REPORT TO:	Executive Board
DATE:	16 June 2016
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Resources
TITLE:	Treasury Management Quarter 4 2015/16
WARDS:	Borough-wide

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to provide an update regarding activities undertaken on the money market as required by the Treasury Management Policy.

2.0 RECOMMENDED: That the report be noted.

3.0 SUPPORTING INFORMATION

Economic Outlook

3.1 The following analysis of the economic situation has been provided by Capita Asset Services, the Council's treasury management advisors.

3.2 During the quarter ended 31st March 2016:

- The economic recovery struggled for momentum
- Household spending remained the primary driver of growth
- Soft pay growth was still at odds with a tightening labour market;
- Falling energy prices helped to keep inflation low
- The prospect of a rate hike before late 2016 remained unlikely
- The Federal Reserve held interest rates unchanged
- The European Central Bank (ECB) embarked on further quantitative easing
- The Chancellor pencilled in even more fiscal austerity in 2019/20.

3.3 UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate +2.1% was again a leading rate in the G7 though the US achieved a higher rate of +2.4%. Growth in quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before falling back again to +0.4% (+2.2% y/y) in quarter 3. Growth improved to +0.6% in quarter 4 (+2.1% y/y) but overall this was a disappointing outturn for the year which dashed earlier forecasts for a significantly higher rate. The economy now faces headwinds for exporters from the appreciation during 2015 of Sterling against the Euro, (which has only been minimally reversed in 2016), and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme and uncertainty created by the Brexit referendum coming up in June.

3.4 The Bank of England February Inflation Report included a forecast for growth for 2016 of 2.2% and 2.3% for 2017, down from 2.5% and 2.6% respectively. Nevertheless, this is still a reasonable rate of growth which is being driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a limited recovery in wage inflation and falls in many prices, especially fuel, which has seen CPI inflation fall to, or near to, zero over the last quarter.

3.5 The February Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

3.6 There are, therefore, considerable risks around whether inflation will rise in the near future as strongly as previously expected; this will make it more difficult for the Bank of England to make a start on raising Bank Rate during 2016, especially given the subsequent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets over the last year, which could potentially spill over to impact the real economies rather than just financial markets.

3.7 The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015 before easing back to +2.0% in quarter 3 and to 1.4% in quarter 4, leaving growth in 2015 as a whole at 2.4%. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, downbeat news during the summer about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were also disappointingly weak so the first increase did not eventually come until its December meeting. At that point, confidence was high that there would then be four more increases to come in 2016, but since then, more downbeat news on the international scene has caused a re-emergence of caution over the timing and pace of further increases.

3.8 In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it was intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of easing was then strengthened at its March meeting by cutting this rate further to -0.4% and its main refinancing rate from 0.05% to zero, and increased its monthly asset purchases to €80bn. This monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.6% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarters 3 and 4. The ECB is also struggling to get inflation up from around or below zero towards its target of 2%. economic recovery was shown to have slowed by more than previously thought in Q3 2015 (quarter ended 30.9.15), with real GDP growth decelerating from a downwardly-revised 0.5% in Q2 (from 0.7%) to 0.4% (from 0.5%). The annual growth rate in Q3 was also revised down from 2.3% to 2.1%. The revisions were driven largely by weaker contributions from investment expenditure.

Interest Rate Forecast

3.9 The following forecast has been provided by Capita Asset Services.

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%
5yr PWLB rate	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%
10yr PWLB rate	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.30%	3.40%	3.50%	3.60%
25yr PWLB rate	3.20%	3.30%	3.30%	3.50%	3.50%	3.60%	3.60%	3.70%	3.70%	3.70%	3.80%	3.80%
50yr PWLB rate	3.00%	3.10%	3.10%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.60%	3.70%	3.70%

Short Term Borrowing Rates

3.10 The bank base rate remained at 0.50% throughout the quarter.

		Jan		Feb		Mar	
	Start	**Mid**	**End**	**Mid**	**End**	**Mid**	**End**
	%	%	%	%	%	%	%
Call Money (Market)	0.48	0.48	0.48	0.48	0.48	0.48	0.48
1 Month (Market)	0.51	0.51	0.51	0.51	0.51	0.51	0.51
3 Month (Market)	0.59	0.59	0.59	0.59	0.59	0.59	0.59

Longer Term Borrowing Rates

		Jan		Feb		Mar	
	Start	**Mid**	**End**	**Mid**	**End**	**Mid**	**End**
	%	%	%	%	%	%	%
1 Year (Market)	1.07	1.03	1.00	1.00	1.00	1.02	1.01
10 Year (PWLB)	2.78	2.57	2.47	2.35	2.29	2.45	2.34
25 Year (PWLB)	3.45	3.31	3.18	3.14	3.16	3.15	3.11

3.13 Market rates are based on LIBOR rates published at the middle and end of each month. PWLB rates are for new loans based on principal repayable at maturity.

Borrowing and Investments

Turnover During the Period

	No of deals	Turnover £m
Short Term Borrowing	-	-
Short Term Investments	10	82

Position at Month End

	Jan £m	Feb £m	Mar £m
Total Borrowing	163	153	153
Total Investments	(178)	(168)	(158)
Call Account Balance	(16)	(10)	(9)

Investment Benchmarking

Benchmark	Benchmark Return %	Performance Jan - Mar %	Investment Interest Earned £000
7 day	0.36	0.49	19
1 month	0.38	0.00	-
3 month	0.46	0.77	29
6 month	0.62	0.74	91
12 month	0.89	0.77	195
Total			**333**

3.14 This shows the Council has over achieved the benchmark for most maturities for the last quarter. Due to the Council's strict treasury management guidelines only Counterparties with a very high credit score can be used for 12 months investments. For this reason returns are not as high as the benchmark return.

Budget Monitoring

	Net Interest at 31st March 2016				
	Budget Year to Date £000	**Actual Year to Date £000**	**Variance (o/spend) £000**		**Actual inc M Gateway £000**
Investment	(388)	(719)	331		(1,490)
Borrowing	1,526	1,507	19		5,877
Total	**1,138**	**788**	**350**		**4,387**

3.15 As the borrowing and investments in relation to the Mersey Gateway scheme are to be capitalised they will have no effect on the revenue budget and have therefore been excluded from the budget monitoring figures above.

New Long Term Borrowing

3.16 No new loans have been taken in this quarter.

Policy Guidelines

3.17 The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 04 March 2015. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.18 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in in line with Sector's credit rating methodology.

Treasury Management Indicators

3.19 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 1.

Debt Rescheduling

3.20 No debt rescheduling was undertaken during the quarter.

4.0 POLICY IMPLICATIONS

4.1 None.

5.0 FINANCIAL IMPLICATIONS

5.1 The financial implications are as set out in the report.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

7.0 RISK ANALYSIS

7.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Authority operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

9.1 There are no background papers under the meaning of the Act.

Appendix 1

Treasury and Prudential Indicators – 2015/16 - Quarter 4

	2014/15	2015/16	
Prudential Indicators	**Full Year Actual £000**	**Original Estimate £000**	**Quarter 4 Actual £000**
Capital Expenditure	32,157	40,202	29,488
Net Financing Need for the Year *(Borrowing Requirement)*	3,787	23,404	6,741
Increase / (Decrease) in CFR *(Capital Financing Requirement)*	853	20,208	4,000
Ratio of Financing Costs to Net Revenue Stream *(Proportion of cost of borrowing to Council's net revenue)*	2.9%	3.4%	2.9%
Incremental Impact on band D Council Tax (£) *(net cost of borrowing compared to tax base)*	8.19	17.21	2.07
External Debt	183,000	153,000	153,000
Operational Boundary *(Limit of which external debit is not epected to exceed)*	252,600	255,313	255,313
Authorised Limit *(Limit beyound which external debit is prohibited)*	270,000	270,000	270,000

Upper Limit for Interest Rate Exposure	**Exposure Limit %**	**2014/15 Actual %**	**2015/16 Actual %**
Fixed Rate	100	100	91
Variable Rate	30	-	9

Maturity Structure of Fixed Rate Borrowing	**Exposure Limit %**	**2014/15 Actual %**	**2015/16 Actual %**
Under 12 months	40	16	7
12 months to 24 months	40	5	7
24 months to 5 years	40	5	0
5 years to 10 years	40	0	0
10 years and above	100	73	86

Maximum Principal invested > 365 days	Investment Limit £000	2014/15 Actual £000	2015/16 Actual £000
Principal Sums Invested over 365 days	30,000	10,000	10,000