

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 UK Economy

- 1.1. Little change in the UK economic climate and statistics since previously reported:
- The third estimate of GDP for the third quarter showed GDP growing by an unrevised 0.7%. The economy has now been growing by 0.7% to 0.9% for each of the last six quarters.
 - The year-on-year Consumer Price Index (CPI) was 0.5% in December 2014 (the lowest rate since May 2000), down from 1.0% in November.
 - The latest statistics released for the quarter to October 2014 show the UK labour continuing with employment gains, although the headline unemployment rate remains unchanged at 6.0% (the lowest since late 2008). Earnings growth accelerated again.
 - There has been no change in the Bank Base Rate.

2. Outlook for Interest Rates

- 2.1 The council's treasury advisers, Arlingclose, have issued the following forecast of the Bank Base Rate (forecast issued 10/12/14):

Bank Rate	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Upside risk				+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
Downside risk			-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00

Their central forecast is the same as in the previous report except that Arlingclose have now removed any upside risk until December 2015.

3. The Council's Investments

- 3.1 At 31st December 2014 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested	
				£m	£m
<u>Instant Access Money Market Funds:</u>					
Ignis	N/A	N/A	0.47%	4.93	
Federated	N/A	N/A	0.45%	5.00	
Insight	N/A	N/A	0.36%	4.79	
Deutsche	N/A	N/A	0.37%	0.45	15.17
<u>1 Month Notice Account</u>					
Close Bros	N/A	N/A	1.00%	5.00	5.00
<u>Fixed Term Deposits:</u>					
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	11.00

Total			0.66%		31.17
No new term deposits made in the last two months.					

- 3.2 The council's current eligible UK counterparties and their associated maximum maturity periods (as recommended by the council's treasury advisers, Arlingclose) are as follows:

Counterparty	Maximum maturity period from:		
	01/04/14	01/07/14	16/10/14
Close Brothers Ltd, Goldman Sachs International Bank, 15 of the stronger building societies	100 days	100 days	100 days
Santander UK	6 months	13 months	6 months
Bank of Scotland and Lloyds TSB	12 months	13 months	6 months
Nationwide	12 months	13 months	6 months
Barclays	12 months	13 months	100 days
HSBC and Standard Chartered Bank	12 months	13 months	6 months
Nat West and RBS	Overnight	Overnight	Overnight
No change in counterparties or maturity limits since 16/10/14.			

- 3.3 The only non-UK counterparty that the council is using is Handelsbanken which had a recommended maximum maturity limit of 13 months but this was revised down to 6 months from 16th October when Arlingclose recommended a general tightening of limits following new banking regulations and deteriorating global growth prospects, particularly in the Eurozone.
- 3.4 The council has earned interest on its investments as follows:

Month	Average 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	0.68	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
Sep-14	32.90	40	0.66	0.60%	17,970	20,000	-2,030
Oct-14	29.72	30	0.70	0.60%	17,726	15,000	2,726
Nov-14	30.00	30	0.67	0.60%	17,148	15,000	2,148
Dec-14	30.00	30	0.63	0.60%	16,796	15,000	1,796
					171,365	155,000	16,365
Jan-15	20.00	20	0.60	0.60%	10,000	10,000	-
Feb-15	20.00	20	0.60	0.60%	10,000	10,000	-
Mar-15	10.00	10	0.60	0.60%	5,070	5,070	-
Budget and projected outturn					196,435	180,070	16,365

- 3.5 Interest earned in the last two months has been around levels forecast in the previous report

and therefore there is no change in the projected outturn for the year which is expected to be a surplus of approximately £16,000.

- 3.6 In December the council took out a £5m loan from the Public Works Loan Board which resulted in investment balances being higher than anticipated. As a result the council cancelled the notice it had given to withdraw the £5m investment with Close Brothers. It is anticipated that these funds will not now be withdrawn until the end of March.

4. The Council's Borrowing

Short-term borrowing

- 4.1 The council is continuing its policy of mainly using 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.
- 4.2 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.
- 4.3 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.
- 4.4 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.
- 4.5 At the end of December 2014 short-term borrowing from other local authorities consisted of fifteen loans totalling £40 million with an average interest rate of 0.53% (including brokers commission of between 0.03% and 0.10%). Loan periods ranged from 30 days to one year and averaged 206 days.

Long-term borrowing

- 4.6 On 12th December 2014 the council borrowed £5m from the Public Works Loan Board (PWLB). The loan is repayable in equal instalments of £125,000 every six months until December 2034. The interest rate payable is 2.70%.
- 4.7 At the time the loan was taken out the rate was the lowest since May 2013.
- 4.8 The current capital financing budget position is summarised below:

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	0.17	0.38
<u>Fixed rate borrowing</u>			
<u>Budget</u> Provision for longer term-borrowing	0.10	0.07	0.03
Less capitalised interest (see 4.11 below)	(0.30)	(0.30)	-
Forecast savings compared to budget	16.06	15.39	0.67

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

4.11 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.

5. Summary of Outturn Position

5.1 The current net treasury position, compared to budget, is estimated to be a surplus of £690,000.

Summary of Budget Over/(Under) Spend	£m
Treasury Management investment income receivable	(0.02)
Interest payable on borrowing	(0.67)
Total savings	(0.69)

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