

Item: 6

Investments Sub-committee: 26 November 2020.

Temporary Loans.

Report by Head of Finance.

1. Purpose of Report

To advise of the status of the temporary loan portfolio as at 30 September 2020.

2. Recommendation

The Sub-committee is invited to note:

2.1.

The status of the temporary loan portfolio as at 30 September 2020, as detailed in section 3 of this report.

2.2.

That, for the period 1 April to 30 September 2020, the temporary loans portfolio made a return of £122,067.25 at an average interest rate of 0.65%.

The Sub-committee is invited to scrutinise:

2.3.

The temporary loans portfolio, detailed in sections 3 and 4 of this report, in order to obtain assurance that the Treasury Management Strategy is being adhered to by the Finance Service and the temporary loans portfolio is producing an acceptable rate of return.

3. Temporary Loan Portfolio

3.1.

The temporary loan portfolio as at 30 September 2020 totalled £33,756,666.54. 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 30 September 2020:

- £2,000,000 invested with the Bank of Scotland at a rate of 0.10%.
- £2,000,000 matured from Lancashire County Council.
- £2,000,000 recalled from Aberdeen Standard Investments Liquidity Fund.

- £1,900,000 invested with Aberdeen Standard Investments Liquidity Fund, with an average net yield of 0.06%.

3.3.

The value of the temporary loans stood at £33,861,167 as at 31 October 2020.

4. Rate of Return

4.1.

For the period 1 April to 30 September 2020, the temporary loans returned an average interest rate of 0.65%. This equates to a return of £122,067.25 on the temporary loans for the six months to 30 September 2020.

4.2.

By comparison, the equivalent 90-day London Inter-Bank Offered Rate of 0.06% is considered to be the target.

4.3.

With inflation quoted at 0.5% for September 2020 based on Consumer Price Index (1.1% Retail Price Index), the return on temporary loans equates to a relative increase in value of 0.15% 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 30 September 2020, attached as Appendix 2 to this report, indicates that the Council is performing in line with the weighted average rate of return of the benchmarking group and ahead of the Scottish Unitary Authorities.

5. Cash Balances

5.1.

Recurring slippage continues to be a feature within the approved capital programme. During financial year 2019/20, works valued at £14,356,000 were reprofiled into future periods. While this would ordinarily have defaulted into financial year 2020/21, a large proportion of this relates to the proposed new Kirkwall Care Facility, which is also currently the subject of a revised Stage 2 Capital Project Appraisal, the overall extent of the slippage includes a further £4,239,000 reprofiled into future periods from financial year 2020/21. Accordingly, to date, a total of £18,595,000 of planned capital programme spend has been slipped or deferred by between 2 to 4 years.

5.2.

In addition to this, it should be noted that COVID-19 closedown measures have had an adverse impact on delivery of the capital programme during the first quarter of financial year 2020/21, such that little capital spend was incurred during this period. 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.

5.3.

On 26 March 2020, the Council borrowed £10,000,000 from the Public Works Loan Board, repayable on 25 March 2070, at an interest rate of 1.28%. This is regarded as an effective way for the Council to manage the risk of interest rate movements over the life of the capital programme by refinancing some debt managed internally, and recognising, for example, the approval of additional housing build projects as exceptions to the capital programme. This also provided short-term cashflow benefits at a time when the full cost of the COVID-19 crisis to the Council is unknown.

5.4.

To help put this into context, the main draw on cash balances remains that of the Council's approved five-year capital programme with a planned spend of £65,414,000 which, after allowing for grant income, capital receipts and contributions, leaves a capital financing or borrowing requirement of £21,446,000. After adding back direct funding contributions from revenue resources and use of reserves, this equates to a net outflow of cash to the value of £33,117,000 over the current five-year period 2020 to 2025.

	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's
Capital Expenditure	26,431	15,478	12,112	54,021
Financed By:				
Government Grants	10,358	5,073	5,030	20,461
Other Grants and Capital Receipts	1,216	170	150	1,536
Revenue Contributions	892	569	569	2,030
Capital Contributions	1,191	4,340	2,972	8,503
Sub-total:	13,657	10,152	8,721	32,550
Capital Financing/Borrowing Requirement	12,774	5,326	3,391	21,491
Net Cash Outflow	14,857	10,235	6,932	32,024

5.5.

As part of the Treasury Management Strategy Statement for financial year 2020/21 the Council is permitted to borrow to meet its capital financing requirements for the period 2020 to 2023, being the current financial year plus the next two years. With the capital programme typically being front loaded, this represents an additional capital financing requirement of £21,491,000, comprising £12,774,000 for financial year 2020/21 plus a further £8,717,000 across financial years 2021/22 and 2022/23. In cashflow terms, this equates to a net outflow of cash of £32,024,000 over the three years.

5.6.

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 considerably during financial year 2020/21 based on budgets. However, estimated outturn has also been provided which is based on information currently being provided by services in relation to disruptions to capital project delivery and service provision as a result of the COVID-19 crisis:

Consolidated Loans Fund.	2020/21 Budgets £000.	2020/21 Movements £000.	2020/21 Estimates £000.
Capital:			
Debt - Public Works Loans Board/Salix.	35,100.	0.	35,100.
Loans Fund Deposits – Unapplied Capital Receipts.	3,300.	0.	3,300.
Loans Fund Advances – Capital Financing Requirements.	-51,300.	9,000.	-42,300.
Revenue:			
Loans Fund Deposits (Revenue Deposits).	29,000.	-7,600.	21,400.
Loans Fund Advances (Revenue Advances/Use of Reserves).	-800.	0.	-800.
Net Current Assets	300.	0.	300.
Bank (Balance)/Overdraft.	0.	0.	0.
Temporary Loans Balance.	15,600.	-1,400.	17,000.

5.6.

The table above shows the current projected outturn on both capital and revenue expenditure, with slippage on the capital programme for 2020/21 currently estimated at £9,000,000. However, this is largely offset by projected overspends on revenue budgets of £7,600,000 as a result of additional expenditure pressures and reduced income levels.

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 September 2020.

Appendix 2: Link Asset Services Investment Portfolio Benchmarking Analysis for September 2020.



Orkney Islands Council

Monthly Investment Analysis Review

September 2020

Monthly Economic Summary

General Economy

The UK Flash (i.e. provisional) Manufacturing PMI fell to 54.3 in September from August's final release of 55.2, as both output and new business growth slowed from August's recent peak. Similarly, the Flash Services PMI eased to 55.1 in September from 58.8 in August, signifying the slowest growth in the sector for three months. In turn, these releases led to the Flash Composite PMI (which incorporates both sectors), falling to 55.7 in September from 59.1 in August. Meanwhile, the construction PMI, which is released one month behind the others, fell to 54.6 in August from 58.1 in July, as a lack of new contracts to replace completed contracts acted as a brake on the speed of expansion. In spite of the recent reduction in activity levels, all sectors remained comfortably in "expansion" territory – i.e. a reading in excess of 50 – as the economy continued to recover.

The final reading of second quarter GDP confirmed that the UK contracted by 19.8% q/q and 21.5% y/y, which were both marginally lower than preliminary estimates (of 20.4% and 21.7% respectively). However, more timely monthly GDP data for July confirmed that the economy grew by 6.6% m/m compared to June, registering its third consecutive month of growth since April's 20.4% m/m contraction. During this time the UK economy has grown by 18.6%, although it remains 11.7% smaller than in February, prior to the outbreak of the pandemic. Elsewhere, data showed that imports rose 7.5% m/m in July, outpacing a 3.5% rise in exports, causing the UK's trade surplus to narrow to £1.1 billion from a downwardly revised £3.9 billion in June.

Although the economy grew during July, the unemployment rate rose to 4.1% in the three months to July from 3.9% in the three months to June, as the number of people in work fell by 12,000. Since this data related to the period before the furlough scheme started to be unwound in August however, arguably of greater significance was the fact that the number of people claiming unemployment benefits rose by 73,700 in August, little changed from July's 69,900 rise – perhaps suggesting that the overwhelming majority of the estimated 3 million workers that have come off furlough since June have, to date, gone back to their jobs rather than into unemployment or inactivity. This may, in turn, explain July's upturn in average earnings (including bonuses), which contracted just 1% y/y in the three months to July compared to a 1.2% y/y fall in the three months to June - as many of those workers would have gone from receiving 80% of their salaries on the furlough to 100% upon returning to work.

UK inflation, as measured by the Consumer Price Index, fell to just 0.2% y/y in August compared to 1% in July, but was slightly higher than market expectations of a flat reading. This was the lowest reading since December 2015, driven largely by big price falls from restaurants and cafes due to the Eat Out to Help Out Scheme which was live throughout the month. This scheme had also had a positive impact on service sector activity in August and its conclusion can account for the last part of the fall in the PMI in September. As a result, consumer prices fell by 0.4% m/m in August, recording their biggest drop since January 2019. Similarly, the core inflation rate – which strips out the more volatile components like energy, food and alcoholic beverages – fell to 0.9% y/y in August, down from 1.8% in July, recording its lowest reading since June 2015. With inflation so far below target, it was no surprise to see the Monetary Policy Committee leave monetary policy unchanged during its September meeting - although the market did note that the Committee had been briefed on how a negative Bank Rate might be implemented effectively. As detailed in our forecast below, Link Group continues to expect Bank Rate to remain at 0.1%.

Buoyed partly by the impact of the Eat Out to Help Out scheme, retail sales rose by 0.8% m/m in August, slightly outperforming market expectations of a 0.7% rise. Retail sales are now 4% higher than their pre-pandemic level in February and up 2.8% y/y. The

GfK Consumer Confidence Index, meanwhile, rose to -25 in September from -27 in August, but remains considerably lower than the -7 reading in February, prior to the pandemic. Reflecting the impact of public health measures and government policies to support the economy during the coronavirus pandemic, the UK reported a record public sector current budget deficit (excluding public sector banks) of £32.0 billion in August, compared July's £13.6 billion deficit. August's deficit compares to a deficit of just £3.1 billion a year earlier. Excluding public sector-owned banks, borrowing was a record £35.9 billion, roughly seven times more than in August 2019. In the US, the economy added another 1.4 million jobs in August, which was slightly below both market expectations and the downwardly revised 1.7 million jobs added in July. Nevertheless, the unemployment rate fell further as a result, to 8.4% from July's 10.2% rate, and below market expectations of 9.8% rate. With prices (as measured by the Fed's preferred core Personal Consumption Expenditure deflator) having fallen by 0.8% in Q2, it was no surprise to see the Federal Reserve maintain their current monetary policy stance during September's meeting. In so doing however, they also noted that the Federal Funds Rate target range is expected to remain between 0-0.25% until labour market conditions are consistent with their assessment of maximum employment and that inflation is above 2% and on track to moderately exceed it for some time. In Europe, the final estimate for GDP confirmed that the Eurozone economy shrank by 11.8% q/q in Q2, compared to a 3.6% contraction in the previous quarter, and slightly lower than initial estimates of a 12.1% contraction. While better than the initial estimates, two consecutive periods of contraction meant that the bloc's economy was now in recession. In addition, this figure meant that, for the second quarter in a row, the bloc has suffered its steepest ever contraction. With the final estimate of Eurozone inflation showing that prices fell by 0.2% y/y in August, the ECB decided again to leave both policy rates and its coronavirus stimulus programme unchanged during its September meeting.

Housing

Both the Halifax and Nationwide house price indices rose during August, by 1.6% m/m and 2% m/m respectively. As such, prices are now 5.2% and 3.7% higher than a year ago respectively, their recent gains partly driven by the stamp duty holiday announced by the Chancellor earlier this year.

Currency

The prospect of a no deal Brexit undermined Sterling this month, which fell against both the Dollar and the Euro.

September	Start	End	High	Low
GBP/USD	\$1.1241	\$1.1025	\$1.1241	\$1.0805
GBP/EUR	€ 1.34	€ 1.29	€ 1.34	€ 1.27

Forecast

Both Link Group and Capital Economics have maintained their interest rate forecasts amid the coronavirus outbreak. Bank Rate is forecast to remain unchanged at 0.1% throughout 2020 and 2021.

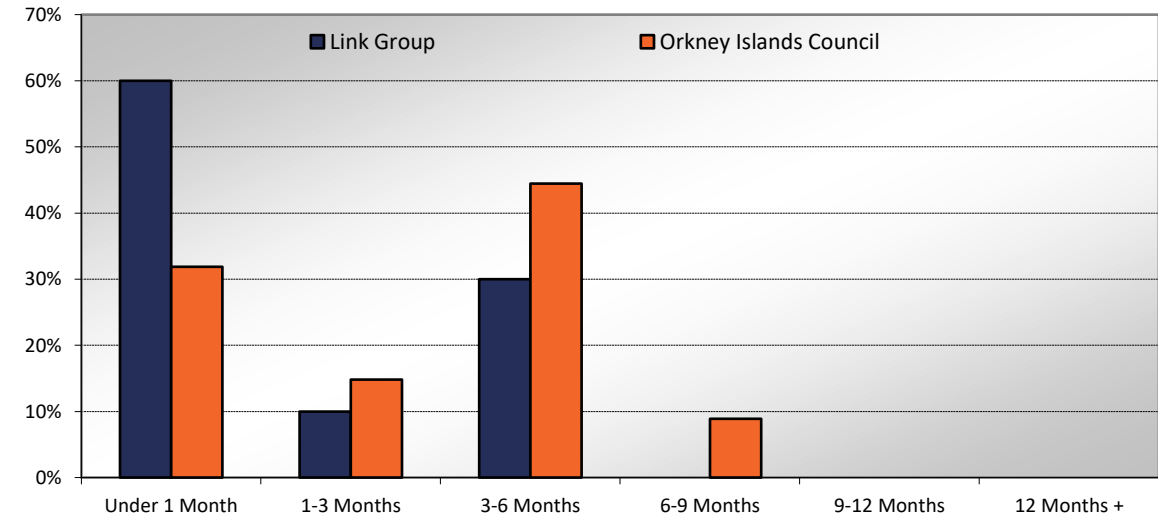
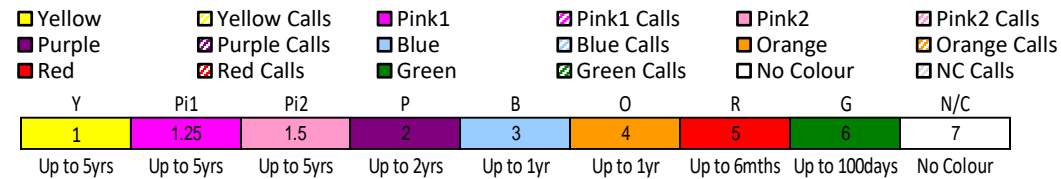
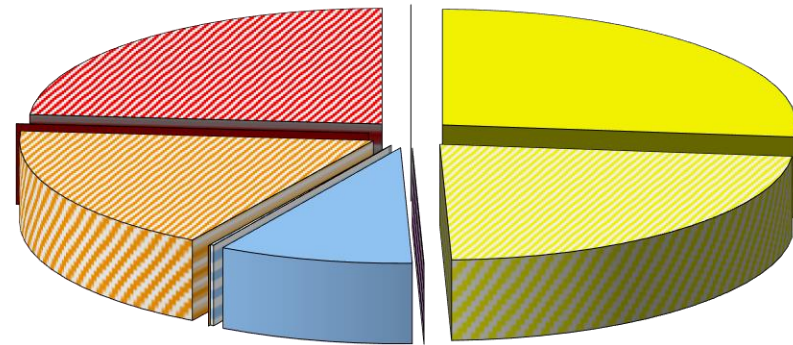
Bank Rate	Now	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Group	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-	-	-

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	7,700,000	0.09%		MMF	AAA	0.000%
The Royal Bank of Scotland Plc (RFB)	56,667	0.01%		Call	A	0.000%
Lancashire County Council	2,000,000	1.02%	14/10/2019	14/10/2020	AA-	0.001%
Bank of Scotland Plc (RFB)	1,000,000	0.10%		Call22	A+	0.003%
Santander UK Plc	2,000,000	0.47%		Call35	A	0.005%
Bank of Scotland Plc (RFB)	1,000,000	0.10%		Call51	A+	0.007%
Santander UK Plc	2,000,000	0.70%		Call76	A	0.011%
Bank of Scotland Plc (RFB)	4,000,000	0.20%		Call95	A+	0.014%
Santander UK Plc	2,000,000	0.70%		Call107	A	0.015%
West Dunbartonshire Council	3,000,000	0.35%	26/06/2020	26/01/2021	AA-	0.008%
Santander UK Plc	2,000,000	0.70%		Call138	A	0.020%
West Dunbartonshire Council	4,000,000	0.15%	28/09/2020	29/03/2021	AA-	0.012%
National Westminster Bank Plc (RFB)	3,000,000	0.49%	10/06/2020	09/06/2021	A	0.036%
Total Investments	£33,756,667	0.36%				0.010%

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **2.66**

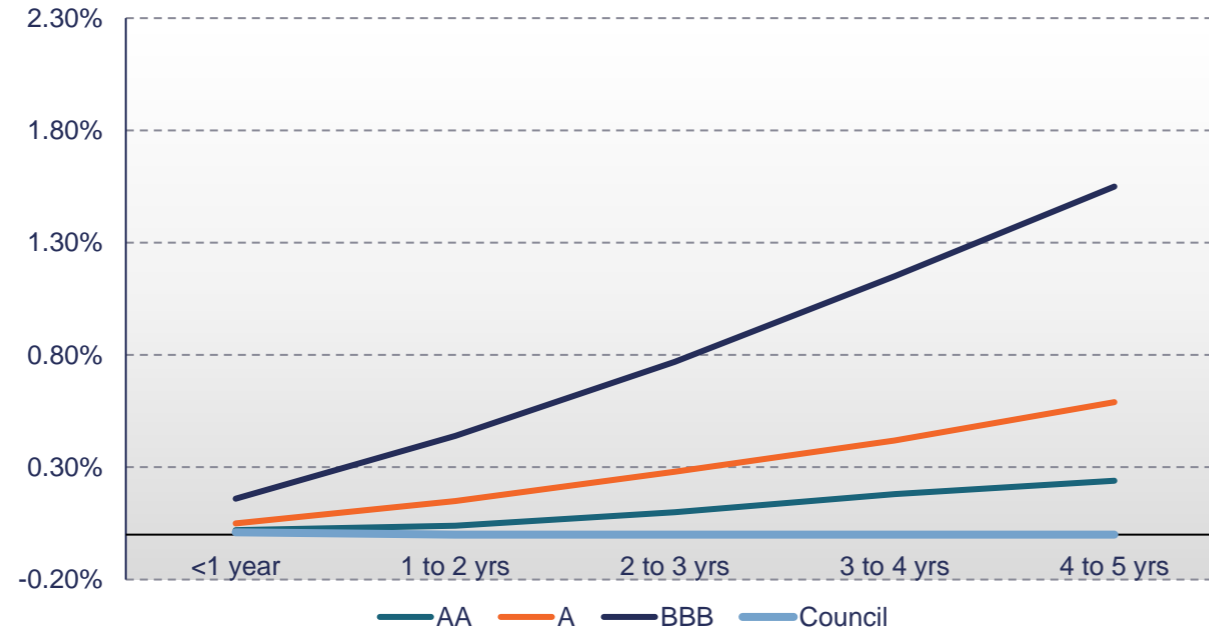
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Colour		Amount of		% of Call		Excluding Calls/MMFs/USDBFs			
	% of Portfolio	Amount	% in Calls	Colour in Calls	WARoR	WAM	WAM at Execution	WAM	WAM at Execution	
Yellow	49.47%	£16,700,000	46.11%	£7,700,000	22.81%	0.26%	66	126	122	234
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	9.06%	£3,056,667	1.85%	£56,667	0.17%	0.48%	247	357	252	364
Orange	17.77%	£6,000,000	100.00%	£6,000,000	17.77%	0.17%	76	76	0	0
Red	23.70%	£8,000,000	100.00%	£8,000,000	23.70%	0.64%	89	89	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
Total	100.00%	£33,756,667	64.45%	£21,756,667	64.45%	0.36%	90	129	155	266

Orkney Islands Council

Investment Risk and Rating Exposure

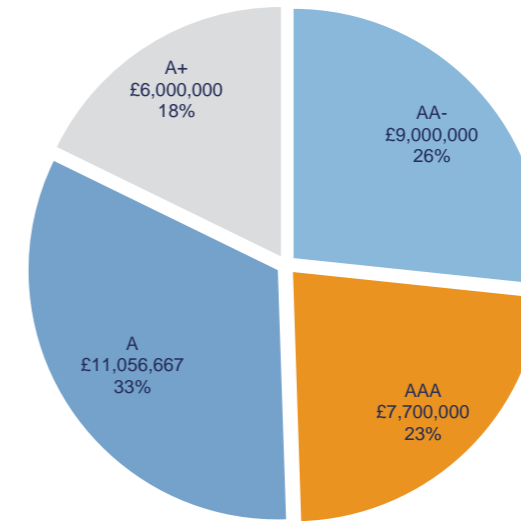
Investment Risk Vs. Rating Categories



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
15/09/2020	1772	Cooperatieve Rabobank U.A.	Netherlands	The Long Term and Short Term ratings were downgraded to 'A+' from 'AA'- and 'F1' from 'F1+' respectively. At the same time, the Negative Watch on the Long Term, Short Term and Viability ratings were removed. The Long Term Rating was placed on Negative Outlook.
15/09/2020	1773	ABN AMRO Bank N.V.	Netherlands	The Long Term Rating was downgraded to 'A' from 'A+'.
16/09/2020	1774	ING Bank N.V.	Netherlands	The Long Term, Short Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
18/09/2020	1775	Svenska Handelsbanken AB	Sweden	The Long Term and Viability Rating were removed from Negative Watch. At the same time, the Long Term Rating was placed on Negative Outlook.
18/09/2020	1776	Skandinaviska Enskilda Banken AB	Sweden	The Long Term, Short Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
18/09/2020	1777	Nordea Bank Abp	Finland	The Long Term, Short Term and Viability ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	DBS Bank Ltd.	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	United Overseas Bank Ltd	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	Oversea-Chinese Banking Corporation Ltd	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.

Orkney Islands Council

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/09/2020	1771	Wells Fargo Bank, NA	United States	The Outlook on the Long Term Rating was changed to Negative from Stable.
21/09/2020	1778	West Bromwich Building Society	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
				No rating changes to report.

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Orkney Islands Council

Investment Portfolio Benchmarking Analysis September 2020

Group Members:

Aberdeen City Council
Aberdeenshire Council
Angus Council
Clackmannanshire Council
Highland Council
Midlothian Council
Orkney Islands Council
Perth & Kinross Council

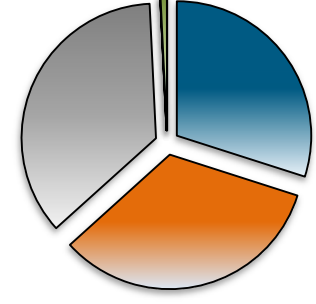
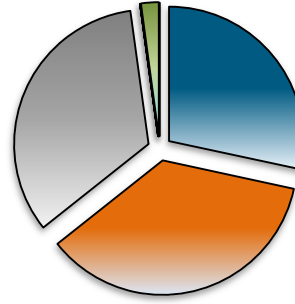
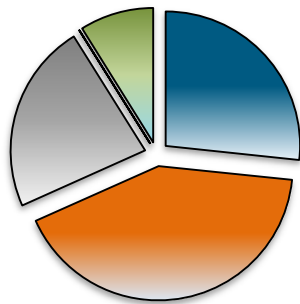
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Summary Sheet

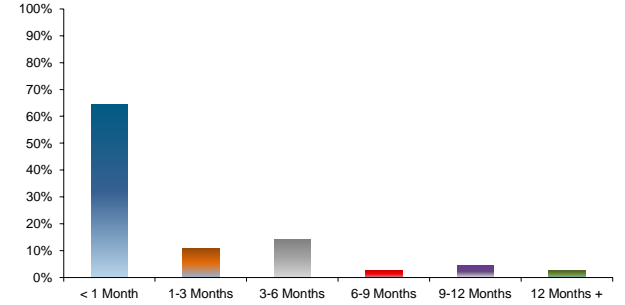
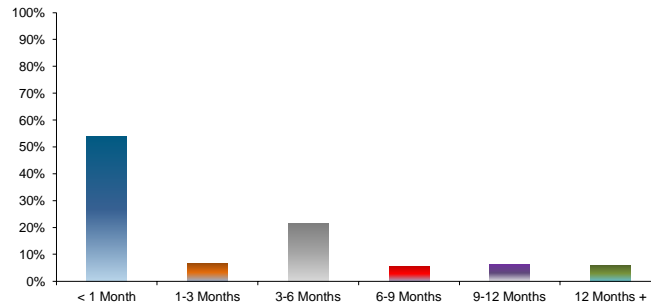
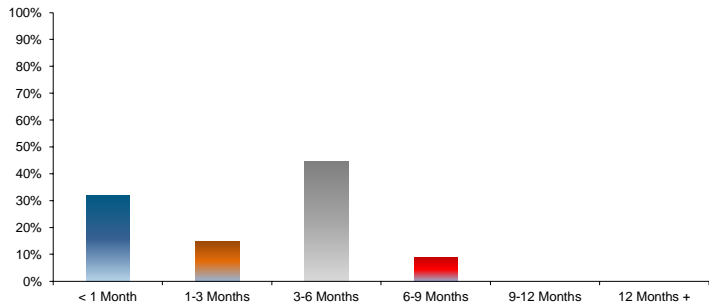
Orkney Islands Council		Benchmarking Group 6 (8) Basic Portfolio Characteristics		Scottish Unitary Authorities (23)	
WARoR	0.36%		0.37%		0.26%
WAM	90		106		63
WATT	129		146		106
WA Credit Risk	2.66		2.80		2.59
Model WARoR	0.28%		0.29%		0.29%
Difference	0.07%		0.08%		-0.03%
Model Band	0.20% - 0.37%		0.20% - 0.37%		0.20% - 0.37%
Performance	Inline		Above		Inline

Asset Breakdown

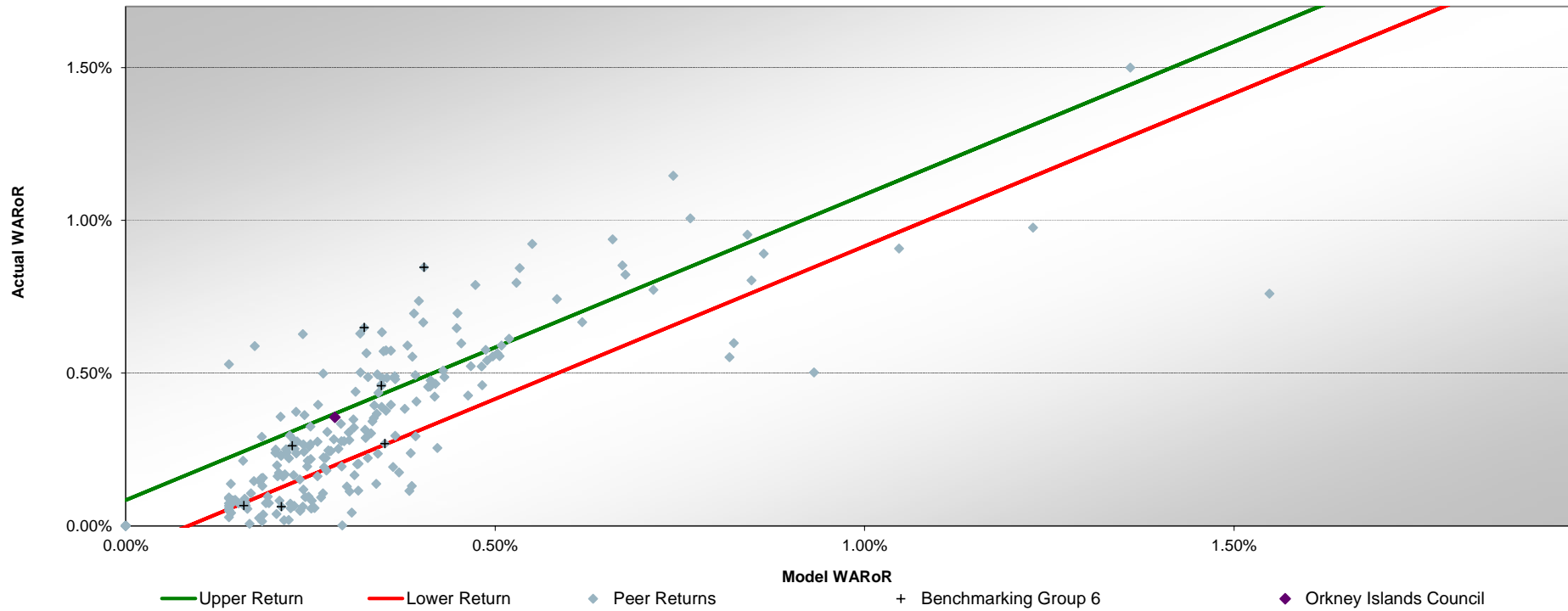
- Fixed Deposits
- Calls & O/N
- MMFs
- USDBFs
- Struct. Prods.
- Bonds
- CDs



Maturity Profiles



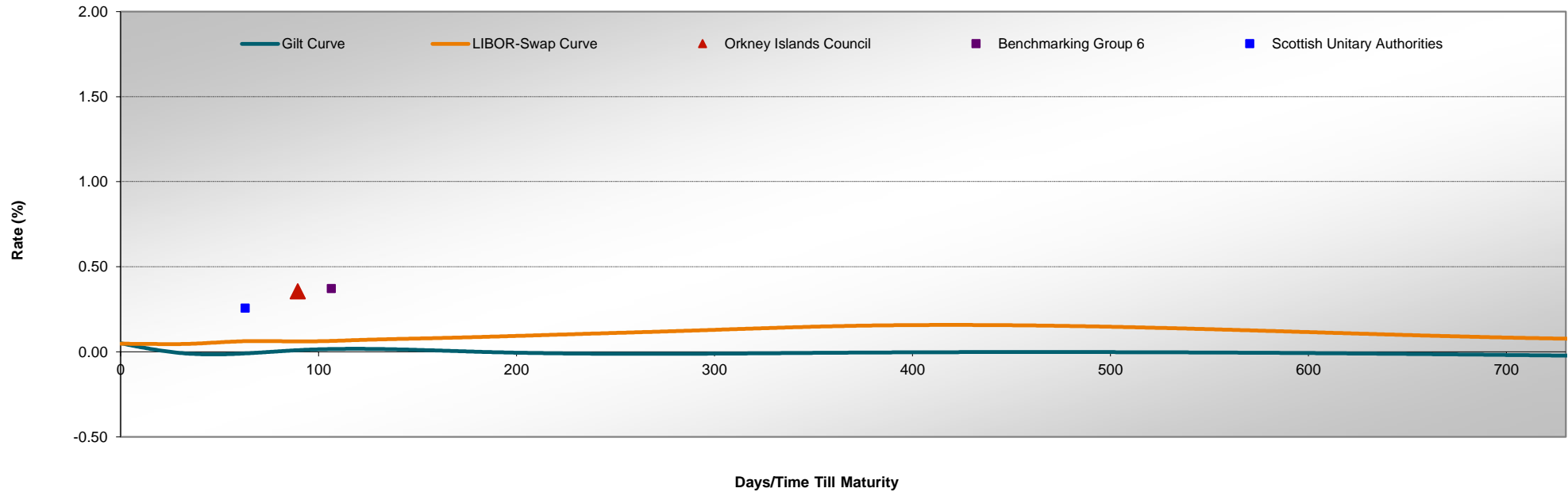
Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Orkney Islands Council	0.36%	0.28%	0.07%	0.20%	0.37%	Inline

Orkney Islands Council

Returns Comparable Against the Risk-Free Rate and LIBOR Curve



	WARoR	WAM	WATT	WARisk	Gilt	LIBOR-Swap	Difference		Model Bands	Performance
							Gilt	LIBOR-Swap		
Orkney Islands Council	0.36%	90	129	2.66	0.01%	0.06%	0.35%	0.29%	0.20% - 0.37%	Inline
Benchmarking Group 6	0.37%	106	146	2.80	0.02%	0.06%	0.36%	0.31%	0.20% - 0.37%	Above
Scottish Unitary Authorities	0.26%	63	106	2.59	-0.01%	0.06%	0.27%	0.19%	0.20% - 0.37%	Inline

Orkney Islands Council

Peer Comparison

	Orkney Islands Council	Benchmarking Group 6 (8)		Scottish Unitary Authorities (23)		Population Average (211)	
Basic Characteristics							
Principal	£33,756,667	£110,387,353		£88,404,675		£88,824,274	
WARoR	0.36%	0.37%		0.26%		0.34%	
WAM	90	106		63		71	
WATT	129	146		106		135	
WA Credit Risk	2.66	2.80		2.59		2.64	
Portfolio Breakdown							
Fixed Deposits	26.66%	28.38%	6	29.94%	18	38.70%	175
Calls & O/N	41.64%	35.94%	8	33.38%	19	27.31%	183
MMFs	22.81%	33.53%	8	35.94%	19	30.46%	168
USDBFs	0.00%	0.00%	0	0.00%	0	1.17%	10
Struct. Prods.	0.00%	0.00%	0	0.00%	0	0.24%	5
Bonds	0.00%	0.00%	0	0.00%	0	0.82%	9
CDs	8.89%	2.15%	2	0.75%	2	1.29%	20
Institution Breakdown							
Banks	50.53%	44.62%	8	41.57%	19	39.69%	191
Building Socs.	0.00%	0.00%	0	1.03%	1	4.36%	54
Government	26.66%	21.84%	4	21.46%	12	23.78%	134
MMFs	22.81%	33.53%	8	35.94%	19	30.46%	168
USDBFs	0.00%	0.00%	0	0.00%	0	1.17%	10
MLDBs	0.00%	0.00%	0	0.00%	0	0.00%	0
Other	0.00%	0.00%	0	0.00%	0	0.54%	12
Domestic/Foreign Exposure							
Domestic	77.19%	65.90%	8	63.34%	20	65.78%	203
Foreign	0.00%	0.57%	1	0.72%	2	2.60%	34
MMFs	22.81%	33.53%	8	35.94%	19	30.46%	168
USDBFs	0.00%	0.00%	0	0.00%	0	1.17%	10
Maturity Structure							
< 1 Month	31.87%	54.07%		64.64%		57.24%	
1-3 Months	14.81%	6.75%		10.85%		13.51%	
3-6 Months	44.44%	21.35%		14.40%		18.24%	
6-9 Months	8.89%	5.61%		2.85%		4.59%	
9-12 Months	0.00%	6.22%		4.74%		4.17%	
12 Months +	0.00%	5.99%		2.52%		2.25%	

Orkney Islands Council

Detailed Peer Comparison

	Orkney Islands Council				Benchmarking Group 6 (8)					Scottish Unitary Authorities (23)						
	%	WARoR	WAM	WATT	%	WARoR	WAM	WATT	n	%	WARoR	WAM	WATT	n		
Asset Breakdown																
Fixed Deposits	26.66%	0.41%	122	234	28.38%	0.88%	164	274	6	29.94%	0.59%	106	210	17		
Calls	41.64%	0.44%	83	83	35.94%	0.30%	49	49	8	33.38%	0.20%	29	29	19		
Overnight	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
MMFs	22.81%	0.09%	0	0	33.53%	0.08%	0	0	8	35.94%	0.07%	0	0	19		
USDBFs	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Structured Prods.	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Cert.of Deposit	8.89%	0.49%	252	364	2.15%	0.35%	77	91	2	0.75%	0.35%	27	32	2		
Gov. Bonds	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Corp. Bonds	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
MLDB Bonds	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Institutional Breakdown																
Banks	50.53%	0.45%	113	132	44.62%	0.36%	69	92	8	41.57%	0.25%	42	84	19		
Building Socs.	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	1.03%	0.08%	2	4	1		
Government	26.66%	0.41%	122	234	21.84%	0.84%	150	223	4	21.46%	0.65%	94	158	12		
MMFs	22.81%	0.09%	0	0	33.53%	0.08%	0	0	8	35.94%	0.07%	0	0	19		
USDBFs	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
MLDBs	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Other	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Foreign Breakdown																
Domestic	77.19%	0.43%	116	167	65.90%	0.46%	138	189	8	63.34%	0.33%	83	145	20		
Foreign	0.00%	0.00%	0	0	0.57%	0.02%	14	23	1	0.72%	0.26%	8	13	2		
MMF	22.81%	0.09%	0	0	33.53%	0.08%	0	0	8	35.94%	0.07%	0	0	19		
USDBFs	0.00%	0.00%	0	0	0.00%	0.00%	0	0	0	0.00%	0.00%	0	0	0		
Sovereign State Breakdown																
UK	77.19%	0.43%	116	167	UK	65.90%	0.46%	138	189	8	UK	63.34%	0.33%	83	145	20
					AUS	0.57%	0.02%	14	23	1	QAT	0.35%	0.01%	3	4	1
											AUS	0.20%	0.01%	5	8	1
											UAE	0.17%	0.02%	3	8	1
Sovereign Rating Breakdown																
AA-	77.19%				AA-	65.90%					AA-	63.69%				
					AAA	0.57%					AAA	0.20%				
											AA	0.17%				

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

WARoR	Weighted Average Rate of Return	This is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity	This is the average time, in days, till the portfolio matures, weighted by principal amount.
WATT	Weighted Average Total Time	This is the average time, in days, that deposits are lent out for, weighted by principal amount.
WA Risk	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
Model WARoR	Model Weighted Average Rate of Return	This is the WARoR that the model produces by taking into account the risks inherent in the portfolio.
Difference	Difference	This is the difference between the actual WARoR and the model WARoR; Actual WARoR minus Model WARoR