Subject:	**TREASURY MANAGEMENT YEAR END REPORT**
Meeting and Date:	**Cabinet – 7th September 2015** **Governance – 22nd September 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 financial year ended 31 March 2015 (Q4) and an update of activity to date.
Recommendation:	That the report is received

1. Summary

There are three Treasury Management reports on the Cabinet agenda. The first (this report) covers the outturn for the year ending March 2015, and will be included in the Governance agenda.

The second report covers Treasury Management performance for the first quarter of 2016/16 and will also be included in the Governance agenda.

The third report proposes minor amendments to the Treasury Management Strategy in order to address the issues that have arisen following the withdrawal of Investec (the Council's fund managers) from the separately managed funds market.

As at 31 March 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 year was £276k, which means that income for the year was £12k 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

[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.

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 a brief summary is provided below and Appendix 1 contains a full report from the Council's Treasury Management Advisers, Capita.

Members are asked to note that in order to minimise the resource requirements in producing this report, Capita's report has been taken verbatim. Capita generally use a more journalistic style than is used by our officers, but in order to avoid changing the meaning or sense of Capita's work, this has not been edited out.

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 March is attached at Appendix 2. Since the end of the quarter, another £1 million has been invested with Nationwide for six months at a rate of 0.66% and £5 million has been invested with Close Brothers for 171 days at a rate of 0.70%.

Shortly after the year-end, Investec announced that they were withdrawing from the segregated fund market at the end of June 2015. We were aware that this would create challenges, including requiring the Council to bring the funds held with Investec back in-house. Please also refer to the Q1 TM Update 2015-16 for further information.

The Council's Gilt holding of £1.9 million has been transferred from Investec to Kings and Shaxson, and will be held until its maturity date of July 2018. The balance of the Investec fund was repaid in cash on the 30th June 2015, totalling £11 million approx. This is currently being held in the Council's NatWest SIBA account whilst the treasury management strategy is reviewed, updated and approved to deal with the higher level of in-house funds.

Cash flow funds decreased from £26.9m at 31 December 2014 to £24.6m at 31 March 2015 (see Appendix 2). This decrease reflects the reduced 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. Additionally, the six-monthly repayment of the PWLB loan and interest that was made in March (£2.35m) also impacted cash flow funds. However, the cash flow funds have risen since 31 March 2015 to £37.7m by 31 July 2015, which is largely due to the return of the funds previously held by Investec (see Appendix 4).

The investment manager, Investec, returned higher rates in 2014/15 than those achieved through in-house investments partly due to an improved performance of the Gilts.

4. **Economic background**

The report attached contains information up to the end of March 2015; since then we have received the following update from Capita (please note that their reference to quarters is based on *calendar* years):

Introduction

A mixture of events took place in July, both home and abroad. All eyes were on Greece at the start of the month who missed their first repayment at the end of June, but salvaged a deal in mid-July. George Osborne delivered his first budget of the new parliament with a range of policies, of which some were unanticipated. The rate of expansion in US Non-Farm payrolls eased, leading some market participants to suggest that this could delay Federal Reserve policy action.

George Osborne presented the first Tory Budget for nearly 20 years in the early stages of the month (July). Surprisingly, the policies outlined in the Budget ranged from both right and left leaning measures. Policies such as £12bn of welfare cuts and increasing taxes by more than £6bn were expected from a Chancellor who is free from the compromises of a coalition. However, minimum wage hikes to £7.20 next year reaching £9 in 2020 and crackdowns on £5bn of tax avoidance, including abolishing the right to claim permanent "non-dom" status, were less expected.

The Chancellor purported the deficit should fall 3.7% this year and expected to fall further in the coming years, eventually reaching a surplus in 2019/2020. On the other hand, new growth forecasts by the Office for Budget Responsibility (OBR) were revised down slightly to 2.4% from the 2.5% quoted in March. Finally, the Chancellor increased the tax-free personal allowance in income tax to £11,000 stating it would always rise with national minimum wage in future.

Inflation

CPI figures for June showed inflation fell back to 0%. The drop was brought about by a fall in energy, food, summer clothing and import prices. Further downward pressures on inflation may continue as Brent crude dropped further at the start of July and the UK may face another short period of deflation. Inflation has remained below its 2% target since the close of 2013, but has dropped sharply this year, exacerbated by the falling oil prices in the second half of 2014. However, Bank of England Governor Mark Carney expects price pressures to pick up as this year progresses, as 2014's energy price drops fall out of the calculations. He expects inflation may well return to its 2% target by early 2017.

The MPC kept Bank Rate at 0.5% as expected, with all members voting in favour of the status quo. Despite no inflation, the Bank of England Governor stated that the decision on policy rates will become more finely balanced around the turn of the year as the MPC has taken the view that the UK's low inflation is a temporary phenomenon. These more hawkish comments led to Sterling strengthening against both the dollar and the euro.

Europe

Greece missed its initial payment of €1.6bn to the IMF, which was expected but the expiry of its second bailout programme of €142bn, without a new programme being in place, was less so. Greece held a referendum on 5th July to determine whether the *public agreed with the creditors' demands which resulted in a resounding 'No', pushing the country closer to a 'Grexit'. This raised fears that Greece would default on its upcoming bond payment to the ECB. However, before this happened, a deal was finally reached on the outline terms of a new bailout of potentially €86bn from the troika of ECB, European Commissions and International Monetary Fund (IMF). Ahead of final agreements on the bailout, the European Financial Stability Mechanism provided a €7bn bridging loan to meet its short term debt obligations, namely to the IMF and ECB.*

UK Public Finances

The UK recorded its lowest deficit for quarter two in seven years, with borrowing falling from £10.2bn a year earlier to £9.4bn in June. Factors contributing to the fall were gains in income tax receipts and corporation tax, which reached their highest levels at £11.5bn and £1.7bn, respectively. Retail Sales took an unanticipated dip last month due to consumers purchasing fewer household goods. This resulted in the annual rate of spending growth hitting its lowest rate in more than two years. In addition, retail sales volume undershot all forecasts and dropped by 0.2% in June to show its lowest annual growth, of 4%, since September 2014.

Employment

UK unemployment increased for the first time in two years. The number of people in employment fell by 67,000 due to a decline in the amount of people in part-time work. This subsequently caused unemployment to rise to 5.6% in March to May, from 5.5% in the three months to April. On a more positive note, the ONS stated that total earnings, including bonuses displayed their strongest growth in more than five years. Continued improvement in this should help underpin UK growth in coming quarters.

US Data

A large number of Americans left the labour force, causing US job growth to slow in June. Non-farm payrolls increased by 223,000 in the previous month, but 432,000 people dropped out of the labour force. This caused the unemployment rate to fall by 0.2% to 5.3%, its lowest level since April 2008. However, wage growth stalled in the month. Continuing the mixed theme to the data, revisions to previous releases showed 60,000 fewer jobs were created than previously reported in April and May.

In spite of the mixed messages from the data, the Federal Reserve stated that the US economy and jobs market has continued to improve. This added to the possibility of a rate rise in September. Fed officials said the economy overcame a slowdown in the first quarter and this view was backed by the official data release. Even though there had been a decline in the energy sector, Q2 GDP picked up due to increased consumer spending offsetting soft business spending. This saw GDP grow by 2.3% (on an annualised basis) whilst revisions were made to GDP in Q1 from -0.2 to 0.6%.

Interest Rates

Capita has updated its interest rate forecast and now expects the base rate to increase in the second quarter of 2016 rather than the fourth 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.

8. **Corporate Implications**

Comment from the Section 151 Officer: Finance have no further comments to make. (DL)

Comment from the Senior Solicitor to the Council: The Solicitor to the Council has been consulted in the preparation of this report and has no further comments to make. (HR)

Comment from the Equalities Officer: This report does not specifically highlight any equalities implications however, in discharging their responsibilities members are required to comply with the public sector equality duty as set out in section 149 of the Equality Act 2010 http://www.legislation.gov.uk/ukpga/2010/15 (KM)

Appendices

Appendix 1 – Capita treasury management report for quarter four

Appendix 2 – Investment portfolio as at 31 March 2015

Appendix 3 – Borrowing portfolio as at 31 March 2015

Appendix 4 – Investment portfolio as at 31 July 2015

Background Papers

Medium Term Financial Plan 2014/15 – 2016/17

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