



Audit Committee
15th June 2011

**Report from the Director of Finance and
Corporate Services**

For Action

Wards Affected:
ALL

Report Title: Treasury Management Activity

1. SUMMARY

1.1 This report updates members on recent treasury activity.

2. RECOMMENDATIONS

2.1 Members are asked to note recent treasury activity.

3 DETAIL

3.1 Appendix 1 sets out loans outstanding as at 31st March 2011. Members will note that:-

- a) The Icelandic District Court has ruled that the local authority deposits with Glitnir bank are to be treated as preferred creditors, and should be repaid in full. This decision is being appealed to the Icelandic Supreme Court in September, but if Bevan Britton is successful, the £5m outstanding may be repaid in full during this financial year.
- b) The administrators for Heritable Bank continue to make regular (quarterly) payments as they recover amounts owed to Heritable. Brent has received a further payment, reducing the amount owed to £4.365m. It is anticipated that a further payment will be received in July, and that around 85% of the original £10m deposit will be recovered, perhaps more.
- c) The long-term deposits at higher rates that have supported the treasury budget are almost repaid.

3.2 At present, bank rate continues at 0.5%. It is anticipated that the current fiscal squeeze, and slow economic growth, will make the Bank of England reluctant to raise base rate, despite Consumer Price Inflation at 4.5%, more than double the 2% target. Markets anticipate that rates will rise towards 1% by the end of 2011, and increase to 2% by the end of 2013. Our adviser, Capital Economics, believes that inflation will start to fall back in 2012 and that rates should remain at very low levels. It should be noted that the government lending agency, the Public Works Loans Board, currently charges 3.5% for 10 year loans, and 5.15% for fifty year loans, considerably above the 0.4% charged for short term loans on the market. These rates compare with 2.62%

(10 year) 4.36% (50 year) and 0.3% (short term loans) at the same point last year (before PWLB changed their terms).

- 3.3 On this basis, the current treasury strategy remains to borrow and lend for short periods as cash flow allows. During 2011/12 it is intended to reduce cash balances as the capital programme – in particular, payments for the Civic Centre and loans to Brent Housing Partnership – develops. This may involve terminating the mandate managed by Aberdeen Asset Management to avoid the costs involved in long term borrowing. As short term borrowing builds up, it is intended to borrow longer term (eight to ten years) from the PWLB to ensure that the council does not become too vulnerable to movements in short term interest rates.
- 3.4 It had been hoped that the Lending List might be expanded to include overseas banks, but the continuing concerns about European banks has made this imprudent at this time. The treasury officer continues to investigate the options for investing in alternative money market funds (AAA rated) that pay higher yields but with acceptable exposure levels.

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

Previous reports to the Audit Committee on Treasury Management

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.

CLIVE HEAPHY
Director of Finance and
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MARTIN SPRIGGS
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APPENDIX 1

Brent treasury lending list

1 The current loans outstanding as at 31st March 2011 are:

Name	Amount £m	Yield %	Lending Date	Maturity Date
Global Treas. Fund (RBS)	9.3	Var.	Call	
Gartmore cash reserve	4.5	Var.	Call	
Northern Trust global fund	0.1	Var.	Call	
Heritable bank	5.0	5.85	15.08.08	14/11/08
Glitnir	5.0	5.85	15.09.08	12/12/08
Skipton BS	5.0	6.48	01.07.08	01/07/11
RBS	<u>5.0</u>	Var.	22.09.08	22/09/11
Total	<u>33.9</u>			

Brent has also invested £23.55m 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:-

Name	Amount £m	Yield %	Maturity Date
Abbey National CD	3.15	1.44	18.10.11
Abbey National CD	1.2	0.00	24.11.11
Barclays Bank CD	2.7	1.45	01.08.11
Barclays Bank CD	1.5	1.42	14.10.11
Clydesdale Bank CD	3.5	0.00	24.05.11
Lloyds TSB CD	1.5	0.00	03.08.11
Lloyds TSB CD	3.0	1.48	05.12.11
Nationwide BS CD	2.25	1.5	22.02.12
RBOS CD	2.3	0.00	03.08.11
RBOS CD	2.35	1.51	06.02.12
Accrued interest	<u>0.1</u>		
Total	<u>23.55</u>		