Chorley Council

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation) (Introduced by the Executive Member for Resources)	Executive Cabinet	12 November 2009

TREASURY MANAGEMENT ACTIVITY 2009/10

PURPOSE OF REPORT

1. To report to members on
   - Treasury Management activity and performance, up to 30 September 2009,
   - Compliance with the Treasury and Investment Strategies.

2. To recommend changes to the Investment Strategy.

RECOMMENDATION

3. The Executive is recommended to note the report.

EXECUTIVE SUMMARY OF REPORT

4. The report advises that, on average, the Council had surplus cash balances of £6.9m on which it received a return of 0.56% during the first half year of 2009/10. Since June 2009, in the interest of security, but in return for a lower rate of interest, the majority of deposits had been made in the Government backed, Debt Management Office account. The report also includes the commentary of the Council's treasury advisor on the economic background and confirms compliance with the guidelines specified in the Investment Strategy.

REASONS FOR RECOMMENDATION(S)

(If the recommendations are accepted)

5. To comply with the guidance of the Council's advisor.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

6. None

CORPORATE PRIORITIES

7. This report relates to the following Strategic Objectives:

Put Chorley at the heart of regional economic development in the Central Lancashire sub-region		Develop local solutions to climate change.	
Improving equality of opportunity and life chances		Develop the Character and feel of Chorley as a good place to live	
Involving people in their communities		Ensure Chorley Borough Council is a performing organization	✓

BACKGROUND

8. A report on treasury activity and compliance in the first quarter was submitted to the Executive on 13 August 2009. This report gives information on the second quarter and the year to date. Also attached at Appendix A is the latest commentary on economic conditions provided by the Council's treasury advisers, Sector Financial Services Ltd.

TREASURY ACTIVITY

9. Investments

The following table summarises investment activity in the half year to 30/9/2009:

	Average daily investment £'000	**Interest earned £**	**Av rate %**
Term deposits	1,825	5,572	0.61
Call accounts	1,997	7,014	0.70
Money Market Fund	1,087	3,884	0.71
Debt Management Office	1,988	2,998	0.30
	6,897	19,468	0.56

10. The points to note in the above table are:
    - The average amount invested at any time was £6.897m.
    - The average earned was 0.56%.
    - The DMO account provides maximum security but in return offers the lowest rate of interest 0.30%. The cost, assuming that these funds could have earned 0.61% in line with other term deposits, is £3k in the half year.

11. The analysis of average daily investments is distorted by the fact that the DMO account was only available for a part year, only being opened in mid June. Since then it has been used as the main home for investments, with, on average, £3.4m invested in it.

12. Looking to the future the Economic Commentary at Appendix A identifies signs of recovery in the economy, but stresses its fragile nature and uncertainty. It concludes that interest rates are unlikely to change until the June to September quarter in 2010.

13. Borrowing

Interest rates on new borrowings have edged slightly down over the past quarter, as shown in the following table:

	2 yrs	5 yrs	10 yrs
16/7/2009	1.18%	2.27%	3.21%
18/8/2009	0.99%	2.08%	3.03%
18/9/2009	0.94%	2.01%	3.03%
19/10/2009	1.03%	2.00%	2.94%

14. These rates do however exceed those being earned (0.56% as above) Furthermore with cash balances averaging £6.9m there has been no need to borrow to maintain liquidity. Consequently no additional borrowings have been made.

15. The Council's outstanding debt is £3.45m.

TREASURY PERFORMANCE

16. The benchmark against which investment performance is judged is the 7 day London Interbank Rate (LIBID). This represents a minimum level of return on cash invested for a minimum period. The average 7 day LIBID rate for the first half year was 0.45%. The actual return exceeds this.

17. The comparison between budgeted and actual interest costs is as follows:

	Budget £'000	Current forecast £'000
Interest payable	249	134
Interest receivable	(146)	(30)
Net	103	104

18. Both interest payable and receivable are reduced because replacement borrowing has been deferred for the reasons stated above.

LANDSBANKI

19. The report accompanying the audited statement of accounts, to the Audit Committee on 24 September, advised that recovery of 83% had been assumed. No further information has been released about the timing of the first payment to landsbanki's creditors, nor about the total amount that might be recovered

COMPLIANCE WITH PRUDENTIAL LIMITS

20. All prudential limits are being complied with ie:

	Limit set	Current actual
Operational borrowing limit (i.e based on the expected amount of borrowing)	£8.929m	£3.464m
Authorised borrowing limit (this is the outer boundary – "affordable but not sustainable"	£10.929m	£3.464m
Upper limit for fixed rate exposure	100%	100%
Upper limit variable rate exposure	30%	nil
Upper limit investments over 1 year	nil	nil
There has been no change in the maturity structure of the Council's debt		

INVESTMENT COMPLIANCE

21. The Investment Strategy for 2009/10 restricts investments to a narrow range of highly rated institutions, with a maximum duration of either one year or three months, and a maximum deposit of £1m, which can be increased to £2m if alternative placement is not possible.

22. A full list of term deposits made in the second quarter is given at appendix B. All comply with the Investment Strategy criteria. Other deposits were made in Call Accounts (which give immediate access). These too complied with the strategy except for two days when the combined amounts deposited with the RBS and in the Nat West (part of the same banking group) totalled £2.038m

RATINGS WATCH

23. As previously advised the rating agencies assess financial institutions according to four criteria:

- Long Term - this is a benchmark measure of the probability of default
- Short Term – has a time horizon of only 13 months and thus places greater emphasis on liquidity and the bank's ability to meet its financial commitments
- Individual Strength – this is an attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support.
- Support – this is a judgement of whether a bank would receive support from the state or an institutional owner, should it be necessary

24. Every institution continues on ratings watch, by either Moody or Fitch, for at least one of the above elements. This has led the Council to continue to place the bulk of its cash with the DMO.

IMPLICATIONS OF REPORT

26. This report has implications in the following areas and the relevant Corporate Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		No significant implications in this area	

Financial implications are indicated in the body of the report.

GARY HALL
ASSISTANT CHIEF EXECUTIVE (BUSINESS TRANSFORMATION)

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
Chorley BC Treasury & Investment Strategy	26 Feb 2008		Town Hall

Report Author	Ext	Date	Doc ID
G Whitehead	5485	26/2/08	Treas mgmt second quarter.doc

Appendix A

Economic Background

The second quarter of 2009 saw:

- There are some signs of recovery in the market, with some sectors showing growth
- Concerns remain about the fragile state of any recovery with the impact of rising unemployment, therefore bank rate/investment rates expected to stay lower for longer
- House prices rise at the fastest rate in over five years;
- An extension of the Bank of England's quantitative easing programme...
- ...but have limited success in boosting credit or money supply growth;
- Unemployment continue to rise and pay growth weaken further;
- Inflationary pressures in the economy ease further, but more slowly than had been expected;
- Conditions in financial markets improve further, and equity prices rally strongly;
- The pound fall back, yielding much of the gains made in the first quarter;
- Other major economies exit the recession, including the US.

At its meeting in August, the Monetary Policy Committee (MPC) increased the amount of asset purchases under the Bank's quantitative easing (QE) programme by £50bn to £175bn.

Net lending to businesses increased in August for the first month since March, however, the household sector as a whole reduced unsecured debt in August. Banks are likely to remain reluctant to lend while conditions in the labour market are still deteriorating. The claimant count rose by 25,200 in July and 24,400 in August. While these were smaller rises than in the first quarter, they were enough to take the claimant count above 1.6m, the highest level since Q2 1997.

Inflationary pressures in the economy eased further in the quarter, although at a slower rate than in the previous quarter, and more slowly than many expected. CPI inflation fell from 1.8% in June to 1.6% in August, largely as a result of falls in the annual rate of food and utility price inflation. However, core inflation rose from 1.6% in June to 1.8% in August – a higher rate than in other advanced economies. The rise most likely reflects the lagged impact of the pound's depreciation last year, and so should prove temporary.

The most upbeat news was from the housing market. The Nationwide house price index rose 3.8% in Q2, the largest quarterly rise since Q2 2004. House prices by this measure are now only 13.5% below their peak. And while the Halifax measure remained more downbeat, it too posted increases in the quarter. However, the rise in house prices appeared to be largely driven by the scarcity of homeowners putting their homes up for sale, suggesting that the rises may therefore only be temporary.

Economic Forecast

The Council's Treasury Advisers, Sector, provides the following forecast:

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Bank rate	0.50%	0.50%	0.50%	0.75%	1.25%	1.75%	2.50%	3.00%	3.75%	4.00%	4.25%	4.50%	4.50%	4.50%
5yr PWLB rate	2.80%	2.90%	3.10%	3.20%	3.30%	3.55%	3.85%	4.15%	4.55%	4.60%	4.80%	4.80%	4.85%	4.85%
10yr PWLB rate	3.75%	3.80%	3.90%	4.00%	4.15%	4.30%	4.55%	4.75%	4.95%	5.00%	5.10%	5.15%	5.15%	5.15%
25yr PWLB rate	4.35%	4.45%	4.55%	4.60%	4.70%	4.90%	5.00%	5.00%	5.10%	5.20%	5.30%	5.30%	5.35%	5.35%
50yr PWLB rate	4.50%	4.55%	4.70%	4.75%	4.90%	5.00%	5.15%	5.15%	5.20%	5.25%	5.40%	5.40%	5.45%	5.45%

- The forecast is based on moderate economic recovery and moderate MPC concerns about inflation looking 2 years ahead
- The first Bank Rate increase is expected to be in Q2 of 2010/11
- Bank Rate to reach 4.5% in Q2 of 2012/13
- Long term PWLB rates to steadily increase to reach 5.45% by the end of 2012 due to high gilt issuance, reversal of QE and investor concerns over inflation
- There is a high level of uncertainties in all the above forecasts. This is due to the difficulties of forecasting the timing and amounts of QE reversal, fiscal contraction after the general election expected by May 2010, speed of recovery of banks' profitability and balance sheet positions, changes in the consumer saving ratio and rebalancing of the UK economy towards exports.

Appendix B

Investments 2009/10 Since last report

	£m	Rate	From	To
Term Deposits				
RBS	1	0.39%	15/07/09	17/08/09
Barclays	1	0.30%	17/08/09	17/09/09
RBS	1	0.35%	17/08/09	17/09/09
Barclays	1	0.25%	17/09/09	19/10/09
RBS	1	0.30%	17/09/09	19/10/09