

## Treasury Management Interim Report Appendix C 31 December 2017

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 slow progress made with Brexit negotiations continue to have an impact on UK markets:
- Growth in 2017 has been relatively weak (+0.3% for Q1, +0.3% for Q2 and +0.4% for Q3);
  - On 2 November the Bank of England raised the base rate from 0.25% to 0.50% - the first rate rise in over a decade; and
  - Consumer price inflation (CPI) increased by 3.1% in the year to November 2017.

### 2. The Council's Investments

2.1 At 31 December 2017 the council held the following investments:

| Investment                                | Term     | Maturity Date | Interest Rate | Amount<br>£m |
|---|----------|---------------|---------------|--------------|
| <u>Instant Access Bank Accounts:</u>      |          |               |               |              |
| NatWest                                   | N/A      | N/A           | 0.01%         | 1.84         |
| <u>Instant Access Money Market Funds:</u> |          |               |               |              |
| Federated                                 | N/A      | N/A           | 0.39%         | 5.00         |
| Standard Life                             | N/A      | N/A           | 0.35%         | 5.00         |
| Morgan Stanley                            | N/A      | N/A           | 0.29%         | 0.04         |
| Invesco                                   | N/A      | N/A           | 0.35%         | 3.77         |
| <u>95 Day Notice Bank Accounts:</u>       |          |               |               |              |
| Santander                                 | N/A      | 19/02/18      | 1.00%         | 5.00         |
| <u>Fixed Term Deposits:</u>               |          |               |               |              |
| Telford & Wrekin Council                  | 112 days | 05/03/18      | 0.35%         | 5.00         |
| Suffolk County Council                    | 107 days | 01/03/18      | 0.35%         | 5.00         |
| <b>Total</b>                              |          |               | <b>0.44%</b>  | <b>30.65</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

**Treasury Management Interim Report Appendix C**  
**31 December 2017**

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-17       | 9.6                     | 15        | 0.27                            | 0.3      | 2   | 4           | (2)               |
| May-17       | 17.8                    | 15        | 0.23                            | 0.3      | 3   | 4           | (1)               |
| Jun-17       | 8.8                     | 15        | 0.23                            | 0.3      | 2   | 4           | (2)               |
| Jul-17       | 14.9                    | 15        | 0.22                            | 0.3      | 3   | 4           | (1)               |
| Aug-17       | 20.5                    | 15        | 0.20                            | 0.3      | 3   | 4           | (1)               |
| Sep-17       | 15.2                    | 15        | 0.20                            | 0.3      | 2   | 4           | (2)               |
| Oct-17       | 13.7                    | 60        | 0.20                            | 0.3      | 2   | 16          | (14)              |
| Nov-17       | 30.5                    | 60        | 0.38                            | 0.3      | 9   | 16          | (7)               |
| Dec-17       | 29.1                    | 60        | 0.46                            | 0.3      | 10  | 16          | (6)               |
| Jan-18       | 40                      | 60        | 0.3                             | 0.3      | 10  | 16          | (6)               |
| Feb-18       | 40                      | 60        | 0.3                             | 0.3      | 10  | 16          | (6)               |
| Mar-18       | 40                      | 60        | 0.3                             | 0.3      | 10  | 16          | (6)               |
| <b>Total</b> |                         |           |                                 |          | <b>66</b>                                 | <b>120</b>  | <b>(54)</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 £54k.

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 £2.3m in 2017/18 and 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 2017, short-term borrowing from other local authorities consisted of three loans totalling £15m with an average interest rate of 0.64% (including broker's commission of 0.06%). Loans were arranged for periods ranging from nine months to two years with an average loan period remaining of 109 days.

## Treasury Management Interim Report Appendix C

### 31 December 2017

#### Long-term borrowing

3.4 At 31 December 2017 the council held long term borrowing of £145.0m. Rates are monitored and discussed with our treasury advisors to determine the timing of any new loan term borrowing.

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          | 11.1          | 7.2             | (3.9)                 |
| Interest payable on all loans      | 6.8           | 6.1             | (0.7)                 |
| <b>Total</b>                       | <b>17.9</b>   | <b>13.3</b>     | <b>(4.6)</b>          |

#### 4. Summary of forecast outturn

4.1 The current net treasury forecast outturn has increased from £0.8m underspend to £4.6m underspend, this increased underspend reflects the decision to change the Council's Minimum Revenue Provision (MRP) Policy in the year. This decision means that the MRP is now calculated on an annuity basis, resulting in an in year saving of £3.8m, this saving is to be added to the Council's general revenue reserve.