

## **Item: 5**

**Investments Sub-committee: 27 February 2020.**

**Temporary Loans.**

**Report by Head of Finance.**

### **1. Purpose of Report**

To advise of the status of the temporary loan portfolio as at 31 December 2019.

### **2. Recommendation**

The Sub-committee is invited to note:

#### **2.1.**

The status of the temporary loan portfolio as at 31 December 2019, as detailed in section 3 of this report.

#### **2.2.**

That, for the period 1 April to 31 December 2019, the temporary loans portfolio made a return of £211,623.15 at an average interest rate of 1.01%.

#### **2.3.**

That the Treasury Policy Statement is being adhered to by the Finance Service and is producing an acceptable rate of return.

### **3. Temporary Loan Portfolio**

#### **3.1.**

The temporary loan portfolio as at 31 December 2019 totalled £24,767,092. Further details are provided in the Monthly Investment Analysis Review that is prepared by Link Asset Services, attached as Appendix 1 to this report.

#### **3.2.**

The following transactions have taken place since 31 December 2019:

- £3,000,000 matured from Thurrock Borough Council.
- £2,000,000 matured from Lloyds Bank Plc.
- £2,000,000 invested with Thurrock Borough Council at a rate of 0.84%.
- £2,000,000 invested with Santander at a rate of 1.00%.
- £6,400,000 recalled from Aberdeen Standard Investments Liquidity Fund.

- £9,000,000 invested with Aberdeen Standard Investments Liquidity Fund, with an average net yield of 0.73%.
- £3,300,000 recalled from Insight Liquidity Fund.
- £4,400,000 invested with Insight Liquidity Fund, with an average net yield of 0.71%.

### **3.3.**

The value of the temporary loans stood at £24,367,493 as at 31 January 2020.

## **4. Rate of Return**

### **4.1.**

For the period 1 April to 31 December 2019, the temporary loans returned an average interest rate of 1.01%. This equates to a return of £211,623.15 on the temporary loans for the nine months to 31 December 2019.

### **4.2.**

By comparison, the equivalent 90-day London Inter-Bank Offered Rate of 0.79% is considered to be the target.

### **4.3.**

With inflation quoted at 1.3% for December 2019 based on Consumer Price Index (2.2% Retail Price Index), the return on temporary loans equates to a relative decline in value of 0.29% in real terms.

### **4.4.**

The Council is part of an Investment Portfolio Benchmarking Group overseen by its Treasury Advisers, Link Asset Services, and comprising seven other Scottish Local Authorities, as follows:

- Aberdeen City Council.
- Aberdeenshire Council.
- Angus Council.
- Clackmannanshire Council.
- Midlothian Council.
- Perth and Kinross Council.
- Highland Council.

### **4.5.**

An extract from the analysis report for the benchmarking group as at 31 December 2019, attached as Appendix 2 to this report, indicates that the Council is achieving the same weighted average rate of return as the benchmarking group and a higher weighted average rate of return than the Scottish Unitary Authorities.

## 5. Cash Balances

### 5.1.

Recurring slippage continues to be a feature within the approved capital programme. In financial year 2018 to 2019, works valued at £15,187,000 were reprofiled into 2019 to 2020 and beyond. Not only does this impact on the cost of delivering the capital programme, it also delays the timescale over which the capital finance is required. Uncertainty over the timing of contract payments on capital projects results in additional cash balances being held over the short term. Although these surplus balances are re-invested the shorter duration and uncertainty does impact on performance.

### 5.2.

The following analysis of the Consolidated Loans Fund summarises the main components that make up the temporary loans balance for the Council's activities as a whole. This indicates that these balances should reduce by £12,200,000 or 35% during financial year 2019 to 2020:

Consolidated Loans Fund.	2018 to 2019 Actuals £000.	Movements £000.	2019 to 2020 Estimates £000.
Capital:			
Debt - Public Works Loans Board/Salix.	30,200.	-5,000.	25,200.
Loans Fund Deposits – Unapplied Capital Receipts.	2,800.	0.	2,800.
Loans Fund Advances – Capital Financing Requirements.	-32,800.	-10,600.	-43,400.
Revenue:			
Loans Fund Deposits (Revenue Deposits).	38,600.	5,000.	43,600.
Loans Fund Advances (Revenue Advances/Use of Reserves).	-4,900.	-1,600.	-6,500.
Net Current Assets	300.	0.	300.
Bank (Balance)/Overdraft.	-100.	0.	-100.
Temporary Loans Balance.	34,100.	-12,200.	21,900.

### **5.3.**

The above figures reflect £8,600,000 of slippage on the capital programme for financial year 2019 to 2020 which has already been re-profiled into financial year 2020 to 2021 and beyond.

### **5.4.**

The Council traditionally relied on its ability to finance its capital spending programmes through the use of internal borrowings. However, in approving the development of a major Schools Investment Programme in 2008 at an estimated capital cost of £58,000,000, and thereafter a significant Social Housing build programme, it was acknowledged that this approach would need to change. In particular, as interest rates were originally predicted to start to increase in 2010, the Council increased external borrowings to £40,000,000 to fund at least part of this sizable programme of capital works. At that time, this was regarded as an effective way for the Council to manage the risk of interest rate movements over the life of the programme, which could otherwise have the potential to adversely impact on the affordability of this programme going forward including future Council budgets. This also applied in the case of the house build programme where any increase in interest rates would impact on the affordability of the overall development, which relies on the ability of housing tenants to support the loan charges in the form of tenant rent increases.

### **5.5.**

Whilst the subsequent decision of Scottish Government, in mid-2010, to change the funding structure for the Schools Investment Programme through the award of a £40,000,000 capital grant which effectively reduced the Council's borrowing requirements for future years, the terms of the borrowings were still regarded as favourable at that time such that the Council was well placed to benefit from savings on loan charges in the longer term.

## **6. Corporate Governance**

This report relates to the Council complying with its treasury management policies and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **7. Financial Implications**

### **7.1.**

The Treasury Policy Statement is being adhered to by the Finance Service and is producing an acceptable rate of return.

### **7.2.**

The effective management and control of risk are prime objectives of the Council's treasury management activities, with priority given to security and liquidity when investing funds.

## **8. Legal Aspects**

Section 69 of the Local Government (Scotland) Act 1973 empowers a local authority to lend and invest surplus funds on a temporary basis where it is calculated to facilitate or is conducive or incidental to the discharge of any of their functions.

## **9. Contact Officers**

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## **10. Appendices**

Appendix 1: Link Asset Services Monthly Investment Analysis Review for December 2019.

Appendix 2: Link Asset Services Investment Portfolio Benchmarking Analysis for December 2019.



# Orkney Islands Council

## Monthly Investment Analysis Review

December 2019

## Monthly Economic Summary

**General Economy**

December's economic data began with the November Markit/CIPS Manufacturing PMI survey falling to 48.9, from 49.6 the previous month. The survey's details showed that British manufacturers cut jobs in November at the fastest rate since 2012, as pressures from Brexit and a global trade slowdown caused the sector's longest decline since the financial crisis. The Construction PMI, meanwhile, rose by 1.1 points to 45.3 - still indicating contraction - as companies yet again noted subdued client demand due to political uncertainty. The Services PMI decreased to 49.3 from October's figure of 50.0, leaving the Composite figure also at 49.3 – a decrease from 50.0 in October, indicating a contraction in the UK's economy last month. The UK trade deficit widened sharply to £5.19bn in October 2019, the biggest since April, from a revised £1.92bn in the previous month. Imports jumped by 6.2%, while exports rose at a much softer 0.8%. GDP data, meanwhile, showed that the UK economy stagnated in the three months to October 2019, falling from the 0.3% q/q growth recorded in the previous period. Year-on-year GDP growth fell slightly to 0.7% in October, from 0.9% y/y in September.

The UK's unemployment rate remained at 3.8% in the three months to October, as the number of people employed rose by 24,000 to 32.8m. Average earnings including bonuses rose by an annual 3.2% rate, slowing from the 3.7% gain recorded in the three months to September. Average earnings excluding bonuses growth slowed less sharply to 3.5% y/y in the three months to October, from 3.6% y/y in the previous period.

CPI was unchanged at 1.5% y/y in November, slightly above market expectations of 1.4% but well below the Bank of England's 2% target. This was the lowest inflation rate since November 2016, but the BoE forecasts suggest that inflation could fall to as low as 1.25% in early 2020 due to caps on energy and water prices. The core CPI rate (which strips out the more volatile components), was 1.7% in November, unchanged from the previous month.

November's retail sales fell by 0.6% m/m after reporting no growth in October, which missed market expectations of a 0.3% m/m increase. This marked the 4<sup>th</sup> consecutive month of no growth in trade, the longest run since 1996. Year-on-year retail sales growth slowed to 1.0% in November, from the 3.1% gain recorded in the previous period.

The Confederation of British Industry's monthly retail sales balance rose 3 points from a month earlier to 0 in December, the highest level since April, but below market expectations of +3. The latest reading still signalled flat sales overall, with the volume of orders placed on suppliers falling for the 8<sup>th</sup> consecutive month. The GfK Consumer Confidence index, meanwhile, rose to -11 in December, from the previous month's reading of -14.

Against this backdrop, the Bank of England voted by a 7-2 majority to hold interest rates at 0.75% during their December Meeting. The two dissenting members voted to cut interest rates to 0.5%. Outside of economic and market events the general election on the 12<sup>th</sup> December saw the Conservatives gain a 78 seat majority. This result provided a late boost to domestic financial markets as the large majority was expected to ease through the Withdrawal Agreement Bill, thus remove some near-term Brexit uncertainty.

In the US, non-farm payrolls rose by 266,000 in November, following an upwardly revised increase of 156,000 in October, easily beating market expectations of 180,000. This was the largest advance in payrolls since January, with notable job gains occurring in health care and in professional and technical services. Employment also increased in manufacturing, reflecting the return of workers from a strike at General Motors. US average hourly earnings for all employees registered a 0.2% m/m gain in November, following an upwardly revised 0.4% rise in October, which was slightly below market expectations of a 0.3% gain. The unemployment rate fell to 3.5% in November from 3.6% in October, which missed market expectations for the rate to remain unchanged.

US CPI increased to 2.1% y/y in November from 1.8% in October, which was marginally above consensus forecasts of a 2.0% rise. This was the highest rate since November 2018, as food inflation was little-changed while energy prices dropped at a much slower pace. The core inflation rate, which excludes volatile items such as food and energy, was unchanged at 2.3 percent, in line with market forecasts. The US economy grew at a 2.1% annualised rate in the third quarter, following the 2% expansion recorded in the second quarter. The increase in real GDP in the third quarter reflected positive contributions from consumption, government spending and residential spending that were partly offset by negative contributions from non-residential fixed investment and private inventory investment.

The Euro Area unemployment rate fell to 7.5% in October, matching market expectations, from an upwardly revised 7.6% in the previous month. This is the lowest rate recorded in the Euro Area since July 2018. The number of unemployed persons in the Euro Area decreased to 12.334 million in October from 12.365 million in September. Across the European Union as a whole, the unemployment rate was unchanged at 6.3% in October, where it has remained for the last six months.

### Housing

Buoyed by a 1% monthly gain, Halifax reported that house prices rose by 2.1% y/y in November, which was well above October's 0.9% y/y gain and the consensus forecast of a 1% y/y rise.

### Currency

Sterling exhibited significant volatility against both the US Dollar and Euro last month, mainly due to the outcome of the general election. Having garnered a Conservative majority, the PM can fulfil his plan to take the UK out of the EU on the 31st January 2020. As a result, the pound rose from \$1.29 to \$1.326 and from €1.172 to €1.182

### Forecast

The General Election win for the Conservatives has taken away some Brexit uncertainty, and as a result, both Link Asset Services and Capital Economics have left their forecasts unchanged.

Bank Rate	Now	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%

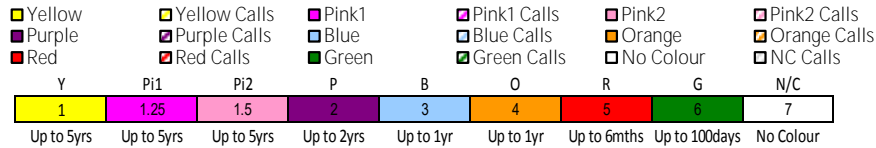
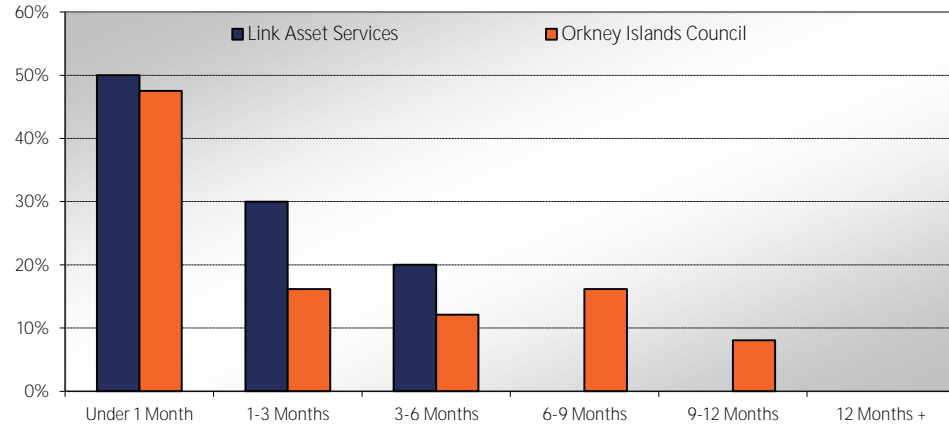
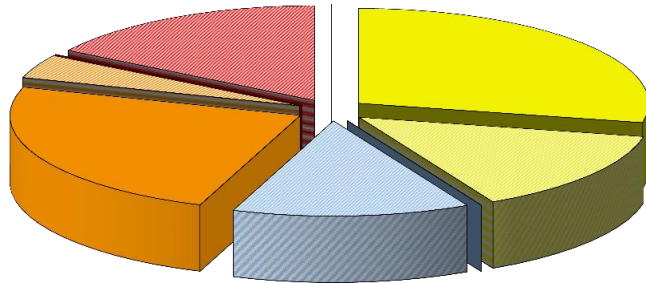


## Orkney Islands Council

### Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	2,500,000	0.74%		MMF	AAA	0.000%
MMF Insight	1,000,000	0.72%		MMF	AAA	0.000%
The Royal Bank of Scotland Plc (RFB)	3,267,092	0.30%		Call	A	0.000%
Thurrock Borough Council	3,000,000	1.10%	18/01/2019	17/01/2020	AA	0.001%
Lloyds Bank Plc (RFB)	2,000,000	1.23%	28/01/2019	28/01/2020	A+	0.004%
Bank of Scotland Plc (RFB)	1,000,000	0.90%		Call32	A+	0.005%
Santander UK Plc	3,000,000	1.10%		Call71	A	0.010%
Santander UK Plc	1,000,000	1.10%		Call106	A	0.015%
Bank of Scotland Plc (RFB)	2,000,000	1.25%	21/06/2019	22/06/2020	A+	0.025%
Bank of Scotland Plc (RFB)	2,000,000	1.25%	19/07/2019	17/07/2020	A+	0.029%
Thurrock Borough Council	2,000,000	0.85%	01/10/2019	29/09/2020	AA	0.018%
Lancashire County Council	2,000,000	1.02%	14/10/2019	14/10/2020	AA	0.019%
<b>Total Investments</b>	<b>£24,767,092</b>	<b>0.94%</b>				<b>0.010%</b>

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number = **2.76**

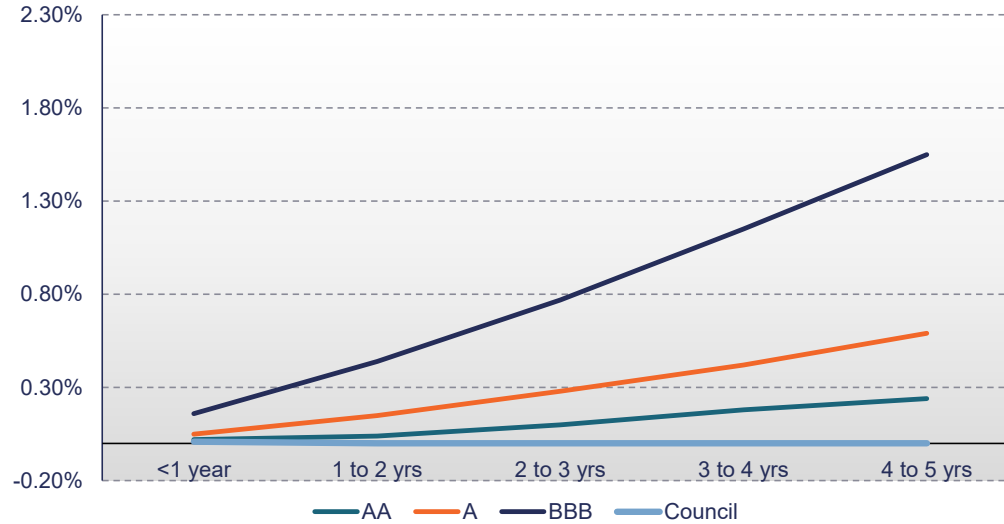
WARoR = Weighted Average Rate of Return  
WAM = Weighted Average Time to Maturity

	% of Colour		Amount of		% of Call		Excluding Calls/MMFs/USDBFs			
	% of Portfolio	Amount	in Calls	Colour in Calls	in Portfolio	WARoR	WAM	WAM at Execution	WAM	WAM at Execution
Yellow	42.39%	£10,500,000	33.33%	£3,500,000	14.13%	0.91%	112	243	168	365
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	13.19%	£3,267,092	100.00%	£3,267,092	13.19%	0.30%	0	0	0	0
Orange	28.26%	£7,000,000	14.29%	£1,000,000	4.04%	1.19%	119	318	134	365
Red	16.15%	£4,000,000	100.00%	£4,000,000	16.15%	1.10%	80	80	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£24,767,092</b>	<b>47.51%</b>	<b>£11,767,092</b>	<b>47.51%</b>	<b>0.94%</b>	<b>94</b>	<b>206</b>	<b>152</b>	<b>365</b>

# Orkney Islands Council

## Investment Risk and Rating Exposure

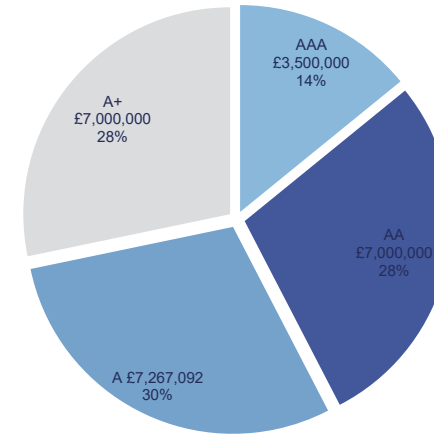
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.010%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



### Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

### Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

### Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

## Orkney Islands Council

### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
06/12/2019	1708	HSBC UK Bank PLC (RFB)	United Kingdom	The Long Term Rating was downgraded to 'A+' from 'AA-'.
06/12/2019	1709	HSBC Bank PLC (NRFB)	United Kingdom	The Long Term Rating was downgraded to 'A+' from 'AA-'. At the same time the Viability Rating was downgraded to 'a' from 'a+'.
18/12/2019	1711	United Kingdom Sovereign	United Kingdom	The Sovereign Rating was removed from Negative Watch and placed on Negative Outlook.
20/12/2019	1714	Abbey National Treasury Services PLC	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Bank of Scotland PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Barclays Bank PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Barclays Bank UK PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Close Brothers Ltd	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Clydesdale Bank PLC	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Co-operative Bank PLC (The)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	HSBC Bank PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	HSBC UK Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Lloyds Bank Corporate Markets PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Lloyds Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	NatWest Markets PLC (NRFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	Santander UK PLC	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	National Westminster Bank PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1714	The Royal Bank of Scotland PLC (RFB)	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.

## Orkney Islands Council

### Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
20/12/2019	1715	Coventry Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Leeds Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Nationwide Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Principality Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Skipton Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.
20/12/2019	1715	Yorkshire Building Society	United Kingdom	The Long Term Rating was removed from Negative Watch and placed on Stable Outlook.

## Orkney Islands Council

### Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/12/2019	1707	Credit Suisse AG	Switzerland	The Outlook on the Long Term Rating was changed to Positive from Stable.
18/12/2019	1713	HSBC Bank Plc (NRFB)	United Kingdom	The Outlook on the Long Term Rating was changed to Negative from Stable.

## Orkney Islands Council

### Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
11/12/2019	1710	Macquarie Bank Ltd.	Australia	The Long Term Rating was upgraded to 'A+' from 'A'. At the same time the Outlook on the Long Term Rating was changed to Stable from Positive.
18/12/2019	1712	United Kingdom Sovereign	United Kingdom	The Outlook on the Sovereign Rating was changed to Stable from Negative.

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# Orkney Islands Council

## Investment Portfolio Benchmarking Analysis

December 2019

**Group Members:**

Aberdeen City Council

Aberdeenshire Council

Angus Council

Clackmannanshire Council

Midlothian Council

Orkney Islands Council

Perth & Kinross Council

The Highland Council

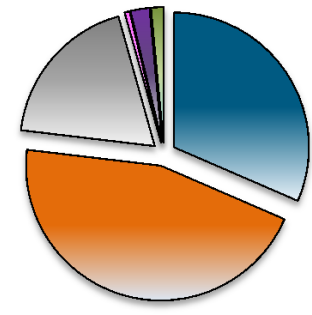
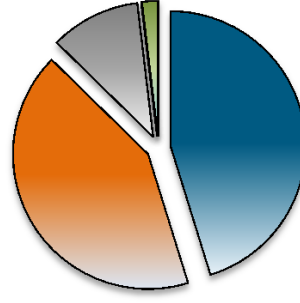
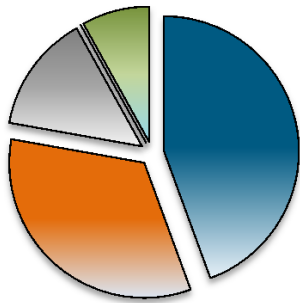
# Orkney Islands Council

## Summary Sheet

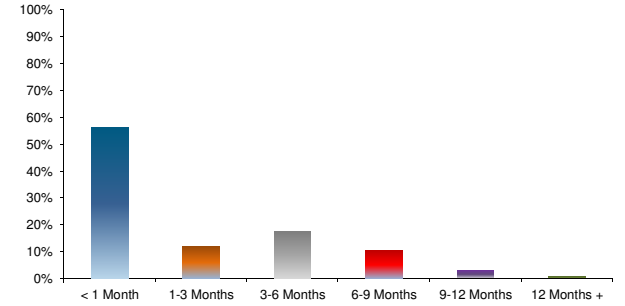
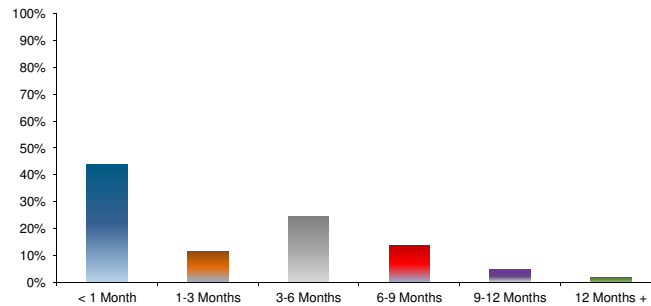
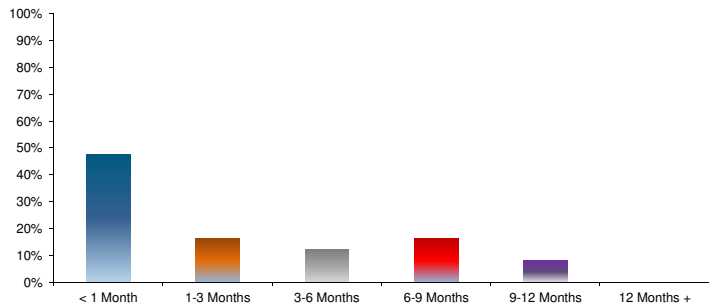
Orkney Islands Council		Benchmarking Group 6 (8) Basic Portfolio Characteristics		Scottish Unitary Authorities (21)	
<b>WARoR</b>	0.94%		0.94%		0.85%
<b>WAM</b>	94		95		67
<b>WATT</b>	206		185		121
<b>WA Credit Risk</b>	2.76		3.98		3.37
<b>Model WARoR</b>	0.89%		0.90%		0.85%
<b>Difference</b>	0.05%		0.03%		0.00%
<b>Model Band</b>	0.83% - 0.95%		0.84% - 0.96%		0.79% - 0.91%
<b>Performance</b>	Inline		Inline		Inline

### Asset Breakdown

- Fixed Deposits
- Calls & O/N
- MMFs
- USDBFs
- Struct. Prods.
- Bonds
- CDs



### Maturity Profiles



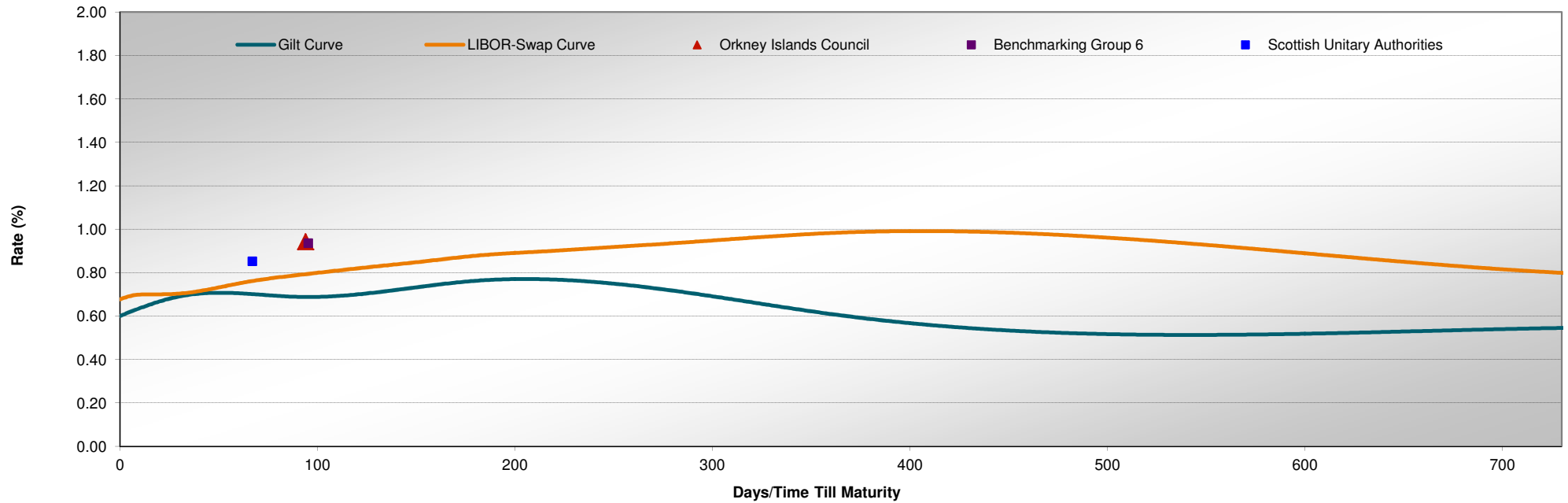
Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
<b>Orkney Islands Council</b>	0.94%	0.89%	0.05%	0.83%	0.95%	Inline

# Orkney Islands Council

## Returns Comparable Against the Risk-Free Rate and LIBOR Curve



	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference		Model	
							Gilt	LIBOR-Swap	Bands	Performance
Orkney Islands Council	0.94%	94	206	2.76	0.69%	0.79%	0.25%	0.15%	0.83% - 0.95%	Inline
Benchmarking Group 6	0.94%	95	185	3.98	0.69%	0.79%	0.25%	0.14%	0.84% - 0.96%	Inline
Scottish Unitary Authorities	0.85%	67	121	3.37	0.70%	0.76%	0.15%	0.09%	0.79% - 0.91%	Inline

# Orkney Islands Council

## Peer Comparison

	Orkney Islands Council	Benchmarking Group 6 (8)		Scottish Unitary Authorities (21)		Population Average (228)	
<b>Basic Characteristics</b>							
Principal	£24,767,092	£73,050,328		£59,249,643		£83,763,168	
WARoR	0.94%	0.94%		0.85%		0.87%	
WAM	94	95		67		82	
WATT	206	185		121		169	
WA Credit Risk	2.76	3.98		3.37		3.05	
<b>Portfolio Breakdown</b>							
Fixed Deposits	44.41%	45.23%	6	31.50%	14	48.27%	190
Calls & O/N	33.38%	42.12%	8	45.39%	19	27.06%	194
MMFs	14.13%	10.78%	6	18.77%	13	19.53%	154
USDBFs	0.00%	0.00%	0	0.59%	1	1.68%	20
Struct. Prods.	0.00%	0.00%	0	0.00%	0	0.09%	3
Bonds	0.00%	0.00%	0	2.27%	1	1.24%	13
CDs	8.08%	1.88%	2	1.48%	5	2.12%	35
<b>Institution Breakdown</b>							
Banks	57.61%	78.17%	8	66.90%	20	48.99%	214
Building Socs.	0.00%	0.00%	0	0.30%	1	6.72%	85
Government	28.26%	11.05%	4	13.44%	12	22.25%	144
MMFs	14.13%	10.78%	6	18.77%	13	19.89%	154
USDBFs	0.00%	0.00%	0	0.59%	1	1.64%	20
MLDBs	0.00%	0.00%	0	0.00%	0	0.00%	0
Other	0.00%	0.00%	0	0.00%	0	0.52%	13
<b>Domestic/Foreign Exposure</b>							
Domestic	85.87%	86.54%	8	78.49%	20	73.41%	222
Foreign	0.00%	2.68%	2	2.15%	3	5.04%	66
MMFs	14.13%	10.78%	6	18.77%	13	19.92%	154
USDBFs	0.00%	0.00%	0	0.59%	1	1.64%	20
<b>Maturity Structure</b>							
< 1 Month	47.51%	43.88%		56.21%		46.62%	
1-3 Months	16.15%	11.45%		12.08%		19.06%	
3-6 Months	12.11%	24.64%		17.45%		20.66%	
6-9 Months	16.15%	13.66%		10.41%		7.14%	
9-12 Months	8.08%	4.60%		3.18%		4.46%	
12 Months +	0.00%	1.77%		0.67%		2.05%	

# Orkney Islands Council

## Detailed Peer Comparison

	Orkney Islands Council				Benchmarking Group 6 (8)					Scottish Unitary Authorities (21)						
	%	WARoR	WAM	WATT	%	WARoR	WAM	WATT	n	%	WARoR	WAM	WATT	n		
<b>Asset Breakdown</b>																
<b>Fixed Deposits</b>	44.41%	1.09%	174	365	45.23%	1.11%	115	258	6	31.50%	0.99%	91	182	14		
<b>Calls</b>	33.38%	0.76%	42	42	42.12%	0.86%	76	76	8	45.39%	0.83%	53	53	19		
<b>Overnight</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
<b>MMFs</b>	14.13%	0.73%	0	0	10.78%	0.73%	0	0	6	18.77%	0.73%	0	0	13		
<b>USDBFs</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.59%	0.83%	0	0	1		
<b>Structured Prods.</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
<b>Cert.of Deposit</b>	8.08%	1.23%	28	365	1.88%	1.01%	12	68	2	1.48%	0.94%	29	69	5		
<b>Gov. Bonds</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	2.27%	0.64%	1	1	1		
<b>Corp. Bonds</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
<b>MLDB Bonds</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
<b>Institutional Breakdown</b>																
<b>Banks</b>	57.61%	0.96%	81	178	78.17%	0.96%	96	177	8	66.90%	0.90%	63	115	20		
<b>Building Socs.</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.30%	0.79%	12	17	1		
<b>Government</b>	28.26%	1.01%	168	365	11.05%	1.09%	114	214	4	13.44%	0.90%	95	163	12		
<b>MMFs</b>	14.13%	0.73%	0	0	10.78%	0.73%	0	0	6	18.77%	0.73%	0	0	13		
<b>USDBFs</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.59%	0.83%	0	0	1		
<b>MLDBs</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
<b>Other</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
<b>Foreign Breakdown</b>																
<b>Domestic</b>	85.87%	0.98%	109	240	86.54%	0.97%	108	203	8	78.49%	0.85%	83	143	20		
<b>Foreign</b>	0.00%	0.00%	0	0	2.68%	0.25%	35	82	2	2.15%	0.85%	18	45	3		
<b>MMF</b>	14.13%	0.73%	0	0	10.78%	0.73%	0	0	6	18.77%	0.73%	0	0	13		
<b>USDBFs</b>	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.59%	0.83%	0	0	1		
<b>Sovereign State Breakdown</b>																
UK	85.87%	0.98%	109	240	UK	86.54%	0.97%	108	203	8	UK	78.49%	0.85%	83	143	20
					AUS	2.49%	0.26%	41	86	2	AUS	1.32%	0.15%	22	50	3
					SING	0.19%	0.10%	1	23	1	QAT	0.37%	0.05%	1	7	1
											UAE	0.37%	0.05%	5	17	1
											SING	0.07%	0.04%	0	9	1
<b>Sovereign Rating Breakdown</b>																
AA	85.87%				AA	86.54%					AA	78.86%				
					AAA	2.68%					AAA	1.40%				
											AA-	0.37%				

Since MMFs are ring-fenced institutions and do not belong to a specific country, the sovereign breakdowns will exclude them from the analysis. As a result the "% of Portfolio" may not add up to 100%.

## Benchmarking Rationale and Methodology

The aim of this benchmarking model is to compare portfolio weighted average rate of returns (WARoR) by adjusting for the risks inherent in the portfolio. The main risks in cash portfolios are:

- Maturity Risk
- Credit Risk

As such, the model must normalise WARoRs by adjusting for these risks so as to calculate risk-adjusted returns, or "Model WARoR". The risks the model looks at include:

- Maturity Risk
- Credit Risk
- Change in the shape of the yield curve

This will account for the majority of all risk in the portfolio, however, there will still be some "model uncertainty" as no model can fully explain each WARoR. The difference in model WARoR and actual WARoR may be due to the following reasons:

- Timing differences
- Higher diversification
- Tilt towards a particular asset type or institution type that is extraordinarily paying an above market rate (e.g. special tranche rates)

As a result, the model will build "Standard Error Bands" around the model WARoR calculated so as to adjust for this model uncertainty. This gives us a range for where the actual WARoR should fall. If the actual WARoR is above this upper band, then we would say the client is above on a risk-adjusted basis given the risks inherent in the portfolio. If the actual WARoR is below the lower band, then we would say the client is below on a risk-adjusted basis given the risks inherent in the portfolio.

**Model Band** Some values when compared to the Model Band will fall outside the range even if the value appears to be equal to the minimum or maximum. This is due to rounding the data to two decimal places within Excel.

For example:

The value returned is 0.9512 and the range is 0.9541 – 1.2321. When rounded the data will be represented as 0.95 and a range of 0.95 – 1.23, although this appears to be in line with the range the underlying data will actually fall outside.

### Definitions

<b>WARoR</b>	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
<b>WAM</b>	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
<b>WATT</b>	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.
<b>WA Risk</b>	Weighted Average Credit Risk Number	Each institution is assigned a colour corresponding to a suggested duration using Link Asset Services' Suggested Credit Methodology. 1 = Yellow; 1.25 = Pink 1; 1.5 = Pink 2, 2 = Purple; 3 = Blue; 4 = Orange; 5 = Red; 6 = Green; 7 = No Colour
<b>Model WARoR</b>	Model Weighted Average Rate of Return	This is the WARoR that the model produces by taking into account the risks inherent in the portfolio.
<b>Difference</b>	Difference	This is the difference between the actual WARoR and the model WARoR; Actual WARoR minus Model WARoR