

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 UK Economy**

1.1. There has been little change in the UK economic climate:

- The first quarter showed GDP growing by 0.3%.
- Inflationary pressure is very low (annual CPI is currently -0.1%) and is expected to remain so in the short term rising towards the end of 2015, with inflation remaining steady in the medium term.
- Weak productivity is expected to depress average earnings growth. The Bank of England has been forecasting for productivity to increase, this will require an increase in investment growth.
- There has been no change in the bank base rate.

## **2. The Council's Investments**

2.1 At 31 May 2015 the council held the following investments:

<b>Investment</b>	<b>Term</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Amount invested £m</b>
<u>Instant Access Money Market Funds:</u>				
Ignis	N/A	N/A	0.47%	2.8
<u>1 Month Notice Account</u>				
Close Bros	N/A	N/A	1.00%	2.5
<u>Certificates of Deposit:</u>				
Standard Chartered	183 days	21/10/15	0.69%	2.5
<b>Total</b>			<b>0.71%</b>	<b>7.8</b>

2.2 The council's current eligible counterparties and their associated maximum maturity periods (as recommended by the council's treasury advisers, Arlingclose) are as follows:

<b>UK Financial Institution</b>	<b>Maximum maturity period from:</b>	
	<b>31/12/14</b>	<b>31/03/15</b>
Close Brothers Ltd, Goldman Sachs International Bank	100 days	100 days
Cumberland BS, Darlington BS, Furness BS, Harpenden BS, Hinckley & Rugby BS, Leeds BS, Leek United BS, Loughborough BS, Mansfield BS, Market Harborough BS, Marsden BS, Melton Mowbray BS, National Counties BS, Newbury BS, Scottish BS, Tipton & Coseley BS and Vernon BS	100 days	100 days
Santander UK	6 months	100 days
Bank of Scotland and Lloyds Bank	6 months	100 days
Coventry BS	-	100 days

Nationwide BS	6 months	100 days
Barclays	100 days	100 days
HSBC and Standard Chartered Bank	6 months	6 months
Nat West and RBS	Overnight	Overnight

Non-UK Financial Institution	Maximum maturity period from:	
	31/12/14	31/03/15
Deutsche Bank AG, ING Bank NV, Credit Suisse and Landesbank Hessen-Thuringen (Heleba)	100 days	100 days
Bank Nederlandse Gemeenten N.V., Nordea Bank Finland, Rabobank, Svenska Handelsbanken, Pohjola Bank, DBS Bank Ltd, Oversea-Chinese Banking Corporation and United Overseas Bank	6 months	6 months
Approved Australian, Canadian and US Banks	6 months	6 months
No change in counterparties or maturity limits since 31/03/15.		

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

Month	Average amount invested		Average rate of interest earned		Amount of interest earned / Forecast £000	Budget £000	Over (Under) £000
	Actual / Forecast £m	Budget £m	Actual / Forecast %	Budget %			
Apr-15	20	25	0.46	0.4%	8	10	(2)
May-15	17	25	0.52	0.4%	8	10	(2)
Jun-15	25	25	0.4%	0.4%	10	10	-
Jul-15	25	25	0.4%	0.4%	11	10	1
Aug-15	25	30	0.4%	0.4%	12	12	-
Sep-15	25	33	0.4%	0.4%	13	13	-
Oct-15	25	25	0.4%	0.4%	11	10	1
Nov-15	25	25	0.4%	0.4%	11	10	1
Dec-15	25	25	0.4%	0.4%	11	10	1
Jan-16	25	25	0.4%	0.4%	10	10	-
Feb-16	25	25	0.4%	0.4%	10	10	-
Mar-16	25	25	0.4%	0.4%	10	10	-
<b>Total</b>					<b>115</b>	<b>115</b>	<b>-</b>

2.4 Although income to date is lower than expected this is expected to be recouped so the projected outturn for the year is on budget.

### 3. The Council's Borrowing

#### Short-term borrowing

3.1 The council is continuing its policy of mainly using short-term borrowing from other local authorities for short-term liquidity needs. These short-term interest rates are significantly below

levels available from other sources avoiding a large cost of carry when comparing fixed interest debt to current (variable) investment rates.

- 3.2 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.
- 3.3 At the end of May 2015 short-term borrowing from other local authorities consisted of six loans totalling £19 million with an average interest rate of 0.57% (including brokers commission of between 0.03% and 0.10%). Loan periods ranged from six months to one year and averaged 334 days.

**Long-term borrowing**

- 3.4 At 31 May 2015 the council held long term borrowing of £145.3m. No new long term debt has been taken. Longer term Interest rates have risen slightly over the period.
- 3.5 The current capital financing budget position is summarised below:

<b>Summary of Borrowing Budget</b>	<b>Budget</b>	<b>Forecast</b>	<b>Over / (under)</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Minimum revenue provision</b>	<b>9.5</b>	<b>9.5</b>	<b>-</b>
<b>Interest on existing loans</b>	<b>5.8</b>	<b>5.8</b>	<b>-</b>
<b>New borrowing interest cost</b>	<b>0.9</b>	<b>0.9</b>	<b>-</b>
<b>Less capitalised interest</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>-</b>
<b>Total</b>	<b>15.9</b>	<b>15.9</b>	<b>0.0</b>

- 3.6 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, is added to the cost of the associated asset. Capitalised interest of £0.6m has been included in the 2015/16 budget.

**4. Summary of forecast outturn**

- 4.1 The current net treasury forecast is on budget.