

	<p style="text-align: center;">Audit Committee 27 June 2012</p> <p style="text-align: center;">Report from the Director of Finance and Corporate Services</p>
<p style="text-align: right;">Wards Affected: ALL</p>	
<p>Treasury Activity - Update</p>	

1. SUMMARY

- 1.1 This report updates members on recent treasury activity.

2. RECOMMENDATIONS

- 2.1 The Audit Committee is asked to note the report.

3 DETAIL

- 3.1 Appendix 1 sets out deposits outstanding as at 31st March 2012. Members will note that:-

- a) Although Glitnir Bank has repaid the £5m deposited in 2008, currency restrictions prevent conversion of Icelandic krone into sterling without permission from the Icelandic Central Bank. Currently £1m is held in an escrow account paying 3.4%, that is legally the property of Brent Council, in Iceland.
- b) The administrators for Heritable Bank continue to make regular quarterly (quarterly) payments as they recover amounts owed to Heritable. A further payment has been received since March (£379,000), reducing the deposit outstanding to £2,831,000. It is anticipated that between 86% and 90% of the original £10m deposit will be recovered, possibly more.
- c) The value of deposits is higher than expected as a result of the early receipt of Education grants (£23m) due in 2012/13.

- 3.2 Financial markets were calmer during the period to March 2012 as a result of funding from the European Central Bank (ECB) to financial institutions, and agreement on the restructuring of Greek debt. The ECB package has eased the credit shortage caused by USA banks refusing to lend to European banks and allowed commercial banks to place funds with their national banks, thus reducing funding pressures. Stock markets have continued to rise during the period. Demand for UK government gilts has fallen marginally, allowing prices

to fall and rates to rise. PWLB rates rose slightly during the period to March 2012.

- 3.3 Bank rate continues to be 0.5%, with the Bank of England reluctant to raise rates during a period of fiscal squeeze and low economic growth. It appears that inflation is finally falling, but the slow rate of fall is preventing any further Quantitative Easing (QE). It is expected that base rate will not rise for at least two years.
- 3.4 Since March, the Office for National Statistics (ONS) has confirmed that UK is in recession as Q1 2012 was the same as Q4 2011, registering a fall of 0.3% in Gross Domestic Product. Growth in the eurozone has also been very slow, with only Germany (0.5%) showing real progress. USA growth has also slowed. As fears about Greek, Spanish and Italian debt have resurfaced, worries about the European banking sector and stock markets have resumed. Once again, money has flooded into safe havens, so that favoured countries are enjoying record low interest rates. In the UK, 10 year gilt rates are currently below 2%, and 20 year rates below 3%. The Public Works Loans Board is charging 1.9% for 10 year loans repaid by equal instalments.

Lending

- 3.5 As planned, the Brent Treasury Lending List has been extended to include some banks from Australia, Canada and USA. However, turmoil on the markets from April has led to a number of banks being suspended from the List. These include Santander UK and JP Morgan Chase Bank. At present, when making deposits, maturity dates are kept short and available balances are loaned to other local authorities, held in money market funds or with the Debt Management Office.

Borrowing

- 3.6 The 2012/13 treasury management budget assumed that the council would borrow long term around October 2012 to fund the capital programme. However, the Council sought to take advantage of the current low rates and borrowed £10m from the PWLB in May, and a further £10m in June. The May loan was taken at 1.99% for ten years, and the June loan at 2.62% for twenty years, with £1.5m to be repaid in equal instalments each year for the next ten years, and £0.5m each year for the following ten years. 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 become more difficult.
- 3.7 It is anticipated that the council will require additional long term loans (around £30m - £40m) later in the financial year, depending on the progress of the capital programme. The treasury consultant, Arlingclose, is monitoring markets to seek opportunities. Although rates are at record lows, the market turmoil over the eurozone, the impact of the QE programmes, and the possibility of the treasury reducing the margin paid above gilts for PWLB loans are encouraging patience, especially as there is a high margin between loans

taken on the short term market (0.3%) and long term borrowing (2.6% for 20 year loans).

Prudential Indicators

- 3.8 The Council has complied with its various 2011/12 Prudential Indicators, such as interest rate exposure, maturity structure for fixed rate borrowing, and authorised limit and operational boundary for external debt.

Budget implications

- 3.9 The treasury budget was underspent in 2011/12 as a result of lower interest rates, delays in the capital programme and reduced long term borrowing. A complete report on the Outturn for the financial year will be issued in August.

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 2012.

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
Corporate Services

MARTIN SPRIGGS
Head of Exchequer and Investment

APPENDIX 1

Brent treasury lending list

- 1 The current loans outstanding **as at 31st March 2012** are:

Name	Amount £m	Yield %	Lending Date	Maturity Date
Global Treas. Fund (RBS)	8.0	Var.	Call	
Gartmore cash reserve	2.0	Var.	Call	
Heritable bank	3.2	0.0	15.08.08	14/11/08
Glitnir (escrow account)	1.0	3.4	15.09.08	12/12/08
Isle of Wight	5.0	0.3	30.03.12	05.04.12
Santander UK	10.0	0.52	30.03.12	05.04.12
London Borough of Merton	5.0	0.30	30.03.12	02.04.12
UK Debt Management Office	<u>9.5</u>	0.25	30.03.12	03.04.12
Total	<u>43.7</u>			