REPORT FOR: CABINET

Date:	23 June 2010
Subject:	Treasury Management Outturn Report 2009/10
Key Decision:	No
Responsible Officer:	Myfanwy Barrett, Corporate Director Finance
Portfolio Holder:	Councillor Bill Stephenson, Leader and Portfolio Holder for Finance and Business Transformation
Exempt:	No
Decision subject to Call-in:	No
Enclosures:	Appendix 1 – Prudential Indicators

Section 1 – Summary and Recommendations

This report sets out the summary of Treasury Management activities for 2009/10

Recommendations:
Note the outturn position for Treasury Management activities for 2009/10.

Reason: (For recommendation)
(a) To promote effective financial management and comply with the Local Authorities (Capital Finance and Accounting) Regulations 2003 and other relevant guidance.
(b) To keep Cabinet Members informed of Treasury Management activities and performance.

Section 2 – Report

Introduction

1. The Council is required, under the Local Government Act 2003, to approve a Treasury Management Strategy each year. The strategy for 2009/10 was approved by the Council in February 2009 and complies with the DCLG guidance on local government investments and the CIPFA Code of Practice for Treasury Management.

   The primary requirements of the Code are as follows:

   - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
   - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
   - Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a midyear review report and an annual review report of the previous year.
   - Delegation by the Council of responsibility for the implementation and monitoring of its treasury management policy to Cabinet and for the execution and administration of treasury management decisions to the Council's Section 151 Officer.

2. In the light of the Icelandic situation in 2008, CIPFA has amended the CIPFA Code of Practice for Treasury Management. The revised code of Practice is applicable to the financial year 2010/11. The additional requirement of scrutiny of the Treasury Management Strategy, Policies and Activity has been delegated to Governance Audit Risk and Management committee (GARM). This report will be submitted to the GARM committee at the end of June for scrutiny as per the code requirements.

3. **This Annual Treasury Report Covers**
   - the overall outturn position on treasury management
   - the Council's treasury position as at 31 March 2010;
   - the economy in 2009/10;
   - the borrowing outturn for 2009/10;
   - compliance with treasury limits and Prudential Indicators;
   - investment outturn for 2009/10;

4. **Outturn Position**

There was a favourable variance of £2.0m on the capital financing budget of £19.0m as detailed below:-

	Latest Budget	Outturn	Variation	
	£0	£0	£0	%
Cost of Borrowing	10,257	9,309	-948	-9.24
Investment Income	-347	-1,322	-975	-280.98
Minimum Revenue Provision	9,115	9,002	-113	-1.24
Total	**19,025**	**16,989**	**-2,036**	**-10.70**

The reasons for variations are explained in the report in paragraph 5, 8 and 9.

5. **Treasury Position as at 31 March 2010**
The Council's debt and investment position at the beginning and the end of the year was as follows:

	31st March 2010	**Average Rate**	**Average Life yrs**	31st March 2009	Average Rate	Average Life yrs
	£m	**%**	**Yrs**	£m	%	Yrs
Fixed Rate Borrowing						
Public Works Loan Board (PWLB)	130.3	4.49	33.72	135.4	4.38	33.33
Market	111.8	4.85	36.89	81.8	5.18	34.63
Total Debt	**242.1**	**4.66**		217.2	4.69	
Investments:						
In-House	95.3	2.25		84.9	5.26	
Total Investments	**95.3**			84.9		

6. **The Economy and Interest Rates**
During 2009/10 the Monetary Policy Committee (MPC) was focused on helping the economy to turn around from plunging into the deepest and longest recession the UK economy had experienced for many years.

Despite keeping the Bank Rate at an unprecedented historical low of 0.5% all year, the MPC also had to resort to extreme measures in terms of pumping liquidity into the economy through quantitative easing by purchasing £200bn gilts and corporate bonds. This had the effect of boosting prices for gilts and corporate bonds and therefore bringing down yields, so also reducing borrowing costs for both the corporate and public sector.

It was notable that the increase in money supply in the economy generated by this programme brought the credit crunch induced spread between Bank Rate and 3 month LIBID (investment rate that depositors could earn) down from 0.95% at the beginning of the financial year to zero during August 2009.

The dominant focus in 2009/10 was on quarterly GDP growth figures. The recession bottomed out in quarter 1 of 2009. There was then major disappointment that the end of the recession failed to materialise in quarter 3 2009 but the fourth quarter of 2009 did then see economic growth return at +0.4%.

Inflation has not been a major concern of the MPC as it fell back below the 2% target level from June to November. However, it did spike upwards to reach 3.5% on the back of the unwinding of the temporary cut in VAT to 15% on 1 January 2010. This was not seen as a cause for alarm as this spike was expected to fall out of the inflation index and inflation was forecast by the Bank of England to fall back under target by the end of 2010.

7. **Borrowing Outturn for 2009/10**
The table overleaf shows, for a selection of maturity periods, the range in rates, the average rates and individual rates at the start and the end of the financial year.

	PWLB BORROWING RATES 2009/10 for 1 to 50 years								
	1	2	3	4	5	10	25	50	1 month variable
1. 4.2009	0.83%	1.41%	1.89%	2.26%	2.54%	3.36%	4.28%	4.57%	0.80%
31.3.2010	0.83%	1.41%	1.95%	2.45%	2.89%	4.19%	4.67%	4.70%	0.65%
HIGH	1.20%	1.91%	2.48%	2.94%	3.29%	4.42%	4.83%	4.85%	0.80%
LOW	0.68%	1.29%	1.79%	2.20%	2.47%	3.30%	4.07%	4.18%	0.55%
spread	0.52%	0.62%	0.69%	0.74%	0.82%	1.12%	0.76%	0.67%	0.25%
average	0.90%	1.53%	2.08%	2.53%	2.90%	3.93%	4.49%	4.51%	0.63%
high date	09/06/2009	12/06/2009	12/06/2009	24/07/2009	28/07/2009	22/02/2010	22/02/2010	02/06/2009	01/04/2009
low date	16/09/2009	09/10/2009	09/10/2009	02/04/2009	02/04/2009	02/04/2009	09/10/2009	09/10/2009	17/07/2009

Total long term debt of £242.1m at the end of March 2010 is made up £111.8m Bank loans and £130.3m PWLB loans. The maturity of a debt is determined by reference to the earliest date on which the lender can require payment.

The following activities were carried out in respect of Long Term Borrowing:-

- Lenders Option Borrower's Option (LOBO) borrowing of £10m fixed in July 2009 with drawdown in February 2010 for a 50yr period, fixed at 4.30% for 5 yrs.
- Lenders Option Borrower's Option (LOBO) borrowing of £10m fixed in October 2009 with drawdown in February 2010 for a 50yr period, fixed at 3.65% for 5 yrs.
- Lenders Option Borrower's Option (LOBO) borrowing in March 2010 of £10m for a 50yr period, fixed at 3.75% for 5 yrs.

The table below sets out the position as at 31 March 2010

	31st March 2010		31st March 2009	
	£m	**%**	£m	%
Under 12 Months	0.1	0.0	5.0	2.3
12 Months and under 24 Months	0.2	0.1	0.0	0
24 Months and within 5 years	10.0	4.1	10.2	4.7
5 years and within 10 years	26.0	10.7	26.1	12.0
10 years and above	205.8	85.0	175.9	81.0
Total	**242.1**	**100.0**	217.2	100.0

As highlighted in section 5 above the average debt portfolio interest rate has moved over the course of the year from 4.69**%** to **4.66%.** The approach during the year was to draw longer term fixed rate debt, to take advantage of low long term rates and reduce exposure to fluctuations in short term interest rates:

The outturn position on Capital Financing was a favourable variance of £0.9m. This represents a lower borrowing cost as a result of favourable rates and borrowing later in the year.

8. **Compliance with Treasury Limits**

The prudential framework for local authority capital investment was introduced through the Local Government Act 2003. The prudential system provides a flexible framework approach within which capital assets can be procured, managed, maintained and developed. Under this framework, individual authorities are responsible for deciding the level of their affordable borrowing for the Council's capital investment plans, that is demonstrated to be affordable, prudent and sustainable.

The Act and the supporting regulations require the Council to have regard to the Prudential Code and to set Prudential Indicators for the next three years. These indicators were approved by the Cabinet in February 2009. During the financial year the Council operated within the treasury limits and Prudential Indicators as shown in Appendix 1.

The total capital expenditure for 2009/10 was £96m. Approximately £63m (65% of the total expenditure) was funded from grants, revenue contributions and capital receipts. This resulted in the borrowing requirement of £33m.

9. **Investment Outturn for 2009/10**
At the start of 2009/10, investment rates were enhanced by a substantial credit crunch induced margin. However, the Bank of England's quantitative easing operations had the desired effect of improving the supply of credit in the economy and so these margins were eliminated by half way through the year. Consequently, investment rates fell markedly during the first half of the year.

	INVESTMENT RATES 2009-10					
	Overnight	7 Day LIBID	1 Month	3 Month	6 Month	1 Year
01-Apr-09	0.49%	0.55%	0.89%	1.50%	1.73%	1.93%
31-Mar-10	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
High	0.49%	0.55%	0.89%	1.50%	1.73%	1.93%
Low	0.38%	0.38%	0.38%	0.42%	0.61%	0.96%
Average	0.40%	0.42%	0.47%	0.73%	0.94%	1.29%
Spread	0.12%	0.17%	0.51%	1.09%	1.13%	0.97%
high date	01/04/2009	01/04/2009	01/04/2009	01/04/2009	01/04/2009	01/04/2009
low date	09/09/2009	02/10/2009	18/09/2009	29/09/2009	29/09/2009	28/09/2009

The Council manages its investments in-house and invests with the institutions listed in the Council's approved lending list. The Council invests for a range of periods from overnight to 364 days / 5Y years, dependent on the Council's cash flows, its interest rate view and the interest rates on offer.

During the year all investments were made in full compliance with this Council's treasury management policies and practices.

In order to counter the downturn in investment rates and earnings part of the investment portfolio was held in liquidity accounts with main UK banks. These accounts offered both instant access and rates which were often double those available in the money markets through brokers for overnight money and higher than for most periods up to six months.

With short dated interest rates remaining at record lows, and expectation that this would remain the case for some time, the opportunity existed to secure performance by investing in the longer dated periods with suitable approved counterparties. The council took advantage of this opportunity and secured returns by locking into these periods. Once limits with these eligible institutions had been exhausted the interest rate scenario did not lend itself to investing in fixed term deposits, with call accounts offering better returns than periods up to six months. Thus the nature of the fund has changed in the last year with investment at the two extremes, the longest period and the most liquid. Over

time this has left a portfolio that now has a comfortable spread of maturities for 45% of the portfolio over the six months between September this year and March 2011.
A total of £95.3m investments were placed via the London money market as at 31 March 2010. The average return achieved on investments for the year was 2.25%. This figure compared favourably with the average 7 day and 3 month London Interbank Bid (LIBID) rate for the year of 0.42% and 0.73% respectively.

The actual income was £1.3m compared to a revised budget of £0.3m. The main reason for the favourable variation amounting to £1m is mainly due to higher rates secured on investments and a more favourable cash flow position than originally anticipated.

The table below sets out the position as at 31 March 2010.

	31st March 2010		31st March 2009	
	£m	**%**	£m	%
Specified Investments				
Banks & Building Societies	75.4	79.1	52.9	62.3
Money Market Funds	14.9	15.6	5	5.9
Non –Specified Investments				
Building Societies	5	5.2	27	31.8
Total	**95.3**	**100.0**	84.9	100.0

9. **Minimum Revenue Provision (MRP)**
Under the statutory regulations a Minimum Revenue Provision is made each year to repay the outstanding debt on assets. This is calculated by spreading the capital expenditure over the useful life of the asset. The MRP outturn was a favourable variance of £0.113m.

Financial Implications
Financial matters are integral to the report.

Environmental Impact
There are no direct environmental impacts.

Performance Issues
The Council meets the requirement of the CIPFA Code of Practice for Treasury Management and therefore is able to demonstrate best practice for the Treasury Management function.

Risk Management Implications
Under the current economic climate there is a risk that the Council could lose its deposits due to failure of a counter party.

Risk included on Directorate risk register? Yes
Separate risk register in place? No

Equalities Implications
There are no direct equalities impact.

Corporate Priorities
This report deals with the Treasury Management activity and the Prudential Code which underpin the delivery of the Council's corporate priorities.

Section 3 - Statutory Officer Clearance

Name: Myfanwy Barrett Date: 1 June 2010	√	Chief Financial Officer

Name: George Curran Date: 1 June 2010	√	on behalf of the Monitoring Officer

Section 4 – Performance Officer Clearance

Name: Alex Dewsnap Date: 1 June 2010	√	Divisional Director

Section 5 – Environmental Impact Officer Clearance

Name: John Edwards Date: 28 May 2010	√	Divisional Director

Section 6 - Contact Details and Background Papers

Contact: Jennifer Hydari (Divisional Director, Finance & Procurement) Tel: 020-8424-1393 / Email: jennifer.hydari@harrow.gov.uk

Background Papers:

Call-In Waived by the Chairman of Overview and Scrutiny Committee *(for completion by Democratic Services staff only)*	**NOT APPLICABLE**

Appendix 1

PRUDENTIAL INDICATOR	2008/09	2009/10	2009/10
	Actual	Approved	Actual
	£'000	£'000	£'000
Capital Expenditure			
Non - HRA	83,310	53,946	84,822
HRA	15,590	6,997	11,163
Total Expenditure	**98,900**	**60,943**	**95,985**
Funding:-			
Grants	44,707	22,530	57,638
Capital Receipts	3,355	250	1,314
Revenue Financing	1,000	1,000	0
Major Repairs Allowance	3,557	3,778	3,778
Borrowing to Fund the Capital Programme	46,281	33,385	33,255
	98,900	**60,943**	**95,985**
Ratio of financing costs to net revenue stream			
Non - HRA	5.73%	10.14%	8.79%
HRA	26.87%	38.55%	25.03%
Net borrowing requirement			
brought forward 1 April	129,288	131,568	144,667
carried forward 31 March	144,667	204,748	182,054
in year borrowing requirement	**15,379**	**73,180**	**37,387**
Capital Financing Requirement (CFR) as at 31 March			
Non – HRA	196,536	221,503	213,894
HRA	47,580	49,130	54,474
Total	**244,116**	**270,633**	**268,368**
Annual Change in CFR - General Fund	29,911	22,722	17,358
Annual Change in CFR - HRA	10,673	1,969	6,894
Total Annual Change in CFR	**40,584**	**24,691**	**24,252**
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum	49.87	36.41	42.35
Increase in average housing rent per week	5.55	18.54	2.07
Authorised Limit for external debt			
Borrowing	217	311	269
Other long term liabilities	0	0	19
Total	**217**	**311**	**288**
Operational Boundary for external debt			
Borrowing	217	288	269
Other long term liabilities	0	0	19
Total	**217**	**288**	**288**
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	217	288	269
Upper limit for variable rate exposure			
Net principal re variable rate borrowing/Investments	85	115	0
Upper limit for total principal sums invested for over 364 days	11	25	7

Maturity structure of fixed rate borrowing during 2010/11	**upper limit**	**lower limit**	**Actual March 2010**	
	%	**%**	**£m**	**%**
under 12 months	20	0	0.10	0.04
12 months and within 24 months	20	0	0.20	0.08
24 months and within 5 years	30	0	10.00	4.13
5 years and within 10 years	40	10	26.00	10.74
10 years and above	95	30	205.80	85.01