

This quarterly report ensures the council demonstrates best practice in accordance with CIPFA's recommendations. This is achieved by informing members of Treasury Management activity.

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 fell from 3.2% to 3.1% in July and stayed at this rate in August and September.
- GDP growing in the third quarter by 0.8%, twice as much as economists had forecast.

2. The Council's Investments

2.1 As at 30th September 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%		
Santander	N/A	N/A	0.80%	5.00	10.00
15 day notice account:					
Clydesdale	N/A	N/A	0.75%	5.00	5.00
Instant access Money Market Funds:					
Prime Rate	N/A	N/A	0.81%	5.00	
Ignis	N/A	N/A	0.68%	5.00	
Insight	N/A	N/A	0.61%	1.22	
Standard Life	N/A	N/A	0.59%	5.00	16.22
Rolling monthly programme of £1 million one year term deposits:					
Lloyds	364 days	27/07/11	1.95%	1.00	
Lloyds	364 days	19/08/11	1.95%	1.00	
Barclays	364 days	16/09/11	1.46%	1.00	3.00
Other 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	
Barclays	213 days	25/02/11	1.04%	2.00	
Barclays	241 days	25/03/11	1.12%	2.00	14.00
Total					48.22

2.2 Since the last quarterly report two further Money Market Funds have been opened with Prime Rate and Ignis. These Funds are recommended by the Council's advisor (Arlingclose) and provide the same levels of security and liquidity as existing Funds but offer a slightly higher return.

- 2.3 An instant access account with the Royal Bank of Scotland has also been opened. Royal Bank of Scotland is in the same banking group as National Westminster and so, following Arlingclose's advice, a group limit of £7.5 million is used. An additional £2.5 million will be invested with the Royal Bank of Scotland who have agreed to pay an interest rate of 1.10%, consistent with the council's existing National Westminster account.
- 2.4 There has been no change in the bank base rate during the quarter and the council's treasury adviser has provided the following forecast of the bank base rate (forecast provided October 2010):

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Bank Rate	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75

Comparing the above rates with the forecast provided in the last quarterly report shows rates remaining low for longer. The current forecast shows the base rate probably remaining unchanged at 0.50% until September 2011 (whereas their previous forecast was June 2011).

- 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
August 2010	41.4	1.01%	£35,136
September 2010	47.6	1.09%	£38,175
Total			£182,331

- 2.6 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), and although balances fall sharply in the last few months of the year, the current projection is for investment income to exceed budget by around £40,000.
- 2.7 The level of investment balances in August and September remained relatively high due to taking out some short-term borrowing. The borrowing was offered at competitive rates and was taken out to assist with liquidity requirements (being used in preference to the council withdrawing funds earning higher rates). The amounts borrowed were as follows:

Date of advance	Lender	Period	Interest rate (including 0.10% brokerage)	Amount £'m
03/08/10	London Borough of Barnet	29 days	0.40%	5.00
19/08/10	London Borough of Barnet	61 days	0.45%	2.80
19/08/10	Northamptonshire C C	61 days	0.45%	2.20
23/08/10	London Fire Authority	49 days	0.45%	5.00

3. The Council's Longer Term Borrowing

3.1 So far in the year to date the council has taken out the following new loans from the Public Works Loan Board (PWLB):

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
27/08/10	50 years	£5 million	Maturity	3.95%	N/A
15/10/10	5 years	£4 million	Maturity	1.85%	N/A
15/10/10	6 years	£3 million	Maturity	2.16%	N/A

EIP = Equal Instalments of Principal repaid every six months
Maturity = All principal repaid at end of term (unless repaid earlier)

3.2 In addition the following PWLB 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 The historically low base rate has meant that short-term borrowing has been comparatively inexpensive and so new borrowing has concentrated on fixed rate loans with terms of ten years or less. The exception was when the 50 year maturity rate dropped below 4.00% for a week at the end of August. It is rare for the 50 year rate to drop below 4.00% (this was the first (and last) time in 2010) and so the council borrowed £5 million for 50 years at 3.95%.

3.4 A comparison of total borrowing now to that at the start of the year shows the following:

	Principal outstanding	Annual interest payable thereon	Average rate of interest
At 31 March 2010	125,147,302	5,448,289	4.35%
At 15 October 2010	136,522,358	5,490,282	4.02%

3.5 Therefore as the result of the availability of better priced short-term loans, and the rescheduling of some more expensive longer term debt, the average annual interest rate payable has fallen by 0.33% (which is equivalent to £413,000, based on the principal outstanding at the start of the year).

4.0 Projected outturn for borrowing costs

4.1 So far in the year to date the council has taken out net new borrowing of £12 million (i.e. new loans of £27 million less £15 million repaid). Based on the capital programme, and after deducting slippage in the planned programme of expenditure, it is estimated that the council will need to take out additional new borrowing of at least £7 million before the year end. The exact amount will depend on other factors including cashflow requirements and movements in PWLB rates, however, current projections based on further borrowing of £7 million indicate an underspend against budget of around £990,000.

5.0 Change In PWLB interest rates announced in the Spending Review on 20 October 2010

5.1 On 20 October HM Treasury instructed the Public Works Loan Board (PWLB) to increase the interest rate on all new loans to an average of 1.00% above the government's cost of borrowing. The increment had been 0.25% and so the directive resulted in PWLB rates increasing across the board by an average of 0.75%.

5.2 Whilst the council had already met nearly two-thirds of its projected borrowing requirement for 2010/11, around £7 million for 2010/11 (and any PWLB loans taken out in future years) will now have to be funded at higher rates.

5.3 The increase in the variable rate was by a margin of 0.90% (from 0.70% to 1.60%). After taking out some fixed rate loans to lock in the lower rates, variable rate loans were one of the options being considered for the remaining borrowing in 2010/11 and to finance the capital programme in 2011/12.

5.4 In addition to the change in rates, in order to ensure that borrowing decisions are transparent and consistent with measures adopted elsewhere in the public sector, HM Treasury has determined that a detailed list of individual local authority loans will be published on the PWLB website. The first list was published on 1 November.