

The quarterly report ensures the council is embracing best practice in accordance with CIPFA's recommendations, by informing members of Treasury Management activity. The last quarterly report actually covered the period to 15 October 2010 (and included October borrowing transactions) and so this report covers the remaining period to the end of 2010.

1. The Economy

1.1. Recent economic statistics show the following:

- The Bank Base Rate remaining unchanged at 0.50%.
- Inflation remaining well above target, with the January VAT increase and rise in fuel duty adding additional pressure.
- GDP for the fourth quarter is still awaited but it is expected to show that the economy continued to grow at a slower rate than the 0.7% growth achieved in the third quarter.
- Early indications point to a strengthening manufacturing sector but performance in the service sector is weaker, raising concerns about the sustainability of the recovery.
- House prices remain stagnant. Statistics from Nationwide show that modest rises in the first half of 2010 were reversed in the second half with the average UK house price ending on £162,763 compared to £162,103 at the beginning of the year.
- The number of unemployed people increased by 35,000 in the quarter to October 2010 to reach 2.5 million or 7.9% (up 0.1% on the previous quarter). Of these 839,000 had been unemployed for over 12 months, the highest figure since February 1997.

1.2 Both the domestic economy and the global outlook remain finely balanced. The implication for interest rates is that they will remain at their current levels and in all probability they will remain there for some time to come.

2. The Council's Investments

2.1 As at 31 December 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%	5.13	
Royal Bank of Scotland	N/A	N/A	1.10%	2.50	
Santander	N/A	N/A	0.80%	5.00	12.63
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%	4.39	9.39
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	
Nationwide	334 days	25/10/11	1.25%	1.00	
Nationwide	364 days	24/11/11	1.33%	1.00	5.00

Other fixed term deposits:						
	Bank of Scotland	364 days	27/01/11	1.82%	5.00	
	Barclays	213 days	25/02/11	1.04%	2.00	
	Barclays	241 days	25/03/11	1.12%	2.00	9.00
	Total					41.02

- 2.3 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 December 2010):

Bank Rate	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Upside risk		+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75
Downside risk				-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

- 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
October 2010	48.8	0.97%	£40,386
November 2010	44.4	1.04%	£37,763
December 2010	42.7	1.16%	£39,623
Total			£300,103

- 2.6 The 2010/11 budget for interest receivable is £249k. 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 £100k. The actual surplus will depend upon borrowing activity in the last few months of the financial year.

3. The Council's Borrowing

- 3.1 The council's borrowing transactions in the period to 15 October 2010 were detailed in the last quarterly report. No loans (including short-term) were taken out in the subsequent period to 31 December 2010.
- 3.2 Year to date the council has taken out net new PWLB borrowing of £12 million (new loans of £27 million less £15 million repaid). Based on the capital programme for 2010-11, and after deducting slippage, it is estimated that the council will need to take out additional new borrowing of £3 - £4 million to fund capital expenditure. In addition, short-term borrowing may be needed to cover day to day liquidity requirements around the year end.

- 3.3 The extent of the underspend against budget will depend on the timing of loans taken out and whether it is decided to take out short-term loans from the market or a longer term PWLB loan. Depending upon which option is chosen, the projected underspend is in the region of £1.04 to £1.09 million.