	Audit Committee 24th September 2009 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL

Treasury Management – Select Committee report on Local Authority investments in Icelandic banks

1. SUMMARY

1.1 This report looks at developments since the last meeting of the Audit Committee. In particular, the House of Commons Select Committee has reported on the lessons to be learnt from the collapse of Icelandic banks with which local authorities had deposits.

2. RECOMMENDATIONS

2.1 Members are asked to note and comment on the steps taken either previously or in response to the Select Committee report.

3 DETAIL

SELECT COMMITTEE REPORT

3.1 In June 2009, the House of Commons Select Committee issued its report on Local Authority Investments in Icelandic Banks, looking at the lessons to be learnt from the collapse. The main conclusions and recommendations were:-

a) There should not be further restrictions on how local authorities invest their balances, but the primary considerations should be security and liquidity, followed by yield.
b) CIPFA should take steps to ensure that there are adequate levels of expertise and scrutiny within local authorities.
c) Authorities should share expertise.
d) There should be scrutiny through the Audit Committee of the local authority. Members of the Audit Committee should be properly trained and should consider the co-option of independent members with appropriate expertise.
e) There should be appropriate use of credit ratings, with local authorities seeking further checks and economic intelligence.

f) The use of treasury advisers, and their role, should be clarified.
g) CIPFA should review its guidance on the Annual Investment Strategy, the use of advisers, and the use of credit ratings.
h) The Debt Management Office should review its policy on charges for the early repayment of debt.

Actions taken previously, or in response to the report

3.2 Members will be aware that officers have taken and planned a number of actions in response to the Icelandic bank collapse. It is important to recognise that there will be periodic bank crises, and that these will take different forms. However, local authorities must ensure that their policies and practices are as sound as possible so that risks are appropriate. Responding to the report:-

a) The annual Treasury Strategy report discusses the relationship between risk and return, and the factors considered in establishing the council's lending list. The lending list was constructed on the basis of high quality credit ratings. However, the revised lending list, previously reviewed by the Audit Committee, seeks to improve security by using group limits, country limits, country ratings and more rigorous ratings.
b) The treasury team is well resourced, experienced and enjoys regular training opportunities. There is access to information from economists, CIPFA and the treasury adviser. A new treasury management qualification, developed with the Association of Corporate Treasurers, is being considered for staff. However, it is apparent that practices will need to be improved. It is planned that treasury policies and practices will be reviewed at least annually, and that training records should be current. Dealers will need to ensure that communications (usually emails) from the adviser about credit rating changes are kept under regular review – it is expected that these will be become less frequent as the credit crisis eases.
c) Officers continue to share expertise through the London Treasury Forum, benchmarking and advisers' conferences.
d) The Audit Committee receives regular reports on treasury activity and has scrutinised the processes followed within the authority. Nineteen Councillors attended the training session arranged with an independent training organisation. Further learning and development opportunities will be made available as appropriate.
e) Although the council has strengthened the lending list by including a specific credit rating for countries, officers have arranged access to the credit lists used by two treasury and pension fund managers. The treasury adviser, Butlers, has begun to publish additional information which may prove to be useful. However, at present the Council continues to use a very restricted lending list.
f) The contract with the adviser, Butlers, remains very clear – Butlers supply both advice and information. It is apparent that Butlers have sought to improve the depth of information since last year, and advised on the March debt repayment exercise. As the contract is subject to review in 2010, the quality and sources of information will be further examined. The Council continues to take advice and information from a wide variety of sources, including Capital Economics, treasury and pension fund managers.
g) Further advice from CIPFA is awaited.

h) It is understood that the PWLB is reviewing its terms for the early repayment of debt.

Developments since the last meeting of the Audit Committee

3.1 Members will be aware that Brent deposited £15m with Icelandic banks in 2008. The administrator for Heritable Bank, where Brent deposited £10m, has reported that local authorities are likely to receive around 70% - 90% repayment of cash and interest. The actual recovery will depend on timing and patience, as a rapid sale of assets will generate poor returns, and the state of the property market. The first repayment of £1.6m (16%) was received in July 2009.

3.2 A list of deposits as at 31st August 2009 is attached as Appendix 1. Most of the cash deposits, excluding those with money market funds that support cash flow requirements, are long-term at high interest rates. Markets have become more confident, and interest rates charged on lending between banks (the 'wholesale market) have reduced. World stock markets have also risen sharply. However, although the Brent Lending List remains much reduced from 2008, the Council continues to borrow money short term (at low rates) rather than make many new deposits. On this basis, there is as yet little requirement to introduce a wider List based on the credit ratings and other criteria previously seen by the Committee.

3.3 The Annual Report on Treasury Management for 2008/09 is attached as Appendix 2 for information. The report has been recommended to Full Council by the Executive.

4. FINANCIAL IMPLICATIONS

These are covered in the report.

5 DIVERSITY IMPLICATIONS

The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

6 STAFFING IMPLICATIONS

None

7 LEGAL IMPLICATIONS

There are no legal implications arising from the report.

8 BACKGROUND

House of Commons Select Committee report on Local Authority Investments
Annual Treasury Strategy – Report to Full Council as part of the Budget Report – March 2009

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Finance and Corporate Resources, on 020 8937 1472/74 at Brent Town Hall.

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APPENDIX 1

Brent treasury lending list – Icelandic banks

1 The current loans outstanding **as at 31st August 2009** are:

Name	Amount £m	Yield %	Lending Date	Maturity Date
Global Treas. Fund (RBS)	5.0	Var.	Call	
Gartmore cash reserve	0.1	Var.	Call	
Cheshire BS	5.0	1.355	07.05.08	07/05/10
Heritable bank	8.4	5.85	15.08.08	14/11/08
Glitnir	5.0	5.85	15.09.08	12/12/08
Northern Trust global fund	0.1	Var.	Call	
Barclays Bank	6.5	0.45	30.07.09	01.09.09
Dunfermline BS	5.0	1.136	04.02.08	04/02/10
Newcastle BS	5.0	6.05	28.04.08	28/04/10
Derbyshire BS	5.0	6.4	16.06.08	16/06/10
Dunfermline BS	5.0	5.9	01.07.08	01/07/10
Skipton BS	5.0	6.48	01.07.08	01/07/11
RBS	5.0	7.0	22.09.08	22/09/11
Total	**60.1**			

Brent has also invested £23.0m with an external manager, Aberdeen Asset Manager, which has placed the fund in a mixture of certificates of deposit (CDs) and cash. The list of investments held by Aberdeen (as at 31st July) is as follows:-

	£m	%	Maturity
RBOS CD	2.0	0.89	25.11.09
Barclays Bank CD	2.6	0.91	30.11.09
Nationwide BS CD	2.2	0.91	30.11.09
Clydesdale Bank CD	2.4	0.91	02.12.09
Lloyds TSB CD	2.1	0.95	21.12.09
Lloyds TSB CD	1.0	1.04	04.02.10
Barclays Bank CD	1.5	1.08	25.02.10
RBOS – CD	2.3	1.21	07.05.10
Abbey National – CD	2.3	1.22	10.05.10
Nationwide – CD	2.2	1.22	10.05.10
Deposit account – Abbey Nat.	2.0	Call	
Accrued interest	0.4		
	23.0		

BRENT COUNCIL	Full Council 14th September 2009 Report from the Director of Finance and Corporate Resources
For Action	Wards Affected: ALL
The Treasury Management Annual Report 2008/09	

1. SUMMARY

The purpose of this report is to provide information to members on borrowing and investment activity during 2008/09. It also sets out how the Council performed against prudential indicators set in the 2008/09 budget.

2. RECOMMENDATIONS

Full Council is asked to:

2.1 Approve the Treasury Management Annual Report (section 3); and Annual Investment Strategy Report (Section 4)

2.2 Note the outturn for prudential indicators (section 5).

3. TREASURY MANAGEMENT ANNUAL REPORT

3.1 Full Council adopted the 2002 CIPFA Code of Practice on Treasury Management in Local Authorities in September 2002. The Code stipulates that the Chief Financial Officer should set out in advance to Full Council the treasury strategy for the forthcoming financial year, and subsequently report the treasury management activities during that year. The report will also go to the Audit Committee. This section of the report details:-

a) The economic background for 2008/09 (paras 3.3 to 3.4)
b) The agreed treasury strategy (para 3.5)
c) Borrowing activity during 2008/09 (paras 3.6 to 3.9)
d) Lending activity during 2008/09 (paras 3.10 to 3.18)
e) Overall interest paid and received (para 3.19)
f) Developments since the year end (para 3.20)

3.2 Treasury management in this context is defined as 'the management of the local authority's cash flows, its banking, money market (mainly short term borrowing and lending) and capital market (long term borrowing) transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks.' This means that the pursuit of additional returns must be placed within the framework of the prudent protection of the council's cash balances and a rigorous assessment of risk.

ECONOMIC AND MARKET BACKGROUND DURING 2008/09

3.3 World economic growth fell sharply in 2008 to 3.3% (2007 5%), following a period of rising interest rates and the dearth of credit for trade and business. Rising inflation rates (CPI rose by 5.3% in the year to September 2008) made the policy response more difficult, as commodity prices rose sharply driving up food and fuel costs. The problems of sub-prime debt, and the ensuing credit crisis, led to the collapse / reorganisation / nationalisation of numerous major banks such as Lehman Brothers, RBOS, HBOS, Merrill Lynch and others. The collapse of the Icelandic banking system had particular implications for Brent. Other countries were able to support their banking systems or work with others to maintain stability, but Iceland was unable to support its major banks. Financial markets have also been weak – equity, property and credit markets fell sharply. The response from central banks has been robust – USA reduced rates (from 2% to 0.25%), UK from 5% to 0.5%, and Europe from 4% to 1%. Rate reductions have been co-ordinated and deep, and complemented by fiscal support packages and quantitative easing, where banks have sought to expand the money supply to increase the flow of credit. It appears that these unprecedented steps have been partially successful – the economic freefall of the period October 2008 to March 2009 has been arrested – but a return to growth may be slow and difficult.

3.4 As indicated in Table 1, very long-term (50 year) interest rates were fairly stable. Initially shorter periods reflected strengthening inflationary pressures, but then fell sharply in response to falling bank rates and quantitative easing. The interest rate yield (return) curve was inverted during 2006 – 2008 (short term rates higher than long term rates), but the sharp falls in short term rates have 'normalised' the curve so that long term rates are higher than short term.

Table 1 – PWLB Interest rates during 2008/09

	31 March 2008 %	30 June %	30 Sept. %	31 March 2009 %
10 year	4.59	5.24	4.60	3.38
25 year	4.63	4.94	4.71	4.28
50 year	4.45	4.52	4.60	4.58

STRATEGY AGREED FOR 2008/09

3.5 On the basis of advice and research from Butlers (the treasury adviser), Capital Economics and managers, the Treasury Management strategy anticipated that Bank Rate would fall to around 4.5% in 2008/09 and that 50 year rates would rise marginally to around 4.60%. It was expected that in-house balances would remain stable (at £100m) reflecting borrowing to finance the 2008/09 capital programme. The borrowing strategy assumed that long-term rates would rise marginally during 2008/09. It was agreed to borrow at fixed rates unless short term rates fell sharply, to maintain debt at the authority's Capital Financing Requirement (CFR) and to take advantage of debt restructuring opportunities.[1] Maintaining debt at CFR means that the authority will maintain balances for lending on the money market when they are not required to fund expenditure. The strategy has remained under constant review and adapted as circumstances have required, but without major changes.

BORROWING ACTIVITY DURING 2008/09

3.6 The split of the council's treasury portfolio between fixed interest and variable loans and investments, as at 31 March 2009, is set out in Table 2.

Table 2 – Treasury portfolio at 31st March 2009 – loans and investments

	31.03.08	31.03.2009	
	Actual £m	Planned £m	Actual £m
Fixed rate loans – PWLB	526.8	548.0	512.0
Variable rate loans – PWLB	-	-	-
Variable rate loans – Market	80.5	80.5	85.5
Short-term loans – Market	14.2	-	69.5
Total Debt	**621.5**	**628.5**	**667.0**
INVESTMENTS	**110.1**	**100.0**	**97.2**
NET DEBT	**511.4**	**528.5**	**569.8**

3.7 The average rate of interest payable by Brent Council on its loans has fallen from 5.86% in 2006/07, to 5.09% in 2007/08, and to 4.87% in 2008/09. In 2008/09 Brent Council restructured debt and took new loans as follows:

a) Borrowing two £5m market loan (known as LOBOs – or Lenders Option, Borrowers Option) in April 2008. The loans are fixed at rates of 3.99% and 3.95% for an initial period of one year, before the lender may request a change to the rate. If this happens, the Council (the borrower) may repay the loan without penalty rather than pay the increase.

[1] The Capital Financing Requirement is the difference between the authority's total liabilities in respect of capital expenditure financed by credit and the provision that has been made to meet those liabilities. Research by our treasury advisers, indicates that it is the most economical level for the authority's long-term debt.

b) In addition, £50m was borrowed from PWLB to replace maturing debt and to finance capital expenditure. This comprised: two loans of £20m each (April 2008), for fifty years at 4.43% and 4.39% respectively, seeking to take advantage of favourable long-term rates: a £10m loan at 3.93% for one year, taking advantage of falling short rates at a time when market conditions were volatile (October 2008).

c) A debt restructuring was undertaken in March 2009 to repay £64.8m PWLB debt, with the intentions of taking advantage of lower 10 year interest rates, reducing cash balances to reduce counter-party risk and recognising the low rates of interest available on deposits. Taking into account premia paid to the PWLB for debt redeemed early (£8m), the annual savings are expected to be around £1.5m / £2m per annum to the General Fund. The repayment reduced long-term Council debt to £597.5m, below the CFR target of £627m, reflecting that it was cheaper to use short term debt than more expensive long term liabilities.

Initially the interest rate curve was inverted in 2008/09, meaning that short term borrowing was more expensive than long-term borrowing. Later in the year, when the interest rate curve returned to normal, the council took advantage by repaying debt and borrowing on short term, relatively good value, markets until long term deposits are repaid.

3.8 The PWLB has continued its more expensive calculation of the discount rate payable when councils repay debt prematurely. The effect is to raise the size of premia payable (or reduce the value of discounts receivable), which continues to inhibit debt restructuring unless movements are extreme..

3.9 The duration and average interest rate, of loans in the treasury portfolio at 31st March 2009 is set out in Table 3.

Table 3 – Treasury portfolio at 31st March 2009 – duration/interest rates

Maturing Within	£m 31.03.08	£m 31.03.09	Share of total debt %	Average Interest Rate 2008/09 %
1 Year	14.2	78.5	11.9	0.99
1 – 2 Years	-	-	-	-
2 – 3 Years	-	-	-	-
3 – 4 Years	-	-	-	-
4 – 5 Years	-	-	-	-
5 – 6 Years	-	-	-	-
6 – 10 Years	-	-	-	-
10 – 15 Years	5.0	5.0	0.8	8.88
Over 15 Years	521.8	497.0	74.5	4.96
Variable – PWLB	-	-	-	-

Variable – Market	80.5	85.5	12.8	4.58
TOTAL	**621.5**	**667.0**	**100.0**	**4.87**

LENDING ACTIVITY DURING 2008/09

3.10 The council's investments averaged £126m during 2008/09 (£118m during 2007/08) and earned £7m in interest. The amount invested varied from day to day depending on cash-flow and the Council's borrowing activity. Responsibility for investing funds was split between the in-house team, which manages approximately 80% of the investments and an external house managing approximately 20% of the investments.

3.11 Investments by the in-house team ranged from overnight deposits of money to periods of up to three years. A total of £624m was lent out during 2008/09 (2007/08 £969m). Rates achieved ranged between 7% and 0.4%, with the average rate being 5.25% (2007/08 5.21%). Some of the portfolio was lent for longer periods to guard against falling interest rates. Balances held to manage shorter term cash flow needs have been deposited substantially in Money Market Funds, taking advantage of higher inter-bank rates. Loans were made to high quality counterparties included on the Treasury Lending list. Appendix 1 lists the deposits outstanding at 31st March 2009. The list shows that interest receipts have been protected by the longer duration deposits made with various banks and building societies.

3.12 As stated above, the financial tsunami following the bankruptcy of Lehman brothers forced a number of banks into administration and the collapse of the main Icelandic banks (7th October 2008). Brent Council has two deposits outstanding with Icelandic banks, as follows:-

Heritable	£10m	5.85%	Lent 15.08.08	Due back 14.11.08
Glitnir	£5m	5.85%	Lent 15.09.08	Due back 12.12.08

3.13 The deposits were made at 'good' rates, but not rates that were wildly out of line with the rest of the market. Both banks are in administration, and the Council continues to work with the Local Government Association and other authorities to recover the loans. All other deposits have been repaid on time. The most recent advice from CIPFA, the Department for Communities and Local Government (DCLG) and the Local Government Association (LGA) states that authorities are likely to be treated as secured creditors to Glitnir, recovering both deposit and interest to October 2008 during 2009/10. The administrators for Heritable state that creditors should receive between 70% and 90% of deposit plus interest to October 2008 by instalments to 2012. The first instalment (16%) was paid in July 2009.

3.14 Members will be aware that, as the size of the credit crisis became apparent, a number of steps were taken both to reduce risk and to inform members:-

a) On September 30th 2008, the Director of Finance reduced the number of financial institutions on the lending list following the nationalisation of various European and USA financial institutions, removing relatively lower rated UK and overseas banks, including Glitnir and Heritable.

b) On 8th October the list was further reduced to exclude all overseas banks, and limit duration to a maximum of three months. Building societies remained eligible for deposits after individual authorisation by senior management, but were limited to one month duration and a maximum deposit of £5m. It was believed that close scrutiny by the FSA, and the long track record of building societies being taken over by other societies in the event of difficulties made such deposits completely safe. However, in April 2009 it became clear with the near collapse of Dunfermline building society that societies had been allowed to invest in risky areas, and they were removed from the lending list.
c) On 26th March 2009, a number of PWLB loans were repaid, to the value of £64.75m, reducing the value of deposits made to counterparties in future.
d) Regular reports to members, in particular Policy and Co-Ordination Group, The Budget Panel, Performance and Finance Select Committee and quarterly reports to the Audit Committee, and training for members (May 6th 2009) on the scrutiny and oversight of treasury management.

3.15 External cash managers were initially appointed in 1998 to manage two portfolios with the aim of achieving an improved return at an acceptable level of risk. Aberdeen Asset Management has managed a portfolio throughout the period. The value of the Aberdeen's portfolio was £22.8m as at 31st March 2009 (£21.3m 2008). Actual performance for 2008/09 (2007/08 in brackets), and the three and five years to 2008/09 are set out in Table 4.

Table 4 - Performance of Aberdeen Asset Management against benchmark

	Aberdeen %		Brent in-house %	7 Day LIBID Benchmark %
2008/09	7.0 (5.7)		5.25 (5.2)	3.8 (5.7)
Three Years	5.8		5.2	4.8
Five Years	5.4		5.0	4.7

3.16 Aberdeen outperformed the benchmark in 2008/09 by using longer dated certificates of deposit of up to twelve months duration with financial institutions on the Brent lending list, a sound strategy when rates were falling sharply.

3.17 The in-house team did not have access to the same wider range of lending instruments as the managers (gilts or CDs), but was able to add value by using money market funds (pooled funds managed by city finance houses) or by lending on the market for longer periods. The Brent strategy had identified that core balances of £60m would not be needed for immediate cash flow purposes, so that £60m could be lent for periods up to three years.

3.18 The three and five year records indicate that Aberdeen has achieved their out-performance target (+0.5% per annum). Aberdeen is among the best managers over all periods (there are around ten in the market).

TOTAL INTEREST PAID AND RECEIVED

3.19 Total interest paid and received in 2008/09 are shown in Table 5. The additional interest paid on external debt reflects early borrowing (at a lower rate) to fund the capital programme and interest paid to accounts that are deemed to be 'external' to Brent Council, such as the Pension Fund. The increased interest received on deposits reflects higher market rates (5.25% received against 4.75% assumed) and higher cash balances (average £126m).

Table 5 – Overall interest paid and received in 2008/09

	Budget £m	Actual £m
Interest paid on external debt	31.3	32.8
Interest received on deposits	3.5	7.0
Debt management expenses	0.4	0.1

By way of comparison, interest received on deposits was £5.0m in 2006/07 (budget £4.2m) and £6.2m in 2007/08 (budget £3m).

DEVELOPMENTS SINCE THE END OF THE YEAR

3.20 Financial markets have been calm since the end of the financial year. The wholesale, inter-bank market has seen the interest rate differential (spread) between LIBOR (London Inter Bank Offer Rate) and bank rate fall sharply, indicating that inter-bank lending is increasing and risk premia falling. If financial stability continues to improve, it is expected that a revised Brent Lending List - that has previously been scrutinised by the Audit Committee and includes sovereign (country) ratings and limits, shorter durations, lower limits and higher rating requirements – will be implemented in the autumn.

4 ANNUAL INVESTMENT STRATEGY

4.1 Regulations issued under the 2003 Local Government Act require that councils agree an Annual Investment Strategy (AIS) before the beginning of each year, setting out how investments will be prudently managed with close attention to security and liquidity. The AIS for 2008/09 was agreed by Full Council in March 2008. The AIS sets out the security of investments used by the authority analysed between Specified (offering high security and liquidity, with a maturity of no more than one year) and Non-Specified (entailing more risk or complexity, such as gilts, certificates of deposit or commercial paper) investments. The AIS also sets out the maximum duration of deposits.

4.2 To discourage the use of investments that may be considered speculative, the acquisition of share or loan capital in any body corporate (such as a company) is defined as capital expenditure. On this basis, the Council does not invest treasury balances in shares, corporate bonds or floating rate notes issued by companies, though there is authority to invest through pooled schemes which are not considered capital expenditure.

4.3 Treasury activity has complied with the AIS in 2008/09. The main aspects have been:-

a) The council has made cash deposits for a maximum duration of three years, using 5.75% as an attractive trigger point for lending. The external manager has invested in certificates of deposit and cash deposits.
b) Investments have been made to counterparties that meet appropriate credit ratings which have been monitored on a continuous basis.
c) As set out in paragraph 3.13, credit related losses arising from deposits with Icelandic banks have been disclosed in the 2008/09 accounts, though regulations provide for Councils to defer actually providing for the losses until 2010/11.

5. PRUDENTIAL INDICATORS – 2008/09 OUTTURN

5.1 The introduction of the new prudential system of borrowing in the 2003 Local Government Act (LGA) gave new opportunities for councils to assess their requirements for capital spending, and not have them restricted by nationally set approvals to borrow money (credit approvals), as previously. The new system also brought new responsibilities on councils to ensure that:

a) capital expenditure plans are affordable;

b) all external borrowing and other long term liabilities are within prudent and sustainable levels;

c) treasury management decisions are taken in accordance with good professional practice.

5.2 Under regulations issued under the 2003 LGA councils are required to follow the Prudential Code issued by CIPFA which sets out how councils ensure responsible use of new freedoms. The Code details indicators that councils are required to set before the beginning of each year, to monitor during the year, and to report on at the end of each year.

5.3 The outturn for prudential indicators measuring affordability is set out in Table 6 below. General Fund and HRA capital financing charges as a proportion of total budget were lower than in the original estimates principally because the average borrowing rate fell to 4.87%.

Table 6 – Prudential indicators measuring affordability

	2008/09 (estimates)	**2008/09 (actual)**
Capital financing charges as a proportion of net revenue stream: - General Fund	9.34%	7.40%
- HRA	33.65%	32.36%
Impact of unsupported borrowing on: - Council tax at Band D	£36.23	£36.23
- Weekly rent	-	-

5.4 The outturn for prudential Indicators for capital spending is set out in Table 7. Movements within the capital programme, including slippage between years and resources becoming available during the year, were reported in the Performance and Finance Outturn report to the Executive in July 2009. Capital spending is funded from a variety of resources, including government grants, capital receipts, revenue contributions, Section 106 contributions and borrowing. This means that movements in capital spending are not directly reflected in movements in the Capital Financing Requirement (CFR), which principally reflects borrowing requirements. Total borrowing in 2008/09 was higher than estimated which meant a higher overall CFR.

Table 7 – Prudential indicators measuring capital spending and CFR

	2008/09 Estimates £m	**2008/09 Actual £m**
Planned capital spending: - General Fund	104.211	91.686
- HRA	17.991	16.604
- Total	122.202	108.290
Estimated capital financing requirement for[2]: - General Fund	288.756	294.152
- HRA	326.964	333.459
- Total	615.720	627.611

5.5 The Council also sets prudential indicators for external debt which are shown in Table 8. This is to ensure that the council's overall borrowing is kept within

[2] The Capital Financing Requirement estimates in this table are at 31st March of each year.

prudent limits. The authorised limit for external borrowing is set flexibly above the CFR to allow for opportunities to restructure debt or borrow early when interest rates are favourable. The Operational Boundary sets out the expected maximum borrowing during the year, again allowing for cash flow, interest rate opportunities and possible restructuring. In 2008/09 the council undertook a major debt repayment as set out in paragraph 3.7, but did not exceed the Operational Boundary for external debt.

Table 8 – Prudential indicators for external debt

Indicator	Limit	Status
Authorised limit for external debt	£790m	Met
Operational boundary for external debt	£690m	Met
Net borrowing	Below CFR	Met

5.6 The prudential indicators for treasury management, which are included in Table 9 below, were all met. These are set to ensure that interest rate exposures are managed to avoid financial difficulties if interest rates rise sharply. Although borrowing at variable rates can be advantageous if rates are falling, a sharp rise can cause budget difficulties, and force the Council to fix rates at an inopportune time. Again, managing loan durations ensures a variety of maturity dates to avoid all re-financing happening when rates may be high. Finally, the upper limit on investments of more than one year allows flexibility to lend for longer periods if interest rates make this advantageous, particularly by external managers investing in gilts, but also ensures that a minimum level of balances is available for cash flow purposes. Opportunities for long-term lending have been taken when the market has appeared to be too pessimistic about rising rates. Investments for more than one year rose from £20m to £60m during the year.

Table 9 – Prudential indicators for treasury management

Indicator	Limit	Outcome
Treasury Management Code		Adopted in 2002
Exposure to interest rate changes		
- fixed rate upper limit	100%	100%
- variable rate upper limit	40%	5%
Maturity of fixed interest loans		
Under 12 months		
- upper limit	40%	2%
- lower limit	0%	0%
12 months – 24 months		
- upper limit	20%	0%
- lower limit	0%	0%
24 months – 5 years		
- upper limit	20%	0%
- lower limit	0%	0%
5 years – 10 years		
- upper limit	60%	0%
- lower limit	0%	0%
Above 10 years		
- upper limit	100%	100%
- lower limit	30%	98%
Upper limit on investments of more than one year	**£60m**	**£60m**

6. MINIMUM REVENUE PROVISION

6.1 The Local Authorities (Capital Finance and Accounting) Regulations 2003 set out the requirement that councils set aside a minimum of 4% of their General Fund capital financing requirement to repay principal on debt, regardless of the length of life of the asset that was being financed.

6.2 Revised regulations which amend this requirement were issued in 2008.[3] Under the new regulations councils are required to set an amount of Minimum Revenue Provision which is 'prudent'. The definition of what counts as 'prudent' is set out in statutory guidance which has been issued by the Secretary of Sate for Communities and Local Government and which authorities are required to 'have regard' to.

6.3 Under the guidance councils are required to prepare an annual statement of their policy on making Minimum Revenue Provision to Full Council. The purpose of this is to give Members the opportunity to scrutinise use of the additional freedoms and flexibilities under the new arrangements. This Policy

[3] Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2008 – SI 2008/404

Statement was submitted and approved by the Full Council at its meeting on 2nd March 2009 within section 10 of the Budget Setting report.

7. FINANCIAL IMPLICATIONS

7.1 As set out in the report, the council earned additional income from external deposits as a result of lending for longer periods and having higher balances than anticipated. However, the collapse of the Icelandic banks has resulted in deposits totalling £15m not being repaid. As set out in the report, it is likely that most of the deposits will be recovered over the period to 2012.

8. DIVERSITY IMPLICATIONS

8.1 The proposals in this report have been subject to screening and officers believe that there are no diversities implications arising from it.

9. LEGAL IMPLICATIONS

9.1 Guidance has been issued under s21 (IA) of the Local Government Act 2003 (the '2003 Act') on how to determine the level of prudent provision. Authorities are required by Section 21 (B) to have regard to this guidance.

9.2 Under regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) authorities have significant discretion in determining their Minimum Revenue Provision but, as a safeguard, the guidance issued under the 2003 Act recommends the formulation of a plan or strategy which should be considered by the whole Council. This mirrors the existing requirement to report to Council on the prudential borrowing limit and investment policy. The Local Authorities (Functions and Responsibilities) (England) (Amendment) Regulations 2000 have been amended to reflect that the formulation of such a plan or strategy should not be the sole responsibility of the Executive.

10. BACKGROUND INFORMATION

1. Loans Register.
2. Logotech Loans Management System.
3. Butler quarterly and special reports on treasury management.
4. Aberdeen Asset Management quarterly reports.
5. 2008/09 Budget and Council Tax report – 5th March 2008
6. Reports to Audit Committee on Icelandic Banks (17th December 2008) The Treasury Strategy for 2009/10, including proposals for a revised Lending List (4th March 2009), and the Audit Commission Report on Icelandic Banks (June 16th 2009).
7. Reports to Budget Panel and Policy & Co-ordination Group (23rd October 2008), and Performance & Finance Select Committee (8th December 2008)

11. CONTACT OFFICERS

1. Martin Spriggs, Head of Exchequer and Investments – 020 8937 1472
2. Paul May, Capital Accountant – 020 8937 1568

DUNCAN McLEOD
Director of Finance and Corporate Resources

APPENDIX 1

Brent treasury lending list – Icelandic banks

2 The current loans outstanding **as at 31st March 2009** are:

Name	**Amount £m**	**Yield %**	**Lending Date**	**Maturity Date**
HBOS	5.0	6.0	16.04.07	16/04/10
HSBC	5.0	5.4	18.04.07	19/04/10
Cheshire Building Soc	5.0	6.59	30.07.07	30/07/09
Global Treas. Fund (RBS)	9.2	Var.	Call	
Gartmore cash reserve	0.1	Var.	Call	
Cheshire BS	5.0	2.6	07.05.08	07/05/10
Heritable bank	10.0	5.85	15.08.08	14/11/08
Glitnir	5.0	5.85	15.09.08	12/12/08
Northern Trust global fund	0.1	Var.	Call	
Dunfermline BS	5.0	5.99	04.02.08	04/02/10
Newcastle BS	5.0	6.05	28.04.08	28/04/10
Derbyshire BS	5.0	6.4	16.06.08	16/06/10
Dunfermline BS	5.0	5.9	01.07.08	01/07/10
Skipton BS	5.0	6.48	01.07.08	01/07/11
RBS	5.0	7.0	22.09.08	22/09/11
Total	**74.4**			

Members will notice that the value of deposits has declined sharply as a result of Brent repaying £64.75m in long-term debt. The repayment will both reduce costs and risks arising from making deposits with financial institutions.

Brent has also invested £22.8m with an external manager, Aberdeen Asset Manager, which has placed the fund in a mixture of certificates of deposit (CDs) and cash. The list of investments held by Aberdeen is as follows:-

Nationwide BS CD	2.1	2.21	23.06.09
RBOS CD	2.2	2.21	25.06.09
Alliance & Leics CD	1.8	2.29	06.08.09
BOS (Gov guarantee)	2.2	1.67	19/10/09
RBOS CD	2.0	2.39	25.11.09
Barclays Bank CD	2.6	2.39	30.11.09
Nationwide BS CD	2.2	2.39	30.11.09
Clydesdale Bank CD	2.4	2.39	02.12.09
Lloyds TSB CD	2.1	2.4	21.12.09
Lloyds TSB CD	1.0	2.3	04.02.10
Barclays Bank CD	1.5	2.32	25.02.10
Accrued interest	0.7		
	22.8		