AGENDA ITEM
10

EXECUTIVE

DATE:	**5TH JANUARY 2009**		
SUBJECT	**TREASURY MANAGEMENT ACTIVITY**		
REPORT BY:	**HEAD OF CORPORATE FINANCE**		
CONTACT OFFICER:	**B CRICK**		**746117**

IMPLICATIONS:

LEGAL	✓	**STAFFING**	
EQUALITIES	✓	**COMMUNITY SAFETY**	
FINANCIAL	✓	**RISKS**	✓
OTHER			

CONSULTATIONS:

COUNCILLORS CONSULTED	**SCRUTINY COMMITTEE CONSULTED**
STAKEHOLDERS CONSULTED	**OTHER**

WARDS AFFECTED: **ALL**

LEAD EXECUTIVE MEMBER(S): COUNCILLOR HARRIS

RECOMMENDATION(S)

1. Executive is recommended to note the Treasury Management activity shown at Appendix A.

REPORT

2. The purpose of this report is to advise members on Treasury Management activity in accordance with the Treasury Management Strategy for 2008/09 approved at decision EX/56/08 and the Annual Investment Strategy approved by Full Council minute 41/08.

3. Appendix A details the Treasury Management Activity for the financial year 2008/09 to date.

4. No additional borrowing has been undertaken since the last report.

5. There has not been any opportunity to restructure the Council's debt this year.

6. As can be seen in the attached report (short term investments-internal) the return on investments this year to date is 5.75%, being .99% above the Council's benchmark of 4.76%.

7. On each of the last three occasions that the Monetary Policy Committee has met the base rate has been reduced. At the time of the last report the rate was 5% and it now stands at 2%. Current market opinion is that further reductions are inevitable and some commentators, including the Council's specialist treasury management advisors , are predicting a base rate of 1/2% by the end of the first quarter of 2009.

   The situation is kept under constant review and, although the Councils longer term investments, at relatively high rates, will provide some cushioning, it is clear that there will be a significant reduction in investment income over the next two to three years, should rates if as expected remain low during that period.

   At present, partly in order to maintain liquidity and also to take advantage of high rates offered by highly rated institutions, a sizeable proportion of the Council's investments have been kept in Money Market Funds which have at times exceeded the base rate by over 2%.

8. The collapse of various Icelandic Banks in October has given rise to much speculation in respect of local authority investment portfolios , particularly as many authorities had large sums invested with them. Luton Borough Council did invest in Icelandic Banks, which were highly rated and met the Councils prudent criteria for prospective counterparties, up until March 2008 when warning signs about the Icelandic economy were being voiced. In early April Fitch Credit Rating Agency issued a 'negative rating watch notice' and this automatically triggered their removal from the Council's ongoing lending list .

   In order to get the best value for Council taxpayers, cash investments are made to banks, building societies and money market funds that are, according to credit rating agencies and the Council's specialist treasury management advisors the safest places to put taxpayers money, and also to maximise interest on investments. It should be noted that all counterparties that are currently held on the Council's lending list have a significantly higher credit rating than the Council's own bankers, the Co-operative.

   Diversification is key to managing investment risk and, with this in mind, as wide a range of counterparties as possible is used by the Council. This involves the use of highly rated banks in highly rated sovereign countries. The Council's lending list is reviewed on a daily basis and appropriate action is taken, as in the case of Icelandic Banks, when necessary.

LEGAL IMPLICATIONS

9. There are no legal implications in respect of this report and this has been agreed with Brenda Vale in Legal Services on the 10 December.

EQUALITIES,COHESION and INCLUSION IMPLICATIONS

10 The report has no direct or indirect equality, cohesion or inclusion implications except so far as it reports on investments and borrowings which may directly or indirectly have implications dependant on how those investments are managed and how that borrowing is used. This was agreed by the Performance Review Manager (CCS) on the 12 December .

FINANCIAL IMPLICATIONS

11 There are no equalities, cohesion and inclusion implications in respect of this report as agreed with the Head of Corporate Finance on the 8 September 2008.

RISKS

12 Treasury Management is an area of significant risk. In relation to security and probity of investments all activity has been undertaken in accordance with the provisions of the Council's Treasury Management Practices (TMPs) which include a substantial section on risk, in order to manage and minimise, so far as possible, the risks involved.

OPTIONS

13 Executive can choose whether or not to approve this report or ask for more information if required.

APPENDIX

14 Appendix A - Treasury Management Activity for the financial year 2008/09 to date.

BACKGROUND PAPERS

15 Advisers Commentaries