

REPORT TO: Executive Board Sub-Committee

DATE: 6 November 2008

REPORTING OFFICER: Operational Director – Financial Services

SUBJECT: Treasury Management 2008/09
2nd Quarter: July-September

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 remained at 5.00% during the period. The Monetary Policy Committee, despite being under increasing pressure did not reduce the base rate during the period. The fear of rising inflation seemingly outweighing the threat of a probable recession.

However the money market seems to think that it is only a matter of time before the base rate will have to be cut as part of the ongoing battle against the credit crunch and its side effects.

	Start	July		August		September	
		Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
Call Money (Market)	5.20	5.05	5.05	5.04	5.05	5.15	5.15
1 Month (Market)	5.30	5.38	5.35	5.34	5.34	5.34	6.10
3 Month (Market)	5.75	5.80	5.75	5.75	5.72	5.68	6.25

3.2 Longer Term Rates

Longer rates showed signs of a general lowering during the period and the council looked several times at entering the market but decided to wait for further possible downward movement.

	Start	July		August		September	
		Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
1 Year (Market)	6.40	6.25	6.12	6.00	6.00	5.90	6.40
10 Year (PWLb)	5.24	5.10	5.04	4.84	4.70	4.62	4.60
25 Year (PWLb)	4.94	4.88	4.82	4.77	4.68	4.64	4.71

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	11	32.30
Short Term Investments	40	45.05

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

	July £m	August £m	September £m
Short Term Borrowing	1.60	4.10	7.40
Short Term Investments	41.50	43.40	43.80

The authority’s cash flow through the period was negative, which is unusual for the early part of the financial year. This reflects the cash flow associated with a large capital programme.

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	1362	5.05	5.97
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, as the larger banks and building societies continue to pay a premium for cash. Locking investments in for slightly longer periods last year has also helped to secure the investment rate well into the current year. This is partly offset by increased temporary borrowing costs, which have risen due to the unavailability of maturing investments which are currently locked away.

3.4 Longer Term Borrowing/Investments

The authority did not borrow any new long term money. Three longer investment deals all for 12 months were undertaken during the period for £2.5m, £2.5m and £5.0m, being placed at 6.25%, 6.22% and 6.35% respectively.

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. To date there has been no problems with repayments, although it is becoming increasingly worrying that very large organisations, often household names are deemed to be at risk of failure. Quite often credit ratings are giving no indication as to the current situation an organisation may be in and what off balance sheet problems they may be facing.

The Alliance & Leicester and the Abbey are now part of the Santander Group and if approved by their members the Derbyshire and Cheshire Building Societies will be joining the Nationwide Building Society. This has the effect of reducing the number of counterparties on our list and accordingly increases the pressure to place more cash with those remaining.

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.