash deposits** | **27,680** | **93%** |
| CCLA Property Fund | 2,000 | 7% |
| **Total investments** | **29,680** | **100%** |

2 - 2 The majority of the funds invested are held in the form of fixed interest rate and term cash deposits. These provide some certainty over the investment return. The investment profile is organised in order to ensure sufficient liquidity for revenue and capital activities, security of investments and to manage risks within all treasury management activities.

2 - 3 Money market rates over the year have remained very low and flat. One year rates have steadied and are now averaging just below one per cent. The government's Funding for Lending Scheme (FLS) has now completed, but there is still little demand for money in the markets which has perpetuated the low investment rates available. It continues to be difficult to find re-investment opportunities offering a return which also meet the security and risk criteria.

2 - 4 The weighted average maturity period at the end of the year was 484 days. This is mainly due to a long term investment with another local authority.

2 - 5 The chart below shows in percentage terms how the portfolio is spread across investment types:




## Investment income

2 - 6 The total investment income achieved in 2014/15 was £432,000 compared to the original budget estimate of £356,000 as shown in table 2 below:

**Table 2: Investment interest earned by investment type**

| Investment type | Actual Budget £000's | Actual Interest £000's | Variation £000's |
|---|---|---|---|
| Call accounts | 236 | 78 | 158 |
| Cash deposits | 120 | 226 | (106) |
| MMFs | - | 7 | (7) |
| CCLA Property Fund | - | 120 | (120) |
| Total Interest | **356** | **431** | **(75)** |

2 - 7 The actual return achieved was 21 per cent higher than the original budget. This was due to :

- The maturity period for investments was extended thereby attracting slightly higher rates.
- Average balances throughout the year have remained higher than forecast.

2 - 8 The total actual average interest rate achieved for the year was 1.39 per cent.

## Performance measurement

2 - 9 The average level of investments held throughout the year was £30.8 million and the average return on these investments is shown below in table 3.

| Table 3: Cumulative performance against benchmark & industry average | Cumulative % returns |
|---|---|
| **Actual** | **1.39** |
| Benchmark - 3 Month LIBID | 0.43 |
| Variance - (Under)/Over benchmark | 0.96 |
| Industry average* | 0.75 |
| Variance - (Under)/Over Ind Average | 0.64 |

*Source: Capita Asset Services - weighted average of 5 fund managers results covering 22 funds.

2 - 10 The table shows in summary the performance of the council's investments against the benchmarks set out in the treasury management strategy. These benchmarks are used to assess and monitor the council's investment performance. The annual investment strategy set the benchmark target for internal cash invested as the 3 month LIBID. The performance for the year of 1.39% exceeded the benchmark by 0.99 per cent and was 1.13 per cent above the industry average.

## Land and Property

2 - 11 The council holds a portfolio of non-operational assets, which includes land, offices and shops that are let on a commercial basis. These assets had a net book value of £20.6 million at 31 March 2015 (£20.6 million as at 31 March 2014) and generated income of £1.5 million (£1.5 million in 2013/14). This is equivalent to a gross return of 7.2% (2013/14, 7.2%), which excludes costs such as maintenance and management fees. Due to movement in property values and the exclusion of whole life costs, these rates of return should not be taken as a direct comparison with the treasury rates. The Economy, Leisure and Property (ELP) team manages investment property ensuring that rent is collected and rent reviews are implemented. The performance of the investment property portfolio is assessed annually by the property team to determine if assets should be retained or disposed of.

## Icelandic bank default – Landsbanki Islands hf

2 - 12 On the 24 September 2008 the council placed a deposit of £1 million with Landsbanki Islands hf until 24 October 2008 at an interest rate of 5.95 per cent. The bank went into administration on 7 October 2008, and as a result the repayment of the deposit and interest has not been made.

2 - 13 At 24 October 2008, the amount due to be repaid was the principal amount of £1,000,000 plus interest of £4,890.41, giving a total amount of £1,004,890.41.

2 - 14 In April 2011 the Reykjavik District Court ruled that local authorities' claims qualified for priority under Icelandic bankruptcy legislation. The decision was

appealed to the Icelandic Supreme Court who affirmed the district court's ruling in October 2011. Subsequently the Reykjavik District Court recognised the council's priority claim at £1,004,890.41.

2 - 15 At 31 March 2014 the council had received repayments totalling £531,286.57 with the expectation that further repayments would continue to be made until the total amount was repaid. Initial expectations were that full repayment could be by December 2018, but it increasingly became more likely that full repayment would not be before December 2021 and could be considerably or later.

2 - 16 Therefore, in October 2014, the council took the opportunity to sell its entire claim via Deutsche Bank AG; this decision was taken due to the tightening restrictions placed on the amount of foreign currency allowed to leave Iceland by the Icelandic government, the ongoing uncertainty about when future repayments would be made and a potential weakening of the position of priority creditors. The council therefore received a final payment of £387,605.86 (net of fees and exchange rate differences) from Deutsche Bank in November 2014 bringing the total received to £932,136.34 resulting in an overall loss of £72,754.07.

2 - 17 The loss has been charged to the Income & Expenditure (I&E) account in 2014/15, however due to the effect of accrued interest and impairments made in previous years, the actual amount charged to the I&E account was £37,225.11.

| **Table 4 Landsbanki hf - financial asset impairment** | |
|---|---|
| Carrying amount at 1 April 2014 | 373,930.87 |
| Add fees and exchange rate differences | 13,243.94 |
| Add accrued interest to 19 November 2014 | 37,656.16 |
| | **424,830.97** |
| Final payment received | (387,605.86) |
| **Loss charged to I&E account** | **(37,225.11)** |

2 - 18 The council still holds a minimal balance in an Icelandic escrow account which will be monitored with regard to repatriation, but currently the fees and exchange rates mean that the net sum the council would potentially receive makes any potential repatriation unviable.

2 - 19 Given the minimal remaining balances, it is not planned to report in detail on this in future treasury reports.

**Liquidity and yield**

2 - 20 The council uses short-term investments to meet daily cash-flow requirements and has also aims to invest a proportion of the portfolio over longer dated cash deposits where possible.

2 - 21 The amount maintained for liquidity was £11 million and was above the benchmark – this reflected better than market rates negotiated on call accounts and was not as a need for increased liquidity – there is also a dearth of short-to-medium term investments available at present that offer a reasonable rate of return over and above that on offer from the call accounts and MMFs. The actual for the wal of 484 days was within the range set. The reason that the actual was above the benchmark is that the council has previously let some long term investments

with another local authority in order to spread the investment portfolio and access better returns.

2 - 22 The year-end position against the original benchmarks approved in February 2014 is shown below:

| **Table 11: Risk-liquidity against benchmark** | | |
|---|---|---|
| | **2014/15 Benchmark £m** | **2014/15 Actual £m** |
| Bank overdraft | 0 | 0 |
| Short term deposits - minimum available within 1 week | 10 | 11 |
| | **2014/15 Benchmark £m** | **2014/15 Actual £m** |
| Weighted average life (days) | 150.0 | 484.0 |

## Summary

2 - 23 As at 31 March 2015, the council's financial investments portfolio had a value of £29.57million. As a result of proactive management of investments held, and despite the continuing low market interest rates, during 2014/15 these investments generated £432,000 in investment income, which was £76,000 above the £355,500 original budgeted estimate.