

Cumbria Police Authority

22 March 2005

Agenda Item No 17

Treasury Management Activities for the period December 2004 to February 2005.

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 December 2004 and February 2005 as required by the CIPFA 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 The Bank of England Monetary Policy Committee (MPC) last increased the base rate in August 2004 so that it now stands at 4.75%. The Monetary Policy Committee last met on 9 and 10 March and decided to leave rates unaltered. When the committee previously met in February, there had been a considerable amount of economic data to consider, and, in particular, the latest quarterly inflation report, published on 16 February. MPC committee members debated the assessments in that report and looked in some detail at the changes from the previous assessment in November. The February report had, in general terms, been more upbeat, with a slightly higher projection for its measure of inflation. However, in identifying some of the risks associated with the inflation assessments, some members questioned a number of the background assumptions including those linked to the projections for domestic consumption. Retail sales had been weak over the Christmas period and, more recently, other indicators had also been mixed. It was also thought that the slowing housing market might have a greater effect on consumption than had previously been considered. On the other hand, there was a feeling that private sector productivity might be more sustained than had previously been considered, which might require an increase in the base rate to keep the inflation projection on target. Members also considered recent projections about growth in the euro area, which had been uncertain in recent months.

3.2 To remind members, it is the responsibility of MPC to set the base interest rate to keep underlying inflation at 2%. Whilst, actual rates are somewhat less than 2% at the moment, many inflationary pressures take up to two years to affect the official statistics and thus current MPC decisions need to reflect future pressures. The longer view of interest rates is that they are approaching their peak, at which they will sit for a while during the year, before falling back during the latter part of the year. A schedule of recent actual and forecast base rates is set out for members' information at Appendix 1.

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 our funds. Actual uninvested balances for the months of December, January and February are shown graphically at Appendix 2 and summarised in the table below: -

| | Number | Average Balance (£) | Largest Balance (£) |
|-------------------|---------------|------------------------------------|------------------------------------|
| Days in Credit | 85 | 3,589 | 200,527 |
| Days Overdrawn | 5 | 34,997 | 105,302 |

There have been two occasions where the daily uninvested balance has been outside the normal tolerance and where some explanation of the situation on those days is necessary. Firstly, on 16 December, the balance after investment was overdrawn by £105,302 principally due to an unusual international payment, which was debited to the account earlier than anticipated. In addition, on 14 February, the balance was £200,527 in credit, principally because of a refund from a supplier, which was received with no preannouncement of its actual arrival date and too late in the day to invest in the money market.

4.2 Interest Earned

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

| Month | Amount (£) |
|---------------|-----------------------|
| December 2004 | 80,147 |
| January 2005 | 84,098 |
| February 2005 | 78,268 |
| | |
| Total | 242,513 |

The original investment income budget for the 2004-05 financial year amounts to £588,000, with total income in the first eleven months amounting to £797,495. Based on the above it can be projected with reasonable certainty that income for the financial year will be in the region of £875,000.

In the longer term the effect of using the existing capital resources to finance capital expenditure will significantly reduce the amounts available for investment and thus the potential for future investment income.

4.3 Investment Performance

There were no investments for periods of more than three months in the period covered in this report.

Douglas Thomas
Treasurer

Michael Baxter
Chief Constable

Bank of England Base Rates

