AGENDA ITEM: 11	Pages nos. 80 – 94
Meeting	Cabinet Resources Committee
Date	14 December 2011
Subject	**Treasury Management Outturn for quarter ended 30 September 2011**
Report of	Cabinet Member for Resources and Performance
Summary	To report on Treasury Management activity for quarter ended 30 September 2011.

Officer Contributors	John Hooton - Assistant Director of Strategic Finance Iain Millar – Head of Treasury and Pensions
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Money Market and PWLB Rates Appendix B – Deposits as at 30 September 2011 with Credit Ratings Appendix C – Compliance with Prudential Indicators Appendix D – List of School Banking Institutions
For decision by	Cabinet Resources Committee
Function of	Executive
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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1. RECOMMENDATIONS

1.1 That the Treasury Management activity and position for the second quarter ended September 2011 be noted.

1. 2 That the Committee notes the Council's response to recent market uncertainty which is set out in sections 9.1.4 and 9.9.

2. RELEVANT PREVIOUS DECISIONS

2.1 The Leader of the Council and Cabinet Member for Resources approved under delegated powers (DPR 712) on 5 December 2008 the Treasury Management Strategy 2008/09 – Deposit Counterparty Limits.

2.2 Cabinet Resources Committee, 16 March 2010 (Decision item 9) – Treasury Management Strategy 2010/11.

2.3 Special Committee (Constitution Review), 25 March 2010 (Decision item 8) – Amending the Council's Financial Regulations.

2.4 Cabinet Resources Committee, 30 November 2010 (Decision item 6) Amending the Treasury Management Strategy 2010/11.

2.5 Council, 1 March 2011 (Decision item 10 – Treasury Management Strategy 2011/12.

2.6 Cabinet Resources Committee 29 June 2011 (Decision item 6) - Treasury Management Outturn for the year ended 31 March 2011

2.7 Cabinet Resources Committee 27 September 2011 (Decision item 17) - Treasury Management Outturn for the quarter ended 30 June 2011.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 The Treasury Management Strategy (TMS) ensures effective treasury management supports the achievement of the Council's corporate priority for 2010-2013, 'Better services with less money', through the strategic objective "manage resources and assets effectively and sustainably across the public sector in Barnet". The TMS is committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

4. RISK MANAGEMENT ISSUES

4.1 Borrowing and deposit rates are determined by the market and can be volatile at times. Officers mitigate this volatility by monitoring the interest rate market in conjunction with treasury advisors and brokers, and by actively managing the debt and deposit portfolios.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Under the Equality Act 2010, the council must have due regard to the need to: a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; b) advance equality of opportunity between those with a protected characteristic and those without; c) promote good relations between those with a protected characteristic and those without. The 'protected characteristics' referred to are: age; disability; gender reassignment; pregnancy and maternity; religion or belief; sex; sexual orientation. It also covers marriage and civil partnership with regard to eliminating discrimination

5.2 The management of the Council's cash flow ensures the availability of adequate monies to pay for the delivery of the authority's public duties.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance and Value for Money, Staffing, IT, Property, Sustainability)

6.1.1 The purpose of the treasury function is to maximise the Council's budget for investment return and minimise interest costs in accordance with the risk strategy set out in the TMS.

6.1.2 The total value of long term loans as at 31 March 2011 was £202.50m and for the quarter ended 30 September 2011 was £201.50m. The average cost of borrowing for quarter ending 30 September 2011 was at 4.10%.

6.1.3 At 30 September 2011, deposits outstanding amounted to £165m (including £5.97m of Icelandic impairments), achieving an average rate of return of 0.93% (adjusted for Icelandic deposits) against a benchmark of 0.45%. A list of deposits outstanding and counterparty credit ratings as at quarter end 30 September 2011 is attached as Appendix B

6.2 In response to market uncertainty the Council has further restricted its investment criteria which may impact on investment performance later in the year. The wider financial implications for the Council are dealt with in section 9 of this report.

7. LEGAL ISSUES

7.1 These are addressed in the body of this report.

8. CONSTITUTIONAL POWERS

8.1 Financial Regulations (Part 1, Section 7) within the Council Constitution state:

(1) This organisation adopts the key recommendations of CIPFA's Treasury Management in the Public Services Code of Practice (the Code), as described in Section 4 of that Code.

(2) Cabinet Resources Committee will create and maintain a Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities.

(3) The Chief Finance Officer will create and maintain suitable Treasury Management Practices (TMP's) setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

(4) The content of the policy statement and TMP's will predominantly follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the organisation. Such amendments will not result in the authority materially deviating from the Code's key recommendations.

(5) Cabinet Resources Committee will receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, and an annual report after its close in the form prescribed in the TMP's.

These reports will incorporate the prudential borrowing limits and performance indicators.

8.2 Constitution - Responsibilities for Functions, Section 3.6 states that a function of the Cabinet Resources Committee is to "consider reports on Treasury Management Strategy and activity, including creating and maintaining a Treasury Management Policy Statement."

9. BACKGROUND INFORMATION

9.1 Treasury Management Strategy

9.1.1 The Council's amended Treasury Management Strategy 2010/11 was approved at Cabinet Resources Committee on 30 November 2010. The TMS 2010/11 reflects the Council Budget 2010-2011 Financial Forward Plan and Capital Programme. They set out the timeframes and credit criteria for placing cash deposits and the parameters for undertaking any further borrowing.

9.1.2 The key changes introduced by the amended Treasury Management Strategy 2010/2011 were:

(i) The extension of the maximum permissible duration of investments from 92 days to 364 days to bring the strategy in line with that of other local authorities and to enable a higher rate of return on investments.

(ii) The adoption of the Arlingclose (the Council's treasury advisors) counterparty list which includes the Debt Management Account Deposit Facility, T-Bills, UK local authorities, UK and non-UK banks and AAA-rated Money Market Funds.

9.1.3 The Treasury Management Strategy 2011/12 was approved by Council on the 1st of March 2011 and incorporated the key changes set out in 9.1.2. above.

9.1.4 The TMS is under constant review to reflect market conditions and the financing requirements of the Council. The Council's treasury advisers Arlingclose are not recommending we adjust or tighten the current strategy. Arlingclose have recommended reducing maximum duration for new investments from 365 days to 3 months for approved Australian, Canadian and US banks and one month for European banks with no new investment in French banks in response to concerns over funding and their sovereign exposure to peripheral European nations.

i) However given current market uncertainty, officers have followed an even more cautious strategy than has been recommended by Arlingclose for new investments. The Council's investments are temporarily restricted to 14 days duration. The business case must be approved by the Deputy Chief Executive for any investment proposed beyond 14 days.

ii) Tightening counterparty criteria. Treasury Officers are restricted to investing only with UK, Canadian and Australian institutions who meet the required minimum credit rating in accordance with the treasury management strategy.

Iii) Since October 2011, Money Market Funds have been opened to diversify cash investments in highly liquid financial instruments with the highest credit rating Arlingclose have recommended that Money Market Fund investments are restricted to 10% of the Council's total cash (previously 15%), in any one Money Market Fund. Investments must be diversified between a minimum of two funds and exposure limited to 0.5% of each Money Market's total Funds under management. The Council is currently investing in two money market funds with less than 10% of total cash in these accounts.

9.1.5 The continuing European banking uncertainty has resulted in further down grading of the credit rating of some of the major UK institutions:- RBS, Bank of Scotland, Lloyds TSB, National Westminster Bank and Clydesdale Bank no longer meet the minimum lending criteria set out in the Treasury Management Strategy and new investments with these banks are temporarily suspended. In practice this means that there are only a limited number of counterparties left with the required credit rating. This increases the reliance on the Debt Management Office and impacts on investment return as the DMO return is fixed at 0.25%. compared to an overnight market return averaging 0.40%.

Our treasury advisors Arlingclose are still not recommending that the Council formally revises the current treasury management strategy. The restrictions on duration of investment and exclusions from the counterparty list are expected to be a temporary measure. This report therefore asks the Committee to note the cautious approach rather than approve a revision to the strategy.

9.2 Icelandic Bank Deposits

9.2.1 On 28 October, the Supreme Court of Iceland upheld the District Court judgment for the test cases, deciding by a 6-1 majority that local authorities' claims are deposits that qualify in full for priority in the bank administrations. Securing priority creditor status means that authorities with deposits in Glitnir are set to recover 100 per cent of their money, whilst those with deposits in Landisbanki are estimated to recover 98 per cent. These decisions are now final and there is no further right of appeal.

9.2.2. However there is still uncertainty whether the Supreme Court decision for the test cases will be extended to other local authorities as priority creditors. Barnet is a non-test case and is therefore waiting for the winding up board to confirm that the Supreme Court decision will apply.

9.2.3. Details of the nature and the timing of any distributions by the winding up board are also uncertain. In the case of Glitnir, sufficient cash has already been realised in the winding up, to pay priority creditors' claims in full. However in the case of Landisbanki, assets are held in a basket of currencies and in property. It may take time for the administrators to realise these assets and this process could take several years.

9.2.3 The Council has set aside £14.1 million to cover the eventuality that Barnet does not get priority creditor status. If the winding up board confirms that the decision applies to non-test cases then this set-aside funding will not be required.

9.3 Economic Background for quarter ended 30 September 2011

9.3.1 ***Growth***: Global growth prospects deteriorated considerably over the six months to September, moving from an expectation of modest expansion to the risk of a double-dip recession. Q1 2011 GDP in the UK was 0.5% but was just 0.2% in Q2. Even economies like Germany's, which were hitherto seemingly strong, began to flounder with growth registering 0.1% in Q2.

9.3.2 ***Inflation***: Inflation remained stubbornly high. Annual CPI for August was 4.5%; CPI had remained above MPC's 3% upper limit for 20 consecutive months and required the Bank of England's Governor to write his seventh open letter to the Chancellor. The Bank believed the elevated rate of inflation reflected the temporary impact of several factors: the increase in the VAT rate to 20%, past increases in global energy prices and import prices.

9.3.3 ***Employment / Consumer Confidence***: Weakness persisted in the labour market. Job creation was unable to absorb the 90,000 quarterly growth in jobseekers, particularly those in the 16-20 age bracket. Unemployment on the ILO measure rose to 7.9%. High inflation trumping average earnings growth of only 2.9%, scarce availability of credit, stagnant house prices, all combined to lower disposable income, squeeze household spending power and leave consumer confidence fragile.

9.3.4 Central bankers' policies were driven by the feeble growth outlook rather than the upward trend in inflation. The Bank of England's August Inflation Report downgraded the growth forecast even as it acknowledged energy price rises could push CPI to 5% before inflation fell back to the 2% target over the medium-term. The UK's strategy of combining loose monetary policy (the Bank Rate had remained at 0.5% for 2½ years and Quantitative Easing at £200bn) with tight fiscal policy supported the rebalancing of the economy and also commanded support in the markets.

9.3.5 A lack of both political governance and measures to address the high debt burden (put off until after the 2012 presidential election), ultimately led Standard & Poor's to downgrade the US Sovereign from AAA to AA+. The country's weak economic and fiscal situation and an unemployment rate of 9.1% left the Federal Reserve little option but to commit to "exceptionally low" interest rates until mid 2013.

9.3.6 The European sovereign debt crisis deepened. The agreement in July to address Greece's fiscal problems and broaden the mandate for the European Financial Stability Facility (EFSF) only bought time for the Eurozone as market pressure increased on Italy and Spain, but did little to address the issue of overburdened sovereign balance sheets.

9.3.7 The European Banking Authority released the results of the second of its stress tests in July. 8 banks (two Greek, one Austrian and five small domestic Spanish banks) out of 91 banks failed the tests. All of the UK and non-UK banks tested by the EBA and which are on the Council's lending list met the 'stressed' Core Tier 1 Ratio of 5%, none were adjudged as 'near-failed' (i.e. having ratios between 5% and 6%).

9.3.7 ***Gilt yields and money market rates***: The economic uncertainty resulted in analysts postponing the likelihood of an increase in the UK Bank Rate until mid 2012. Gilts were considered a safe haven and benefited from market turmoil. Gilt yields fell to their lowest levels in five years. 5-year gilt yields fell to 1.25%, 10-year yields to 2.2% and 20-year yields to 3.05%.

9.3.8 PWLB borrowing rates fell commensurately (the Board maintained the +0.90% margin above the equivalent gilt yield for new borrowing).

9.3.9 There was very little change to Libor and Libid rates as at 30/09/2011, the differential between 0.1% to 0.2% for maturities up to 12 months.

9.3.10 The TMS will be kept under review specifically in terms of market conditions, benchmarks and yield.

9.4 Debt Management

9.4.1 The total value of long term loans as at 31 March 2011 was £202.50m and for the quarter ended 30 September 2011 was £201.50m. There was no borrowing or lending during the Second quarter The average cost of borrowing for quarter ending 30 September 2011 was at 4.10%.

9.4.2 Given the significant cuts to local government funding putting pressure on Council finances, the decision was taken to minimise debt interest payments without compromising the longer-term stability of the portfolio. The differential between the cost of new longer-term debt and the return generated on the Council's temporary investment returns was significant (just over 3%). The use of internal resources in lieu of borrowing was judged to be the most cost effective means of funding capital expenditure. This has, for the time being, lowered overall treasury risk by reducing both external debt and temporary investments. The latest advice from Arlingclose is that there is no benefit from taking new long term debt while borrowing costs are forecast to remain at current levels.

9.4.3 The Council's long term debt position to the end of the quarter ended 30 September 2011 was as follows:

	30 September 2011		31 March 2011	
	Principal	Average Rate	Principal	Average Rate
PWLB Market	£139.00m £ 62.50m	4.19% 3.91%	£140.00m £ 62.50m	4.19% 3.91%
Total Borrowing	£201.50m	4.10%	£202.50m	4.10%

9.4.4 The Council's long-term debt portfolio is a mixture of PWLB and market loans in the form of LOBOs (Lender's Option Borrower's Option), loans that are at a fixed interest rate for an initial period, following which the lender can change the interest rate but the borrower has the option to repay the loan if the rate is changed and not considered value for money.

9.4.5 In order to comply with accounting standards for financial instruments, some of the market loans in the debt portfolio have been recalculated on an effective interest rate basis as opposed to being calculated on an amortised cost basis. The total value of loans in question before re-measurement was £9.5m; an additional charge of £0.36m was added to the carrying value of these loans.

9.4.6 Money Market data and PWLB rates are attached at Appendix A.

9.4.7 PWLB Borrowing: Despite the issue of Circular 147 in October 2010, where new borrowing rates for fixed loans increased by approximately 0.87% across all maturities, the PWLB remains the preferred source of borrowing for the Council as it offers flexibility and control.

9.4.8 In September DCLG announced the interest rate offered to local authorities by the Public Works Loan Board (PWLB), will be temporarily reduced from January 2012 until 26 March 2012, The lending to which this reduced rate will apply is solely that of local authorities undertaking borrowing from the PWLB in order to make their 'settlement payment' to leave the existing annual subsidy system for council housing finance and from that point on be 'self-financing.

9.4.9 Alternative Sources: The decision to offer a reduced PWLB rate is cheaper than the forecast costs of borrowing from capital markets.

9.5 Investment Performance

9.5.1 The CLG's revised Investment Guidance came into effect on 1 April 2010 and reiterated the need to focus on security and liquidity, rather than yield. Security of capital remained the Authority's main investment objective. This was maintained by following and complying with the counterparty policy as out in the Treasury Management Strategy 2010/11.

9.5.2 Counterparty credit quality was assessed and monitored with reference to credit ratings (Council's minimum long-term counterparty rating of A+ across all three rating agencies, Fitch, S&P and Moody's); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

9.5.3 Deposits are managed internally. At 30 September 2011, deposits outstanding amounted to £165m (including £5.97m of Icelandic impairments), achieving an average rate of return of 0.93% (adjusted for Icelandic deposits) against a benchmark of 0.45%.

9.5.4 The benchmark is the average 7-day LIBID rate is provided by the authority's treasury advisors Arlingclose. The LIBID rate or London Interbank Bid Rate is the rate that a Euromarket bank is willing to pay to attract a deposit from another Euromarket bank in London.

9.6 Prudential Indicators

9.6.1 The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of its indebted status. This is a statutory limit which should not be breached. The Council's Authorised Limit (also known as the Affordable Borrowing Limit) was set and approved at £463.818 million.

9.6.2 The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included with the Authorised Limit. The Council's Operational Boundary for 2011/2012 was set and approved at £448.818m.

9.6.3 During the quarter end to 30 September 2011 there were no breaches of the Authorised Limit and the Operational Boundary.

9.6.4 Further details of compliance with prudential indicators are contained in Appendix C.

9.7 Compliance

9.7.1 The current 2011/2012 TMS was approved by Council on 1 March 2011. The TMS demands regular compliance reporting to this Committee to include an analysis of deposits made during the review period. This also reflects good practice and will serve to reassure this Committee that all current deposits for investment are in line with agreed principles as contained within the corporate TMS.

9.7.2 As at quarter end 30 September 2011, the Council had deposits outstanding with a total value of £165m (£5.97m being Icelandic impairments) of which four Icelandic deposits totalling £27.4m fell outside the TMS as approved on 1 March 2011. A list of deposits outstanding and counterparty credit ratings as at quarter end 30 September 2011 is attached as Appendix B.

9.7.3 All Deposits placed during the quarter ended 30 September 2011 were compliant with the TMS as approved on 1 March 2011.

9.7.4 Treasury management procedures are monitored and reviewed in light of CIFPA guidance and current market conditions.

9.7.5 Update on schools banking - current position. The Department of Education have recently changed their guidance on schools banking arrangements. The new guidance requires schools to bank with institutions that meet the requirements of approved counterparties as identified in the Treasury Management Strategy. Appendix D contains a list of schools that currently bank with institutions that fall outside the Treasury Management Strategy. Work is underway to transfer bank accounts to the approved list of banks and close bank accounts with those banks not on the approved list. Four schools were in discussion to transfer funds from Allied Irish Bank. Three of the schools have now transferred surplus funds from Allied Irish Bank. Accounts for two schools have also been opened with the Co-operative Bank. Work is in progress to open accounts and transfer accounts for the remaining school.

9.8 Reform of Council Housing Finance

9.8.1 In the publication Implementing Self-Financing for Council Housing issued in February 2011 the CLG set out the rationale, methodology and financial parameters for the initiative. The Localism Bill received Royal Assent on 15 November 2012. The proposed transfer date is Wednesday 28th March 2012 (in line with PWLB timetables on the payment/receipt of funds to clear by the 31st of March 2012).

9.8.2 The self-financing model provides an indicative sustainable level of opening housing debt. As the Council's debt level generated by the model is higher than the Subsidy Capital Financing Requirement (SCFR), the Council will be required to pay the CLG the difference between the two, which is approximately £103m. This will require the Council to fund this amount in the medium term through internal resources and/or external borrowing. The Council has the option of borrowing from the PWLB or the market.

9.8.3 The treasury management implications of HRA reform and an appropriate strategy to manage the process are being actively reviewed with the Council's Treasury Advisor and includes a thorough balance sheet analysis to ensure that the General Fund and the HRA SCFR's are accurate, including an estimate of the 2011/12 position upon which the significant reform settlement will be applied.

9.9. Outlook for Q3 2011

9.9.1 Financial markets remain extremely nervous and are suffering from extreme changes in sentiment. The stresses are most extreme in Europe where the lack of real progress in resolving the sovereign indebtedness problem is affecting even the stronger Euroland countries

9.9.2 At the time of writing this activity report, the outlook for interest rates is as follows:

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Official Bank Rate													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	**0.50**	**0.75**	**1.00**	**1.25**	**1.50**	**1.75**	**2.00**	**2.25**	**2.50**	**2.75**	**3.00**	**3.00**	**3.00**
Downside risk		-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

9.9.3 The higher inflation projection and the weaker outlook for growth, increases the dilemma for the Bank of England. Given the precarious outlook for growth, rates will rise if there is firm evidence the economy has survived the fiscal consolidation or there is sustained inflationary pressure over the coming months.

9.9.4 The Chancellor of the Exchequer set out reduced forecast for growth in his Autumn Statement on 29 November. The Office for Budget Responsibility expects GDP in Britain to grow this year by 0.9% – and by 0.7% next year. The OBR believes that higher than expected inflation driven by a sharp increase in global commodity prices is the main reason for slower than expected growth.

9.9.4 The Consumer Price Index (CPI) has remained persistently high, but fell from 5.2% in September to 5.0% in October. RPI fell to 5.4% from 5.6%. CPI is forecast to remain above the Bank of England's 2% target throughout 2012.

9.9.5 Retail sales are contracting. Consumer spending has not shown any growth over the year due to a fall in disposable income, weak house price growth and a lack of consumer confidence. Unemployment and youth unemployment in particular continues to rise and will increase as the public sector shrinks and if private sector employment grows at only a modest pace.

10. Summary

In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary report of the treasury management activity during the first quarter of the financial year 2011/12. As indicated earlier in this report, none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

11. LIST OF BACKGROUND PAPERS

11.1 None.

Legal – SCS
CFO – JH

Appendix A – Money Market and PWLB Rates

Table 1: Bank Rate, Money Market Rates 1.4.11-30.09.11

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2011	0.50	0.40	0.54	0.54	0.69	1.12	1.59	1.89	2.36	3.00
30/04/2011	0.50	0.50	0.40	0.49	0.69	1.05	1.52	1.62	2.07	2.74
31/05/2011	0.50	0.40	0.40	0.52	0.69	1.08	1.56	1.53	1.89	2.54
30/06/2011	0.50	0.50	0.40	0.56	0.77	1.06	1.54	1.44	1.82	2.5
31/07/2011	0.50	0.40	0.40	0.50	0.78	1.07	1.55	1.29	1.53	2.1
31/08/2011	0.50	0.40	0.40	0.56	0.86	1.15	1.63	1.27	1.43	1.92
30/09/2011	0.50	0.60	0.60	0.54	0.92	1.21	1.69	1.25	1.38	1.98
Minimum	0.50	0.40	0.35	0.49	0.68	1.01	1.50	1.08	1.23	1.62
Average	**0.50**	**0.41**	**0.43**	**0.53**	**0.77**	**1.10**	**1.58**	**1.42**	**1.71**	**2.30**
Maximum	0.50	0.60	0.55	0.58	0.92	1.21	1.71	1.96	2.42	3.08
Spread		0.20	0.20	0.09	0.24	0.20	0. 21	0.87	1.19	1.46

Table 2 : PWLB Borrowing (Maturity) – Fixed Rate Summary 1.4.11 to 29.09.11

Maturity	29.11.11	Low 2011-12	Average 2011-12
1 year	1.49	1.42	1.59
4½-5 yrs	2.41	1.69	2.92
9½-10 yrs	3.47	3.31	4.16
19½-20 yrs	4.04	3.88	4.72
29½-30 yrs	4.61	4.49	5.05
49½-50 yrs	4.70	4.54	5.02

Table 3 : PWLB Premature Repayment (Maturity) – Fixed Rate Summary 1.4.11 to 29.09.11

Maturity	29.11.11	Low 2011-12	Average 2011-12
1 year	0.38	0.86	0.48
4½-5 yrs	1.17	2.44	1.65
9½-10 yrs	2.28	3.71	2.96
19½-20 yrs	2.89	4.16	3.57
29½-30 yrs	3.50	4.31	3.93
49½-50 yrs	3.52	4.18	3.85

Following the announcement in the CSR on 20th October 2010 and from instruction by HM Treasury, the PWLB has increased the interest rate on all new loans by an average of 1% above U.K. Government Gilts.

- The new borrowing rate for fixed rate loans whether borrowed on an EIP, Annuity or Maturity loans have increased by around 0.87% across all maturities.
- The premature repayment rates do not benefit from the corresponding increase and the PWLB's methodology remains unchanged.

For variable rate loans, the rate is 0.90% higher than preciously, so a premium of 0.90% should be added to the variable rate published on the PWLB website

Table 4: Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10
Not rated	11
BB	12
CCC	13
C	14
D	15

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Council aims to achieve a score of 5 or lower, to reflect the Council's overriding priority of security of monies invested and the minimum credit rating of threshold of A+ for investment counterparties.

Appendix B – Deposits as at 30 September 2011 with Credit Ratings

DEPOSITS OUTSTANDING AS AT 30 SEPTEMBER 2011 FOR LONDON BOROUGH OF BARNET

Deal Number	Counter Party	Start Date	Maturity Date	Rate of Interest %	Principal Outstanding	Max Limit	Actual Limit	Fitch Rating				Moody's Rating			S&P Ratings	
								L Term	S Term	Indiv	Support	L Term	S Term	Fin Stgth	L Term	S Term
	Local Authorities															
2000011159	LANCASHIRE COUNTY COUNCIL	03-Aug-11	03-Nov-11	0.5	1,600,000			AAA				Aaa			AAA	
2000011191	LONDON BOROUGH OF BRENT	27-Sep-11	11-Oct-11	0.35	7,500,000											
2000011205	STOCKPORT METROPOLITAN BC	30-Sep-11	03-Oct-11	0.4	2,700,000											
2000011207	LEEDS CITY COUNCIL	30-Sep-11	03-Oct-11	0.4	6,000,000											
2000011208	NORTHAMPTONSHIRE COUNCIL	30-Sep-11	14-Oct-11	0.4	5,500,000											
					23,300,000											
	UK Banks & Building Societies															
2000010341	BANK OF SCOTLAND	09-Sep-09	CALL A/C	0.75	11,500,000	37,500,000	15.15%	AA-	F1+	C	1	Aa3	P-1	D+	A+	A-1
2000011027	BANK OF SCOTLAND	11-Jan-11	10-Jan-12	2.00	4,000,000			AA-	F1+	C	1	Aa3	P-1	D+	A+	A-1
2000011028	BANK OF SCOTLAND	11-Jan-11	11-Oct-11	1.60	5,000,000			AA-	F1+	C	1	Aa3	P-1	D+	A+	A-1
2000011070	BANK OF SCOTLAND	17-Feb-11	17-Feb-12	2.10	4,500,000			AA-	F1+	C	1	Aa3	P-1	D+	A+	A-1
2000010527	BARCLAYS COMMERCIAL BANK	11-Feb-10	CALL A/C	0.45	22,700,000.00			AA-	F1+	B	1	Aa3	P-1	C	A+	A-1+
2000011036	NATIONWIDE BUILD. SOC.(RBS GROUP)	17-Jan-11	31-Oct-11	1.24	10,000,000			AA-	F1+	B	1	Aa3	P-1	C	A+	A-1
2000011037	NATIONWIDE BUILD. SOC.(RBS GROUP)	01-Jun-11	30-Nov-11	1.03	6,995,000			AA-	F1+	B	1	Aa3	P-1	C	A+	A-1
2000011140	NATIONWIDE BUILD. SOC.(RBS GROUP)	15-Jun-11	19-Dec-11	1.03	3,405,000			AA-	F1+	B	1	Aa3	P-1	C	A+	A-1
2000011199	NATIONWIDE BUILD. SOC.(RBS GROUP)	20-Sep-11	04-Oct-11	0.42	4,600,000			AA-	F1+	B	1	Aa3	P-1	C	A+	A-1
2000011000	ROYAL BANK OF SCOTLAND	08-Dec-10	07-Dec-11	1.43	4,000,000	37,500,000	6.12%	AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1
2000011129	ROYAL BANK OF SCOTLAND	19-May-11	30-Nov-11	1.05	2,100,000			AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1
2000011142	ROYAL BANK OF SCOTLAND	16-Jun-11	30-Mar-12	1.25	2,300,000			AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1
2000011145	ROYAL BANK OF SCOTLAND	22-Jun-11	20-Jun-12	1.48	1,700,000			AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1
					82,800,000											
	Non UK Banks & UK Building Societies															
2000011206	BANK OF NOVA SCOTIA	30-Sep-11	31-Oct-11	0.40	25,000,000			AA-	F1+	B	1	Aa1	P-1	B	AA-	A-1+
2000011202	AUSTRALIA & NEW ZEALAND BANKING CORP	22-Sep-11	06-Oct-11	0.42	6,500,000			AA-	F1+	B	1	Aa2	P-1	B-	AA	A-1+
					31,500,000											
			Average rate of return	**0.94**												
	Investments outside TMS															
	Icelandic Banks															
2000005163	GLITNER BANK (ICELAND)	07-Nov-06	frozen		7,000,000		7.52%									
2000005218	GLITNER BANK (ICELAND)	24-Jan-07	frozen		3,000,000											
2000005226	GLITNER BANK (ICELAND)	07-Feb-07	frozen		2,400,000											
2000005511	LANDISBANKI ISLANDS H.F.	28-Sep-07	frozen		15,000,000		9.09%									
					27,400,000											

TOTAL VALUE OF INVESTMENTS AS AT 30 SEPTEMBER 2011	**165,000,000**
LESS ICELANDIC IMPAIRMENT AS AT 30 SEPTEMBER 2011	**-5,969,000**
	159,031,000

Appendix C: Prudential Indicator Compliance

Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2010/11 %
Upper Limit for Fixed Rate Exposure	100
Compliance with Limits:	Yes
Upper Limit for Variable Rate Exposure	40
Compliance with Limits:	Yes

Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Fixed Rate Borrowing as at 30/06/11	% Fixed Rate Borrowing as at 30/06/11	Compliance with Set Limits?
Under 12 months	0	50		0	N/A
12 months and within 24 months	0	50	0	0	N/A
24 months and within 5 years	0	75		0	N/A
5 years and within 10 years	0	75	0	0%	N/A
10 years and above	0	100	201,500,000	100%	Yes

Appendix D: List of Schools Banking Institutions

School	Banking
Bishop Douglass	Co-Operative
Finchley Catholic High	Co-Operative
St James' Catholic High	Nat West
St Michaels Cath Gram	Allied Irish
Osidge JMI	Barclays
Mill Hill High	Barclays
Akiva	Barclays
All Saints NW2	Co-Operative
All Saints N20	Co-Operative
Annunciation Inf	Co-Operative
Annunciation Jun	Co-Operative
Barnfield	Co-Operative
Beis Yaakov	Co-Operative
Bell Lane	Co-Operative
Blessed Dominic	Co-Operative
Broadfields Primary	Co-Operative
Brookland Inf	Co-Operative
Brookland Jun	Co-Operative
Brunswick Park	Co-Operative
Chalgrove	Co-Operative
Childs Hill	Co-Operative
Christchurch JMI	Co-Operative
Church Hill	Co-Operative
Claremont Primary	Co-Operative
Colindale	Co-Operative
Coppetts Wood	Co-Operative
Courtland	Co-Operative
Cromer Road	Co-Operative
Deansbrook Inf	Co-Operative
Deansbrook Jun	Co-Operative
Dollis Inf	Co-Operative
Edgware Inf	Co-Operative
Edgware Jewish Primary	Co-Operative
Edgware Jun	Co-Operative
Fairway	Co-Operative
Foulds	Co-Operative
Frith Manor	Co-Operative
Garden Suburb Inf	Co-Operative
Garden Suburb Jnr	Co-Operative
Goldbeaters	Co-Operative
Grasvenor Avenue Inf	Co-Operative
Hasmonean Primary	Co-Operative
Hollickwood	Co-Operative
Holly Park	Co-Operative
Holy Trinity	Co-Operative
Hyde	Co-Operative
Independent Jewish	Co-Operative
Livingstone	Co-Operative
Manorside	Co-Operative
Martin Primary School	Co-Operative
Menorah Primary	Co-Operative
Monken Hadley CE	Co-Operative
Monkfrith	Co-Operative
Moss Hall Inf	Co-Operative
Moss Hall Jun	Co-Operative
Northside	Co-Operative
Orion	Co-Operative
Our Lady of Lourdes	Co-Operative
Pardes House	Co-Operative
Parkfield	Co-Operative
Queenswell Inf	Co-Operative
Queenswell Jun	Co-Operative
Rosh Pinah	Co-Operative
Sacred Heart	Co-Operative
St Agnes RC	Co-Operative
St Andrews CE	Co-Operative
St Catherines RC	Co-Operative
St Johns CE N11	Co-Operative
St Johns CE N20	Co-Operative
St Josephs RC Inf	Co-Operative
St Josephs RC Jun	Co-Operative
St Mary's & St Johns Primary	Co-Operative
St Marys CE N3	Co-Operative
St Marys CE EB	Co-Operative
St Pauls CE N11	Co-Operative
St Theresas RC	Co-Operative
St Vincents RC	Co-Operative
Summerside	Co-Operative
Sunnyfields	Co-Operative
Trent	Co-Operative
Tudor	Co-Operative
Underhill Inf	Co-Operative
Underhill Jun	Co-Operative
Wessex Gardens	Co-Operative
Whitings Hill	Co-Operative
Woodcroft Primary	Co-Operative
Woodridge	Co-Operative
Christs College Finchley	Co-Operative
Copthall	Co-Operative
Friern Barnet	Co-Operative
Hasmonean High	Co-Operative
Henrietta Barnett	Co-Operative
JCoSS	Co-Operative
Ravenscroft	Co-Operative
Whitefield	Co-Operative
Mapledown	Co-Operative
Northway	Co-Operative
Oak Lodge	Co-Operative
Oakleigh	Co-Operative
BrookHill Nursery	Co-Operative
Hampden Way Nursery	Co-Operative
Moss Hall Nursery	Co-Operative
St Margaret's Nursery	Co-Operative
Menorah Foundation	HSBC
Danegrove	Lloyds TSB
Dollis Junior	Lloyds TSB
Mathilda Marks Kennedy	Lloyds TSB
St Pauls CE NW7	Lloyds TSB
Hendon	Nat West
Queen Elizabeth's Girls'	Nat West
St Mary's C E High	Nat West