Subject:	**TREASURY MANAGEMENT QUARTER ONE REPORT**
Meeting and Date:	**Governance – 25 September 2014**
Report of:	**Mike Davis, Director of Finance, Housing & Community**
Portfolio Holder:	**Councillor Mike Connolly – Portfolio Holder for Corporate Resources and Performance**
Decision Type:	**Non-Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the quarter ended 30 June 2014 (Q1) and an update of activity to date.
Recommendation:	That the report is received

1. Summary

As at 30 June 2014, the Council's in-house investments (approximately £6m or 32% of total investments) and investments with the investment managers, Investec (approximately £12.9m or 68% of total investments) outperformed their benchmark[1]. The total interest received for the quarter was £74k, which means that income for the period was £32k approx. better than budget.

The Council has remained within its Treasury Management and Prudential Code guidelines during the period.

2. Introduction and Background

CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009: it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

In order to comply with the CIPFA code referred to above, but minimise the resource requirements in producing this report, a brief summary is provided below, and Appendix 1 contains a full report from the Council's Treasury Management Advisers, Capita.

Council adopted the 2014/15 Treasury Management Strategy on 5 March 2014 as part of the 2014/15 Budget and Medium Term Financial Plan.

3. Annual investment strategy

The investment portfolio as at the end of June is attached at Appendix 2. Since the end of the quarter, the Investec deposits with various banks have all matured (exceeding £10m) which have mostly been reinvested with the same institutions for periods of three or six months, although Toronto Dominion Bank and Standard

[1] The "benchmark" is the interest rate against which performance is assessed. DDC use the London Inter-Bank Bid Rate or LIBID, as its benchmark.

Chartered Bank have also been used. An in-house deposit with Lloyds also matured (£2m) and has been reinvested with Lloyds for 6 months. A further £3m has been invested with the Nationwide for 6 months.

A further update is attached at Appendix 4, which includes the changes above. There is an increase in cashflow funds from 30 June 2014 (£20.7m – see Appendix 2) to 31^{th} August 2014 (£21.2m – see Appendix 4).

The investment manager, Investec, has returned lower rates than those achieved through in-house investments. Investec have continued to be used as they are able to offer a wider spread of our counter party risks and use of additional financial instruments (e.g. gilts). A review will be undertaken to assess whether to keep the same level of investments with Investec, transfer additional investments back in-house, or investigate alternative options.

4. Economic background

The report attached contains information up to the end of June 2014; since then we have received the following update from Capita (please note that their reference to Q2 is based on *calendar* years):

UK GDP

UK GDP kept up its strong growth over the second quarter with the fastest annual pace in over 6 years, expanding by 3.2% compared with last year. This mainly seems to be due to the strong performance of the dominant services sector which in June alone expanded by 0.3% from May and 3.6% compared with June last year, the fastest annual growth rate since 2008. Household spending has also had an impact, as rapid job growth and falling prices continues to fuel a recovery in consumer spending. The manufacturing PMI rose to 57.2 in July, although the Bank of England had expected a decrease in pace recovery.

In addition, the slowdown across the Eurozone this quarter is likely to put a drag on our economy in the very near future, as export-led growth becomes improbable for the UK, showing that the recovery is still struggling to rebalance towards exports. The timing of the first rate hike is still under speculation but growth, unemployment and inflation are all showing clear progress.

UK Retail Sales & Public Finances

Retail sales in the UK rose at the fastest pace for a quarter in ten years, even with disappointing figures in June, showing that the economy is still recovering at a swift rate. Consumers continue to be the driving force behind the economic recovery despite wage growth being weak and a recent surge in inflation. Retail sales grew just 0.1% in June from May, most likely down to a fall in clothing sales as a result of the delayed sales.

Public finances showed a bigger than expected deficit in June, further contributing to a weak start for the 2014/15 tax year. The Government have also failed to reduce public borrowing for this quarter showing a deficit of £11.368bn, excluding financial sector interventions, well above the forecasted amount of £10.65bn. This will leave Chancellor George Osborne with the hard task of trying to fulfil his fiscal targets before next year's general election.

UK Labour data/MPC minutes

In June, unemployment fell to the lowest level since 2008 at 6.4% from 6.5% a month earlier, another sign that the economy is recovering and interest rates could rise in the near future. This change in the labour market, some believe, could fuel a long-awaited recovery in the productivity of British workers and help ease inflation risks. However, wage growth continuing to lag inflation is becoming an on-going concern for the British government, suggesting that this indicator could be crucial in determining when rates will rise.

The MPC minutes revealed that the Bank of England would continue to set interest rates at their record low level of 0.5% and the program of asset purchases at £375bn as was expected. There were expressions of concern on raising the interest rate too soon and derailing the on-going recovery especially when wage growth is still struggling. The inflation outlook has improved and unemployment has fallen suggesting that the economy is potentially reaching a state that calls for a tightening in monetary policy.

UK CPI

Inflation in May fell to the lowest rate since 2009, at 1.5% and a number of factors such as weak wage growth and sterling appreciation could cause inflation to fall to as low as 1% later this year. June's inflation data rose by more than anticipated at the fastest rate since January to 1.9%, from 1.5% in May, close to the Government's 2% target. The increase largely came from footwear and clothing prices which, unusually, did not fall during the month of June when summer sales often begin. Yet, with no increase in wages, the inflation level isn't likely to spark a rate hike before early 2015.

5. **Interest Rates**

Following the release of the latest Bank of England inflation report (July) Capita has updated its interest rate forecast and now expects the base rate to increase in the first quarter of 2015 rather than the fourth quarter of 2015, which is different to the table in Appendix 1 which is stated based on the previous inflation report.

6. **New Borrowing**

The Council's borrowing portfolio is attached at Appendix 3. No new borrowing was undertaken during the quarter.

7. **Debt Rescheduling**

At this time it is not of benefit to the Council to consider rescheduling of its long-term debt, as advised by Capita.

8. **Compliance with Treasury and Prudential Limits**

The Council has operated within the treasury limits and Prudential Indicators and in compliance with the Council's Treasury Management Practices.

Appendices

Appendix 1 – Capita treasury management report for quarter four

Appendix 2 – Investment portfolio as at 30 June 2014

Appendix 3 – Borrowing portfolio as at 30 June 2014

Appendix 4 – Investment portfolio as at 31 August 2014 (Investec) and 31 August 2014 (In-House)

Background Papers

Medium Term Financial Plan 2014/15 – 2016/17

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