

REPORT TO: Executive Board Sub-Committee
DATE: 29 January 2009
REPORTING OFFICER: Operational Director – Financial Services
SUBJECT: Treasury Management 2008/09
3rd Quarter: October -December
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:

(1) That the report be noted; and

(2) That the amendments to the counterparty list shown in Appendix A be approved.

3.0 SUPPORTING INFORMATION

3.1 Short Term Rates

The bank base rate was cut three times during the quarter. It was reduced by 0.50% on the 8th October and then an unprecedented cut of 1.50% on the 6th November, followed by a third cut of 1% on the 4th December. The cuts reduced the rate from 5% to 2% in less than two months.

The Monetary Policy Committee, seemingly less worried about inflation opted for cuts in interest rates as part of a stimulus package designed to limit the damage of the credit crunch and ease the effects of the impending recession. The base rate is now at its lowest since 1951, with talk of more cuts to come in 2009.

The money market rates at which the council can borrow and lend have correspondingly reduced but the debate rages as to whether or not the banks are passing the full effect of the cuts on to the small businesses which are struggling with the consequences of reduced consumer spending. The strength of the pound has weakened throughout the quarter and hopefully this will increase the competitiveness of the British manufacturers in the year to come.

	Start	October		November		December	
		Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
Call Money (Market)	5.15	5.50	5.00	3.10	2.75	1.80	1.90
1 Month (Market)	6.10	6.00	5.60	3.50	3.00	3.10	2.25
3 Month (Market)	6.25	6.30	6.10	4.10	3.95	3.00	2.85

3.2 Longer Term Rates

Longer rates followed the base rate down, especially at the shorter end which has seen significant easing in the 1 to 5 year periods, with the longer dates easing but not by as much.

	Start	October		November		December	
		Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
1 Year (Market)	6.40	6.40	6.10	4.20	4.10	3.35	3.00
10 Year (PWLB)	4.60	4.97	4.69	4.41	4.11	4.01	3.55
25 Year (PWLB)	4.71	5.08	4.82	4.80	4.45	4.46	4.08

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	20	35.85
Short Term Investments	35	43.20

The turnover on investments was relatively low, reflecting the locking 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

	October £m	November £m	December £m
Short Term Borrowing	0.65	7.60	1.15
Short Term Investments	47.50	52.65	50.50

The authority took advantage of the falling PWLB rates to replace the temporary borrowing from the money market with a 1 year £10m borrowing. The overall cash flow through the period was fairly neutral as several large capital grants were received which helped to offset the cash flow associated with the councils 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	1,362	5.05	5.97
Quarter 3	1,474	2,114	5.00	5.98
Quarter 4	2,000	0	0.00	0.00

The target income has been revised upwards to reflect the extra income that will be earned following the receipt of the 1 year PWLB loan mentioned above. The target was exceeded due to the excellent rate of interest currently being earned on investments (around 6.10%). Locking a high proportion of the councils investments into longer periods earlier in the year has protected the investment rate against the current falls indicated above and will also help to secure higher than average investment returns well into 2009. Some of the extra investment income shown in the table above will be offset by increased temporary borrowing costs, which will rise to reflect the 1 year PWLB loan mentioned above.

The strategy for maturing investments through to March will be to keep the cash on short notice deposits so that it can be matched with the negative cash flow from the capital programme, allowing the council to defer long term borrowing and follow the market rates down probably into the 2nd quarter of 2009 when it is predicted rates will bottom out. This policy should allow for new long term borrowing to be undertaken at the lowest possible rates.

3.4 Longer Term Borrowing/Investments

The authority did not borrow any new long term money.

3.5 Policy Guidelines

Interest Rate Exposure – complied with.

Approved Counterparty List – The counterparty lending list is normally reviewed biennially and as such would be due for review in January 2010. However due to the rapidly changing circumstances prevailing in the money market, it seems prudent to rework the list on an interim basis to reflect the various mergers and credit rating changes that have taken place in the past twelve months. This review

does not seek to add any new counterparties; it just updates the list approved in January 2008. Appendix A is submitted for consideration.

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

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.