Report to Council

27 OCTOBER 2010

CONTRIBUTORS	Subject	WARDS
Director of FCS	**TREASURY MANAGEMENT OUTTURN REPORT**	All
	This report provides information on the Council's debt, borrowing and investment activity for the financial year ending 31 March 2010.	

<u>RECOMMENDATIONS:</u>

To note the borrowing and investment activity for the period 1 April 2009 to 31 March 2010.

1. Introduction and Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2009 was adopted by this Council in February 2010 and this Council fully complies with its requirements.

1.2 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 Full Council of an annual treasury management strategy report for the year ahead, a midyear review report, and an annual review report of the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit and Pensions Committee.

2. This annual report covers:

- The Council's treasury position as at 31 March 2010 (Para. 3)
- Economic review (Para.4)
- Borrowing rates (Para. 5)
- Borrowing outturn for 2009/10 (Para. 6)
- Investment outturn for 2009/10 (Para. 7)
- Debt rescheduling (Para. 8)
- Compliance with treasury limits and Prudential Indicators (Para. 9)

3. Current Treasury Position

3.1 The Council's borrowing position at the beginning and end of the year is set out in Table 1.

Table 1 – Outstanding Debt

	31 March 2009		31 March 2010	
	Principal	**Ave. Rate**	**Principal**	**Ave. Rate**
	£000's		**£000's**	
Fixed Rate - PWLB	398,520		475,520	
Variable Rate - PWLB	Nil		Nil	
Market & Temporary Loans	Nil		Nil	
Total	**398,520**	6.06%	**475,520**	5.93%
Total Investments	**76,000**	4.94%	**137,000**	1.24%

3.2 The General Fund Capital Finance Requirement (CFR) is £133 million as at 31/03/10 compared to £137 million as 31/03/09 a reduction of £4 million. The HRA CFR is £405 million as at 31/03/10 compared to £353 million as at 31/03/09 an increase of £52 million. The increase in the HRA CFR is due to the delivery of the decent homes programme. Total CFR is £538 million as at 31/03/10.

3.3 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 affectively borrowed from its internal resources.

4. Economic Review

4.1 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.

4.2 Despite keeping 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.

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

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

4.5 CPI 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 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.

4.6 More recent figures have been released which show UK CPI inflation peaked at 3.7% in April and slowed to 3.4% in May which is the first decline for three months as lower costs of items from food and transport eased price pressures in the economy. Although the CPI figure fell on the month, it is still well above the 2% target rate due to the VAT restored to 17.5% in January.

4.7 The latest data would suggest that CPI inflation may have peaked in the short term and the spare capacity in the economy should pull down inflation going forward. In 'normal time' such high inflation would trigger a series or rate rises from the MPC, however the Committee is likely to remain cautious given the outlook for growth and the troubles in the Euro area.

5. Borrowing Rates 2009/10

5.1 Variations in most PWLB rates this year have been within a fairly limited band compared to previous years with the largest spread being 1.12% in the 10 year.

5.2 **5 Year PWLB rate**. This started the year at 2.54% and then fell to a low for the year of 2.47% before then rising sharply to hit a peak of 3.29% in July. From there it fell until reaching 2.54% in October and then rose back up to a peak 3.13% in January. It finished the year at 2.89%.

5.3 **10 Year PWLB rate**. This started the year at 3.36% and then fell to a low for the year of 3.30% before then rising sharply and rose to hit a peak of 4.15% in July. From there it fell until reaching 3.55% in October and then rose back up to a peak of 4.42% in February. It finished the year at 4.19%.

5.4 **25 Year PWLB rate**. This started the year at 4.28% and then peaked in the 4.70%'s during June – August before falling to a bottom of 4.07% in October. From there it rose again towards the end of the year to return to the 4.70's and peaked at 4.83% in February. It finished the year at 4.67%.

5.5 **50 Year PWLB rate**. This started the year at 4.57% and then peaked a 4.85% in June before falling back to a low of 4.18% in October. From there it rose again towards the end of the year and peaked at 4.79% in March. It finished the year at 4.70%.

6. Borrowing Outturn for 2009/10

6.1 As a result of the H&F Homes bid in 2005/06 for £192 million to the DCLG for supported borrowing for the Decent Homes Initiative there was a borrowing requirement of £77 million. It was decided to take advantage of low long term rates and reduce expose to fluctuations in short term interest rates that borrowing would be taken in November 2009. This borrowing will be supported through the Housing Revenue Account Subsidy.

6.2 To balance the Council's debt maturity portfolio this was taken over the following periods.

- 7 Million at 3.95% for 10 years
- 20 Million at 4.04% for 11 years
- 20 million at 4.31% for 19 years
- 20 Million at 4.25% for 15 years
- 10 Million at 4.32% for 21 years

6.3 Debt Performance - As shown in para 3 the average debt portfolio rate has reduced over the course of the year from 6.06% to 5.93%.

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

PWLB	31 March 2009 £000s	31 March 2010 £000s
Up to two years	0	16,000
Between two and five years	36,430	25,533
Between five and ten years	66,026	77,923
More than ten years	296,064	356,064
Total	398,520	475,520

6.5 An analysis of movements on loans and investments during the period is shown below:

	Balance 31.03.09 £000s	Loans/Invs Raised £000s	Loans/Invs Repaid £000s	Balance 31.03.10 £000s
PWLB	398,520	77,000	0	475,520
Temporary loans	0	0	0	0
Total debt	398,520	77,000	0	475,520
Investments	76,000	973,950	912,950	137,000,

7. Investment Outturn for 2009/10

7.1 At the start of 2009/10, investment rates were enhanced by a 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.

7.2 **Overnight rate**: this varied little during the year within a range of 0.38 – 0.49%.

7.3 **3 month rate**: from a high point for the year of 1.50% on 01.4.09, the rate fell gradually to reach a low of 0.42% in September before finishing the year at 0.52%.

7.4 **12 month rate:** this started the year at a credit crunch enhanced rate of 1.85% and fell steadily until reaching 0.85% in September. Since then it has risen to finish the year at 1.15% as the market looked ahead to when the MPC would have to start raising Bank Rate from its then current rate of 0.50%.

7.5 Investment Performance – 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 over night to 364 days, dependent on the Council's cash flow, its interest rate view and the interest rates on offer.

	Average Investment	Average Interest Rate	Benchmark Return
Internally Managed	£103,700,000	1.24%	0.37%

7.6 The benchmark for internally managed funds is the weighted average 7-day LIBID rate sourced from the Financial Times.

7.7 Investments as at 31 March 2010 stood at £137,000,000, whilst the average for the year was £103,700,000. The Council exceeded the benchmark return by 0.87%.

7.8 The Council has also strengthened its credit criteria by using all three credit rating agencies Fitch, Moody's and Standard and Poor rating plus data on movements in credit default swaps. Credit ratings, alerts and changes are notified to treasury officers on a daily basis and these are acted upon immediately. In addition officers monitor the financial press and economic reports. The Council is alerted to changes to ratings of all three agencies through its use of Sector's creditworthiness service. This methodology was approved at Council on 24 February 2010.

7.9 Since the report to Council in February 2010 the banking sector has remained an area of uncertainty and the current policy is that whilst we maintain our lending list in accordance with the agreed methodology, we continue to operate a more restricted lending list and only lend to UK Government guaranteed institutions and the UK Government.

8. Debt Rescheduling

8.1 On 1 November 2007 the PWLB imposed two rates for each period, one for new borrowing and a new, significantly lower rate for early repayment of debt. The differential between the two rates ranged from 26bp (basis points) in the shorter dated maturities to over 40bp in the longer ones. They also introduced daily movements of 1bp instead of 5bp and rates in half year periods throughout the maturity range (previously had been mainly in 5 year bands). These changes effectively meant that restructuring the portfolio into new PWLB borrowing would not produce savings.

9. Compliance with Treasury Limits and Prudential Indicators

9.1 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

10.1 The comments of the Director of Finance are contained within this report.

11. Comments of the Head of Legal Services

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

12. Comments of the Audit and Pensions Committee

12.1 The Audit and Pensions Committee noted the report at its meeting held on 22 September 2010.

13. Recommendations

13.1 To note the borrowing and investment activity for the period 1 April 2009 to 31 March 2010.

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 4, Ground Floor, Town Hall
2.	Treasury Management documents	Rosie Watson Ext: 2563	Room 4, Ground Floor, Town Hall