Quarterly Treasury Report Q2 2009/10

1. Background

Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management. This report summarises details of borrowing and investment transactions that took place in the second quarter (Q2) of 2009/10, and confirms compliance with the Prudential Indicators set out in the Treasury Management Strategy Statement for 2009/10.

2. The economy and events in Q2

- The recession in the UK economy proved to be deeper and longer than previously anticipated.
- The UK Bank Rate was cut to 0.5% in March and maintained at this level. The Bank of England also embarked on a further £50bn of Quantitative Easing (QE = an unconventional programme designed by the Bank of England to stimulate the economy) remit to buy back £175bn of assets. This has succeeded in holding short gilt yields down but has not yet resulted in a significant increase in the availability of credit in the wider economy, which is the wider goal.
- The housing market showed some signs of stability but increases in house prices were modest.
- Consumer Price Inflation, having hit a high of 5.2% in September 2008, began the quarter at 1.8% falling to 1.1% in September.
- Unemployment rose rapidly to just under 2.5 million and wages remained stagnant.
- Companies and households on the whole reduced rather than increased their levels of debt during the quarter.
- The outlook was therefore for a period of slow and patchy growth in the economy accompanied by stubbornly high unemployment.
- Standard & Poor's rating agency responded to the debt that the UK government is building up and a lack of credible plans to reduce the debt burden by changing the UK's rating outlook from stable to negative.

3. Debt Management Q2

	Balance on 01/04/09 £m	**Debt Maturing £m**	**Debt Repaid £m**	**New Borrowing £m**	**Balance on 30/09/09 £m**
Short Term Borrowing	0.0	0.0	0.0	0.0	0.0
Long Term Borrowing	156.266	0.0	0.0	0.0	156.266
TOTAL BORROWING	156.266	0.0	0.0	0.0	156.266

There have been no changes in the debt portfolio over the quarter, however we are monitoring particular PWLB Loans daily, with the view to restructure some of the debt in order to reduce the overall debt cost.

4. **Investment Activity Q2**

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Investments

	Balance on 01/04/09 £m	**Investments Made £m**	**Investments Repaid £m**	**Balance on 30/09/09 £m**
Short Term Investments *	99.407	366.058	369.075	96.390
Long Term Investments Lime Property Fund	5.000	0	0	5.000
Bonds issued by Multilateral Development Banks	0	0	0	0
Investments in Pooled Funds	0	0	0	0
Corporate Bonds	0	0	0	0
Funds Managed Externally on segregated basis:	5.675	0	0	5.726
TOTAL INVESTMENTS	110.082	366.058	369.075	107.116

* includes call account and investment balances before the disaggregation of the Bedfordshire County Councils investments

Externally Managed Funds:

Externally we have £10.7m deposited with External Fund £5.6m with Investec and £5m with the Lime Property Fund, average rate of return on these investments are 3.44% and 4.13%.

Internal Investments:

Internally we continue to receive a return well above 3 month Libid which stands at 0.91%, average rate of return being 2.83%. Interest earned currently includes all former Bedfordshire County Council Investments.

Security of capital remained the Council's main investment objective. This was maintained by continuing with the revised counterparty policy which the Council introduced response to the emerging banking crisis. This restricted new investments to the following:

- the Debt Management Office
- Other Local Authorities
- AAA-rated Stable Net Asset Value Money Market Funds
- Deposits with Banks and Building Societies with access to the UK Government's Credit Guarantee Scheme (CGS)* and which have long-term ratings in the 'double-A' category
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank

**The CGS was announced in October 2008 to stabilise the UK banking system and provide solvency support for the "systemically critical" banking institutions in the UK. The government's CGS is not an explicit guarantee for deposits but is main platform to maintain the solvency of institutions critical to the UK's financial stability.*

The Council's maturing deposits have been reinvested at much lower prevailing rates of interest, though the possibility of lower rates has been built into the budget 2009/10.

5. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2009/10, which were set as part of the Council's Treasury Management Strategy Statement which is available as background papers.

6. Outlook for Q3

- At the time of writing this half quarterly activity report in September 2009, the outlook for interest rates was as follows:

UK Bank Rate	Dec 2009	Mar 2010	Jun 2010	Sep 2010	Dec 2010	Mar 2011	Jun 2011	Sep 2011	Dec 2011
Central case	0.50	0.50	0.50	0.50	1.00	1.50	2.25	3.00	4.00
Upside Risks				+0.25	+0.25	+0.50	+0.50	+0.50	+0.50
Downside Risks					-0.50	-0.50	-0.50	-0.25	-0.25

- CIPFA is revising both the Treasury Management Code and Guidance Notes, which is expected in the October/November 2009. This will be reported on in Q3 2009/10.