Committee and Date	Item
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TREASURY MANAGEMENT UPDATE – QUARTER 4 2013/14

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1. Summary

1.1. The report outlines the treasury management activities of the Council in the last quarter. It highlights the economic environment in which treasury management decisions have been made and the interest rate forecasts of the Council's Treasury Advisor, Capita Asset Services. It also updates Members on the internal treasury team's performance.

1.2. During the final quarter of 2013/14 the internal treasury team achieved a return of 0.59% on the Council's cash balances outperforming the benchmark by 0.30%. This amounts to additional income of £92,100 during the quarter which is included within the Council's projected outturn position in the monthly revenue monitor.

2. Recommendations

2.1. Members are asked to accept the position as set out in the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.2. There are no direct environmental, equalities or climate change consequences arising from this report.

3.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

4. Financial Implications

4.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.

4.2. The Quarter 4 performance is above benchmark and has delivered additional income of £92,100 which will be reflected in the Period 12 Revenue Monitor.

4.3. The Council currently has £109.7m held in investments as detailed in Appendix A and borrowing of £342.8m at fixed interest rates.

5. Background

5.1. The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks". The report informs Members of the treasury activities of the Council between 1 January 2014 and 31 March 2014.

6. Economic Background

6.1. After strong UK growth of 0.7%, 0.8% and 0.7% in the previous three quarters the UK economy looks likely to continue to grow into 2014 as forward looking indicators are very encouraging. This strong growth has resulted in unemployment falling much faster towards the threshold of 7% set by the Monetary Policy Committee (MPC) before it said it would consider any increases in Bank Rate. In the February 2014 Inflation report, the MPC therefore broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of indicators. Accordingly, markets are expecting a first increase towards the end of 2014 though recent comments from MPC Members have emphasised they would want to see strong growth well established, and an increase in real incomes, before they would consider raising Bank Rate.

6.2. It has also been encouraging that there has been a sharp fall in Inflationary pressures during the quarter. Consumer Price Inflation (CPI) fell to 1.7% in February and forward indications are that inflation will continue to be subdued.

6.3. The US Federal Reserve has continued with its monthly $10 billion reductions in asset purchases which commenced in December, asset purchases have now fallen from $85 billion to $55 billion and are expected to stop by the end of 2014, providing strong economic growth continues this year.

6.4. The latest housing market data will have done little to alleviate fears of a housing bubble. Prices rose at an annual rate of 10.2% and 9.2% in

February according to Halifax and Nationwide measures, respectively. The Chancellor refrained from bowing to pressure to take the heat out of the housing market by adding further support to the flagship Help to Buy Scheme by extending the first phase until 2020.

6.5. As for the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth and the need for overdue reforms of the economy. It is therefore possible over the next few years that levels of Government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This means that sovereign debt concerns have not disappeared but have only been postponed.

7. Economic Forecast

7.1. The Council receives its treasury advice from Capita Asset Services. Their latest interest rate forecasts to 31 March 2017 are shown below:

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%
5yr PWLB rate	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.70%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.50%
25yr PWLB rate	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.90%	5.00%	5.00%	5.10%	5.10%	5.10%
50yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%

7.2. Capita undertook a review of its interest rate forecasts in February, after the Bank of England's latest quarterly inflation report. The latest forecast now includes a first increase in Bank Rate in quarter 4 of 2015 (previously quarter 2 2016) and reflects greater caution as to the speed with which the MPC will start increasing Bank Rate than the current expectations of financial markets.

7.3. Long term PWLB rates are expected to rise to 4.50% in June 2014 before steadily increasing over time to reach 5.20% by 31 December 2016 due to the marked recovery in confidence in equity markets, anticipating stronger economic recovery in the US, supported by growth in the Far East.

7.4. Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds. The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last. The above estimates are conservative and also reflect a prolonged, but successful management of the Eurozone debt crisis.

8. Treasury Management Strategy

8.1. The Treasury Management Strategy (TMS) for 2013/14 was approved by Full Council on 28 February 2013. The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital.

8.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Capita's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations. This approach has been endorsed by our external advisors, Capita Asset Services.

8.3. In the final quarter of 2013/14 the internal treasury team outperformed its benchmark by 0.30%. The investment return was 0.59% compared to the benchmark of 0.29%. This amounts to additional income of £92,100 during the quarter which is included in the Council's projected outturn position in the monthly revenue monitor. The Internal Treasury team made loans totalling £45.3 million during the quarter and £69.1 million was repaid during the quarter.

8.4. A full list of investments held as at 31 March 2014, compared to Capita's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in Appendix A. None of the approved limits within the Annual Investment Strategy were breached during the final quarter of 2013/14. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

8.5. As illustrated in the economic background section above, investment rates available in the market are at an historical low point. The average level of funds available for investment purposes in the final quarter of 2013/14 was £122.8 million.

8.6. The Council's interest receivable/payable budgets are currently projecting a surplus of £1.32m due to no General Fund borrowing being undertaken during the year and the average investment balances and average interest rates earned being higher than estimated. The final outturn position will be reported in the Annual Treasury Report.

9. Borrowing

9.1. 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 (affordability limits) are included in the approved Treasury Management Strategy. A list of the approved limits is shown in Appendix B. The Prudential Indicators were not breached during the final quarter of 2013/14 and have not been previously breached. The schedule at Appendix C details the Prudential Borrowing approved and utilised to date.

9.2. Capita's target rate for new long term borrowing (25 years) for the final quarter of 2013/14 remained at 4.40%. As outlined below, borrowing rates fell during the quarter. The low points and high points during the quarter can be seen in the table below. No new external borrowing was required in 2013/14 due to a review of the Capital Programme.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.13%	2.48%	3.52%	4.21%	4.18%
Date	07/01/2014	05/02/2014	27/02/2014	17/03/2014	17/03/2014
High	1.26%	2.80%	3.90%	4.45%	4.40%
Date	31/03/2014	02/01/2014	02/01/2014	02/01/2014	02/01/2014
Average	1.18%	2.60%	3.64%	4.31%	4.27%

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Council, 28 February 2013, Treasury Strategy 2013/14.
Cabinet, 24 July 2013, Treasury Management Update Quarter 1 2013/14
Cabinet, 13 November 2013, Treasury Management Update Quarter 2 2013/14
Cabinet, 12 February 2014, Treasury Management Update Quarter 3 2013/14

Cabinet Member:
Keith Barrow, Leader of the Council

Local Member
N/A

Appendices
A. Investment Report as at 31 March 2014
B. Prudential Limits
C. Prudential Borrowing Schedule