Subject:	**TREASURY MANAGEMENT - QUARTER THREE REPORT**
Meeting and Date:	**Governance – 26 March 2015**
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 31 December 2015 (Q3) and an update of activity to date.
Recommendation:	That the report is received

1. **Summary**

As at 31 December 2015, 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 £101k (£244k year to date), which means that income for the year is projected to be £62k approx. better than the £264k 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 December is attached at Appendix 2. Since the end of the quarter, the £2m Lloyds in-house deposit has matured and been

[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.

rolled-over for one year. Similarly the in-house deposit of £3m cashflow money with the Nationwide Building Society has been rolled-over for a further six months.

A further update to the end of January (for Investec) and end of February (for in-house) is attached at Appendix 4. The Investec certificates of deposit maturing since 31January have been reinvested as follows: Standard Chartered £2.4m maturing 13 February reinvested with Bank of Nova Scotia at 0.5%; Nationwide £1.2m maturing 25 February reinvested with Credit Suisse at 0.5%; Svenska Handelsbanken £2.4m rolled-over at 0.5%. All roll-overs and reinvestments are for three month periods.

There is an ongoing increase in cashflow funds from £23.7m at 30 September 2014 to £26.9m at 31 December 2014 (see Appendix 2), and rising to £28.4m at 31 January 2015 (see Appendix 4). This increase reflects the inflow of Council Tax receipts, generally paid over 10 months from April to January, with much lower receipts in February and March, while preceptors on the Collection Fund are paid their shares of Council Tax income evenly over the year. This will reduce surplus cash by the end of March. Similarly, the six-monthly repayment of the PWLB loan and interest that will be made in March (£2.35m) will further reduce cashflow funds.

The investment manager, Investec, has returned higher rates than those achieved through in-house investments due to an improved performance of the Gilts. 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 has been undertaken to assess whether to keep the same level of investments with Investec, transfer additional investments back in-house, or investigate alternative options. It has been decided to continue to use Investec to ensure diversity within the investment portfolio.

4. Economic background

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

Introduction

February started on a positive note with oil prices rebounding by 15% after plummeting since June 2014. Greece continues to dominate headlines, after submitting economic plans for scrutiny by Euro Area creditors. Subsequently, they were granted a four month extension of their €240bn bailout, with a reform plan that backed down on some key measures and promised that spending to alleviate social distress would not derail its budget. The February Inflation Report forecast that inflation could potentially turn negative in the UK, meanwhile all members of the MPC voted to maintain Bank Rate at 0.5%.

PMI

UK Manufacturing PMI demonstrated activity expanded from December’s figure of 52.7 to 53.0 in January, an improvement driven by domestic demand as opposed to exports. The survey showed expansion was predominantly driven by consistent growth and price cuts due to reduced energy costs. The Services PMI grew to 57.2 in January, up from December’s 17 month low reading of 55.8. These were positive developments for the UK, allaying some fears of a slowdown. Meanwhile, the construction survey for January depicted an unexpectedly positive turnaround, rising from 57.6 to 59.1.

Inflation

The release of the February Bank of England (BoE) Quarterly Inflation Report presented an unforeseen theme. BoE governor Mark Carney projected a fall in inflation is likely, and could possibly sink into negative territory in the coming months. The Report also cited diminishing import prices, driven by a stronger Sterling, as contributing to falling inflation. Overall, the Report was fairly relaxed regarding the prospect of deflation, suggesting if it did materialise, it would be short lived. Furthermore, it stated that the BoE would consider further Quantitative Easing or cutting Bank Rate below 0.5% if required, however it did marginally raise expectations for inflation in the long term. Alongside the inflation changes, the Report also included an upward revision to GDP forecasts, with this year unchanged at 2.9% but next year's forecast increased to 2.9% from 2.5%.

UK Inflation fell to its lowest level since 1989, with UK CPI down to 0.3% from 0.5% in January as a result of declining food and oil prices. Producer prices remained low in January with input prices falling from -11.6% to -14.3% and similarly, output prices falling to -1.8% from -1.1%, emphasising concerns expressed by the BoE that the UK consumer prices are heading for negative figures.

Retail Sales

In January monthly retail sales fell by 0.3%, but year on year data showed growth of 5.4%. This suggested that consumers will still bolster the recovery in 2015.

UK Public Finances

UK Public Finance figures demonstrated that British income tax jumped in January, producing a material monthly surplus of £8.8bn, up 35% in comparison to a year earlier. This boost in income tax receipts can be derived from the self-assessment tax returns helping to produce the biggest monthly surplus in seven years.

GDP

Growth in UK GDP in year on year terms was 2.7% for the fourth quarter, up from 2.6% seen in Q3. GDP quarter on quarter grew at 0.5% in Q4, down from 0.7% seen in Q3. Although this demonstrates a slight slowdown in expansion, the figures still indicate that the strong performance of the UK economy in 2014 is likely to continue into 2015.

Employment

Labour market data revealed the unemployment rate fell again, to 5.7%, in the three months to December, with the number of people in employment increasing by 103,000. Despite pay growth easing modestly it continued to outstrip consumer level inflation, with average weekly earnings (including bonuses) rising by 2.1% in the three months to December. However, there remains a much greater impact from falling inflation in easing the squeeze on households' budgets, as opposed to soaring wages.

US Data

US Unemployment data showed nonfarm payrolls increased by 257,000 in January, down from December's revised figure of 329,000, marking the 12th consecutive month where over 200,000 US Nonfarm jobs have been created. On the back of this, the unemployment rate increased marginally to 5.7% from 5.6%. Nonetheless, despite continued positive data for US nonfarm payrolls, the US Fed's Meeting minutes revealed a unanimous vote to hold off a hike in interest rate from 0-0.25%, citing weakening international growth.

Interest Rates

Capita has updated its interest rate forecast and now expects the base rate to increase in the fourth quarter of 2015 rather than the second quarter of 2015.

5. New Borrowing

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

6. 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.

7. 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 31 December 2014

Appendix 3 – Borrowing portfolio as at 31 December 2014

Appendix 4 – Investment portfolio as at 31 January 2015 (Investec) and 28 February 2015 (In-House)

Background Papers

Medium Term Financial Plan 2014/15 – 2016/17

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