Appendix A

TREASURY MANAGEMENT INTERIM REPORT 2014/15

INTRODUCTION

1. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority. The Code requires that Treasury Management activities are subject to reports to Members. This report represents the interim report for 2014/15.

2. The strategy for the year was identified in the Treasury Management Strategy Statement 2014/15 as part of the Budget Proposals 2014/15 submitted to Members in February 2014. The strategy covered the following areas:
   - (a) prospects for interest rates;
   - (b) capital borrowing and debt rescheduling;
   - (c) annual investment strategy;
   - (d) external debt prudential indicators;
   - (e) treasury management prudential indicators.
   - (f) performance indicators;
   - (g) treasury management advisers

PROSPECTS FOR INTEREST RATES

3. Growth rebounded during 2013 and the first quarter of 2014 to surpass expectations, propelled by recovery in consumer spending and the housing market. Growth prospects remain strong for the rest of 2014 and unemployment is expected to fall. The Monetary Policy Committee (MPC) was forecast to hold bank rate at 0.5% throughout 2014 but with the possibility of an increase in early 2015 should the recovery prove stronger than expected. However, the sharp fall in UK inflation and further weakening in the Euro zone indicates that any move will be delayed until later in 2015. Base rate is expected to remain at 0.5% for the rest of the financial year 2014/15.

4. It was expected that there would be upward pressure on longer term rates due to a high volume of debt issuance and improved prospects of a return to economic growth. However, this has been offset by a continued demand for safe haven instruments whilst there is political unrest in various places around the world. Long term PWLB rates have fallen by 0.4% during the first half of the year but are expected to recover slightly later in the year.

5. The strategy indicated that the overall structure of interest rates, whereby short term rates are lower than long term rates, was expected to remain the same throughout 2014/15. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

6. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority does not envisage that any new long term borrowing will be required in 2014/15.

7. Current PWLB lending terms have severely constrained the option to generate savings via debt rescheduling. A significant rise in long term interest rates is required before rescheduling of debt is viable. However, interest rate structures are continually monitored

for opportunities to generate savings from debt rescheduling. Any rescheduling that takes place will be reported to Members in monitoring reports.

ANNUAL INVESTMENT STRATEGY

8. The investment strategy for 2014/15 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with CLG Guidance and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.

9. The diversity of investments has been expanded by the use of deposits with the larger Building Societies. These deposits combined with investments with the "nationalised" banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. In the period 1st April to 30 September 2014 the average rate of return achieved on average principal available was 0.69%. This compares with an average seven day deposit (7 day libid) rate of 0.35%.

10. The credit ratings and individual limits for each institution within the categories of investments to be used by the Authority in 2014/15 are as follows:

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

11. The Authority had investments of £29.1m as at the 27 September 2014. Most of which is due to the carry forward of £18.7m of investments from 2013/14 and the receipt of £20.2m firefighter pension grant in July 2014. An analysis of the investments is outlined in the table below:

ANALYSIS OF INVESTMENTS END OF SEPTEMBER 2014

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society
		£	£	£
Deutsche/DGLS/State Street	AAA	1,100,000		
Ignis Liquidity Fund	AAA	3,000,000		
Goldman Sachs	AAA	3,000,000		
Morgan Stanley	AAA	3,000,000		
Prime Rate	AAA	3,000,000		
Natwest Instant Access	A		4,000,000	
Nationwide BS	A			2,000,000
Skipton Building Society	Unrated			1,000,000
Newcastle Building Society	Unrated			1,000,000
Nottingham Building Soc	Unrated			1,000,000
HBOS 12 Month FTD	A		4,000,000	
Close Brothers	A		2,000,000	
West Brom B Soc	Unrated			1,000,000
Totals		13,100,000	10,000,000	6,000,000
Total Current Investments				**29,100,000**

**MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.*

EXTERNAL DEBT PRUDENTIAL INDICATORS

12. The external debt indicators of prudence for 2014/15 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£80 million
Operational boundary for external debt:	£44million

Against these limits, the maximum amount of debt that was reached in the period April to September 2014 was £43.6 million.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

13. The treasury management indicators of prudence for 2014/15 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

Upper limit on fixed interest rate exposures:	100%
Upper limit on variable interest rate exposures:	50%

The maximum that was reached in the period April to September 2014 was as follows:

Upper limit on fixed interest rate exposures:	100%
Upper limit on variable interest rate exposures:	0%

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit in the period April to September 2014 was as follows: -

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	80%	0%	3%	2%
12 months and within 24 months	50%	0%	5%	2%
24 months and within 5 years	50%	0%	8%	6%
5 years and within 10 years	50%	0%	9%	8%
10 years and above	85%	0%	78%	77%

c)

Total principal sums invested for periods longer than 364 days

The limit for investments of longer than 364 days was set at £2 million for 2014/15. No such investments have been placed in 2014/15.

14. **PERFORMANCE INDICATORS**

The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.

15. The indicators for the treasury function are:

Borrowing – the indicator is the average rate of actual borrowing compared to the average available for the period of borrowing. However, there has been no borrowing in the period April to September 2014.

Investments – Internal returns compared to the 7 day LIBID rate. The return in the period April to September 2014 was 0.34% above the benchmark.

TREASURY MANAGEMENT ADVISORS

16. The treasury management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level Agreement. The Council employs treasury management advisors appointed under a competitive procurement exercise who provide a range of services which include: -

- Technical support on treasury matters, capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

17. Whilst Liverpool City Council and its advisors provide the treasury function, ultimate responsibility for any decision on treasury matters remains with the Authority.

CONCLUSION

18. Treasury Management activity in 2014/15 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.