

Treasury Management Update

This quarterly report ensures the council is embracing best practice in accordance with CIPFA's recommendations, by informing members of Treasury Management activity in the quarter to March 2010.

1. The Economy

1.1. Recent economic statistics show:

- The Bank Base Rate remaining unchanged at 0.50%.
- CPI inflation being relatively high: increasing from 2.9% in December to rising 3.4% in March (VAT, gas prices and petrol prices). Despite the rise in prices, market expectations are still for the rate of inflation to fall again in the coming months to below 2% as high unemployment and weak economic growth dampen price rises.
- GDP increasing for the second quarter in succession although by only 0.2%
- House prices increased by 1.9% in January, fell by 1.6% in February and increased by 1.1% in March. The Halifax expects house prices for the remainder of 2010 to remain fairly flat.
- The number of unemployed people increased by 53,000 over the quarter to March, reaching 2.51 million, the highest figure since the quarter to December 1994.

1.2 Although some statistics have shown that the UK economy has started expanding, a slow recovery is expected. Quantitative easing has been paused and will ultimately be phased out but not until there is a sustained return to growth.

2. The Council's Investments

2.1 As at 31st March 2010 the council held the following investments:

	Rate of interest	Amount Invested
Investment - £m		
Instant access accounts:		
National Westminster	1.10%	5.00
Abbey (now Santander)	0.80%	2.92
Fixed term deposit for one year to 27 th January 2011:		
Bank of Scotland	1.82%	5.00
Total	1.31%	12.92

2.2 Apart from the term deposit with the Bank of Scotland, in the quarter to 31st March 2010 the council retained instant access to all its invested funds. This was a response both to the continued uncertainty in the financial markets and to the council's liquidity requirements as balances fell towards the year end.

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2.2 There was no change in the council's investment policy during the quarter which continued to restrict the council's list of eligible counterparties to the following institutions:

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

2.4 The average interest rate achieved on the council's investments during the year ended 31st March 2010 was 0.737%, which compares favourably with the generally accepted benchmark of the average 7-Day London Inter-Bank Bid (LIBID) rate of 0.39%.

2.5 The year end position was as follows:

	<u>£</u>	<u>£</u>
Treasury management interest received	269,980	
Other interest received (mainly on car loans)	5,997	
Total interest received for year		275,977
Less interest paid out (on various trust funds etc held)		(21,700)
Net interest received for year		254,277

2.6 The budget for the year for net interest received was £249,070; the actual interest received exceeded the budget by £5,207.

3. Council Borrowing

3.1 Due to the falling level of council funds, and due to short-term Public Works Loan Board (PWLB) interest rates falling to their lowest level in the year to date, on 3rd March the council borrowed £10 million from the PWLB in the form of a 10 year Equal Instalment of Principal (EIP) loan at 2.96%. An EIP loan allows the council to repay the loan on a straight-line basis repaying £500,000 every six months over the term of the loan.

3.3 As at 31st March 2010 the council's long term borrowing totalled £125.147 million with maturities as follows:

<u>Principal repayable:</u>	<u>£</u>	<u>%</u>
Within the next 10 years to 31 st March 2020	29,903,165	23.89%
Between 1 April 2020 and 31 st March 2030	22,244,137	17.78%
Between 1 April 2030 and 31 st March 2040	30,000,000	23.97%
Between 1 April 2040 and 31 st March 2050	18,000,000	14.38%
Between 1 April 2050 and 31 st March 2060	25,000,000	19.98%
Principal outstanding as at 31 st December 2009	125,147,302	100.00%

3.4 The above borrowing is from the PWLB except for two bank loans totalling £12 million, which were taken out in 2004.

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- 3.5 During the year ended 31st March 2010 the council paid interest of £5.182 million on its external borrowing. Total borrowing costs including Minimum Revenue Provision (the setting aside of principal for the repayment of debt), and net of directorates contributions, were £12.537 million compared to a total budget of £13.174 million. The saving of £0.644 million relates to slippage on the capital programme resulting in savings in both interest costs and Minimum Revenue Provision.