

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. There has been little change in the UK economic climate:

- The second quarter showed GDP growing by 0.7% over the quarter and 2.6% year-on-year.
- Inflationary pressure is very low (annual CPI (July 2015) is currently 0.1%) and is expected to remain so in the short term rising towards the end of 2015, with inflation remaining steady in the medium term.
- The latest data for June 2015 show a broadly stable UK labour market, with a marginal movement downwards in the number of employed and a marginal movement upwards in the number of unemployed. Wage growth for the year to June 2015 was 2.8% excluding bonuses.
- There has been no change in the bank base rate.

2. The Council's Investments

2.1 At 31 August 2015 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested £m
<u>Instant Access Money Market Funds:</u>				
Ignis	N/A	N/A	0.5%	3.0
<u>1 Month Notice Account</u>				
Close Bros	N/A	N/A	1.0%	2.5
<u>Certificates of Deposit:</u>				
Standard Chartered	183 days	21/10/15	0.7%	2.5
Total			0.7%	8.0

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

UK Financial Institution	Maximum maturity period from:		
	31/03/15	31/06/15	31/07/15
Barclays, Goldman Sachs International Bank	100 days	100 days	100 days
Close Brothers Ltd	100 days	100 days	6 months
Standard Chartered Bank	6 months	6 months	6 months
Cumberland BS, Darlington BS, Furness BS, Harpenden BS, Hinckley & Rugby BS, Leeds BS, Leek United BS, Loughborough BS, Mansfield BS, Market Harborough BS, Marsden BS, Melton Mowbray BS, National Counties BS, Newbury BS, Scottish BS, Tipton & Coseley BS and Vernon BS	100 days	100 days	100 days

Santander UK	100 days	100 days	6 months
Bank of Scotland and Lloyds Bank	100 days	100 days	13 months
Coventry BS and Nationwide BS	100 days-	100 days	6 months
HSBC	6 months	6 months	13 months
NatWest and RBS	Overnight	Overnight	35 days

Non-UK Financial Institution	Maximum maturity period from:		
	31/03/15	31/06/15	31/07/15
ING Bank NV, Credit Suisse	100 days	100 days	100 days
Deutsche Bank AG	100 days	Temporarily suspended	35 days
Landesbank Hessen-Thuringen (Heleba)	100 days	100 days	6 months
Pohjola Bank, DBS Bank Ltd, Oversea-Chinese Banking Corporation and United Overseas Bank	6 months	6 months	6 months
Bank Nederlandse Gemeenten N.V, Nordea Bank AB, Rabobank and Svenska Handelsbanken	6 months	6 months	13 months
Approved Australian, Canadian and US Banks	6 months	6 months	6 months
No change in counterparties or maturity limits since 31/07/15.			

2.3 The council has earned interest on its investments as follows:

Month	Average amount invested		Average rate of interest earned		Amount of interest earned / Forecast £000	Budget £000	Adv (Fav) £000
	Actual / Forecast £m	Budget £m	Actual / Forecast %	Budget %			
Apr-15	20	30	0.46	0.4%	8	10	2
May-15	17	30	0.52	0.4%	8	10	2
Jun-15	16	30	0.59	0.4%	8	10	2
Jul-15	23	30	0.58	0.4%	10	10	-
Aug-15	16	30	0.54	0.4%	7	10	3
Sep-15	20	30	0.5%	0.4%	8	10	2
Oct-15	20	30	0.5%	0.4%	8	10	2
Nov-15	20	30	0.5%	0.4%	8	10	2
Dec-15	20	30	0.5%	0.4%	8	10	2
Jan-16	20	30	0.5%	0.4%	8	10	2
Feb-16	20	30	0.5%	0.4%	8	10	2
Mar-16	20	15	0.5%	0.4%	8	5	(3)
Total					97	115	18

2.4 Due to lower balances being maintained, to reduce the need to borrow, interest income to date is lower than expected. The interest rate earned has been higher than budgeted but investing lower balances gives a projected overspend of £18k.

3. The Council's Borrowing

Short-term borrowing

- 3.1 The council is continuing its policy of mainly using short-term borrowing from other local authorities for short-term liquidity needs. These short-term interest rates are significantly below levels available from other sources avoiding a large cost of carry when comparing fixed interest debt to current (variable) investment rates.
- 3.2 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.
- 3.3 At the end of August 2015 short-term borrowing from other local authorities consisted of nine loans totalling £32m with an average interest rate of 0.52% (including brokers commission of between 0.01% and 0.10%). Loan periods ranged from seven weeks to two years and averaged 247 days.

Long-term borrowing

- 3.4 At 31 August 2015 the council held long term borrowing of £143.9m. No new long term debt has been taken. Longer term Interest rates (20 year EIP) have fluctuated between 2.80% and 3.28%, with an average of 3.09% over the period, significantly higher than current short term interest rates.
- 3.5 The current capital financing budget position is summarised below:

Summary of Borrowing Budget	Budget	Forecast	Adv / (Fav)
	£m	£m	£m
Minimum revenue provision	9.5	9.5	-
Interest on existing loans	5.8	5.8	-
New borrowing interest cost	0.9	0.9	-
Less capitalised interest	(0.3)	(0.3)	-
Total	15.9	15.9	0.0

- 3.6 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, is added to the cost of the associated asset. Capitalised interest of £0.3m has been included in the 2015/16 budget.

4. Summary of forecast outturn

- 4.1 The need to borrow has been less than expected due to the maintenance of lower investment balances. This means that the investment income overspend is expected to be mitigated by savings on the borrowing budget giving a current net treasury forecast to budget.