



AUDIT AND PENSIONS COMMITTEE

22 September 2011

CONTRIBUTORS

DFCS

TREASURY MANAGEMENT OUTTURN REPORT

WARDS All

This report provides information on the Council's debt, borrowing and investment activity for the financial year ending 31st March 2011

RECOMMENDATION:

RECOMMENDATIONS:

- 1) To note that the Council has not undertaken any borrowing for the period 1st April 2010 to 31st March 2011.
- 2) To note the investment activity for the period 1st April 2010 to 31st March 2011.

LOCAL GOVERNMENT ACT 2000 - BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department/Location
1.	Loans and Investments Ledger	Rosie Watson Ext: 2563	Room 42, Ground Floor, Town Hall
2.	CIPFA Treasury Management Code of Practice	Rosie Watson Ext: 2563	Room 42, Ground Floor, Town Hall

1. Introduction and Background

- 1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2010/11. This report meets the requirements of both CIPFA Code of Practice on Treasury Management (the Code).
- 1.2 During 2010/11 the minimum reporting requirements were that the full Council should receive the following reports:
 - An annual treasury strategy in advance of the year.
 - A mid year treasury update report.
 - An annual report following the year describing the activity compared to the strategy report.
- 1.3 Recent changes in regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 1.4 The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Pensions Committee before they are reported to the full Council. Member training on treasury management issues was undertaken during the year on 8th February 2011 in order to support Members' scrutiny role.

2. This annual report covers:

- The Council's treasury position as at 31 March 2011 (Para. 3)
- Economic review (Para.4)
- Borrowing rates (Para. 5)
- Investment rates (Para.6)
- Investment outturn for 2010/11 (Para. 7)
- Compliance with treasury limits and Prudential Indicators (Para. 8)

3. Treasury Position as at 31st March 2011

- 3.1 The Council's debt and investment position is organised in order to ensure adequate liquidity for revenue and capital activities, security for investments and management of risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2010/11 the Council's treasury position was as follows:

Table 1 – Outstanding Debt

	31 March 2010		31 March 2011	
	Principal	Average Rate	Principal	Average Rate
	£000's		£000's	
Fixed Rate - PWLB	475,520		475,520	
Variable Rate - PWLB	Nil		Nil	
Market & Temporary Loans	Nil		Nil	
Total	475,520	5.93%	475,520	5.75%
Total Investments	137,000	1.24%	70,400	1.05%

- 3.2 Debt Performance - As shown in Table 1 the average debt portfolio rate has reduced over the course of the year from 5.93 to 5.75%.
- 3.3 The General Fund Capital Finance Requirement (CFR) is £122 million as at 31/03/11 compared to £133 million as 31/03/10 a reduction of £11 million. The HRA CFR is £414 million as at 31/03/11 compared to £404 million as at 31/03/10 an increase of £10 million.
- 3.4 The reduction to the General Fund CFR has partly been achieved by using £5 million of the Decent Neighbourhood cash surplus of £8.7 million for 2010/11 towards the debt reduction programme. This is on the understanding that the decent neighbourhoods pot is reimbursed from general fund resources in future years. By applying the surplus cash in this way results in a saving to the General Fund.
- 3.5 The CFR represents the underlying borrowing need of the HRA and General Fund. The reason why actual borrowing is lower than the CFR is because the Council has effectively borrowed from its internal resources.

4. Economic Review and Interest Rates

- 4.1 2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75% - 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.
- 4.2 UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being

decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

- 4.3 Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government's debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected (during February/March 2011) to cause the Monetary Policy Committee to start raising Bank Rates earlier than previously expected.
- 4.4 The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May), then Ireland (December), were forced to accept assistance from a combined EU/IMF rescue package. Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government bonds.
- 4.5 Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at ultra low levels.
- 4.6 Risk premiums were also a constant factor in raising money market deposit rates beyond 3 months. Although market sentiment has improved, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, mean that investors remain cautious of longer term commitment. The European Commission did try to address market concerns through a stress test of major financial institutions in July 2010. Although only a small minority of banks "failed" the test, investors were highly skeptical as to the robustness of the tests, as they also are over further tests now taking place with results due in mid 2011.

5. Borrowing Rates 2010/11

- 5.1 PWLB borrowing rates – the table for PWLB maturity rates below shows a selection of maturity periods, the range (high and low points) in rates, the average and individual rates at the start and the end of the financial year.

5.2 Variations in most PWLB rates have been distorted by the October 2010 decision by the PWLB to raise its borrowing rates by about 0.75 -0.85% e.g. if it had not been for this change, the 25 year PWLB at 31st March 2011 (5.32%) would have been only marginally higher than the position at 1st April 2010.

PWLB BORROWING RATES 2010/11 FOR 1 TO 50 YEARS

Years	1	1.5- 2	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1mth variable
01/04/10	0.81%	1.37%	1.91%	2.4%	2.84%	4.14%	4.62%	4.65%	0.65%
31/03/11	1.87%	2.34%	2.79%	3.21%	3.57%	4.71%	5.32%	5.25%	1.57%
High	1.99%	2.10%	3.00%	3.44%	3.83%	4.99%	5.55%	5.48%	1.57%
Low	0.60%	0.88%	1.18%	1.50%	1.82%	3.60%	3.93%	3.93%	0.65%
Average	1.77%	1.59%	2.009%	2.413%	2.788%	4.05%	4.771%	4.756%	1.052%
Spread	1.39%	1.63%	1.82%	1.94%	2.01%	1.93%	1.63%	1.55%	0.92%
High Date	07/02/11	07/02/11	07/02/11	01/02/11	09/02/11	09/02/11	09/02/11	09/02/11	07/03/11
Low Date	15/06/10	12/10/10	12/10/10	12/10/10	12/10/10	31/08/10	31/08/10	31/08/10	01/04/10

5.3 Debt Performance - As shown in Table 1 the average debt portfolio rate has reduced over the course of the year from 5.93 to 5.75%.

5.4 An analysis of the Council's long term (PWLB) borrowings by maturity (i.e. date of repayment) is as follows:

PWLB	31 March 2010 £000s	31 March 2011 £000s
Up to One year	0	16,000
One to two years	16,000	175
Between two and five years	25,533	52,881
Between five and ten years	77,923	70,400
More than ten years	<u>356,064</u>	<u>336,064</u>
Total	<u>475,520</u>	<u>475,520</u>

6.3 At the start of 2010/11, investment rates (LIBID) were at their lowest and gradually increased to finish at their highest levels at the end of the financial year. The longer the period of investment the greater the increase in rate.

- **Overnight rate:** this varied little during the year within a range of 0.41 – 0.44%.
- **1 month rate:** from a low point for the year of 0.52% on 01/4/10, the rate gradually reached a high of 0.69% at the end of the financial year 31/03/11.
- **12 month rate:** this started the year at 1.19% and finished the year with a high of 1.47% and a spread of 0.28%.

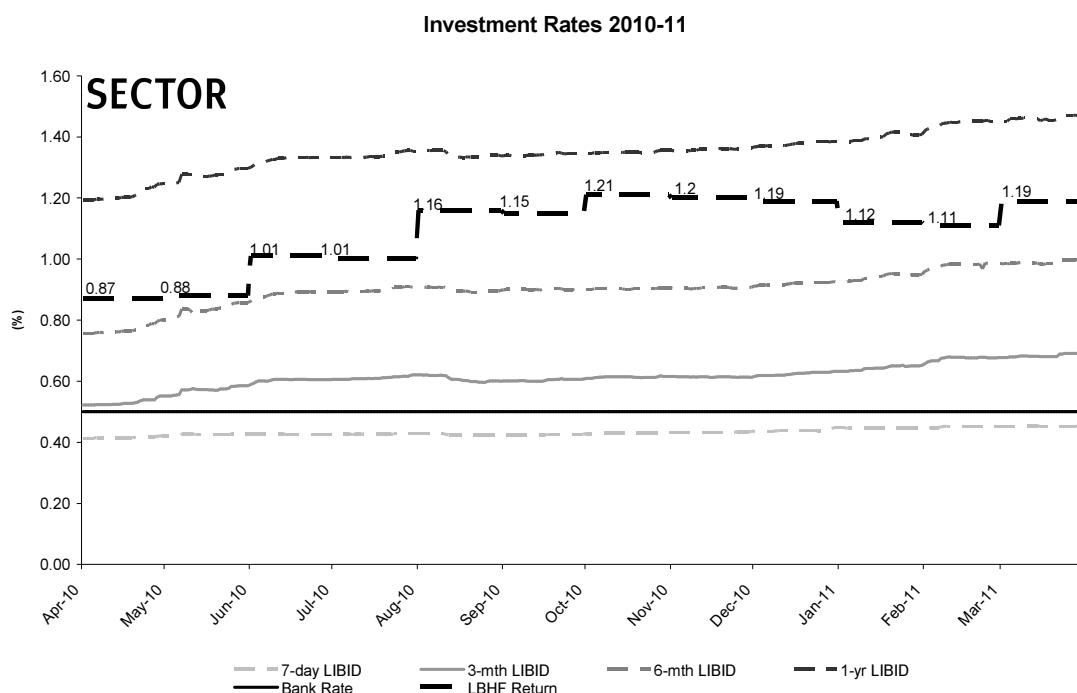
7. Investment Outturn for 2010/11

7.1 Investment Policy – the Council’s investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 27th February 2010. The policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices).

7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.3 The table below shows Hammersmith & Council investment performance against 7 day, 3 months, 6 months and 1 year LIBID.

7.4 The table shows that the Council’s investments have out performed 7 day, 3 months and 6 months LIBID but not the 1 year LIBID rate. This is because the Council has take a very prudent approach to it’s investments both to the counterparties we use and the duration of the investments.



8. List of Investment held at 31st August 2011

All investments have been carried out in accordance with the Council approved strategy.

Money Fund	Market	Principal £'m	Interest Rate	Start Date	Maturity Date
Blackrock		10	0.60%		Call
Insight Investments		9	0.63%		Call
*Primerate Capital		10	0.79%		Call
Banks					
NatWest Bank		20	0.87%		Call
Lloyds Bank		5	1.25%	20/07/11	20/10/11
Barclays Bank		5	1.06%	20/04/11	20/10/11
Lloyds Bank		5	1.90%	19/11/10	18/11/11
Lloyds Bank		5	1.45%	20/07/11	20/01/12
NatWest Bank		5	1.21%	01/08/11	01/05/12
NatWest Bank		5	1.28%	19/05/11	20/02/12
Lloyds Bank		5	2.65%	02/06/11	27/07/12
Lloyds Bank		5	2.65%	19/05/11	27/07/12
NatWest Bank		5	1.42%	01/08/11	30/07/12
Lloyds Bank		5	2.10%	03/08/11	01/08/12
Total Investments		99			

8.1 *Prime Rate capital Management is the first independent, specialist provider of Money Market Funds serving the corporate and institutional market. (A Money Market Fund is a pooled short-term investment vehicle whose Assets are comprised of cash type instruments such as certificate of deposits, short dated bonds, commercial paper and cash deposits). The funds we use are all AAA rated, are liquid (we have daily access).

9. Compliance with Treasury Limits and Prudential Indicators

During the financial year the Council operated within its treasury limits and Prudential Indicators as set out in the Council's Treasury Strategy Report.

10. Comments of the Director of Finance and Corporate Services

The comments of the Director of Finance and Corporate Services are contained within this report.

11. Comments of the Head of Legal Services

There are no direct legal implications for the purpose of this report.

12. Equalities Statement

As per the Equality Act 2010, the Council must consider its obligations with regard to the Public Sector Equality Duty (PSED). It must carry out its functions (as defined by the Human Rights Act 1998) with due regard to the duty and its effect on the protected characteristics (below) in relevant and proportionate a way. The duty came into effect on 5th April 2011. The protected characteristics are:

- Age
- Disability
- Gender reassignment
- Marriage and civil partnership
- Pregnancy and maternity
- Race
- Religion/belief (including non-belief)
- Sex
- Sexual orientation

In this case, none of the protected characteristics is relevant and none will be impacted by the proposals.

13. Recommendations

13.1 To note that the Council has not undertaken any borrowing for the period 1st April 2010 to 31st March 2011

13.2 To note the investment activity for the period 1st April 2010 to 31st March 2011.

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