Treasury Management Interim Report **Appendix C**
Quarter to 30 June 2010

This quarterly report ensures the council is embracing best practice in accordance with CIPFA's recommendations, by informing members of Treasury Management activity. Whilst the report is principally to cover the quarter to 30 June 2010, it also includes borrowing transactions to the end of July.

1. The Economy

1.1. Recent economic statistics show:

- The Bank Base Rate remaining unchanged at 0.50%.
- CPI inflation remaining relatively high: year on year inflation started the quarter at 3.4% and rose to a high of 3.7% in April before falling back to 3.2% in June
- GDP increasing by 1.1% in the second quarter of 2010 due to growth across the board.
- House prices falling slightly during the quarter and they are expected to remain fairly flat during the rest of 2010.
- The number of unemployed people falling by 34,000 in the quarter to May to a total of 2.47 million. The number of people in work rose by 160,000 in the three months which is the biggest rise since August 2006 although the majority of these (148,000) are only in part-time work.

1.2 Whilst the increase in the GDP figure was welcome news, a slow recovery is expected. No change in current policy is expected anytime soon, with Quantitative Easing remaining at £200bn and the base rate staying at 0.50%.

2. The Council's Investments

2.1 As at 30 June 2010 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested £m	£m
Instant access bank accounts					
National Westminster	N/A	N/A	1.10%	5.00	
Santander	N/A	N/A	0.80%	5.00	
Barclays Call	N/A	N/A	0.65%	5.00	
Clydesdale	N/A	N/A	0.75%	5.00	20.00
Fixed term deposits					
Bank of Scotland	364 days	27/01/11	1.82%	5.00	
Nationwide	183 days	24/12/10	0.96%	2.00	
Nationwide	123 days	25/10/10	0.74%	3.00	10.00
Instant access Money Market Funds					
Blackrock				2.05	
Standard Life				5.00	
Insight				5.00	12.05
Total					**42.05**

2.2 Due to a certain degree of confidence returning to the UK financial markets, the council is now placing more funds on term deposit to earn a higher rate of interest. On the advice of Arlingclose, the council's treasury advisor, the council is moving towards a rolling programme of £1 million one-year deposits, with such deposits totalling £12 million at any one time and £1 million maturing and being reinvested each month.

2.3 Arlingclose recommends an investment limit of 15% per institution and the treasury team use a limit of £5 million (£33 million being a reasonable approximation of the average amount invested during the year). The only situation where this limit is increased is where there is a group of banks when a £7.5 million limit is applied. For example, the council has £5 million currently invested with the Bank of Scotland and so could only invest a further £2.5 million with Lloyds TSB.

2.4 The treasury team have investigated the possibility of using strong foreign banks but either the banks are not interested in taking council deposits or the interest rates offered are poor. Therefore, only UK banks continue to be used at present.

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

Month	**Average Invested £m**	**Average rate of interest earned**	**Amount of interest earned**
April 2010	23.7	1.02%	£19,866
May 2010	30.5	0.94%	£24,156
June 2010	44.7	0.80%	£29,272
July 2010	49.3	0.85%	£35,726
Total			**£109,020**

2.10 The 2010/11 budget for interest receivable is £249,000. Whilst the above figures are before deducting interest paid out to third parties such as schools and trust funds, this budget is regarded as achievable.

3. The Council's Borrowing

3.1 So far in the year to the end of July 2010 the council has taken out the following new loans:

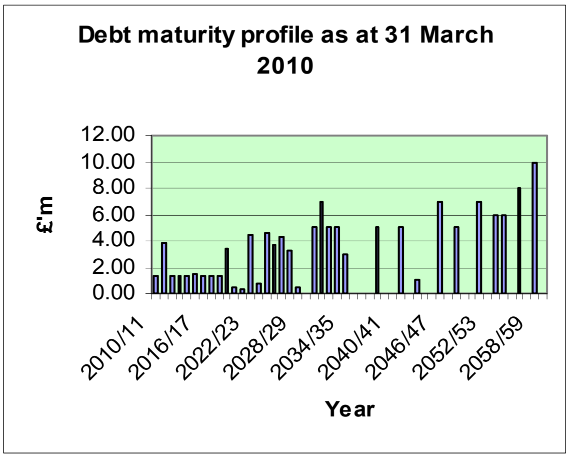
Date	**Term**	**Amount**	**Repayment method**	**Interest rate**	**6 monthly repayment of principal**
26/06/10	10 years	£10 million	EIP	2.47%	£500,000
27/07/10	9 years	£5 million	EIP	2.24%	£277,778
EIP = Equal Instalments of Principal repaid every six months					

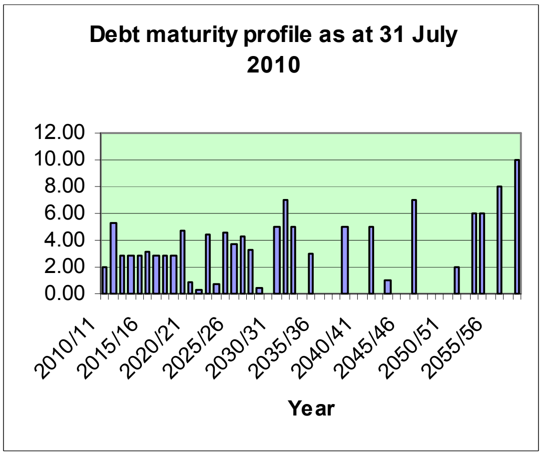
3.2 In addition the following loans have been repaid:

Date	**Remaining term to maturity**	**Amount**	**Repayment method**	**Interest rate**
28/07/10	23 years	£5 million	Maturity	4.25%
02/08/10	37 years	£5 million	Maturity	4.20%
02/08/10	41 years	£5 million	Maturity	4.20%
Maturity = All principal repaid at end of term (unless repaid earlier)				

3.3 By replacing the above loans with cheaper short-term loans the average maturity of the council's debt portfolio has reduced from 28.2 years to 24.9 years with the current average rate of interest falling from 4.35% as at 31 March 2010 to 4.13% today. Reducing the interest rate payable on £15 million from 4.216% to 2.393% should result in savings of around £182k in the eight months to 31 March 2010. In addition the council received discounts on repayment totalling £83,398.21 which will be spread over ten years (in accordance with current accounting practice) generating further savings of £8,340 per annum. Taken together, the new loans should generate total savings of around £1.47 million over their nine and ten year terms, however, because they are EIP loans (necessitating repayment of principal over the term of the loans) the exact savings will depend on the cost of refinancing amounts repaid.

3.4 The effect of replacing longer term maturity loans with shorter term EIP debt can be seen in the graphs below which compare the council's debt maturity profile at the start of the financial year to the profile as it stands today. EIP loans have the advantage of smoothing the council's maturity profile.





4.0 Projected outturn for borrowing costs

4.1 The projected outturn is difficult to quantify as it depends on the rate of interest payable on new loans taken out. Current projections indicate that the council will need to take out £20 million of additional loans before the year end. If interest rates are expected to stay low the council may take out PWLB variable rate borrowing (currently 0.70%) or even borrow from other local authorities (at 0.50% or less, including brokers commission). However, if rates are expected to increase the council will take out longer term fixed rates to try and lock in good rates for future years.

4.2 For example, if at the end of September the council were to take out a long-term loan of £20 million at a fixed interest rate of, say, 4.00% current projections of borrowing costs and Minimum Revenue Provision indicate that the underspend for the year will be around £800,000. Alternatively, if the council borrows £20 million at the end of September at a variable interest rate of say 1% the underspend may increase to £1.1 million. So the actual underspend will be determined by when the loans are taken out and the term of the loan/interest rate chosen. The council's treasury management team monitor rates on a daily basis and take advice from the council's treasury advisors Arlingclose