

By: Chairman Superannuation Fund Committee  
Director of Finance

To: Superannuation Fund Committee – 3 July 2009

Subject: **CASH MANAGEMENT**

Classification: Unrestricted

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Summary: To report on the latest cash and treasury management position of the Fund.

**FOR INFORMATION**

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**INTRODUCTION**

1. This report sets out for members the latest cash position of the Fund and gives an update on the Icelandic deposits and progress on developing a new Treasury Strategy.

**CASH POSITION**

2. As at 31 May the Fund held £119.3m in cash. Allocation of cash is dealt with under the confidential Fund Position Statement item.

**ICELANDIC DEPOSITS**

3. The Fund's exposure to the 3 Icelandic banks is approximately £16m split £5.8m Heritable, £4.8m Glitnir and £5.4m Landsbanki. The latest recovery position is set out below:
  - (1) Heritable – this is a UK domiciled subsidiary of Landsbanki. Ernst & Young is the administrator and KCC is one of two local authorities represented on the Creditors Committee. The administrator has now written publicly to all creditors and the base case return is 70-80p in the pound. The first dividend will be paid in July. Run-off will be largely complete by the end of 2010.
  - (2) Glitnir and Landsbanki – KCC is one of two local authorities representing UK local authorities on the Informal Creditor Committees set up by the Resolution Committees for each bank. Under Icelandic law depositors are preferred creditors and the recovery position is good. Claims will be filed by the end of 2009 and any legal challenges to our preferred creditor status will be heard in the first half of 2010. As long as the preferred creditor status holds we will get a 100% return from Glitnir (which had a

limited depositor base) in 2010, a 90% return is forecast for Landsbanki but over a longer period.

## **TREASURY STRATEGY**

4. Since 9 October 2009 all new and maturing deposits have been placed with the Government Debt Management Agency. As at 5 June KCC's deposits were split.

DMA	68%
UK Banks	12%
UK Building Societies	8%
Belgian Bank	2%
Iceland	10%

All options for breaking fixed term deposits have been explored. The Dexia deposit has been restructured to come within the French/Belgian/Luxembourg Government guarantees.

5. There are now two main priorities:
- (1) To prepare options on counter party strategy moving forward for members. The current use of the DMA is not a viable long term strategy. Extensive work is underway on alternatives focussing on the most secure deposits.
  - (2) To fully implement the recommendations of the PwC report and the Audit Commission report. It should be noted on the latter that KCC already measures up very well against the good practices identified.
6. To achieve these objectives we have the following underway:
- (1) Appointment of a Treasury & Investment Manager – this is a new post at a senior level which will have the prime responsibility for treasury issues moving forward. Following an interim appointment a permanent appointment was made on 12 June. The postholder will report to a redefined post of Head of Investments & Pensions reporting direct to the Director of Finance.
  - (2) External Consultant – an experienced treasury professional has been undertaking detailed due diligence on Money Market Funds and in-particular the new Government guaranteed Money Market Funds. This report has been completed.
  - (3) External Adviser – Arlingclose have been commissioned to advise on investment issues for a 6 month period. Their remit is

focussed on assisting KCC in moving forward with a more diversified investment strategy rewriting the Treasury manual to reflect the new strategy and specifically addressing technical improvements identified by PwC in their review. Their action plan is attached in the Appendix. A tender process for treasury advisory services is being commenced.

7. The intention then is to bring firm proposals to the 18 September meeting on a Superannuation Fund Treasury Strategy using counterparties that the Committee finds acceptable – this may have similarities with but will be totally separate from KCC's Treasury Strategy. Pension Fund cash will then be deposited on a segregated basis in the name of the Fund.

### **RECOMMENDATION**

8. Members are asked note this report

**Nick Vickers**  
**Head of Financial Services**

**16 June 2009**