

AGENDA ITEM NO.

REPORT TO: Executive Board Sub-Committee

DATE: 24th January 2008

REPORTING OFFICER: Operational Director – Financial Services

SUBJECT: Treasury Management 2007/08
3rd Quarter: October-December

WARDS:

1.0 PURPOSE OF REPORT

1.1 The purpose of the report is to update the Sub-Committee about activities undertaken on the money market as required by the Treasury Management Policy.

2.0 RECOMMENDED: That the report be noted.

3.0 SUPPORTING INFORMATION

3.1 Short Term Rates

The base rate fell from 5.75% to 5.50% on 6th December 2007.

This decrease reverses the trend of five consecutive increases stretching back to August 2006. The Monetary Policy Committee voted 9-0 in favour of the cut, suggesting that although they have concerns about inflation, they also have other pressing issues to consider. Falling house prices, the credit crunch, and a possible recession paint a tricky financial climate to negotiate.

The orchestrated injection of cash into the interbank money market in mid December by the European Central bank, the American Federal Bank and the Bank of England, seems to have had the desired effect of reducing the interbank interest rates and generally calming the market down, at least in the short term. It is not clear yet, however, if the intervention has been sufficient to encourage the banks to start lending cash to each other again, one of the problems at the heart of the current turmoil.

	Start	October		November		December	
		Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
Call Money (Market)	6.50	5.80	5.80	5.80	6.00	5.60	6.00
1 Month (Market)	6.10	6.02	5.97	5.90	6.05	6.55	6.00
3 Month (Market)	6.20	6.25	6.20	6.25	6.55	6.45	6.00

3.2 Longer Term Rates

Longer term rates were unaffected by the turmoil in the short market and by and large eased over the period. At present the rates are not attractive for new longer term borrowing.

	Start	October		November		December	
		Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
1 Year (Market)	6.10	6.20	6.10	5.90	5.90	5.95	5.70
10 Year (PWLB)	5.20	5.25	5.05	4.88	4.73	4.93	4.72
25 Year (PWLB)	5.00	4.95	4.85	4.66	4.60	4.72	4.56

The PWLB rates are for “lower quota” entitlements.

3.3 Temporary Borrowing/Investments

Turnover during period

	No. Of Deals Struck	Turnover £m
Short Term Borrowing	1	0.75
Short Term Investments	50	67.30

A number of longer deals were undertaken in November and early December in anticipation of a possible cut in interest rates, which was widely forecast for January. The cut in mid December now makes these deals look even better as they have secured a higher investment rate for the council well into the next financial year.

Position at Month End

	October £m	November £m	December £m
Short Term Borrowing	0.75	Nil	Nil
Short Term Investments	37.60	51.35	49.50

The Authority received the large capital receipt it has been waiting for in November. This is reflected in the large increase in the level of investments, some of which, as mentioned above, have been secured into future periods.

Investment Income Forecast

The forecast income and outturn for the quarter is as follows:

	Cumulative Budget £'000	Cumulative Actual £'000	Cumulative Target Rate %	Cumulative Actual Rate %
Quarter 1	470	477	5.43	5.28
Quarter 2	923	1,047	5.66	5.46
Quarter 3	1,332	1,752	5.66	5.62
Quarter 4	1,650			

The additional income generated from the capital receipt mentioned above means that investment income will exceed the target despite falling interest rates.

3.4 Longer Term Borrowing/Investments

The Authority did not borrow any longer term money, but did undertake a significant level of longer term investments. In total £22.5m was placed during the quarter, in 10 separate investments, for periods ranging from three months to two years. The interest rates varied from 5.95% to 6.66%. The placing of the money has secured an excellent rate of return with a good spread of risk and smooth maturity profile.

3.5 Policy Guidelines

Interest Rate Exposure – complied with.

Approved Counterparty List – There is a separate report, updating members on counterparties, on this agenda.

Borrowing Instruments – complied with.

Prudential Indicators – complied with:

- Operational Boundary for external debt;
- Upper limit on interest rate exposure on fixed rate debt;
- Upper limit on interest rate exposure on variable rate debt;
- Maturity structure of borrowing as a percentage of fixed rate borrowing;
- Total principal sums invested for periods longer than 364 days;
- Maturity Structure of New Fixed rate Borrowing during 2005/06.
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4.0 **POLICY IMPLICATIONS**

4.1 None.

5.0 **OTHER IMPLICATIONS**

5.1 None.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 Children and Young People in Halton

None.

6.2 Employment, Learning and Skills in Halton

None.

6.3 A Healthy Halton

None.

6.4 A Safer Halton

None.

6.5 Halton's Urban Renewal

None.

7.0 RISK ANALYSIS

7.1 The main risks associated with Treasury Management are security of investment and volatility of return. To combat this, the Authority operated within a clearly defined Treasury Management Policy and an annual borrowing and investment strategy, which set out the control framework.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 There are no issues under this heading.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

There are no background papers under the meaning of the Act.