

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. The slow progress made with the Brexit negotiations continue to have an impact on UK markets:

- The economy has performed better than expected so far in the third quarter. Economic growth was robust in July, driven by the services sector and strong retail sales, however this is likely to slow in the coming months as temporary factors which have supported the economy in recent months subside.
- On 02/08/18 the Bank of England raised the base rate from 0.50% to 0.75%.
- Consumer price inflation (CPI) was 2.7% in August 2018, up from 2.5% in July 2018.

2. The Council's Investments

2.1 At 30 September 2018 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount £m
<u>Instant Access Money Market Funds:</u>				
Federated	N/A	N/A	0.70%	5.00
Standard Life	N/A	N/A	0.67%	4.00
Insight	N/A	N/A	0.62%	0.75
Invesco	N/A	N/A	0.66%	1.10
<u>95 Day Notice Bank Accounts:</u>				
Santander	N/A	N/A	1.00%	5.00
<u>Fixed Term Deposits:</u>				
Birmingham City Council	94 days	29/10/18	0.62%	5.00
Eastleigh Borough Council	182 days	29/03/19	0.80%	5.00
Plymouth City Council	92 days	02/11/18	0.55%	5.00
Slough Borough Council	92 days	31/10/18	0.65%	5.00
Total			0.71%	35.85
<u>Forward Deals (for information):</u>				
Lancashire County Council (start date 29/10/18)	273 days	29/07/19	1.05%	5.00

2.2 The higher level of investment balances shown above are due to the capital receipts received from the sale of the smallholding estate.

2.3 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	(Surplus) /Deficit £'000
	Actual / Forecast £m	Budget £m	Actual / Forecast %	Budget %			
Apr-18	26.7	30	0.51	0.5	11	12	1
May-18	35.9	30	0.56	0.5	17	12	(5)
Jun-18	33.9	30	0.60	0.5	18	12	(6)
Jul-18	40.1	25	0.59	0.5	21	10	(11)
Aug-18	42.0	25	0.65	0.5	24	10	(14)
Sep-18	40.6	20	0.67	0.5	23	8	(15)
Oct-18	40.0	20	0.50	0.5	17	8	(9)
Nov-18	30.0	15	0.50	0.5	13	6	(7)
Dec-18	30.0	15	0.50	0.5	13	6	(7)
Jan-19	20.0	15	0.50	0.5	8	6	(2)
Feb-19	20.0	10	0.50	0.5	8	4	(4)
Mar-19	20.0	10	0.50	0.5	8	4	(4)
Total					181	98	(83)

2.4 Interest income earned has been higher than expected as the interest rate earned on investments has been slightly higher than budgeted (0.1%) and the average amount available for investment has been higher than anticipated, reflecting low actual capital spend to date.

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 £2.6m in 2018/19, 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 using short-term borrowing (if required) 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 2018 there were no short-term loans outstanding.

Long-term borrowing

3.4 At 30 September 2018 the council held long term borrowing of £140.3m, no new long term borrowing has been secured. Rates are monitored and discussed with our treasury advisors to determine the timing of securing any new long term borrowing.

3.5 The current capital financing budget position is summarised below:

Summary of Borrowing Budget	Budget	Forecast	(Surplus) /Deficit
	£m	£m	£m
Minimum revenue provision	7.8	6.7	(1.1)
Interest payable on all loans	6.1	5.9	(0.2)
Total	13.9	13.7	(1.3)

4. Summary of forecast outturn

4.1 The current net treasury forecast outturn is expected to be a surplus (underspend) of £1.4m, the main reason being the review of the minimum revenue provision requirement. This is calculated based on capital spend funded by borrowing in the previous financial year. The total 2017/18 capital outturn funded by borrowing underspent and this is reflected in the lower minimum revenue provision cost in 2018/19.