REPORT TO:	Executive Board
DATE:	19 November 2015
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Resources
TITLE:	Treasury Management Quarter 2 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 30 September 2015;

- The economic recovery lost some pace;
- Household spending growth moderated slightly, despite strong consumer confidence;
- Wage growth picked up further in response to labour market tightening;
- CPI inflation hovered around 0% and was poised to turn negative;
- The prospect of a 2015 rate increase became extremely unlikely;

3.3 UK Gross Domestic Product (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 is likely to be a leading rate in the G7 again, possibly being equal to that of the United States. However, quarter 1 of 2015 was weak at +0.4% (+2.9% year on year) although there was an improvement in quarter 2 to +0.7% (+2.4% year on year). Growth is expected to weaken marginally to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget.

3.4 However, the Purchasing Manager's Index, (PMI), forecasts an even lower growth rate of around +0.3%, in quarter 4, which would be the lowest growth rate since the end of 2012.

3.5 Despite this the Bank of England August Inflation Report included a forecast for growth to remain around 2.4%–2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation, at the same time that CPI inflation has fallen to, or near to, zero. Since August worldwide economic statistics have been distinctly weak, so it would not be a surprise if the next Inflation Report in November were to cut those forecasts.

3.6 The August 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 re-join the world oil market after the impending 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.

3.7 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 central banks of both the US and the UK to raise rates as soon as had previously been expected, especially given the recent 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 in 2015 so far.

3.8 The American economy made a strong comeback after a weak first quarter's growth at +0.6%, to grow by 3.9% in quarter 2 of 2015. While there had been confident expectations during the Summer that the Federal Reserve could start increasing rates in September or if not by the end of 2015, the recent news regarding 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 their decision not to raise rates.

3.9 The non-farm payrolls figures issued in October were disappointingly weak and confirmed concerns that US growth is likely to weaken. There are increasing concerns, both in the US and UK, that the growth rates currently being achieved are only being achieved with monetary policy being highly aggressive with central rates at near zero and huge quantative easing in place.

3.10 In the Eurozone, the European Central Bank (ECB) implemented a €1.1 trillion programme of quantitative easing (QE) from March 2015 which is intended to run initially until 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. However, the recent downbeat Chinese and Japanese growth news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the Eurozone and getting inflation up from the current level of around zero to its target of 2%.

Interest Rate Forecast

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Short Term Borrowing Rates

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

		Jul		Aug		Sep	
	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)	0.58	0.58	0.58	0.59	0.59	0.59	0.58

Longer Term Borrowing Rates

		Jul		Aug		Sep	
	Start	Mid	End	Mid	End	Mid	End
	%	%	%	%	%	%	%
1 Year (Market)	1.04	1.07	1.08	1.06	1.05	1.06	1.04
10 Year (PWLB)	2.98	3.11	2.91	2.80	2.77	2.69	2.64
25 Year (PWLB)	3.54	3.64	3.43	3.33	3.35	3.33	3.31

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	85

Position at Month End

	Jul £m	Aug £m	Sep £m
Total Borrowing	183	183	173
Total Investments	198	198	188
Call Account Balance	27	26	21

Investment Benchmarking

Benchmark	Benchmark Return %	Performance %	Investment Interest Earned £000
7 day	0.36	0.47	31
1 month	0.38	0.41	3
3 month	0.46	0.90	5
6 month	0.62	0.68	103
12 month	0.93	0.78	253
Total			**395**

3.14 This shows 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 returns are not as high as the benchmark return.

Budget Monitoring

	Net Interest at 30th September 2015				
	Budget Year to Date £000	**Actual Year to Date £000**	**Variance (o/spend) £000**		**Actual inc M Gateway £000**
Investment	(194)	(384)	190		(778)
Borrowing	763	805	(42)		2,996
Total	**569**	**421**	**148**		**2,218**

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 2

	2014/15	2015/16	
Prudential Indicators	**Full Year Actual £000**	**Original Estimate £000**	**Quarter 2 Estimate £000**
Capital Expenditure	32,157	40,202	51,257
Net Financing Need for the Year *(Borrowing Requirement)*	3,787	23,404	20,547
Increase / (Decrease) in CFR *(Capital Financing Requirement)*	853	20,208	17,722
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 Estimate %**
Fixed Rate	100	100	95
Variable Rate	30	-	5

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