

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. The economy has faced some uncertainty following the announcement of the referendum result:

- It is expected that market volatility will continue in the short term.
- Bank base rate has remained at 0.25% since its drop on 4<sup>th</sup> August 2016.
- Quarter 3 growth estimates indicate 0.5% quarterly growth, driven by consumer spending.
- The Consumer price inflation (CPI) rose by 1.2% in the year to November 2016.

**2. The Council's Investments**

2.1 At 31 December 2016 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>				
Federated	N/A	N/A	0.29%	4.23
Morgan Stanley	N/A	N/A	0.20%	1.66
<b>Total</b>			<b>0.26%</b>	<b>5.89</b>

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	30	0.61	0.4	6	10	(4)
May-16	13.1	30	0.50	0.4	6	10	(4)
Jun-16	16.3	30	0.49	0.4	6	10	(4)
Jul-16	19.2	30	0.49	0.4	8	10	(2)
Aug-16	13.8	30	0.42	0.4	5	10	(5)
Sep-16	12.2	30	0.36	0.4	4	10	(6)
Oct-16	13.4	30	0.32	0.4	4	10	(6)
Nov-16	23.8	30	0.27	0.4	5	10	(5)
Dec-16	19.2	30	0.27	0.4	4	10	(6)
Jan-17	20	30	0.3	0.4	5	10	(5)
Feb-17	20	30	0.3	0.4	5	10	(5)
Mar-17	20	30	0.3	0.4	5	10	(5)
<b>Total</b>					<b>63</b>	<b>120</b>	<b>(57)</b>

2.4 Income earned has been lower than expected due to lower cash balances being maintained for investment and interest earned on investments being lower than budgeted, this is leading to a forecast interest earned shortfall of £57k.

2.5 In addition to investment income the council earns interest on the provision of loan finance to the waste disposal PFI provider, this is expected to generate loan interest payable to us of £1.9m in 2016/17, this will be recharged through the waste disposal PFI arrangement.

### 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 December 2016 short-term borrowing from other local authorities consisted of four loans totalling £20.0m with an average interest rate of 0.86% (including broker's commission of between 0.06% and 0.10%). Loans were arranged for periods ranging from 358 days to two years with an average loan period remaining of 192 days.

#### Long-term borrowing

3.4 At 31 December 2016 the council held long term borrowing of £150.4m. No further long-term borrowing has been undertaken since June 2016.

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>
Minimum revenue provision	10.3	10.7	0.4
Interest payable on all loans	6.8	6.1	(0.7)
<b>Total</b>	<b>17.1</b>	<b>16.8</b>	<b>(0.3)</b>

**4. Summary of forecast outturn**

4.1 The current net treasury forecast outturn is a £0.3m underspend mainly due to interest being charged on short term loans, 0.8%, being at a lower rate of interest than budgeted, 1.5%.