

This report demonstrates the council is embracing best practice in accordance with CIPFA's recommendations, by keeping members informed of Treasury Management activity.

1. The Economy

1.1. Recent economic events and statistics show the following:

- Financial conditions deteriorating in most major economies.
- Inflation remaining high (4.4% in July) and expected to increase further in the short term due to increases in gas and electricity prices.
- Unemployment increasing in the quarter to June 2011 from 7.7% to 7.9%.
- The Bank Base Rate now expected to remain at 0.50% until late 2012 or early 2013.

2. The Council's Investments

2.1 As at 31st August 2011 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested	
				£m	£m
<u>Instant access bank accounts:</u>					
National Westminster	N/A	N/A	1.10%	2.50	
Royal Bank of Scotland	N/A	N/A	1.10%	5.00	7.50
<u>Instant access Money Market Funds:</u>					
Prime Rate	N/A	N/A	0.73%	4.95	
Ignis	N/A	N/A	0.74%	2.01	6.96
<u>Rolling monthly programme of £1 million one year term deposits:</u>					
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	
Bank of Scotland	335 days	28/12/11	1.82%	1.00	
Bank of Scotland	364 days	26/01/12	1.95%	1.00	
Bank of Scotland	364 days	13/02/12	2.05%	1.00	
Newcastle City Council	364 days	15/03/12	1.55%	1.00	
Bank of Scotland	364 days	05/04/12	2.05%	1.00	
Bank of Scotland	364 days	02/05/12	2.05%	1.00	
Barclays	364 days	14/06/12	1.52%	1.00	
Lloyds TSB	364 days	25/07/12	2.05%	1.00	11.00
<u>Rolling monthly programme of £1 million six month term deposits:</u>					
Lloyds TSB	182 days	17/02/12	1.42%	1.00	1.00
<u>Other fixed term deposits:</u>					
Santander	122 days	25/11/11	1.21%	2.00	
Nationwide	215 days	05/12/11	1.09%	1.00	
Santander	148 days	21/12/11	1.28%	2.00	
Nationwide	245 days	01/01/12	1.14%	1.00	

Santander	184 days	26/01/12	1.41%	1.00	
Barclays	275 days	27/01/12	1.32%	1.00	
Nationwide	278 days	06/02/12	1.19%	1.00	
Newcastle City Council	339 days	27/02/12	1.48%	2.00	
Barclays	306 days	27/02/12	1.41%	1.00	
Barclays	328 days	20/03/12	1.47%	1.00	
Lloyds TSB	449 days	27/07/12	2.65%	0.50	13.50
Total					39.96

The term deposits shaded grey are those placed in the last three months

- 2.2 Recent weeks have seen a deterioration in financial markets in the “Eurozone” where the lack of any real progress in resolving sovereign debt problems is having a wider effect. The Council has responded to advice from its treasury management advisors (Arlingclose) that the maximum maturity limit for UK and foreign banks and the Nationwide building society be reduced from one year to six months. The exceptions are Santander and Clydesdale where the limits have similarly been halved to become three months and one week respectively.
- 2.3 Arlingclose have stated that they do not believe that there are solvency issues with any of the institutions on their recommended lending list but believe the reduced maximum maturity limits is an appropriate and prudent response to recent events.
- 2.4 For the foreseeable future the council intends to continue restricting its investments to the largest of the UK financial institutions.
- 2.5 The forecast of the first change in the Bank Base Rate has once again been put back and is not now expected to take place until the end of 2012. Arlingclose has provided the following forecast (forecast provided in August 2011):

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

- 2.6 The council has earned interest on its investments as follows:

Month	Average Invested £m	Average rate of interest earned	Amount of interest earned
April 2011	40.6	1.08%	£36,046
May 2011	47.4	1.15%	£46,099
June 2011	47.0	1.17%	£45,261
July 2011	48.2	1.17%	£47,788
August 2011	48.0	1.23%	£49,707
Total			£224,901

2.7 Interest earned in the first five months has exceeded budget due to both higher investment balances and higher average interest rates, due principally to the effect on income of maintaining the rolling programme of one year deposits. Reducing the maximum maturity limit for investments will have an impact on the amount of interest received but it is anticipated that interest earned in 2011/12 should still exceed the £249k budget by at least £100,000.

3. The Council's Borrowing

3.1 On 12th July 2011 the council borrowed a further £7.50 million from the Public Works Loan Board. The new loan is for a period of 15 years at an interest rate of 3.59%, with £250,000 being repaid to the PWLB every six months.

3.2 On 12th July the June CPI inflation figure was released showing that the June figure had fallen to 4.2% from 4.5% a month earlier. At this point PWLB rates fell by 0.14%. Arlingclose advised that the rates would quickly go up and so we took the opportunity to take out some further borrowing at a rate which, at the time, was the lowest in 2011.

3.3 In recent weeks the unresolved debt problems in Europe have caused rates to remain low. A further loan will therefore be taken out before rates resume an upward trend. The council will delay as long as possible because of the cost of carry in the short-term, but rates will be monitored to ensure that the opportunity is not missed. The council can demonstrate a use for this funding.

3.4 As previously reported, the long-term borrowing budget was set in January 2011 at a time when PWLB rates were steadily increasing and there was concern over the interest rates that would need to be paid on future borrowing. Arlingclose's forecast was for the 20 year PWLB rate to reach 6% in the third quarter of 2011. In order to set a prudent budget, and give the council flexibility with regard to maturity periods, the budget was set using an interest rate of 5.75%. The borrowing budget can be analysed as follows:

	Budget	Forecast	Surplus
	£m	£m	£m
Minimum Revenue Provision	9.87	9.69	0.18
Interest on existing loans (January 2011 position)	5.43	5.43	-
Borrowing of £5m to be taken out before the end of 2010/11 (Budget 4.00%; Actual 3.71%)	0.20	0.18	0.02
Borrowing requirement for 2011/12 (Actual loan of £7.5m now taken out at lower rates than budgeted)	0.40	0.19	0.21
Borrowing of £10m to externalise internal borrowing used to support the capital programme in 2008/09 and 2009/10	0.58	0.32	0.26
Provision for refinancing of LOBO loans at a higher rate	0.12	0.04	0.08
Total	16.60	15.85	0.75

- 3.5 When interest rates were increasing rapidly it was a possibility that the council would borrow sooner rather than later. However the slowdown in the upward trend, then subsequent reversal, has delayed borrowing in 2011/12.