Appendix 8

TREASURY REPORT FOR APRIL – JUNE 2010

1. BACKGROUND

The Treasury Management Strategy for Bromsgrove District Council has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009

The Code of Practice recommends that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

2. THE ECONOMY AND EVENTS IN Q1

- The UK continued to emerge from recession but the level of activity remained well below pre-crisis levels. The recovery is as yet fragile; GDP registered just 0.3% growth in the first calendar quarter of 2010. The final revision for 2010 Q1 GDP has been delayed by the ONS due to worries about data accuracy.
- Consumer price inflation remained well above the Bank of England's 2% target level, with a peak of 3.7% being reached in April. Year-on-year CPI for May 2010 was 3.4% and RPI was 5.1%. Temporary effects are thought to lie behind the elevated rate and inflation is expected to fall over the year due to downward pressure from spare capacity. The measure of inflation excluding indirect taxes (CPIY) came down to 1.6% year-on-year. Arguably this is a much more relevant measure of inflationary pressure for forward thinking policy makers, as changes in the VAT rate aren't sending signals about the pressure on the use of resources in the economy.
- The Bank of England's Monetary Policy Committee maintained the Bank Rate at 0.5% and Quantitative Easing at £200bn.
- The successful formation of a coalition government dispelled uncertainty surrounding a hung parliament result in May's General Election. The new government's Emergency Budget laid out tough action to address the UK's budget deficit, aiming to eliminate the structural deficit by 2014/15. This is to be achieved through austerity measures – £32bn of spending cuts and £8bn of net tax increases. Gilts have benefitted from this decisive plan as well as expected reductions in supply for each year of the forecast. The expected level of spending cuts and tax rises looks to be enough to extinguish the recent concern about inflation

expectations. Therefore, rates 'lower for much longer' remained a relevant message.

- The US Federal Reserve kept rates on hold at 0.25% and the European Central Bank maintained rates at 1%. The major ongoing worries in Europe extended from sovereign weakness in the 'PIIGS' nations (Portugal, Italy, Ireland, Greece and Spain), the exposure of the continent's banking sector to the sovereign and corporate debt of these nations and the risk of contagion extending to other countries.

3. INVESTMENT ACTIVITY – QUARTER 1

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

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Investments

	Balance on 01/04/2010 £000s	Investments Made £000s	Investments Repaid £000s	Balance on 30/06/2010 £000s	Increase/ Decrease in Investments for Q1
Short Term Investments	8,350	3,200	2,000	9,550	1,200
TOTAL INVESTMENTS	**8,350**	**3,200**	**2,000**	**9,550**	**1,200**

4. COMPLIANCE WITH PRUDENTIAL INDICATORS

The Council can confirm that it has complied with its Prudential Indicators for 2010/11, which were set in March 2010 as part of the Council's Treasury Management Strategy Statement.

5. OUTLOOK FOR QUARTER 2

At the time of writing this quarterly activity report in June 2010, the outlook for interest rates was as follows:

	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Official Bank Rate											
Upside risk		0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	3.00
Downside risk				-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

The recovery in growth is likely to be slow and uneven, more “W” than “V” shaped. The Bank of England will stick to its lower-for-longer stance on policy rates.

Gilts will remain volatile, more so in the election’s aftermath.

The path of base rates reflects the fragile state of the recovering economy and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.

The potential for downgrades to sovereign ratings has receded, but the negative outlook (S&P) will remain for now.

6. Summary

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first quarter of 2010/11. As indicated in this report none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.