

# Cumbria Police Authority

20 December 2006

Agenda Item No 19

## Treasury Management Activities for the period September 2006 to November 2006

### A report by the Treasurer and Chief Constable

#### 1. Summary

- 1.1 The purpose of this paper is to report on the Treasury Management activities which have taken place between September and November 2006, in accordance with CIPFA's Code of Practice on Treasury Management.

#### 2. Recommendations

- 2.1 Members are asked to note the contents of the report.

#### 3. Economic Background

- 3.1 Although the Bank of England Monetary Policy Committee (MPC) maintained that the decision to raise interest rates to 4.75% in August, did not necessarily signal further increases in interest rates, at least one further rise of 0.25% had been widely anticipated by the financial markets. In due course the MPC voted to raise the base rate to 5% in November. The minutes of monthly MPC meeting in November indicate that the need to bring Consumer Price Index (CPI) within the Government target of 2% in the medium term was the paramount consideration in reaching its decision. In recent months the CPI has remained relatively stable, but above the target, and stood at 2.4% in October, with recent falls in oil prices offset by increased food and utility prices and university fees. The MPC is particularly anxious to avoid upward pressure on wage demands brought about by the current temporarily high retail price inflation. UK economic growth and consumer expenditure have remained in line with expectations, although the MPC recognised that the economy is finely balanced and there is a danger that domestic growth could be adversely impacted by a slowdown in worldwide economic activity particularly in the United States. At its December meeting the MPC voted to leave base rates unchanged at 5%.
- 3.2 In relation to future interest rate movements the fact that the MPC decision to raise rates in November was not unanimous, with two members voting to keep rates unchanged, suggests that further rate increases are perhaps unlikely in the short term. This view is supported by the MPC decision to leave rates unchanged in December. However, market expectations anticipate a further 0.25% increase in rates within the next three to six months, with

potential for another 0.25% rise within a year. Against the background of what appear to be finely balanced judgements on interest rate policy the Constabulary may look, when the opportunity arises to invest some funds, which are not required for to meet short term obligations, in longer term deals to take advantage of the attractive rates of above 5.25% currently available on investments of over six months in duration. The chart at **Appendix one** outlines recent actual and future forecast rates.

## 4. Treasury Management operations and Performance Measures

### 4.1 Management of cash balances

Members are reminded that the aim is to invest surplus cash and minimise the level of uninvested cash balances whilst following the Treasury Management Strategy to limit risks to the Authority's funds. Actual uninvested balances for the months of September, October and November 2006 are shown graphically at **Appendix two** and summarised in the table below: -

	Number	Average Balance (£)	Largest Balance (£)
Days in Credit	86	29,993	2,012,411
Days Overdrawn	5	801,079	1,999,602

A large, uninvested balance of £2.012m was left on the Authority's bank account for one day on the 5<sup>th</sup> September due to misinterpretation of a brokers instruction regarding the transfer of funds to Morley liquidity fund by Treasury staff. The cost to the Authority in terms of interest foregone and re-imbursment to the counterparty amounted to £216.

A surplus of £94k on the account occurred on the 3<sup>rd</sup> of October as a result of the unexpected transfer of recalled Bacs payments into the bank account late in the day, without notification by the bank. Interest foregone on this occasion totalled £12.

The Authority's account was overdrawn by approximately £1,999k on both the 23<sup>rd</sup> and 24<sup>th</sup> of October as a result of Dexia bank repaying a Police Authority investment to the County Council in error and failing to rectify their error on the following day. The authority received full re-imbursment of interest foregone and bank charges from Dexia amounting to £1,253.

### 4.2 Interest Earned

Interest earned for the period of the report is set out in the table below: -

Month	Amount (£)
September 2006	102,270
October 2006	113,286
November 2006	105,912

Total interest earned in the first eight months of 2006-07 has amounted to £831,956. It is now forecast that interest receipts generated in 2006-07 will total £1,250k (previously £1,154k), which exceeds the budget of £810k by £440k. The interest receipts forecast has been revised upwards to reflect recent and anticipated future increases in bank base rates and continuing availability of higher than anticipated cash balances for investment, resulting from reduced revenue expenditure and, critically, the scale and timing of payments for capital schemes.

#### 4.3 Investment Performance

4.3.1 As mentioned in the last treasury update report a new measure of the performance of longer term investments of over three months has been adopted, which compares the interest rate of maturing investments with the average Bank of England base rate over the life of the investment. The table below outlines the rates actually achieved against the average base rate for loans maturing during the period September to November:-

<b>Borrower</b>	<b>Value £(m)</b>	<b>Period (Months)</b>	<b>Actual Rate (%)</b>	<b>Aveg Base Rate (%)</b>
Dunfermline BS	1	12	4.50	4.54
Northern Rock	2	12	4.61	4.56
Alliance & Leicester	2	6	4.51	4.54
Coventry BS	2	6	4.56	4.59
Principality BS	1	6	4.58	4.59
Bank of Ireland	2	6	4.65	4.62
Leeds & Holbeck	2	3	4.65	4.59

The above investments generally show only slight variations in either direction against the benchmark rate, which is to be anticipated, as the majority of the period in which these investments were held was characterised by unusually stable interest rates.

Members will note that future reports on Treasury Management activities will be made to the Governance Committee in accordance with the new Authority structure and terms of reference, which take effect from 01 January 2007.

**Douglas Thomas**  
**Treasurer**  
**December 2006**

**Michael Baxter**  
**Chief Constable**

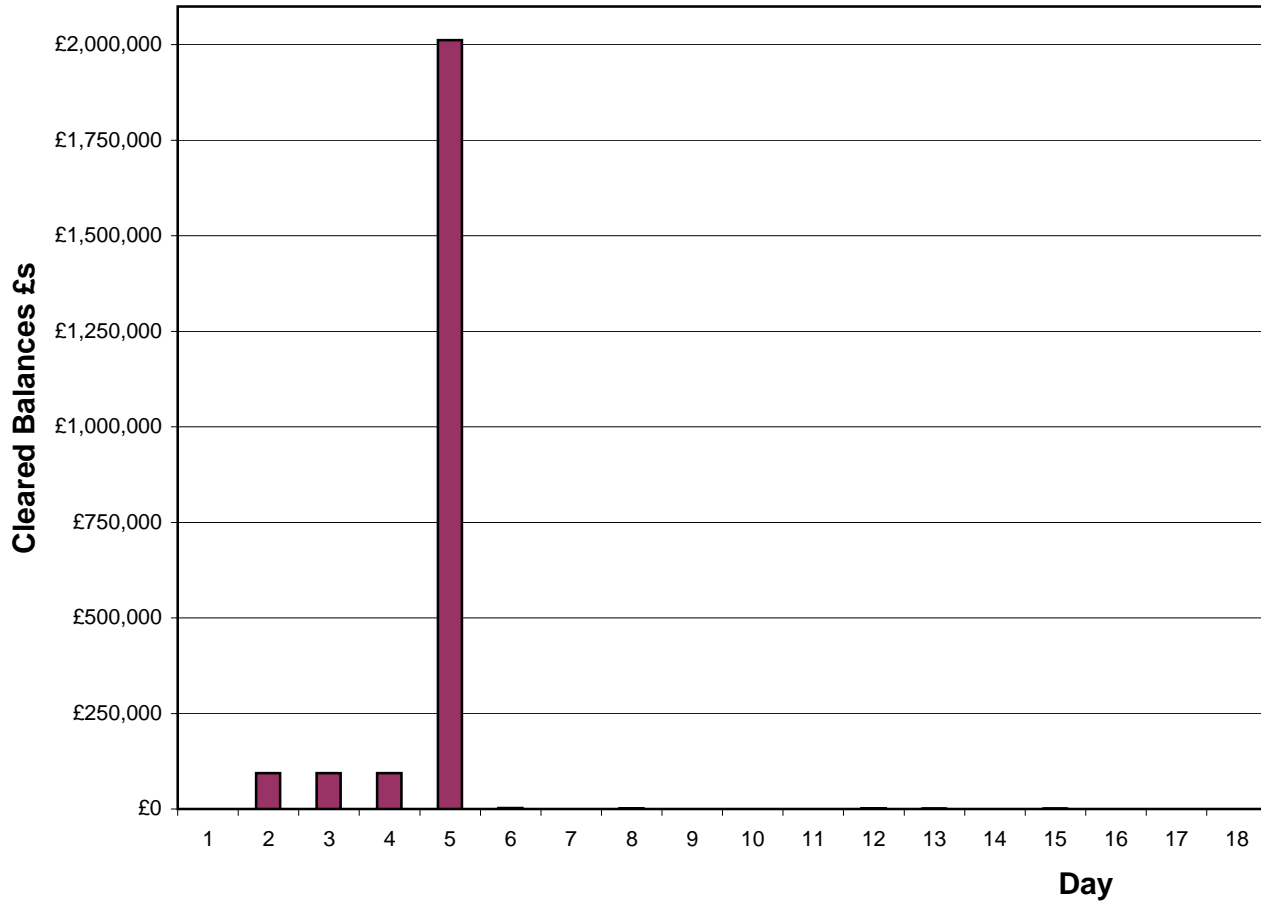
#### Contact point for information

Roger Marshall, Head of Financial Services, Telephone 01768 217020

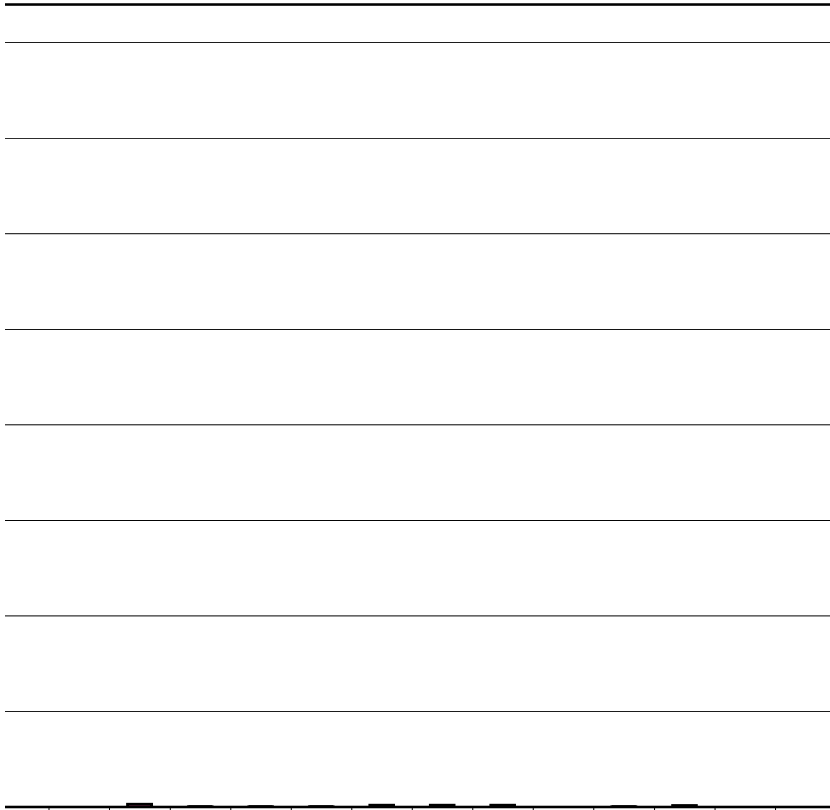
#### Attachments

- Appendix 1 Recent history and projections of Bank Base Rates
- Appendix 2 Monthly investment charts for September, October and November.

**Cumbria Police Authority  
September 2006 Clearing Balances**

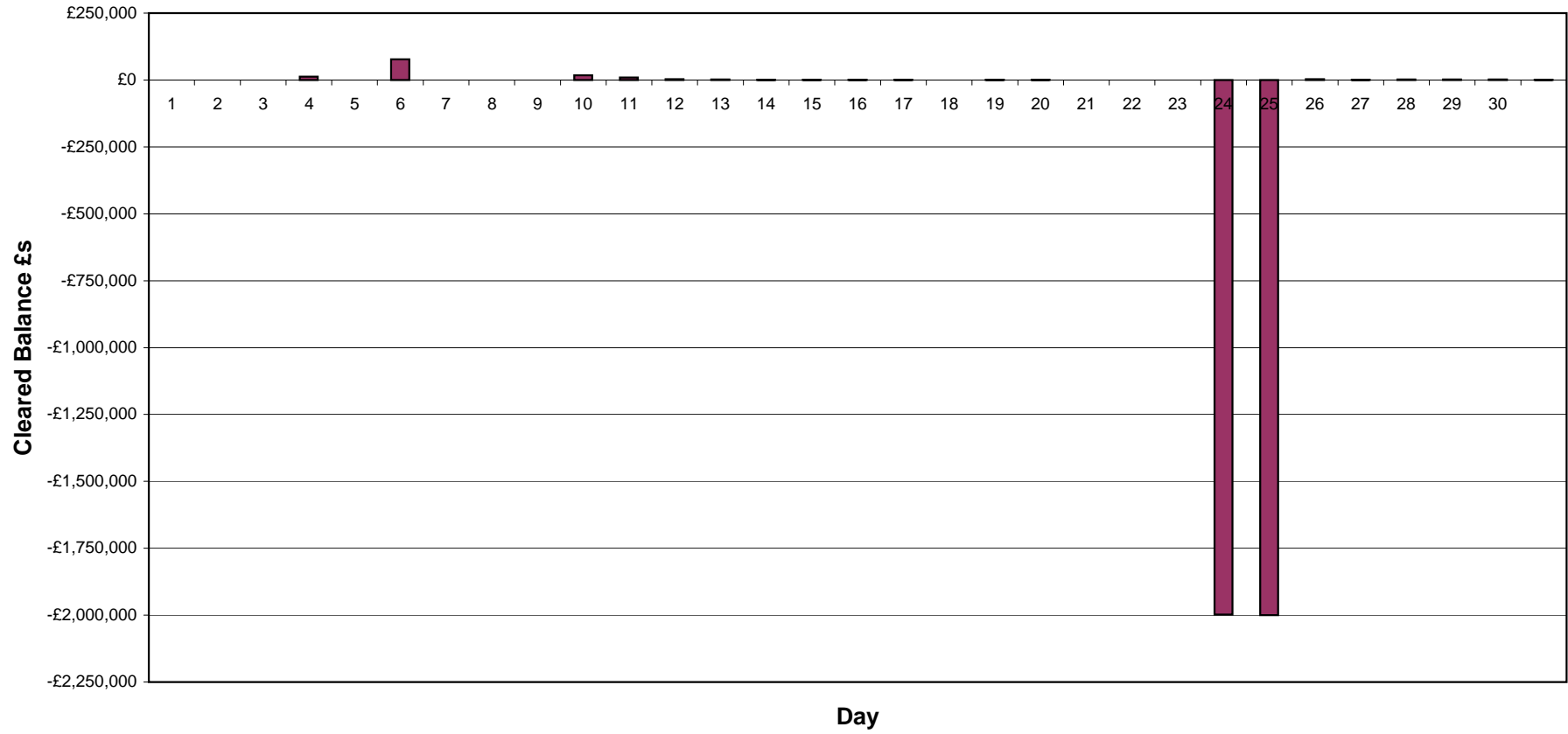


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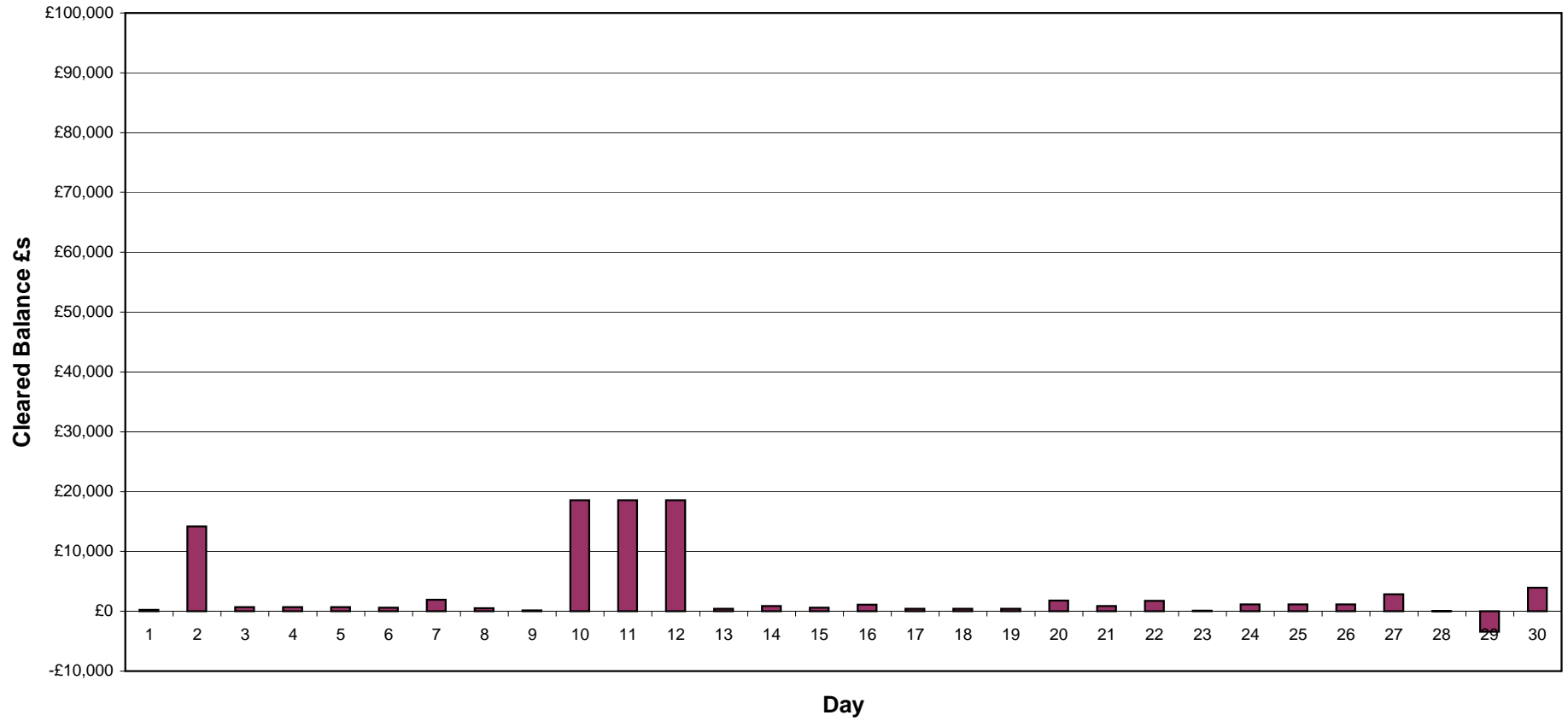
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### Cumbria Police Authority October 2006 Clearing Balances





### Cumbria Police Authority November 2006 Clearing Balances





**Bank of England Base Rates**

