REPORT TO:	Executive Board Sub-Committee
DATE:	8th May 2008
REPORTING OFFICER:	Operational Director – Financial Services
SUBJECT:	Treasury Management 2007/08 4th Quarter: January-March
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 <u>Short Term Rates</u>

The base rate fell from 5.50% to 5.25% on 7th February 2008.

This is the third consecutive cut in the base rate in the past 5 months and signalled the intention of the Monetary Policy Committee to intervene in the domestic economy in an attempt to alleviate the effects of the worsening global economic conditions.

The ability to reduce the rate is limited by the main remit of the Committee being to keep the inflation around the 2% mark. This has been exceeded since October last year and is currently standing at 2.5%.

The credit crunch continues with major banks disclosing further losses on sub prime debt investments. This has kept the inter bank trading conditions very tight driving the premium on short rates back up to 0.5% or more above the base rate. The International Monetary Fund has roundly criticised all parties involved in the sub prime crisis (including itself) and warns that there may well be more bad news to come.

With this in mind it is widely forecast that further cuts in interest rates may well be considered in the forthcoming months. The question is, what impact if any will the cuts have on the national economy and interest rates? The private sector may welcome further cuts, but they don't seem to be having any direct impact on the public which is facing tougher credit conditions and higher mortgage costs as lenders tighten up their criteria for lending. The base rate cuts have also had a significant affect on the value of the pound, which has dropped 18% in the past 6 months.

	Start	January		February		March	
		Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
Call Money (Market)	6.00	5.51	5.52	5.35	5.30	5.30	5.50
1 Month (Market)	6.00	5.65	5.52	5.50	5.55	5.55	5.75
3 Month (Market)	6.00	5.60	5.55	5.62	5.68	5.85	6.00

3.2 Longer Term Rates

Longer rates moved around during the period but were never attractive enough for the authority to consider new borrowing.

	Start	January		February		March	
		Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
1 Year (Market)	5.70	5.30	5.30	5.40	5.55	5.65	5.80
10 Year (PWLB)	4.72	4.58	4.72	4.79	4.76	4.53	4.56
25 Year (PWLB)	4.56	4.53	4.60	4.73	4.70	4.58	4.64

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	9	18.85
Short Term Investments	29	35.95

The turnover on investments was relatively low, reflecting the fixture of the bulk of the council’s investments into fixed rate, fixed term deals before Christmas in anticipation of rates falling.

Position at Month End

	January £m	February £m	March £m
Short Term Borrowing	Nil	2.50	6.00
Short Term Investments	54.05	50.20	41.00

The authorities negative cash flow in February and March is reflected in the sharp reduction in the level of investments held.

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	2,478	5.65	5.72

The target income was exceeded due to the generally higher level of investments throughout the year and locking in those investments at the top of the market.

3.4 Longer Term Borrowing/Investments

The authority did not borrow any new long term money, and did not undertake any longer term investments.

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.

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.