

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. Following the announcement of the referendum result, there has been significant change in the UK markets:

- Major bond yields, including gilts plummeted.
- Sterling registered its largest fall in history.
- It is expected that market volatility will continue in the short term.
- Bank base rate fell to 0.25% on 4th August 2016, a decrease of 0.25% and the first movement since 2009.
- Quarter 2 GDP growth picked up from 0.4% in quarter 1 to 0.6%.
- Consumer price inflation (CPI) increased by 0.6% in the year to August 2016. The weaker sterling is expected to push prices higher in the coming months.

2. The Council's Investments

2.1 At 30 September 2016 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested £m
<u>Instant Access Bank Accounts:</u>				
NatWest	N/A	N/A	0.01%	0.94
<u>Instant Access Money Market Funds:</u>				
Standard Life	N/A	N/A	0.37%	3.88
Total			0.30%	4.82

2.2 The council continues to select counterparties suitable for investment based on the credit worthiness service provided by their treasury advisors, Capita Asset Services. The service 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	Over (Under) £000
	Actual / Forecast £m	Budget £m	Actual / Forecast %	Budget %			
Apr-16	13.4	30	0.61	0.4	6	10	(4)
May-16	13.1	30	0.50	0.4	6	10	(4)
Jun-16	16.3	30	0.49	0.4	6	10	(4)
Jul-16	19.2	30	0.49	0.4	8	10	(2)
Aug-16	13.8	30	0.42	0.4	5	10	(5)
Sep-16	12.2	30	0.36	0.4	4	10	(6)
Oct-16	20	30	0.3	0.4	5	10	(5)
Nov-16	20	30	0.3	0.4	5	10	(5)
Dec-16	20	30	0.3	0.4	5	10	(5)
Jan-17	20	30	0.3	0.4	5	10	(5)
Feb-17	20	30	0.3	0.4	5	10	(5)
Mar-17	20	30	0.3	0.4	5	10	(5)
Total					65	120	(55)

2.4 Income earned has been lower than expected due to lower cash balances being maintained for investment and interest earned on investments being lower than budgeted, this is leading to a forecast interest earned shortfall of £55k.

2.5 In addition to investment income the council earns interest on the provision of loan finance to the waste disposal PFI provider, this is expected to generate loan interest payable to us of £1.9m in 2016/17, this will be recharged through the waste disposal PFI arrangement.

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 September 2016 short-term borrowing from other local authorities consisted of seven loans totalling £33.5m with an average interest rate of 0.79% (including broker's commission of between 0.03% and 0.10%). Loans were arranged for periods ranging from six months to two years with an average loan period remaining of 194 days.

Long-term borrowing

3.4 At 30 September 2016 the council held long term borrowing of £154.2m. Longer term interest rates fell significantly following the announcement of the referendum result in June, therefore the following new long term loan was taken out from the PWLB;

Amount Borrowed	From	To	Period	Type of loan	Interest Rate
£7m	30/06/16	30/06/46	30 years	Maturity	2.45%

3.5 The current capital financing budget position is summarised below:

Summary of Borrowing Budget	Budget	Forecast	Over / (under)
	£m	£m	£m
Minimum revenue provision	10.3	10.7	0.4
Interest payable on all loans	6.8	6.1	(0.7)
Total	17.1	16.8	(0.3)

4. Summary of forecast outturn

4.1 The current net treasury forecast outturn is a £0.3m underspend mainly due to interest being charged on short term loans, 0.8%, being at a lower rate of interest than budgeted, 1.5%.