

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 Economy

1.1. Little change in the economic climate and statistics since previously reported:

- The first estimate of GDP for the second quarter shows GDP growing by 0.8%. The economy has now been growing by 0.7% to 0.8% for each of the last five quarters.
- The year-on-year Consumer Price Index (CPI) was 1.5% in August 2014, down from 1.6% in July.
- The latest statistics released for the quarter to July 2014 show the UK labour market continuing with employment gains, albeit at a slower pace, and the headline unemployment rate falling to 6.2%, the lowest since late 2008. However, earnings growth remains weak.
- There has been no change in the Bank Base Rate.
- With slack in the labour markets, low inflation and weak earnings growth, the council's treasury advisers, Arlingclose, forecast the first increase in the Bank Base rate to be in the third quarter of 2015.

2. The Council's Investments

2.1 At 31st August 2014 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested	
				£m	£m
<u>Instant Access Bank Accounts:</u>					
Handelsbanken	N/A	N/A	0.45%	5.00	5.00
<u>Instant Access Money Market Funds:</u>					
Ignis	N/A	N/A	0.46%	4.58	4.58
<u>1 Month Notice Account</u>					
Close Bros	N/A	N/A	1.00%	5.00	5.00
<u>Fixed Term Deposits:</u>					
Nationwide	81 days	22/09/14	0.47%	1.00	
Barclays	81 days	22/09/14	0.47%	1.00	
Santander	98 days	24/10/14	0.47%	1.00	
Nationwide	298 days	23/01/15	0.72%	2.00	
Barclays	365 days	19/02/15	0.85%	1.00	
Nationwide	279 days	25/03/15	0.79%	2.00	
Barclays	279 days	25/03/15	0.79%	1.00	
Lloyds	364 days	27/03/15	0.95%	1.00	
Barclays	364 days	27/03/15	0.86%	1.00	
Bank of Scotland	364 days	30/03/15	0.95%	2.00	
Barclays	364 days	30/03/15	0.86%	1.00	14.00
Total			0.71%		28.58
Shaded investments represents term deposits made in the two months since 30 th June 2014.					

2.2 There has been little change in investment rates over the last two months, with the exception of

the council's instant access account with Handelsbanken where the interest rate fell from 0.60% to 0.45% with effect from 7th July 2014.

- 2.3 There has been no change in the council's current eligible UK counterparties and their associated maximum maturity periods (as recommended by the council's treasury advisers, Arlingclose) since previously reported. These are as follows:

Counterparty	Maximum maturity period from:	
	01/04/14	01/07/14
Close Brothers Ltd, Goldman Sachs International Bank, 15 of the stronger building societies	100 days	100 days
Santander UK	6 months	13 months
Bank of Scotland and Lloyds TSB	12 months	13 months
Nationwide	12 months	13 months
Barclays	12 months	13 months
HSBC and Standard Chartered Bank	12 months	13 months
Nat West and RBS	Overnight	Overnight

- 2.4 The only non-UK counterparty that the council is using is Handelsbanken which has a recommended maximum maturity limit of 13 months.

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

Month	Amount invested		Average rate of interest earned		Amount of interest earned / Forecast £	Budget £	Actual Surplus / Forecast £
	Actual / Forecast £m	Budget £m	Actual / Forecast %	Budget %			
Apr-14	35.09	20	0.68	0.60%	19,442	10,000	9,442
May-14	40.21	40	0.63	0.60%	21,584	20,000	1,584
Jun-14	33.96	40	0.67	0.60%	19,151	20,000	-849
Jul-14	37.30	40	0.66	0.60%	20,896	20,000	896
Aug-14	38.29	40	0.63	0.60%	20,652	20,000	652
					101,725	90,000	11,725
Sep-14		40		0.60%	20,000	20,000	-
Oct-14		30		0.60%	15,000	15,000	-
Nov-14		30		0.60%	15,000	15,000	-
Dec-14		30		0.60%	15,000	15,000	-
Jan-15		20		0.60%	10,000	10,000	-
Feb-15		20		0.60%	10,000	10,000	-
Mar-15		10		0.60%	5,070	5,070	-
Budget and projected outturn					191,795	180,070	11,725

- 2.6 Investment balances in April were higher than budgeted resulting in a surplus for the month of £9,442. In more recent months actual investment income has been more in line with the budgeted amounts.

3. The Council's Borrowing

Short-term borrowing

- 3.1 The council is continuing its policy of utilising short-term borrowing from other local authorities to fund its capital programme and for short-term liquidity needs. These short-term interest rates are significantly below levels available from other sources.
- 3.2 Historically the council has always borrowed for longer periods at fixed interest rates. Whilst achieving stability in the amount of its interest payments, the council currently has a large cost of carry when comparing its fixed interest debt to current (variable) investment rates.
- 3.3 It is considered good practice to have an element of variable rate borrowing that removes or reduces this cost of carry and, to the extent that the level of short-term debt does not exceed the level of the council's investments, when interest rates rise increased investment income provides a hedge against increased borrowing costs.
- 3.4 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.
- 3.5 At the end of August 2014 short-term borrowing from other local authorities consisted of eight loans totalling £29 million with an average rate of interest payable of 0.46%. Loan periods and interest rates (including brokers' commission) ranged from 87 days to one year and 0.36% to 0.58% respectively.

Long-term borrowing

- 3.6 No long-term loans have been taken out in the period to date.
- 3.7 The budget includes provision to take out up to £10 million of longer term loans from the Public Works Loan Board. This is still a possibility although analysis suggests that PWLB rates will have to fall significantly from their current levels for any savings in future years to outweigh the associated cost of carry in the short-term.
- 3.8 The current position is summarised below.
(The forecast is unchanged from the June 2014 position)

Summary of Borrowing Budget	Budget	Forecast	Savings
	£m	£m	£m
Minimum Revenue Provision	10.19	9.93	0.26
Interest on existing longer-term PWLB and bank loans	5.52	5.52	-
<u>Variable rate borrowing</u>			
<u>Budget</u> Borrowing required £68 million Rate 1.00%	0.55		

<u>Forecast</u> Borrowing required £60 million Average rate used 0.80%		0.29	0.26
<u>Fixed rate borrowing</u>			
<u>Budget</u> Provision for longer term-borrowing	0.10	0.10	-
Less capitalised interest (see 3.11 below)	(0.30)	(0.30)	-
Forecast savings compared to budget	16.06	15.54	0.52

3.9 The reduction in the Minimum Revenue Provision required for 2014/15 is due to slippage in the capital spend for 2013/14, as reported in June.

3.10 The external borrowing requirement is calculated after maximising internal borrowing by offsetting usable reserves. The usable reserves as at 31 March 2014 (of £41 million) were higher than forecast leading to an upward revision of the usable reserves available for 2014/15. The borrowing requirement shown above has been prudently calculated assuming usable reserves throughout the year of at least £30 million, whereas a figure of £20 million had previously been used.

3.11 The council is able to capitalise interest costs relating to interest paid on borrowing used to fund large capital schemes that take substantial periods of time to get to the point at which the assets may be utilised. Such interest, incurred at the construction or installation phase, may be added to the cost of the associated asset. As can be seen from the table above, capitalised interest of £300,000 has been included in the 2014/15 budget for capital financing costs.

4. Summary of Outturn Position

4.1 The current net treasury position, compared to budget, is estimated to be a surplus of £530,000.

Summary of Budget Over/(Under) Spend	£m
Treasury Management investment income receivable	(0.01)
Interest payable on borrowing	(0.52)
Total savings	(0.53)

4.2 The savings will be £100,000 greater if no longer-term fixed rate borrowing is taken out.

4.3 The savings will also be higher/lower if capitalised interest is more/less than £300,000.