REPORT TO:	Executive Board Sub-Committee
DATE:	18th June 2009
REPORTING OFFICER:	Operational Director – Financial Services
SUBJECT:	Treasury Management 2008/09 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 Short Term Rates

The bank base rate was cut three times by the Monetary Policy Committee (MPC) during the quarter. It was reduced by 0.5% on the 8th January, 0.5% on the 5th February, followed by a third cut of 0.5% on the 4th March, reducing the rate from 2% to 0.5% during the quarter. The rate of 0.5% is unchartered territory for the policy makers, taking the rate to a level never seen before and leaving little room for future cuts. The Governor said after the last MPC meeting that it was “highly unlikely” that further cuts will be made.

The cuts have been accompanied by a radical new approach to monetary policy by the Treasury and the Bank of England, the most significant change in the conduct of policy for a very long time. This is because, with interest rates at 0.5% it is judged that additional tools of monetary policy are needed The Bank has been given authority by the Treasury to conduct what is known as “Quantitative Easing”, and the programme began on March 11th with a £2bn reverse auction to purchase gilts in the market .This represents a major change in the way the Bank conducts its money market operations as it is the first time in its history that it has conducted transactions by reference to the quantity of central bank money rather than its price.

Short term investment rates have collapsed, bearing in mind call money was at 5.15% at the beginning of October.

		January		February		March	
	Start	Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
Call Money (Market)	1.90	1.70	1.60	0.90	1.00	0.60	0.65
1 Month (Market)	2.25	1.70	1.60	1.40	1.40	1.10	1.10
3 Month (Market)	2.85	2.25	2.10	2.10	2.00	2.00	1.70

3.2 Longer Term Rates

		January		February		March	
	Start	Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
1 Year (Market)	3.00	2.40	2.35	2.40	2.30	2.30	2.15
10 Year (PWLB)	3.55	3.57	4.09	3.77	3.83	3.12	3.38
25 Year (PWLB)	4.08	4.19	4.66	4.38	4.55	4.00	4.28

The PWLB rates are for “lower quota” entitlements.
1 to 10 year rates generally eased through the period but longer dated money has been more volatile. Rates approached target levels but never quite dropped enough for new borrowing to be taken.

3.3 Temporary Borrowing/Investments

Turnover during period

	No. Of Deals Struck	Turnover £m
Short Term Borrowing	14	28.80
Short Term Investments	33	30.05

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

	January £m	February £m	March £m
Short Term Borrowing	1.30	4.60	10.70
Short Term Investments	47.90	46.90	39.00

The overall cash flow through the period was significantly negative which is normal for the period as council tax and non domestic rates receipts slow down and capital expenditure accelerates. This was accentuated by the locking in of investments to counter the falling rates. Temporary borrowing at a cost of around 0.5% has been a bonus to the council to help it defer its long term borrowing plans until rates are at their lowest.

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	2,796	4.69	5.98

The target income was revised upwards to reflect the extra income that will be earned following the receipt of the 1 year £10m PWLB loan mentioned in the last report. The revised target was comfortably exceeded due to the excellent rate of interest earned on investments. Locking a high proportion of the council's investments into longer periods earlier in the year helped to protect the investment rate through to the end of the year, especially in view of dramatic falls indicated above. It will also help to secure higher than average investment returns well into 2009, although as investments mature and new investments are undertaken the average rate will fall to much more modest levels. Some of the extra investment income shown in the table above was offset by increased temporary borrowing costs (around £135k), which were incurred to service the 1 year PWLB loan mentioned above. The benchmark return for the year was exceeded by 1.29% the first time that the authority has exceeded the benchmark return by more than 1%.

At the end of March the Audit Commission reported on treasury management arrangements in local government following the collapse of the Icelandic banks. It concluded that the overarching treasury management framework is the right one – but the system needs to be adjusted rather than replaced. Revised guidance from CIPFA is expected in the summer.

In addition the Communities and Local Government Select Committee has been investigating local authority investments and its report is expected shortly.

3.4 <u>Longer Term Borrowing/Investments</u>

The authority did not borrow any new long term money.

3.5 <u>Policy Guidelines</u>

Interest Rate Exposure – complied with.

Approved Counterparty List – complied with. Since the counterparty list was reviewed in January, the Britannia BS has announced talks with the Co Op Financial services group and Dunfermline BS has merged with Nationwide BS. The council's exposure to the Nationwide BS now exceeds its limit, due to the Derbyshire BS, Cheshire BS & Dunfermline BS mergers over the past three months with the Nationwide BS. This will partly unwind in May 2009, when one investment matures and be back within limits by September 2009 when a second investment matures.

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.