	Council 23 January 2012 **Report from the Director of Finance and Corporate Services**
	Wards Affected: ALL
Treasury 2011/12 Mid – Year Report	

1. SUMMARY

1.1 This report updates members on recent treasury activity.

2. RECOMMENDATION

2.1 Full Council is asked to note the 2011/12 Treasury mid-year report as also submitted the Audit Committee and Executive.

3 DETAIL

3.1 The CIPFA Code of Practice on Treasury Management (2009) requires that treasury activities should be reported to Full Council at mid-year, as well as at year-end. Activities are also reported to the Audit Committee on a quarterly basis. CIPFA has very recently issued a revised Code of Practice that reflects additional flexibility in the treasury management area given to local authorities.

3.2 Financial markets have been turbulent during the period June – November, with stock markets falling sharply. Concerns about the euro area, a potential Greek debt default, worries about the USA debt ceiling, and slowing growth in the developed markets have all undermined confidence. Investors have sought safe financial havens, so that medium and longer term interest rates have fallen in the favoured markets – USA, Germany, Switzerland and UK being among the beneficiaries. More sinister has been the tightening in credit markets as USA banks avoid lending to European banks perceived to be vulnerable to Greek and other weaker European country debt. Increasingly, both European and USA institutions have deposited money with their central banks rather than lend it on the market (the 'wholesale' market), leading to rising interest rates, some shortages and bank reliance on their central banks.

Although the situation is not yet as severe, there are worrying similarities to the 2008 credit crunch, with Dexia bank requiring support from the French, Dutch and Belgian authorities. Central banks have taken action to ease the flow of credit to banks, but confidence remains fragile.

3.3 In October, the credit rating agencies reduced the long term ratings below acceptable values for a number of UK banks – Royal Bank of Scotland, National Westminster, Lloyds, and Bank of Scotland – which led to these banks being suspended from the List. This leaves only three banks on the Brent Treasury Lending List – Barclays, HSBC and Santander UK (which is only eligible for overnight and call deposits).

Lending

3.4 In these circumstances, there have been no attempts to widen the existing Brent Treasury Lending List. At present, only UK banks are included (as well as government institutions, other local authorities and AAA rated money market funds). When making deposits, maturity dates are kept short (one month, though the one year option remains open), and available balances are held in money market funds or, increasingly, the Debt Management Office.

3.5 As the Lending List is so constrained, consideration is being given to the use of overseas banks (non-European) of suitable quality, provided that the sovereign ratings are sufficient. The number of money market funds in use, and the amount to be deposited in each money market fund is also currently under review, with a view to ensuring proper diversification.

3.5 Members will be aware that the contract for Aberdeen Asset Management to manage an external treasury fund of £23m, mainly invested in certificates of deposit (CDs, which usually have about one year duration), was terminated in July 2011. An era of very low interest rates meant that there were limited opportunities for the house to add much value. Further, the market turmoil led to concerns that banks may find themselves in difficulty. Finally, the capital programme involves major expenditure on such items as the Civic Centre and Brent Housing Partnership – it is much cheaper at present to fund such items from balances where possible rather than borrow at rates that are 4% above short term rates.

3.6 The council made two deposits with Icelandic banks in 2008 – Heritable Bank (£10m) and Glitnir Bank (£5m). Heritable Bank was placed in administration, with Ernst & Young acting as administrator. To date, the council has received £6.5m, with £1.5m paid in 2011/12. Ernst & Young anticipate as their main case that creditors will receive 86% - 90% of their deposit – this has risen since 2009.

3.7 The local authority case that they be treated as preferred creditors for their deposits with Glitnir Bank was successful at the District Court level in Iceland. The Icelandic Supreme court has recently confirmed this view, so that it is likely that the deposit will be repaid early in 2012. The council has worked with the Local Government Association and other local authorities to fund action in the Icelandic courts.

3.8 The list of current deposits as at 30th November is attached as Appendix 1. Note that since that date increasing use has been made of the government's Debt Management Office.

Borrowing

3.9 The 2011/12 treasury management budget assumed that the council would borrow long term around October 2011 to fund the capital programme. Although it has become apparent that the capital programme has not progressed as quickly as anticipated, the council borrowed £20m from the Public Works Loans Board in September. The loan was at 2.34% for ten years, with £2m to be repaid in equal instalments each year. It was felt that rates were very low following the flight to safety to UK markets outlined above, and that the loan would protect the council should the wholesale market (lending between banks and financial institutions) become more difficult.

3.10 It is anticipated that the council will require additional long term loans (around £30m) later in the financial year or early in 2012/13, depending on the progress of the capital programme.

Changes to the Housing Revenue Account (HRA)

3.11 The Department for Communities and Local Government (DCLG) has announced changes to the Housing Revenue Account to allow councils more freedom in the management of their housing stock. From a treasury management viewpoint, the changes have a number of aspects:-

a) The DCLG will repay around £200m of the council's PWLB debt (currently £509m in total), to reduce the HRA share of debt to the level calculated by the DCLG self-financing model.
b) The overall impact of the changes is intended to be neutral for the general fund.
c) In future, HRA debt will be accounted for separately from general fund debt, leading to amended accounting arrangements.
d) The views of those managing the HRA will need to be taken into consideration in future debt repayment / restructuring activity, as the HRA Business Plan will include debt considerations.

Prudential Indicators

3.12 The Council has complied with its various Prudential Indicators, such as interest rate exposure, maturity structure for fixed rate borrowing, and authorised limit and operational boundary for external debt.

Budget implications

3.13 The treasury budget is likely to be underspent in 2011/12 as a result of lower interest rates and borrowing later than planned.

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

Annual Treasury Strategy – Report to Full Council (and the Audit Committee) as part of the Budget Report – March 2011.

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

1 The current loans outstanding **as at 30th November 2011** are:

Name	Amount £m	Yield %	Lending Date	Maturity Date
Global Treas. Fund (RBS)	7.5	Var.	Call	
Morgan Stanley cash reserve	1.3	Var.	Call	
Heritable bank	3.5	0.0	15.08.08	14/11/08
Glitnir	5.0	0.0	15.09.08	12/12/08
Northern Trust global fund	0.1	Var.	Call	
Thameside	4.4	0.5	17.10.11	14.11.11
Santander UK	2.9	0.28	25.11.11	19.12.11
Santander UK	5.5	0.27	30.11.11	02.12.11
Total	**30.2**			