BRENT COUNCIL	**FULL COUNCIL** 24 January 2011 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL

2010/11 Mid Year Treasury Management Report

1. SUMMARY

1.1 This report details treasury management activity for 2010/11.

2. RECOMMENDATION

2.1 Members are asked to note the 2010 Treasury Mid Year report.

3 DETAIL

3.1 The 2009 CIPFA Revised Code of Practice for Treasury Management established that members should receive a mid-year report on treasury management activity as part of the effort to improve scrutiny and transparency following problems with loans to Icelandic Banks. The Audit Committee has previously reviewed the mid year report at their meeting in December.

3.2 The Treasury Management Strategy for 2010/11 set out forecasts for the year. These were:

a) That inflation would remain low, world economic growth would accelerate and that long term interest rates might start to rise.
b) It was anticipated that most in house lending would be short term in nature, and that a revised Lending List, to include overseas banks, would be issued if markets remained calm.
c) If long term rates were rising, and short term rates likely to increase, borrowing would rise in line with the Capital Financing Requirement (CFR) that measures capital expenditure.

Lending activity

3.3 Appendix 1 sets out loans outstanding as at 31st October. Most lending activity has been short term (less than one month) in nature following the reduction in cash reserves in March 2009 and October 2010 to repay debt. The only change to the Lending List saw the removal of Alliance & Leicester following the removal of its credit rating on assimilation into Santander. Three year deposits made in 2007 and 2008 have gradually been repaid and re-invested at lower rates, reducing the income earned by the council. The external manager, Aberdeen Asset Management, continues to invest in one year certificates of deposit that yield better returns than those obtained by the in-house team.

3.4 In 2008, Brent deposited £15m with Icelandic banks - £10m with Heritable Bank, £5m with Glitnir Bank. The council has recovered a further £1m in 2010/11 from the administrators of Heritable, leaving £5.5m outstanding. It is anticipated that Brent will recover between 80% and 90% of its original deposit with Heritable. The legal case surrounding Glitnir, where the Winding up Board decided that local authorities were not preferred creditors, will continue for some time but our advisers are confident that the £5m will be recovered.

3.5 Although Brent has borrowed a further £20m for ten years from the Public Works Loan Board since April 2010 (to fund capital expenditure), forecasts that interest rates will remain low for some years mean that further borrowing will be minimal and balances reduced. However, the new Civic Centre project will require major capital expenditure, so that timing new loans is an important consideration.

Borrowing Activity

3.6 It had been anticipated that both short and long-term borrowing rates might rise during 2010/11. It was felt that long term rates were particularly vulnerable given the large Public Sector Borrowing Requirement of around £170bn. On this basis, £30m was taken in long term loans to finance capital expenditure. The Public Works Loans Board (PWLB – a government lending institution) has supplied £20m in 10 year Equal Instalment Payment loans (at 3.25%), and the private sector £10m (at 2%) in a 'LOBO' (Lenders Option, Borrowers Option, which allows the lender the option to ask for a higher rate at set points in the life of the loan, but allows the borrower to repay rather than pay a higher rate).

3.7 However, the savings glut in Asia, the 'flight to safety' arising from the Euroland PIIGS (Portugal, Ireland, Italy, Greece and Spain), demand for gilts from banks and pension funds, and lack of borrowing in the private sector, have driven rates to very low levels. More important, the slow economic recovery, expenditure reductions and tax rises planned by the government, and fears of a double dip recession have brought about a reconsideration of the rising bank rate scenario that had previously influenced many economic commentators. Both Capital Economics and our treasury adviser, Arlingclose, now believe that base rate may stay low for a prolonged period. On this basis, it makes little sense in the medium term (three to four years) for councils to hold cash balances earning 0.3% and borrow at 4%. Arlingclose has advised that Brent repays some debt and avoids long term borrowing, a strategy that has considerable economic merit.

3.8 In October 2010, the council repaid £50m PWLB debt. It is anticipated that this will save the General Fund £0.4m in 2010/11, and £0.7m in 2011/12. The council has replaced the PWLB debt with short term debt borrowed at 0.38%.

3.9 On 20th October, as part of the Central Spending Review, HM Treasury changed the terms under which councils borrow from the PWLB. Whereas previous loans had been made at a rate that was around 0.15% above the government cost of borrowing, HM Treasury have increased the differential to 1%. This will affect both fixed rate and variable rate loans. For example, the rate for 50 year loans rose from 4.23% to 5.1%. However, the discount rate used to calculate debt repayments has not been changed, making further debt restructuring activity much less likely. The new regime will encourage councils to avoid PWLB borrowing and to use their cash balances. It may also discourage capital projects, though there are other sources of long term finance, such as LOBOs or the issue of bonds.

Other issues

3.10 A member training session on Treasury management was held on 18th November, and attended by 16 members. The training covered both the regulatory framework and practical aspects of scrutinising and monitoring treasury functions.

3.11 All activity has complied with the Annual Investment Strategy set out in March 2010.

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 2010.
Audit Committee – Mid Year report 16th December 2010

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 October 2010** are:

Name	**Amount £m**	**Yield %**	**Lending Date**	**Maturity Date**
Global Treas. Fund (RBS)	0.1	Var.	Call	
Gartmore cash reserve	0.1	Var.	Call	
Heritable bank	5.5	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	
Skipton BS	5.0	6.48	01.07.08	01/07/11
RBS	5.0	1.13	22.09.08	22/09/11
Santander UK	9.5	0.81	14.10.10	12.11.10
Total	**30.3**	**1.52**		

Brent has also invested £23.4m 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:-

	Amount £m	**Yield %**	**Maturity Date**
Barclays Bank CD	2.7	1.45	01.08.11
RBOS CD	2.3	1.2	03.08.11
Clydesdale Bank CD	2.5	1.19	24.11.10
Barclays Bank CD	1.5	1.42	14.10.11
Nationwide BS CD	2.2	1.22	29.11.10
Lloyds TSB CD	2.0	1.17	06.12.10
Lloyds TSB CD	1.0	1.19	03.02.11
Lloyds TSB CD	1.5	1.2	03.08.11
RBOS CD	2.25	3.1	07.02.11
Nationwide BS CD	2.2	1.23	28.03.11
Abbey National CD	3.15	1.44	18.10.11
HSBC Current account	-		
Accrued interest	0.1		
	23.4	**1.4**	