

REPORT TO: Executive Board Sub-Committee

DATE: 25th July 2008

REPORTING OFFICER: Operational Director – Financial Services

SUBJECT: Treasury Management 2008/09
1st Quarter: April-June

WARDS: Boroughwide

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 5.25% to 5.00% on 10th April 2008.

This is the fourth consecutive cut in the base rate.

The Monetary Policy Committee is facing a testing period. With inflation rising and the economy slowing, there is little room to manoeuvre with interest rates.

	Start	April		May		June	
		Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
Call Money (Market)	5.50	5.10	5.10	5.10	5.10	5.10	5.20
1 Month (Market)	5.75	5.50	5.45	5.40	5.40	5.45	5.30
3 Month (Market)	6.00	5.90	5.84	5.80	5.85	5.91	5.75

3.2 Longer Term Rates

Longer rates firmed up during the period and were never attractive enough for the authority to consider new borrowing.

	Start	April		May		June	
		Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
1 Year (Market)	5.80	5.75	5.80	5.90	6.05	6.45	6.40
10 Year (PWLb)	4.56	4.60	4.86	4.97	5.20	5.48	5.24
25 Year (PWLb)	4.64	4.67	4.77	4.86	4.94	5.09	4.94

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	5	10.40
Short Term Investments	42	58.75

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

	April £m	May £m	June £m
Short Term Borrowing	1.00	NIL	2.50
Short Term Investments	41.20	48.25	45.20

The authority's cash flow through the period was positive, which is normal for the early part of the financial year as grant and council tax income in received.

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	458	674	5.08	5.87
Quarter 2	936	0	0.00	0.00
Quarter 3	1,331	0	0.00	0.00
Quarter 4	1,700	0	0.00	0.00

The target income was exceeded due to the excellent rate of interest currently being earned on investments. By locking investments in for slightly longer periods last year, the investment rate is secure well into the current year.

3.4 Longer Term Borrowing/Investments

The authority did not borrow any new long term money. Three longer investment deals (greater than 12 months) were undertaken during the period all for £2.5m. They were placed at 6.20%, 6.52% and 6.56%.

3.5 Policy Guidelines

Interest Rate Exposure – complied with.

Approved Counterparty List – following various reports from the credit rating agencies, the authority has been particularly careful in placing money into investments, especially for those deals of longer duration. During the quarter a one year investment was made with Derbyshire Building Society which meant that the limit for funds lent (limit £2.5m actual £5m) for more than three months with that organisation was exceeded for 14 days. It was felt that the Derbyshire was the best counterparty on the day offering the particular rate which was being sought. This decision reflects the difficulty in finding a secure place for money being placed into the market for longer periods. The period of exposure has now lapsed and the current lending to this organisation is back within the set limits.

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.