REPORT TO:	Executive Board
DATE:	17 September 2015
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Resources
TITLE:	Treasury Management 2015/16 Quarter 1: April- June
WARDS:	All Wards

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to update the Board about 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

3.1 Supporting information has been provided by Capita Asset Services, the Council's treasury management advisors

During the quarter ended 30 June 2015:

- The economic recovery slowed;
- Survey measures pointed to renewed vigour in the quarter;
- Wage growth picked up as the labour market tightens;
- Deflation lasted only one month, but the outlook remains subdued;
- The general election confirmed that the fiscal squeeze will re-intensify next year;
- A Monetary Policy Committee (MPC) split vote on an interest rise drew nearer, but a rate increase this year remains unlikely;
- The possibility of a Greek exit from the Eurozone became closer.

After strong UK GDP growth in 2013 at an annual rate of 2.7% and 3.0% in 2014, January to March of 2015 was disappointing at only 0.4%, though subsequent data indicates that this could well be revised up further down the line and also indicates a return to stronger growth in quarter 2. In its May quarterly Inflation Report, the Bank of England reduced its GDP forecast for 2015 from 2.9% to 2.5% and from 2.9% to 2.7% in 2016, while increasing its forecast for 2017 from 2.4% to 2.7%.

Uncertainty around the likely result of the UK general election in May has obviously now evaporated although this has been replaced by some uncertainty around the potential impact on the UK economy of the EU referendum promised by, or in, 2017. In addition, the firm commitment of the Government to eliminate the deficit within the term of this Parliament will have an impact on GDP growth rates. However, the MPC is fully alert to this and will take that into account, and also the potential spill over effects from the Greek crisis, in making its decisions on the timing of raising the bank rate.

As for the American economy, confidence has improved markedly in this quarter due to a return to strong economic GDP growth after a disappointing start to the year (a contraction of 0.2%), after achieving 2.4% growth in 2014.

In the Eurozone, the European Central Bank provided a €1.1trillion programme of quantitative easing to buy up high credit quality government and other debt of selected Eurozone countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth, though it remains to be seen whether this will have an enduring effect as strong as the recovery in the US and UK.

3.2 Interest Rate Forecast

The following forecast has been provided by Capita Asset Services:

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%
5yr PWLB rate	2.20%	2.30%	2.50%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	2.80%	3.00%	3.10%	3.20%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%
25yr PWLB rate	3.40%	3.60%	3.80%	3.90%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%	4.70%
50yr PWLB rate	3.40%	3.60%	3.80%	3.90%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%	4.70%

3.3 Short Term Borrowing Rates

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

		Apr		May		Jun	
	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	0.50	0.51	0.51	0.51	0.51	0.51
3 Month (Market)	0.57	0.57	0.57	0.57	0.57	0.57	0.58

3.4 Longer Term Borrowing Rates

		Apr		May		Jun	
	Start	**Mid**	**End**	**Mid**	**End**	**Mid**	**End**
	%	%	%	%	%	%	%
1 Year (Market)	0.97	0.97	0.99	1.00	1.00	1.00	1.04
10 Year (PWLB)	2.53	2.47	2.74	2.90	2.75	2.91	2.97
25 Year (PWLB)	3.15	3.10	3.34	3.45	3.33	3.49	3.53

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.

3.5 Borrowing/Investments

Turnover during period

	No of deals	Turnover £m
Short Term Borrowing	-	-
Short Term Investments	11	83

Position at Month End

	Apr £m	May £m	Jun £m
Total Borrowing	183	183	183
Total Investments	188	188	193
Call Account Balance	31	28	32

Investment Benchmarking

Benchmark	Benchmark Return %	Performance %	Investment Interest Earned £000
7 day	0.36	0.49	59
1 month	0.38	0.00	-
3 month	0.44	0.50	19
6 month	0.58	0.66	82
12 month	0.87	0.77	250
Total			**410**

This shows that the Council has over achieved the benchmark for most maturities. 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 the returns are not as high as the benchmark return shown. The above figures reflect investment income over the last three months.

Budget Monitoring

	Net Interest at 30th June 2015				
	Budget Year to Date £000	Actual Year to Date £000	Variance (o/spend) £000		Actual inc M Gateway £000
Investment	(97)	(215)	118		(410)
Borrowing	382	402	(21)		1,491
Total	**285**	**187**	**98**		**1,081**

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.

3.6 New Long Term Borrowing

No new loans have been taken in this quarter.

3.7 Policy Guidelines

The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 4th March 2015. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

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.

3.8 Treasury Management Indicators

The Council has a duty 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 approved by Council in March 2015.

Progress against the indicators has been reviewed at the end of quarter 1 as presented in Appendix 1, which confirms that treasury management activities are in line with the indicators.

4.0 DEBT RESCHEDULING

4.1 No debt rescheduling was undertaken during the quarter.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

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

6.0 RISK ANALYSIS

6.1 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

7.0 EQUALITY AND DIVERSITY ISSUES

7.1 There are no issues under this heading.

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

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

Appendix 1

Treasury and Prudential Indicators – 2015/16 - Quarter 1

	2014/15	2015/16	
Prudential Indicators	**Full Year Actual £000**	**Original Estimate £000**	**Quarter 1 Estimate £000**
Capital Expenditure	32,157	40,202	61,543
Net Financing Need for the Year *(Borrowing Requirement)*	3,787	23,404	30,518
Increase / (Decrease) in CFR *(Capital Financing Requirement)*	853	20,208	27,693
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	2.15
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 Estimate %**
Fixed Rate	100	100	100
Variable Rate	30	-	-

Maturity Structure of Fixed Rate Borrowing	**Exposure Limit %**	**2014/15 Actual %**	**2015/16 Estimate %**
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	87

Maximum Principal invested > 365 days	Investment Limit £000	2014/15 Actual £000	2015/16 Estimate £000
Principal Sums Invested over 365 days	30,000	10,000	0