Treasury Management Interim Report **Appendix C**
31 December 2015

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 third quarter showed GDP growing by 0.4% over the quarter and 2.1% year-on-year.
- Inflationary pressure is very low (annual CPI (November 2015) is currently 0.1%) and is expected to remain so in the short term returning to its 2% target in 2017.
- The latest data for October 2015 shows the UK labour market improving, with an increase in employment and decrease in the number unemployed. Yearly wage growth was 2.0% excluding bonuses in the three months to October 2015.
- There has been no change in the bank base rate.

2. The Council's Investments

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

Investment	Term	Maturity Date	Interest Rate	Amount invested £m
Instant Access Money Market Funds:				
Ignis	N/A	N/A	0.50%	5.00
Federated	N/A	N/A	0.49%	3.23
1 Month Notice Account				
Close Bros	N/A	N/A	1.00%	2.50
Total			**0.61%**	**10.73**

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

UK Financial Institution	Maximum maturity period from:	
	30/09/15	**31/12/15**
Barclays, Goldman Sachs International Bank	100 days	100 days
Close Brothers Ltd, Santander UK and Standard Chartered Bank	6 months	6 months
Cumberland BS, Darlington BS, Harpenden BS, Leeds BS, Loughborough BS, Scottish BS and Vernon BS	100 days	100 days
Furness BS, Hinckley & Rugby BS, Leek United BS, Mansfield BS, Market Harborough BS, Marsden BS, Melton Mowbray BS, National Counties BS, Newbury BS and Tipton & Coseley BS	100 days	6 months
Stafford Railway BS	Nil	6 months
Bank of Scotland, HSBC and Lloyds Bank	13 months	13 months

Coventry BS and Nationwide BS	6 months	6 months
NatWest and RBS	35 days	35 days

Non-UK Financial Institution	**Maximum maturity period from:**	
	30/09/15	**31/12/15**
ING Bank NV and Credit Suisse	100 days	100 days
Danske Bank	Nil	100 days
Deutsche Bank AG	35 days	35 days
Landesbank Hessen-Thuringen (Heleba) and Pohjola Bank	6 months	6 months
DBS Bank Ltd, Oversea-Chinese Banking Corporation and United Overseas Bank	6 months	Nil
Bank Nederlandse Gemeenten N.V, Nordea Bank AB, Rabobank and Svenska Handelsbanken	13 months	13 months
Approved Australian Banks	6 months	6 months
Approved Singaporean Banks	Nil	13 months
Approved Canadian and US Banks	6 months	13 months

From 30th November 2015 the council appointed Capita Asset Services as its treasury advisors. The contract with them includes a credit worthiness service, which employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which Capita Asset Services allocate a series of colour coded bands with suggested maximum durations for investments as shown below;

- Yellow 5 years
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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	0.52%	0.4%	8	10	2
May-15	17	30	0.56%	0.4%	8	10	2
Jun-15	16	30	0.57%	0.4%	8	10	2
Jul-15	23	30	0.53%	0.4%	10	10	-
Aug-15	16	30	0.58%	0.4%	7	10	3

Sep-15	13	30	0.63%	0.4%	7	10	3
Oct-15	14	30	0.60%	0.4%	7	10	3
Nov-15	13	30	0.58%	0.4%	6	10	4
Dec-15	16	30	0.55%	0.4%	7	10	3
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					***92***	***115***	***23***

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 £23k.

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 December 2015 short-term borrowing from other local authorities consisted of nine loans totalling £41m with an average interest rate of 0.59% (including brokers commission of between 0.01% and 0.10%). Loan periods ranged from five weeks to two years and averaged 226 days.

Long-term borrowing

3.4 At 31 December 2015 the council held long term borrowing of £142.4m. No new long term debt has been taken. Longer term Interest rates (20 year EIP) have fluctuated between 2.77% and 3.10%, with an average of 2.90% 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**	**0.5**	**(0.4)**

Less capitalised interest	**(0.3)**	**0**	**0.3**
Total	**15.9**	**15.8**	**(0.1)**

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. No interest is forecast to be capitalised in 2015/16.

3.7 The forecast interest cost of new borrowing has been revised due to the accelerated grant funding of capital spend delaying the need to borrow reducing the interest cost.

4. Summary of forecast outturn

4.1 The need to borrow has been less than expected giving a current net treasury forecast underspend of £0.1m.