

NEW FOREST NATIONAL PARK AUTHORITY

AUTHORITY MEETING – 6 DECEMBER 2007

**TREASURY MANAGEMENT PERFORMANCE FOR PERIOD 1 APRIL 2007
TO 31 OCTOBER 2007**

Report by: Pat Higgins, Chief Finance Officer

Summary:

This report covers the Authority's Treasury Management activities for the period 1 April to 31 October 2007.

The report highlights the interest earnings from temporary investments for the half year period. The interest earned is equivalent to an annual rate of return of 5.96%.

The original estimate for interest earnings for 2007/08 was forecast to be £120,000, based on an annual rate of 5.15%. The current estimate for interest for the year to 31 March 2008 is £140,000, based on an expected return of 6% for the year.

Recommendation:

To note the performance of the Treasury Management function for the six months to 31 October 2007.

Paper:

NFNPA 220/07: Cover Paper

NFNPA 220/07: Annex 1 - Temporary investments outstanding at 31 October 2007

Contact:

Pat Higgins

023 8028 5821

Pat.Higgins@NFDC.gov.uk

NEW FOREST NATIONAL PARK AUTHORITY

AUTHORITY MEETING – 6 DECEMBER 2007

**TREASURY MANAGEMENT PERFORMANCE FOR PERIOD 1 APRIL 2007
TO 31 OCTOBER 2007**

Report by: Pat Higgins, Chief Finance Officer

1 Introduction

- 1.1 This report covers the period 1 April to 31 October 2007 for the Authority's Treasury Management activities.

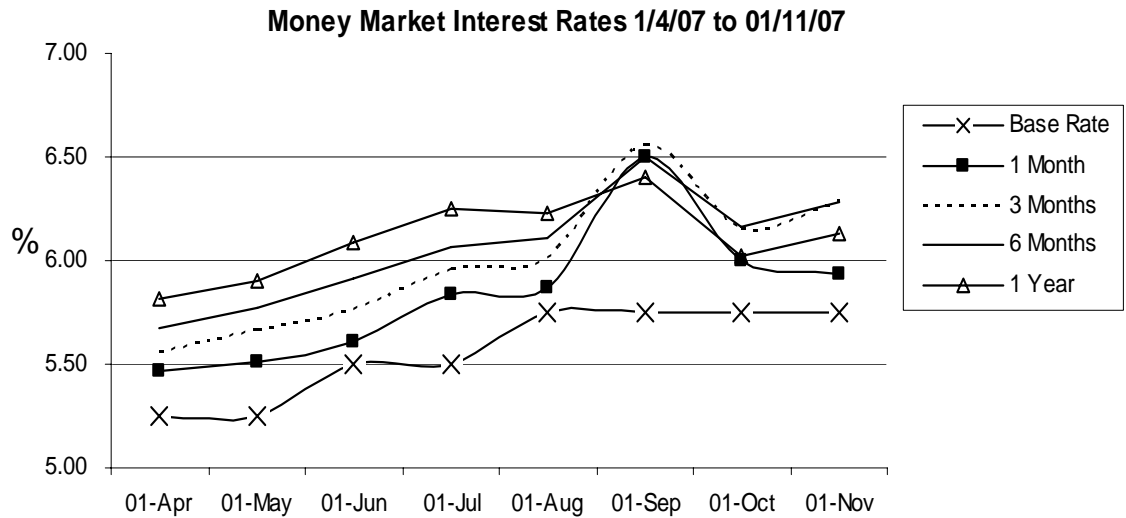
2 Strategy for 2007/08

- 2.1 The Authority approved the Treasury Management Strategy for 2007/08 in March 2007.
- 2.2 Within the Strategy, the overriding principle is the security of the Authority's investments, while also ensuring sufficient liquidity is maintained in those investments. The Strategy also requires that investments are only made with approved investment counterparties; these are monitored on a daily basis.

3 Summary of interest rates

3.1 Investment Rates

- 3.1.1 Since 1 April 2007, money market investment rates for one month to one year have varied between 5.47% and 6.90%.



- 3.1.2 The chart above shows that the money market investment rates were increasing steadily until August. At this time a base rate of 6% was expected before the year end. In late August and into September deep-seated problems in the sub-prime market in the U.S. became apparent and this led to a credit squeeze worldwide. The shortage of cash in the system increased demand and this pushed the investment rates up. The three months rate peaked at 6.9% in mid September.
- 3.1.3 Following the Bank of England's intervention in the Northern Rock crisis interest rates in all periods eased back. However, there is still a cash shortage which is keeping interest rates artificially high in the shorter investment periods. During this period the Authority took the opportunity of investing some surplus cash for three months to six months at interest rates in excess of 6%. It is not expected that interest rates will remain at these levels for more than a few months.
- 3.1.4 Economists are forecasting currently that the next movement for base rates will be down. It is expected that this reduction will take place before the end of the financial year with another in summer 2008.
- 3.1.5 Some investments have been made for longer periods than in 2006/07 as a trend in expenditure has developed. Others have been made for shorter periods in order to keep an element of liquidity in the cash investments. This is to ensure that funds are readily available when needed.
- 3.1.6 Individual investments have been made for an average period of 90 days in the year to date. This compares with an average of 39 at this time in 2006/07.

3.2 The movements in the bank base rate during the year to date are as follows:

Date	Bank Base Rate %
At 1 April 2007	5.25
11 May 2007	5.50
6 July 2007	5.75

3.3 Although economists are forecasting an overall reduction in the bank base rate by early summer 2008, by a possible half of a percent point, the money markets show no such forecast. Money market rates are unreliable as an indicator of future rates currently as they are showing an unrealistic margin over the base rate because the supply of cash is still limited by the "credit crunch".

3.4 This situation has already affected the markets for longer than expected and may continue to do so for a few more months yet.

4 Temporary investments

4.1 Temporary investments are deposits which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.

4.2 The interest earned on temporary investments for the period to 31 October 2007 was equivalent to an annual rate of return of 5.96%.

4.3 The original estimate for interest earnings for 2007/08 was £120,000 based on an average forecast interest rate of 5.15%. At the time the original budgets were set it was expected that the bank base rate would not rise beyond 5.25%.

4.4 The current estimate for interest receivable on temporary investments, for 2007/08, is £140,000 based on an expected return of 6.0% for the year.

4.5 A list of temporary investments at 31 October 2007 is shown at **Annex 1**.

4.6 All temporary investments have been invested according to the parameters set within the Authority's Treasury Policy Statement.

5 Investment benchmark

5.1 The interest earnings are measured against a benchmark.

5.2 The benchmark is equivalent to the average seven day LIBID rate available through the money markets and is measured over the financial year.

5.3 The table below shows the performance of the Authority's investments compared with the benchmark. The performances are shown as annualised figures.

5.4 Results to 31 October 2007 are summarised as follows:

	%
Benchmark Return (annualised)	5.78
Actual Return (annualised)	<u>5.90</u>
Return above Benchmark	<u>0.12</u>

5.5 As at 31 October 2007 interest earnings exceeded the benchmark by an annualised 0.12%; this equates to £1,976.

6 Investment instruments

6.1 All of the investments are made in money market deposits.

6.2 Money market deposits earn a yield that is made up entirely of interest earnings. There is no capital appreciation. No Gilts or Certificates of Deposits are used.

7 Compliance with the CIPFA code of practice

7.1 All treasury functions and debt management procedures, which were undertaken during the period, complied with the existing CIPFA Code of Practice on Treasury Management, as set out in the Authority's Treasury Policy Statement, and the Treasury Management Strategy for 2007/08.

8 Conclusions

8.1 Temporary interest earnings of £140,000 are now forecast for 2008/09.

8.2 The performance of the treasury function exceeded the benchmark by £1,976 for the period to 31 October 2007.

9 Recommendation

To note the performance of the Treasury Management function for the period from 1 April 2007 to 31 October 2007.

**TEMPORARY INVESTMENTS OUTSTANDING
AT 31 OCTOBER 2007**

Institution	Amount of Investment £	Interest Rate %	Start Date	Maturity Date
Glitner Bank	500,000	5.85	3 April 07	1 April 08
Market Harborough Building Society	500,000	6.00	10 July 07	14 Nov 07
Landesbanki Islands	500,000	6.87	13 Sept 07	12 Dec 07
Heritable Bank Ltd	500,000	6.35	15 Aug 07	14 Mar 08
Derbyshire Building Society	500,000	6.23	3 Oct 07	9 Jan 08
Stroud & Swindon Building Society	500,000	6.23	3 Oct 07	6 Feb 08
	<hr/> 3,000,000 <hr/>			