Treasury Management Interim Report **Appendix C**
Quarter to 31 December 2009

This quarterly report ensures the Council is embracing best practice in accordance with CIPFA's recommendations, by informing members of the Treasury Management performance to December 2009.

1. The Economy

1.1. Recent economic statistics show:

- The Bank Base Rate remaining unchanged at 0.50%;
- CPI inflation rising each month from 1.1% in September (its lowest level for five years) to 2.9% in December.
- GDP increasing for the first time in eighteen months, although only rising by a weaker than expected 0.1%;
- House prices continuing to increase (the average cost of a home went up for the eighth month in a row in December rising 0.4% to £162,103); and
- Unemployment reaching £2.49 million in the quarter from August to October 2009 (the highest figure since 1995 although the smallest quarterly increase since May 2008) then the quarter to November 2009 showing a small decrease of 7,000.

1.2 Although there are some tentative "green shoots" the general economic backdrop remains weak.

2. The Council's investments

2.1 As at 31 December 2009 the council held the following investments:

Investment	**Rate of interest**	**Amount invested £m**	**£m**
Instant access accounts:			
National Westminster	1.10%	5.00	
Abbey (now Santander)	0.80%	5.00	
Barclays	0.65%	5.00	15.00
Money Market Funds:			
Blackrock	0.55%	2.19	
Insight	0.48%	1.44	
Standard Life	0.41%	2.48	6.11
Fixed term deposit for three months to 22 January :			
Bank of Scotland	1.10%	5.00	5.00
Total	**0.81%**		**26.11**

2.2 Apart from the term deposit with the Bank of Scotland, the council has instant access to all its invested funds. At the beginning of 2009/10 instant access was put in place as a response to the problems in the financial markets. However, there has been no need to review this policy as the instant access rates received are consistent with those granted for term deposits of at least three months.

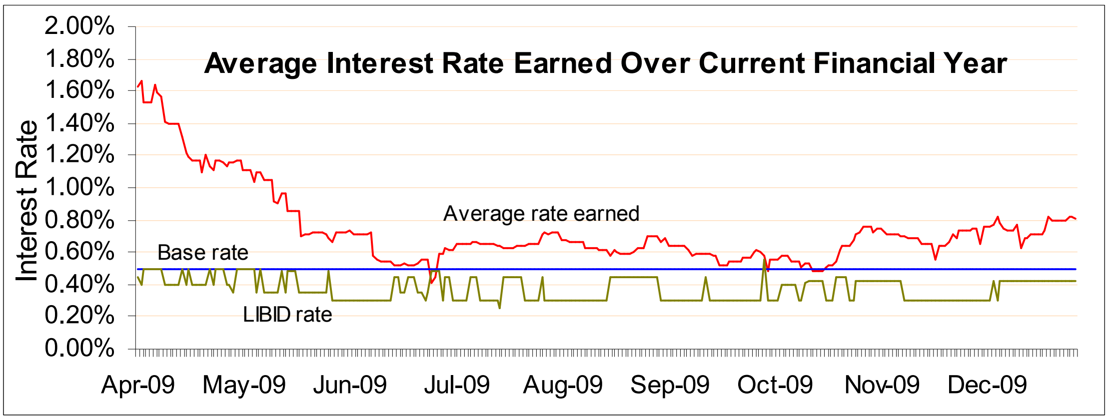
2.3 The current investment policy is to restrict the council's list of eligible institutions to the following:

- Banks and building societies with access to the UK government's Credit Guarantee Scheme;
- AAA-rated Money Market Funds;
- Other Local Authorities; and
- The Debt Management Office.

2.4 There has been no change in the bank base rate during the quarter and it is expected to remain at 0.50% until Autumn 2010. The council's treasury adviser has provided the following forecast of the bank base rate:

Bank Rate	**Mar-10**	**Jun-10**	**Sep-10**	**Dec-10**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**
Upside risk			+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	**0.50**	**0.50**	**0.50**	**1.00**	**1.50**	**2.25**	**3.00**	**4.00**	**4.00**
Downside risk				-0.50	-0.50	-0.50	-0.25	-0.25	-0.25

2.5 The average daily interest rate earned on the council's investments is shown in the graph below.

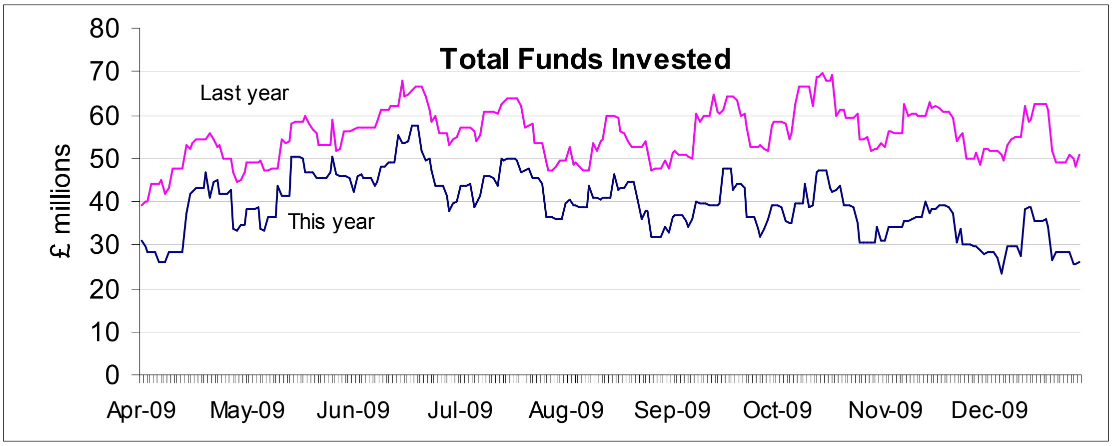


2.6 In the nine month period to 31 December 2009 the daily rate of interest earned has averaged 0.72% but this rate has varied from 1.60% at the beginning of the year to a low of 0.40% in June 2009. At the beginning of the year the average rate was increased by term deposits, made in earlier periods when the interest rate was higher, but by mid-June these had all matured.

2.7 The interest rate achieved compares favourably with the generally accepted benchmark of the 7-Day London Inter-Bank Bid (LIBID) rate which averaged 0.40% for the nine month period.

2.8 Because of the limited number of eligible counterparties, and the relatively wide spread in interest rates offered (from 0.25% by the Debt Management Office to 1.10% by National Westminster Bank) the average daily interest rate obtained tends to fall as the total invested increases (as less attractive counterparties offering less attractive rates need to be used).

2.9 The graph below shows the total invested in the year to date and it can be seen that from November 2009 the total amount invested has tended to fall resulting in an improvement in the average daily rate of interest, as shown by the graph above.



2.10 The graph also shows the reduced level of investments, when compared to the previous year. This is due to the council using its investments to finance capital expenditure in preference to taking out further (external) borrowing. This is a cost effective approach that minimises our borrowing.

3. The Council's Borrowing

3.1 To date the council has not taken out any new borrowing in 2009/2010.

3.2 As at 31 December 2009 the council's long term borrowing totalled £115.22m with maturities as follows:

Principal repayable:	**£**	**%**
Within the next 10.5 years to 31 March 2020	19,976,795	17.34%
Between 1 April 2020 and 31 March 2030	22,244,137	19.30%
Between 1 April 2030 and 31 March 2040	30,000,000	26.04%
Between 1 April 2040 and 31 March 2050	18,000,000	15.62%
Between 1 April 2050 and 31 March 2060	25,000,000	21.70%
Principal outstanding as at 31 December 2009	115,220,932	100.00%

3.3 The above borrowing is from the Public Works Loan Board except for two bank loans totalling £12 million, which were taken out in 2004.

3.4 The Treasury Management Strategy outlined various options regarding council borrowing for 2009/2010. The current large differential between investment rates and borrowing rates means the favoured approach is to use internal borrowing as far as possible.

3.5 It is anticipated that before the end of March 2010 the council will be unable to postpone borrowing any longer and will need to borrow an additional £10 million from the PWLB to ensure funding of future capital schemes. Because of the low bank base rate, it is likely that the council will borrow short-term to take advantage of lower rates for shorter maturity periods.

3.6 Debt rescheduling has been discussed with our treasury advisors but, because of the high cost of repayment coupled with the risk of having to replace loans in the future when rates may well be higher, we have not pursued this option. We will keep it under regular review.

4. Projected Outturn

4.1 The projected net outturn is an underspend against budget of £459k. Of this amount approximately £21k relates to projected interest received being less than budget and £480k relates to an underspend on borrowing.

4.2 The underspend on borrowing is due to slippage on the capital programme and the associated external borrowing, resulting in a reduced minimum revenue provision (MRP) for debt repayment and less external interest payable in the year.

5. The Council's Treasury Advisers

5.1 The council's three year contract with Sector ended in 2009. The council invited Sector and two other treasury adviser's to tender for a new three year contract. The contract was awarded to Arlingclose Ltd who have an excellent track record for providing good information and sound, independent advice. The services offered by Arlingclose include the following:

- Advice on credit worthiness policy;
- Advice and guidance on long-term borrowing as well as debt restructuring opportunities;
- Regular meetings to discuss strategy;
- Staff training events; and
- Assistance with CIPFA reporting requirements etc.