REPORT TO:	Executive Board
DATE:	2 July 2015
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Resources
TITLE:	Treasury Management 2014/15 Quarter Ending 31st March 2015
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

1) the report be noted; and

2) information included be taken into account when approving Treasury Management Strategies in future years.

3.0 SUPPORTING INFORMATION

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

3.2 During the quarter ended 31st March:

3.2.1 The economic recovery maintained a decent pace

3.2.2 Households began to spend the proceeds of their windfall from lower energy prices

3.2.3 The labour market tightened further, but wage growth only picked up slowly

3.2.4 CPI inflation fell all the way to zero in March, with negative inflation imminent

3.2.5 The chances of a first increase in Bank Rate this year diminished

3.2.6 The Budget confirmed that the fiscal squeeze is set to re-intensify next year

3.2.7 The European Central Bank (ECB) finally launched its own programme of quantitative easing.

3.3 After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then growth in 2014 of 0.6% in Q1, 0.8% Q2, 0.6% Q3 and 0.6% Q4 (annual rate for 2014 of 2.8% - the strongest rate since 2006), there are good grounds for optimism that the growth rate will increase further during 2015 as the positive effects from the fall in the price of oil feeds through to consumers and other parts of the economy. In its February quarterly Inflation Report, the Bank of England maintained its GDP forecast for 2015 at 2.9%, but revised up its forecasts for 2016 and 2017 to 2.9% and 2.7% respectively, from 2.6% in both years. The main source of upward revisions came from higher consumption growth, which is now expected to accelerate to 3.75% in 2015 due primarily to a 3.5% rise in real post-tax household income growth. Income growth is also supported by solid employment growth and a pick-up in average weekly pay growth of 3.5% in 2014 and 4.0% in 2016 and 2017. Unit labour cost growth is consequently forecast to be 2.0% in 2015 and 2.75% in 2016 which then pushes up the inflation forecast slightly in two years' time to 1.96%, while in three years' time it is forecast at 2.15%.

3.4 The American economy is well on track to making a full recovery from the financial crash. GDP quarterly growth rates (annualised) for Q2, Q3 and Q4 of 4.6%, 5.0% and 2.2%, (2.4% for 2014 as a whole), hold great promise for strong growth going forward and for further falls in unemployment. It is therefore confidently predicted that the Federal Open Market Committee will start on the first increase in the Fed funds rate during 2015 and is likely to be ahead of the UK in being the first major western country to raise rates.

3.5 As for the Eurozone, on 21 January 2015 the ECB fired its big bazooka 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 is currently intended to run initially to September 2016. However, it remains to be seen whether this will have a significant enough effect in terms of boosting growth and employment, though the fall in the price of oil will provide additional support.

3.6 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%

3.7 Short Term Borrowing Rates

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

		Jan		Feb		Mar	
	Start	Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
Call Money (Market)	0.47	0.47	0.47	0.48	0.48	0.48	0.48
1 Month (Market)	0.51	0.50	0.50	0.50	0.51	0.51	0.50
3 Month (Market)	0.56	0.56	0.56	0.56	0.56	0.56	0.57

3.8 Longer Term Borrowing Rates

		Jan		Feb		Mar	
	Start	Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
1 Year (Market)	0.98	0.96	0.96	0.96	0.98	0.98	0.97
10 Year (PWLB)	2.67	2.42	2.27	2.58	2.66	2.61	2.49
25 Year (PWLB)	3.33	3.05	2.90	3.22	3.28	3.30	3.12

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.

3.9 Borrowing/Investments

Turnover during period

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

Position during period

	Jan £m	Feb £m	Mar £m
Total Borrowing	183	183	183
Total Investments	183	188	188
Call Account Balance	22	19	22

Investment Benchmarking

Benchmark	Benchmark Return %	Performance %	Investment Interest Earned £000
7 day	0.36	0.44	22
1 month	0.38	0.42	2
3 month	0.44	0.49	24
6 month	0.56	0.62	84
12 month	0.84	0.78	193
Total			**325**

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 only.

3.10 Budget Monitoring

	Net Interest at 31st March 2015				
	Budget Year to Date £000	**Actual Year to Date £000**	**Variance (o/spend) £000**		**Actual inc M Gateway £000**
Investment	(400)	(597)	197		(1,030)
Borrowing	1,808	1,617	191		3,030
Total	**1,408**	**1,020**	**388**		**2,000**

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.

The above figures exclude interest costs relating to lease arrangements and The Grange School PFI scheme.

3.11 New Long Term Borrowing

No new loans have been taken in this quarter.

3.12 Policy Guidelines

The Treasury Management Strategy Statement (TMSS) for 2014/15, which includes the Annual Investment Strategy, was approved by the Council on 5th March 2014 with an updated Annual Investment Strategy being approved by the Council on 16th July 2014. 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 investments short term with a maximum duration of 12 months in accordance with Sector's credit rating methodology.

To enable the Council to take advantage of low interest rates given by the PWLB, a special council meeting was held on 15th September 2014 to increase the Operational Boundary and Authorised Limit for 2014/15. This enabled the Council to borrow the funds for its contribution towards the Mersey Gateway project.

3.13 Treasury Management Indicators

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 are included in the approved Treasury Management Strategy Statement.

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.