Report No. **RES11125**	**London Borough of Bromley** **PART 1 - PUBLIC**	**Agenda** **Item No.**

Decision Maker:	**Resources Portfolio Holder** **Council**		
Date:	**For pre-decision scrutiny by Executive and Resources PDS Committee on 14th November 2011** **Council meeting date 20th February 2012**		
Decision Type:	Non-Urgent	Executive	Non-Key
Title:	**TREASURY MANAGEMENT - MID-YEAR REVIEW 2011/12**		
Contact Officer:	Martin Reeves, Principal Accountant (Technical & Control) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk		
Chief Officer:	Director of Resources		
Ward:	All		

1. <u>Reason for report</u>

1.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009; it recommends that members should be updated on treasury management activities at least twice a year, but preferably more frequently. This report summarises treasury management activity during the period 1st April 2011 to 30th September 2011 and includes a Mid-Year Review of the Treasury Management Strategy Statement and Annual Investment Strategy (Annex A). The report also includes an update on the Council's investment with Heritable Bank (paragraph 3.10) and ensures that the council is implementing best practice in accordance with the Code.

RECOMMENDATION(S)

The Portfolio Holder is asked to:

2.1 Note the report and

2.2 Subject to the views of the E&R PDS Committee, recommend that full Council approve the changes to the prudential indicators, as set out in Annex B.

Council is asked to:

2.3 Note the report and

2.4 Subject to the approval of the Portfolio Holder, approve the changes to the prudential indicators, as set out in Annex B.

Corporate Policy

1. Policy Status: Existing policy. To seek to achieve the highest rate of return on investments whilst maintaining appropriate levels of risk, particularly security and liquidity.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: N/A

2. Ongoing costs: N/A.

3. Budget head/performance centre: Interest on balances

4. Total current budget for this head: £2.691m (net) in 2011/12; surplus of £700k currently forecast

5. Source of funding: Net investment income

Staff

1. Number of staff (current and additional): 0.4 fte

2. If from existing staff resources, number of staff hours:

Legal

1. Legal Requirement: Non-statutory - Government guidance.

2. Call-in: Call-in is applicable Changes to the Annual Investment Strategy and the Prudential Indicators require Council approval

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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): n/a

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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.

2. Summary of Ward Councillors comments:

3. COMMENTARY

General

3.1 Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required to approve an annual treasury strategy in advance of the year, a mid-year review report and an annual report following the year describing the activity compared to the strategy. In practice, the Director of Resources has reported quarterly on treasury management activity for many years, as well as reporting the annual strategy before the year and the annual report after the year. This report includes details of treasury management activity during the first half of the financial year 2011/12 and includes details of investments in place as at 30th September 2011 (Appendices 1 and 2). A mid-year review of performance against the strategy for 2011/12, which was approved by Council in February 2011, is attached at Annex A and this includes an economic update. Changes to prudential indicators requiring the approval of full Council are set out in Annex B.

Treasury Performance in the half-year 1st April 2011 to 30th September 2011

3.2 **Borrowing:** The Council's healthy cashflow position has continued into 2011/12, as a result of which no borrowing has been required during the first six months of the year. In 2009/10, only four loans were taken out to cover short-term cashflow shortages and, in 2010/11, only one small overnight loan (for £800k) was taken out (in March 2011).

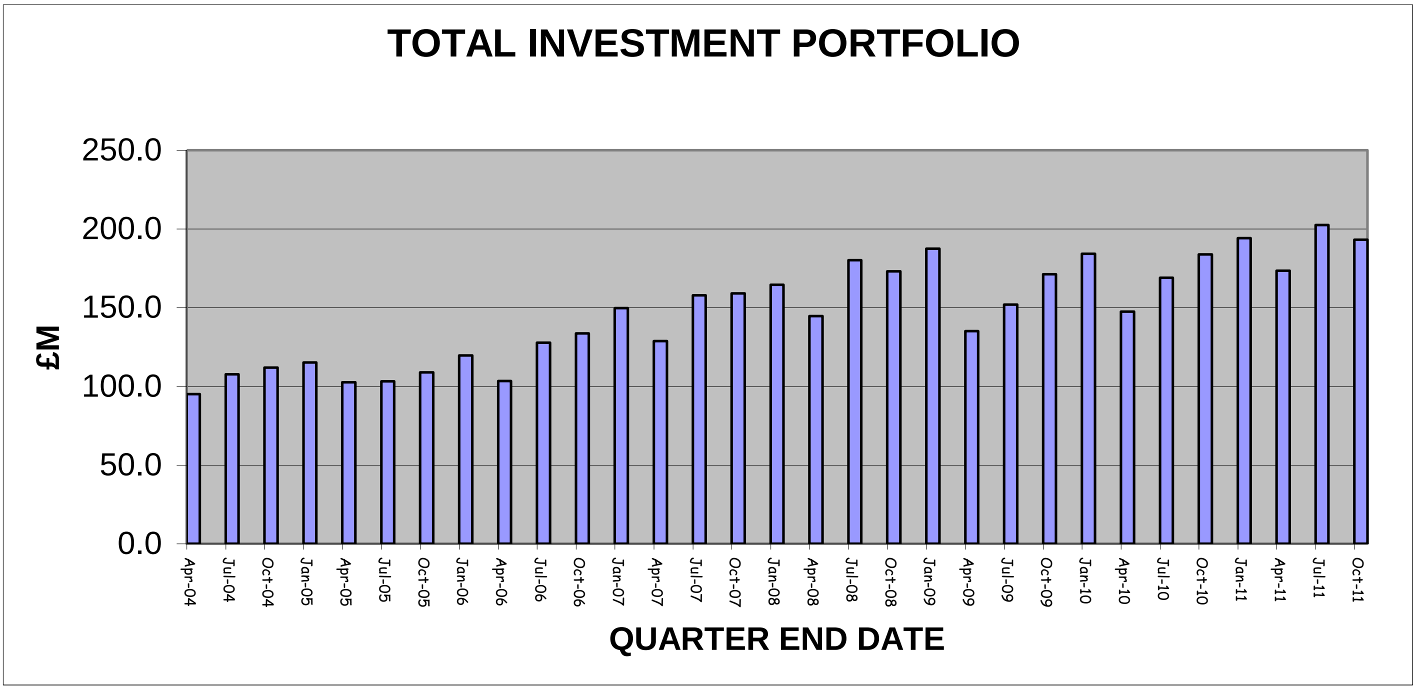
3.3 **Investments:** The following table sets out details of investment activity during the first six months of the year:-

	Qs 1&2	
Main investment portfolio	**Deposits £m**	**Ave. Rate %**
"Core" investments as at 31/03/11	161.5	1.86
Investments made in Q1 2011/12	32.5	1.59
Investments redeemed in Q1 2011/12	-32.5	1.55
Investments made in Q2 2011/12	28.5	1.72
Investments redeemed in Q2 2011/12	-27.5	1.59
Total "Core" Investments 30/09/11	162.5	1.96
35-day notice – Svenska Handelsbanken	15.0	
Money Market Funds/Instant Access	10.7	
Total Investments as at 30/09/11	**188.2**	
Heritable deposit – frozen (see para 3.10)	5.0	6.42

3.4 Details of the outstanding investments at 30th September 2011 are shown in maturity date order in Appendix 1 and by individual counterparty in Appendix 2. The average return on all new "core" investments during the first six months of 2011/12 was 1.64% which may be compared with the average 3 month LIBID rate of 0.72% and the average 7 day rate of 0.47%.

3.5 Base rate has now been 0.5% since March 2009 and the latest forecast by Sector is for it to remain at that level until the summer of 2013, although this date keeps moving back. Most of the institutions that remain on our lending list at this time are offering around 0.90% for 3 months up to 1.7% for 1 year. Better rates (around 1.25% for 3 months up to 2.2% for a year) are available from Lloyds TSB, while Santander are currently offering 1.28% and 2.1% respectively. In February 2010, the Portfolio Holder agreed changes to the Council's investment strategy, which permitted investment for up to 2 years with the largely-government owned Lloyds TSB and Royal Bank of Scotland (since November 2008, following the Icelandic banking crash, investments had been limited to a maximum period of 1 year). The “core” investments placed during the first six months of 2011/12 were in the main placed for between 6 months and a year or in instant access money market funds. Three investments were also, however, placed for two years with Lloyds and RBS in order to take advantage of higher rates on offer (up to 2.80%) and the security offered by the (part-)government ownership. The Mid-Year Review (Annex A) includes an economic commentary and, in view of the current uncertainties and in line with external advice, investments are being kept shorter at this time. A proposal to the Executive on 19th October to increase the lending limit for the two part-nationalised banks from £40m to £60m was not supported and the Finance Director will continue to monitor rates and counterparty quality, as well as taking external advice, prior to any investment decisions.

3.6 The graph below shows total investments at quarter-end dates back to 1st April 2004 and shows how available funds have increased steadily over the years, largely due to increased and earlier government funding. This has been a significant contributor to the over-achievement of investment income against budget in recent years, although this has now been fully factored into the revenue budget.



Other accounts

3.7 Money Market Funds

The Council currently has 5 Money Market Fund accounts, with Fidelity, Prime Rate, Insight, Blackrock and Ignis. The Prime Rate, Blackrock and Ignis accounts were opened during 2009/10 in order to provide a degree of added flexibility and following consultation with our external advisers. In common with market rates for fixed-term investments, interest rates on money market funds have also fallen considerably. Following the changes to the investment strategy approved by Council in October 2009, in February 2010 and, more recently, in October 2010, investments were moved away from money market funds into fixed term deposits, enabling the Council to improve returns. As expected, the balance in these funds reduced considerably during the last two months of 2010/11 as funds were withdrawn to cover diminishing Council Tax receipts and increasing expenditure in the final quarter, but, in the first half of 2011/12, balances have again been high.

Money Market Fund	Date Account Opened	Ave. Rate 2011/12 (to 24/10/11)	Ave. Daily Balance 2011/12	Actual Balance 30/09/11	Current Balance 24/10/11	Current Rate 24/10/11
		%	£m	£m	£m	%
Prime Rate	15/06/09	0.80	7.7	10.7	15.0	0.87
Ignis	25/01/10	0.78	6.4	-	12.0	0.85
Insight	03/07/09	0.65	1.4	-	-	0.73
Blackrock	16/09/09	-	-	-	-	0.60
Fidelity	20/11/02	-	-	-	-	0.60

3.8 Notice Accounts

In April 2011, the Council placed £15m in a 35-day notice account with Svenska Handelsbanken (Sweden). The total of £15m is still currently invested and has earned interest at a rate of 0.85% and the average daily balance in the first six months of 2011/12 was £6.7m.

3.9 External Cash Management

External cash managers, Tradition UK Ltd, currently manage £20m of our cash portfolio and provide useful advice and information on treasury management matters. At the time of writing this report (24th October 2011), Tradition UK had achieved a return of 1.61% since 1st April 2011 (mainly bolstered by the two longer term investments placed in May and August (see table below)). Tradition UK, like the Council's in-house team, have been constrained by strategy changes approved after the Icelandic Bank crisis. Details of externally managed funds placed on deposit as at the time of writing this report are shown below.

Sum	Start Date	Maturity	Period	Rate
Tradition UK				
£2.5m	17/05/11	22/03/12	10 months	1.25%
£5m	10/06/11	22/03/12	9.5 months	1.23%
£5m	12/08/11	27/03/12	7.5 months	1.20%
£2.5m	17/05/11	27/07/12	14.5 months	2.65%
£5m	17/08/11	16/08/13	2 years	2.80%

3.10 Investment with Heritable Bank

Members will be aware from regular updates to the Resources Portfolio Holder and the Executive that the Council had £5m invested with the Heritable Bank, a UK subsidiary of the Icelandic bank, Landsbanki, when it was placed in administration in early-October 2008 at which time our investment was, and still is, frozen. The latest estimate given by the administrators, Ernst & Young, late in September 2011 indicates a likely return of between 86% and 90% of our claim. This represents a significant improvement on the previous estimate of between 79% and 85% and Council officers and our external advisers remain hopeful of an even better result. An initial dividend was paid to the Council in July 2009 and, since then, a further eight dividends have been received. To date, 65% of our total claim (£3,286k) has been returned to us.

For information, the claim we were obliged to submit consisted of the principal sum (£5m) plus interest due to the date on which Heritable was placed in administration (around £87,000). We were not able to lodge a claim for the full amount of interest (£321,000) that would have been due at the original investment maturity date (29/6/09). In accordance with proper accounting practice and guidance from CIPFA, we made provision in our 2008/09 accounts for an impairment loss of £1.64m and met this from the General Fund in the year. In line with revised guidance from CIPFA relating to the 2009/10 accounts, we were able to reduce the impairment by £300k and this sum was credited to the General Fund. Although we could have made a further reduction to the impairment loss in 2010/11, we decided to err on the side of caution and made no further adjustments to the accounts. The recent improved recovery estimate of between 86% and 90% would potentially enable us to reverse a further £0.7m of the impairment, which would be credited to the General Fund as additional interest income in 2011/12.

Mid-Year Review of Treasury Management Strategy Statement and Annual Investment Strategy for 2011/12

3.11 Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required to receive a mid-year review report on performance against the approved strategy. The Annual Investment Strategy was approved by Council on 28th February 2011 and a mid-year review is included at Annex A.

Regulatory Framework, Risk and Performance

3.12 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10 or in 2010/11);

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities;

- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

3.13 The Council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

4. POLICY IMPLICATIONS

4.1 In line with government guidance, the Council's policy is to maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.

5. FINANCIAL IMPLICATIONS

5.1 An average of 1.5% was assumed for the interest rate on new investments in the 2011/12 revenue budget (£2.69m), in line with interest rate forecasts provided in January 2011 by the Council's external treasury advisers. The average rate obtained on all new investments placed since the budget was agreed is slightly above this at around 1.70%. Rates are still expected to rise, but the expected start of the rise has been put back to mid-2013. The latest financial forecast assumes 1.5% in 2012/13, 2.00% in 2013/14, 2.5% in 2014/15 and 3.0% in 2015/16. A variation of 0.25% in these assumptions would result in a variation in interest earnings of around £400k pa from 2012/13. The latest forecast for 2011/12 is for a surplus of £700k as a result of the recent improvement in the Heritable administrator's recovery estimate (see paragraph 3.10).

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	CIPFA Code of Practice on Treasury Management CIPFA Prudential Code for Capital Finance in Local Authorities CLG Guidance on Investments External advice from Sector Treasury Services