

This report ensures the council demonstrates best practice in accordance with CIPFA's recommendations in their Code of Practice for Treasury Management, by keeping members informed of treasury management activity.

1. The Economy

1.1. Recent economic events and statistics show the following:

- GDP growth in the first quarter was 0.3%, the second quarter was 0.7% and the first estimate for the third quarter showed the UK economy growing by 0.8%.
- The year-on-year Consumer Price Index (CPI) for October saw an unexpectedly big drop from 2.7% in September to 2.2%, the joint lowest since November 2009. About a quarter of the fall was down to a reduction in petrol prices.
- Publication of the Bank of England's November Inflation Report confirmed that the MPC had shifted their growth forecast up, their inflation forecast down and they expect unemployment to fall faster. However, the Governor was at pains to stress that 7% unemployment is a threshold and not a trigger – The MPC will re-assess policy at that point but it does not imply an early hike in rates.

2. The Council's Investments

2.1 At 31st October 2013 the council held the following investments:

| Investment | Term | Maturity Date | Interest Rate | Amount invested | |
|---|----------|---------------|---------------|-----------------|--------------|
| | | | | £m | £m |
| <u>Instant Access Bank Accounts:</u> | | | | | |
| National Westminster | N/A | N/A | 0.50% | 4.50 | |
| Royal Bank of Scotland | N/A | N/A | 0.70% | 5.00 | 9.50 |
| <u>Instant Access Money Market Funds:</u> | | | | | |
| Ignis | N/A | N/A | 0.44% | 5.00 | |
| Prime Rate | N/A | N/A | 0.43% | 3.51 | 8.51 |
| <u>1 Month Notice Account</u> | | | | | |
| Close Bros | N/A | N/A | 1.00% | 5.00 | 5.00 |
| <u>Fixed Term Deposits:</u> | | | | | |
| Barclays | 365 days | 01/11/13 | 1.07% | 2.00 | |
| Wakefield Council | 14 days | 14/11/13 | 0.43% | 2.19 | |
| Gateshead Council | 549 days | 18/11/13 | 1.10% | 2.00 | |
| Lloyds | 111 days | 25/11/13 | 0.70% | 3.00 | |
| Barclays | 364 days | 29/11/13 | 1.00% | 1.00 | |
| Barclays | 365 days | 05/12/13 | 1.00% | 1.00 | |
| Bank of Scotland | 86 days | 20/12/13 | 0.70% | 4.00 | |
| Barclays | 367 days | 21/04/14 | 0.87% | 1.00 | |
| Lloyds | 88 days | 24/01/14 | 0.70% | 1.50 | 17.69 |
| Total | | | 0.70% | | 40.70 |
| Shaded investments represents term deposits made in October 2013. | | | | | |

2.2 The council's current eligible UK counterparties, together with the maximum maturity periods (as recommended by the council's treasury advisers, Arlingclose), remain unchanged from July:

| Counterparty | Maximum maturity period from: | |
|----------------------------------|-------------------------------|-----------|
| | 01/04/13 | 05/07/13 |
| Close Brothers Ltd | 100 days | 100 days |
| Santander UK | 100 days | 100 days |
| Nat West and RBS | 6 mnths | Overnight |
| Bank of Scotland and Lloyds TSB | 6 mnths | 6 mnths |
| Nationwide | 12 mnths | 12 mnths |
| Barclays | 12 mnths | 12 mnths |
| HSBC and Standard Chartered Bank | 12 mnths | 12 mnths |

2.3 The council has earned interest on its investments as follows:

| Month | Amount invested | | Average rate of interest earned | | Amount of interest earned / Forecast £ | Budget £ | Actual Surplus / Forecast £ |
|--|----------------------|-----------|---------------------------------|----------|--|----------------|-----------------------------|
| | Actual / Forecast £m | Budget £m | Actual / Forecast % | Budget % | | | |
| Apr-13 | 30.41 | 30 | 0.85% | 0.70% | 20,987 | 17,500 | 3,487 |
| May-13 | 50.50 | 40 | 0.86% | 0.70% | 37,098 | 23,000 | 14,098 |
| Jun-13 | 52.57 | 40 | 0.84% | 0.70% | 36,425 | 23,000 | 13,425 |
| Jul-13 | 51.18 | 40 | 0.84% | 0.70% | 36,942 | 23,000 | 13,942 |
| Aug-13 | 49.75 | 35 | 0.83% | 0.70% | 35,156 | 20,000 | 15,156 |
| Sep-13 | 50.52 | 35 | 0.82% | 0.70% | 33,830 | 20,000 | 13,830 |
| Oct-13 | 46.22 | 30 | 0.75% | 0.70% | 30,558 | 17,500 | 13,058 |
| | | | | | 230,996 | 144,000 | 86,996 |
| Nov-13 | 42.00 | 25 | 0.65% | 0.70% | 22,750 | 14,500 | 8,250 |
| Dec-13 | 40.00 | 20 | 0.65% | 0.70% | 21,650 | 11,500 | 10,150 |
| Jan-14 | 35.00 | 20 | 0.60% | 0.70% | 17,500 | 11,500 | 6,000 |
| Feb-14 | 25.00 | 15 | 0.55% | 0.70% | 11,450 | 8,820 | 2,630 |
| Mar-14 | 20.00 | 15 | 0.50% | 0.70% | 8,300 | 8,750 | (450) |
| Original budget and outturn | | | | | 312,646 | 199,070 | 113,576 |
| Savings already declared and budget increased | | | | | - | 60,000 | (60,000) |
| Revised budget and projected further savings | | | | | 312,646 | 259,070 | 53,576 |

2.4 The interest received in the seven months to 31st October 2013 exceeded budget due to both the amounts invested and the average interest rates achieved being higher than the budgeted amounts.

2.5 In recent months interest rates on the council's bank accounts have fallen sharply. The projected average monthly interest rates are now anticipated to fall short of budgeted rates for the remainder of the year. However, the amounts invested are anticipated to be higher. Overall a surplus for the year of around £54,000 is forecast.

2.6 As previously reported, interest rate reductions announced so far in 2013 have been as follows:

| | Rate as at 01/01/13 | Date of Change | Revised Rate | Date of Change | Revised Rate |
|---------------------------------|------------------------|-------------------|-----------------|-------------------|-----------------|
| Instant access accounts: | | | | | |
| Bank of Scotland | 0.85% | | | 22/04/13 | 0.40% |
| Nat West Liquidity | 1.10% | 12/02/13 | 0.60% | 19/08/13 | 0.50% |
| RBS Liquidity | 1.10% | 09/05/13 | 0.70% | 02/12/13 | 0.60% |
| Santander | 0.50% | | | 21/10/13 | 0.40% |
| Barclays | 0.65% | | | 25/03/13 | 0.35% |
| 95 day notice accounts: | | | | | |
| Nat West | 1.20% | 20/05/13 | 0.80% | 22/10/13 | 0.60% |
| RBS | 0.95% | | | 09/01/14 | 0.80% |
| Santander | 1.25% | | | 22/10/13 | 0.55% |

2.7 The council has given notice and withdrawn the funds in all its 95 day accounts. In the case of National Westminster Bank and Royal Bank of Scotland, the council needed to give notice at the beginning of July when Arlingclose reduced the recommended maturity limit to overnight.

3. The Council's Borrowing

Short-term borrowing

- 3.1 The council is continuing its policy of utilising short-term borrowing from other local authorities to fund its capital programme and for short-term liquidity needs. These short-term interest rates are significantly below levels available from other sources.
- 3.2 Historically the council has always borrowed for longer periods at fixed interest rates. Whilst achieving stability in the amount of its interest payments, the council currently has a large cost of carry when comparing its fixed interest debt to current (variable) investment rates.
- 3.3 It is considered good practice to have an element of variable rate borrowing that removes or reduces this cost of carry and, to the extent that the level of short-term debt does not exceed the level of the council's investments, when interest rates rise increased investment income provides a hedge against increased borrowing costs.
- 3.4 The council can only borrow up to its Capital Financing Requirement, which represents the need to borrow for capital spend, and cannot borrow beyond this to finance the revenue budget.
- 3.5 At the end of October 2013 short-term borrowing from other local authorities consisted of six loans totalling £25 million. These loans were for periods ranging from 146 days to 364 days with interest rates varying from 0.36% to 0.42% (including brokers commission).

Long-term borrowing

- 3.6 No long-term loans have been taken out in the period to date.
- 3.7 The medium term trend is for PWLB rates to increase however in the short-term they are expected to be volatile and sensitive to changing economic news and market sentiment.
- 3.8 The budget includes provision to take out £17 million of longer term loans from the Public Works Loan Board. This is still a possibility although analysis suggests that PWLB rates will have to fall significantly from their current levels for any savings in future years to outweigh the associated cost of carry in the short-term.

3.9 If no new longer term loans are taken out the savings shown below will increase. At present attributable costs of £180,000 are still included in the forecast. After setting a maximum of £20,000 aside for additional short-term borrowing, if no new longer term loans are taken out the projected savings on the borrowing side will increase by at least £160,000.

3.10 The current position is summarised below.

| Summary of Borrowing Budget | Revised Budget | Forecast | (Over-spend) / Savings |
|--|-----------------------|-----------------|-------------------------------|
| | £m | £m | £m |
| Minimum Revenue Provision | 9.58 | 9.58 | - |
| Interest on existing PWLB and bank loans (January 2013 position) | 5.65 | 5.65 | - |
| Variable rate borrowing for 2013/14 Rollover £12 million of short-term LA loans taken out for 2012/13 at an interest rate of 0.60% | 0.07 | - | - |
| Additional £17 million of short-term LA loans for 2013/14 (at an interest rate of 0.60%) | 0.10 | - | - |
| Total variable rate borrowing | 0.17 | 0.12 | 0.05 |
| Fixed rate borrowing for 2013/14 Budget: £17 million of EIP loans at 3.20% taken out mid-year | 0.27 | 0.18 | 0.09 |
| Reduction in budget contributions from service areas | (0.13) | - | (0.13) |
| Less capitalised interest (see note below) | (0.30) | (0.30) | - |
| Forecast saving compared to budget | 15.24 | 15.23 | 0.01 |

3.11 The council is able to capitalise interest costs relating to interest paid on borrowing used to fund large capital schemes that take substantial periods of time to get to the point at which the assets may be utilised. Such interest, incurred at the construction or installation phase, may be added to the cost of the associated asset. As can be seen from the table above, capitalised interest of £300,000 has been included in the 2013/14 budget for capital financing costs. A recent review suggests that the actual amount capitalised may exceed this amount.

4. Summary of Outturn Position

4.1 The current net treasury position, compared to budget, is estimated to be a surplus of at least £60,000.

| Summary of Budget underspend | £m |
|-------------------------------------|-------------|
| Investment income receivable | 0.05 |
| Interest payable on borrowing | 0.01 |
| Total savings | 0.06 |

4.2 If all borrowing is financed by short-term loans from other local authorities, and no longer term borrowing is taken out, the surplus for the year will be at least £160,000 higher. The savings will also increase if capitalised interest exceeds £300,000.