

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. Following the announcement of the referendum result, there has been significant change in the UK markets:

- Major bond yields, including gilts plummeted.
- Sterling registered its largest fall in history.
- It is expected that market volatility will continue in the short term.
- Markets are forecasting a change in the bank base rate shortly.
- It is expected that GDP may decline in the second half of the year.

2. The Council's investments

2.1 At 31 May 2016 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested
				£m
<u>Instant Access Money Market Funds:</u>				
Federated	N/A	N/A	0.53%	5.00
Insight	N/A	N/A	0.46%	1.45
Standard Life	N/A	N/A	0.52%	5.00
Total			0.51%	11.45

2.2 The council continues to select counterparties suitable for investment based on the credit worthiness service provided by their treasury advisors, Capita Asset Services. The service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which Capita Asset Services allocate a series of colour coded bands with suggested maximum durations for investments as shown below;

- Yellow 5 years
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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-16	13.4	25	0.61	0.4	6	10	(4)
May-16	13.1	25	0.50	0.4	6	10	(4)
Jun-16	16.3	25	0.49	0.4	10	10	-
Jul-16	25	25	0.4	0.4	10	10	-
Aug-16	25	25	0.4	0.4	10	10	-
Sep-16	25	25	0.4	0.4	10	10	-
Oct-16	25	25	0.4	0.4	10	10	-
Nov-16	25	25	0.4	0.4	10	10	-
Dec-16	25	25	0.4	0.4	10	10	-
Jan-17	25	25	0.4	0.4	10	10	-
Feb-17	25	25	0.4	0.4	10	10	-
Mar-17	25	25	0.4	0.4	10	10	-
Total					112	120	(8)

2.4 Income has been lower than expected due to lower cash balances being available for investment than anticipated.

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 2016 short-term borrowing from other local authorities consisted of eleven loans totalling £51.5 million with an average interest rate of 0.70% (including broker's commission of between 0.03% and 0.10%). Loan periods ranged from three months to two years and averaged 311 days.

Long-term borrowing

3.4 At 31 May 2016 the council held long term borrowing of £149.8m, no new long term loans have been taken in 2016/17.

3.5 The current capital financing budget position is summarised below:

Summary of Borrowing Budget	Budget	Forecast	Over / (under)
	£m	£m	£m
Minimum revenue provision	10.3	10.3	-
Interest payable on all loans	6.8	6.8	-
Total	17.1	17.1	-

4. Summary of forecast outturn

4.1 The current net treasury forecast is on budget.