

# REPORT FOR DECISION



**MEETING:** CABINET  
OVERVIEW & SCRUTINY COMMITTEE

**DATE:** 20 JULY 2016  
31 AUGUST 2016

**SUBJECT:** TREASURY MANAGEMENT ANNUAL REPORT  
2015/16

**REPORT FROM:** DEPUTY LEADER OF THE COUNCIL AND CABINET  
MEMBER FOR FINANCE AND HUMAN RESOURCES

**CONTACT OFFICER:** STEVE KENYON, INTERIM EXECUTIVE DIRECTOR  
OF RESOURCES & REGULATION

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**TYPE OF DECISION:** CABINET (KEY DECISION)

**FREEDOM OF INFORMATION/STATUS:** This paper is within the public domain

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**SUMMARY:**

**PURPOSE/SUMMARY:**

The Council undertakes Treasury Management Activities in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, which requires that the Council receives an annual strategy report by 31 March for the year ahead and an annual review report of the previous year by 30 September. This report is the review of Treasury Management activities during 2015/16.

**OPTIONS & RECOMMENDED OPTION**

It is recommended that, in accordance with CIPFA's Code of Practice on Treasury Management, the report be noted.

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**IMPLICATIONS:**

**Corporate Aims/Policy Framework:**

Do the proposals accord with the Policy Framework? Yes

**Financial Implications and Risk Considerations:**

As set out in the report and the comment of the Interim Executive Director of Resources and Regulation below.

**Statement by Interim Executive Director of Resources & Regulation:**

This report provides information on the Council's debt, borrowing, and investment activity for the financial year ending on 31<sup>st</sup> March 2016 in accordance with the CIPFA Code of Practice for Treasury Management. The successful management of the Council's borrowing and investments is central to the Council's financial strategy, both in the short term and in ensuring a balanced debt profile over the next 25 to 60 years.

The overall strategy for 2015/16 was to finance capital expenditure by running down cash/investment balances and using shorter term borrowing rather than more expensive long term loans. The report highlights that **borrowing was reduced by £5 million**, and the average borrowing rate fell slightly from 3.96% to 3.95%.

Cash investments at 31 March 2016 stood at £22,600 million, compared to £32,322 million the previous year, the decrease being due to the use of cash/investment balances to repay maturing debt, and a conscious shift of balances out of financial instruments into investment property to attract a higher yield.

The average rate of return on cash investments increased from 0.71% in 2015/16 compared to 0.62% in 2014/15.

**Equality/Diversity implications:**

No - (see paragraph 8.1, page 9)

**Considered by Monitoring Officer:**

Yes. The presentation of an annual report on Treasury Management by 30<sup>th</sup> September of the following financial year is a requirement of the Council's Financial Regulations 5.7, as part of the Council's Financial Procedure Rules and Budget and Policy framework, relating to Risk Management and Control of Resources: Treasury Management.

**Are there any legal implications?**

No

**Staffing/ICT/Property:**

There are no direct staffing, ICT or property implications arising from this report.

**Wards Affected:**

All

**Scrutiny Interest:**

Overview & Scrutiny Committee

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**TRACKING/PROCESS**

**INTERIM EXECUTIVE DIRECTOR: STEVE KENYON**

Chief Executive/ Strategic Leadership Team	Cabinet	Ward Members	Partners
	20/7/15		
Overview & Scrutiny Committee		Committee	Council
31/8/16			

## 1.0 INTRODUCTION

- 1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return. In 2015/16, the Council also invested in a number of properties to increase its overall investment yield.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

*"The management of the local 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."*

- 1.3 This report summarises the following:-
- Capital activity during the year;
  - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
  - The actual prudential and treasury indicators;
  - Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
  - Summary of interest rate movements in the year;
  - Detailed debt activity; and
  - Detailed investment activity.

## 2.0 THE COUNCIL'S OVERALL BORROWING NEED

- 2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2015/16 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 2.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLb] or the money markets), or utilising temporary cash resources within the Council.
- 2.3 The Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). The Council's MRP Policy was reviewed in December 2015, generating revenue savings of £1.8 million, and again approved as part of the Annual Treasury Management Strategy (February 2016).
- 2.4 The total CFR can also be reduced by:
- the application of additional capital financing resources (such as unapplied capital receipts); or
  - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
- 2.5 The Council's CFR for the year is shown below, and represents a key prudential indicator.

<b>Capital Financing Requirement</b>	<b>2014/15 Actual £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2015/16 Actual £'000</b>
<b>CFR – non HRA</b>	122,029	127,894	118,473
<b>CFR – HRA existing</b>	40,531	40,531	40,531
<b>Housing Reform Settlement</b>	78,253	78,253	78,253
<b>Total CFR</b>	<b>240,813</b>	<b>246,678</b>	<b>237,257</b>

- 2.6 Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2015/16) plus the estimates of any additional capital financing requirement for the current (2016/17) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2015/16. The table below highlights

the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	<b>2014/15 Actual £'000</b>	<b>2015/16 Estimate £'000</b>	<b>2015/16 Actual £'000</b>
<b>Gross borrowing position</b>	201,364	196,011	196,011
<b>CFR</b>	240,813	246,678	237,257

- 2.7 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2015/16 the Council has maintained gross borrowing within its authorised limit.
- 2.8 **The operational boundary** - the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.
- 2.9 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	<b>2015/16 £'000</b>
<b>Authorised limit</b>	<b>277,300</b>
<b>Operational boundary</b>	<b>242,300</b>
<b>CFR</b>	<b>237,257</b>
<b>Gross borrowing position</b>	<b>196,011</b>

### **3.0 TREASURY POSITION AS AT 31 March 2016**

- 3.1 The Council's debt and investment position is managed by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2015/16 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

	31st March 2015			31st March 2016		
	Principal		Avg.	Principal		Avg.
	£0	£0	Rate	£0	£0	Rate
<b>Fixed rate funding</b>						
PWLB Bury	140,553			131,453		
PWLB Airport	3,308			2,555		
Market Bury	57,500	201,361		62,000	196,008	
<b>Variable rate funding</b>						
PWLB Bury	0			0		
Market Bury	0	0		0	0	
<b>Temporary Loans / Bonds</b>	3	3		3	3	
<b>Total Debt</b>	<b>201,364</b>		<b>3.96%</b>	<b>196,011</b>		<b>3.95%</b>
<b>Total Investments</b>	<b>32,322</b>		<b>0.62%</b>	<b>22,600</b>		<b>0.71%</b>

3.2 The table below shows the maturity structure of the debt portfolio

	2014/15 Actual £'000	2015/16 Actual £'000
Under 12 months	11,853	17,329
12 months and within 24 months	16,806	3,166
24 months and within 5 years	11,698	15,510
5 years and within 10 years	4,000	3,000
10 years and within 15 years	550	550
15 years and over	156,456	156,453
<b>Total Debt</b>	<b>201,364</b>	<b>196,008</b>

3.3 All the cash investments held are for a period of less than one year, however the Council has a number of high yield longer term property investments.

## 4.0 OVERVIEW OF THE STRATEGY FOR 2015/16

4.1 The strategy for 2015/16 was to finance capital expenditure by running down cash/investment balances and use short term loans at lower rates of interest than more expensive long term loans. These loans would be postponed as long as it is prudent to do so. One PWLB loan of £9.1m and an Airport loan of £0.18m were repaid in the year. In line with the strategy, these loans repayments were financed by cash or investment balances rather than replacement loans.

4.2 As a result of 4.1 above, the Council was able to lower the average interest rate on debt from 3.96% to 3.95%. Despite poor investment returns, the average interest rate on investments increased to 0.71% in 2015/16 compared to an average rate of 0.62% for 2014/15.

## **5.0 ECONOMIC REVIEW FOR 2015/16**

- 5.1 Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.
- 5.2 The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.
- 5.3 The ECB had announced in January 2015 that it would undertake a full blown quantitative easing programme of purchases of Eurozone government and other bonds starting in March at €60bn per month. This put downward pressure on Eurozone bond yields. There was a further increase in this programme of QE in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands after causing major fears of a breakup of the Eurozone. Nevertheless, there are continuing concerns that a Greek exit has only been delayed.
- 5.4 In America, the economy has continued to grow on the back of consumer demand. The first increase in the central rate occurred in December 2015 however since then there has been a return to caution as to the speed of further increases due to concerns around the risks to world growth.
- 5.6 On the international scene, concerns have increased about the slowing of the Chinese economy and also its potential vulnerability to both the bursting of a property bubble and major exposure of its banking system to bad debts. The Japanese economy has also suffered disappointing growth in this financial year despite a huge programme of quantitative easing, while two of the major emerging market economies, Russia and Brazil, are in recession. The situations in Ukraine, and in the Middle East with ISIS, have also contributed to volatility.
- 5.7 The UK elected a majority Conservative Government in May 2015, introducing the prospect of a referendum on the UK remaining part of the EU. This has now taken place with the UK voting to leave the EU. The medium / long term economic impact of this decision is uncertain at this stage.
- 5.8 The government has maintained its tight fiscal policy stance but the more recent downturn in expectations for economic growth has made it more difficult to return the public sector net borrowing to a balanced annual position.

## **6.0 BORROWING OUTTURN FOR 2015/16**

- 6.1 The Council's ability to borrow is determined by the cumulative capital financing requirement (CFR). When the cumulative CFR is compared to outstanding debt

the difference is the amount of headroom still available to borrow. At the end of 2015/16 debt stood at £196,011m and the CFR at £237,257m. Therefore, in theory, borrowing of £41,246m could be taken to finance past and present capital expenditure.

- 6.2 An analysis of movements at nominal values on loans during the year is shown below:

	Balance at 31/03/15 £000's	Loans raised £000's	Loans repaid £000's	Balance at 31/03/16 £000's
PWLB	140,553	0	(9,100)	131,453
Market	57,500	6,500	(2,000)	62,000
Temporary Loans	0	0	0	0
Other loans	3	0	0	3
<b>Bury MBC Debt</b>	<b>198,056</b>	<b>6,500</b>	<b>(11,100)</b>	<b>193,456</b>
Airport PWLB Debt	3,308	0	(753)	2,555
<b>Total Debt</b>	<b>201,364</b>	<b>6,500</b>	<b>(11,853)</b>	<b>196,011</b>

- 6.3 A number of shorter term loans were raised during the year, to partly replace the loans maturing.

Lender	Rate	Amount £000's	Start Date	End Date
Hampshire County Council	1.50%	3,500	01/10/2015	13/11/2018
New Forest District Council	1.50%	1,000	01/10/2015	13/11/2018
Solihull MBC	0.95%	2,000	13/11/2015	15/05/2017
<b>Total</b>		<b>6,500</b>		

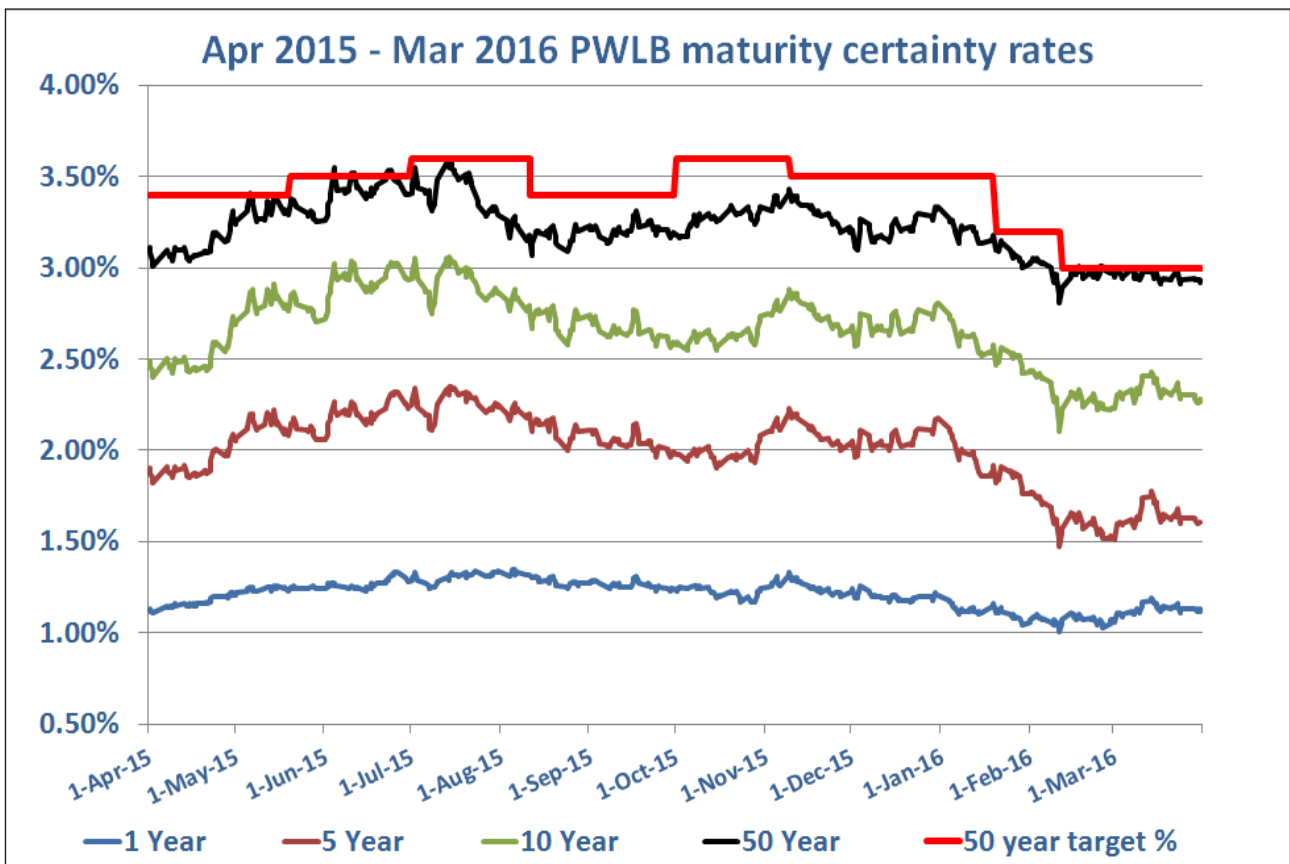
- 6.4 No debt rescheduling was undertaken during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
- 6.5 In line with the strategy, the Council reduced borrowing by running down short term investments and cash balances were used to finance new capital expenditure. Therefore counterparty risk incurred on investments was minimised. This also maximised treasury management budget savings as investment rates were much lower than most new borrowing rates.
- 6.6 The active monitoring of the debt portfolio, the full year effect of previous rescheduling of loans, and the taking of new loans at historically low rates, have decreased the average Interest rate on the debt held over time:

Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Average Interest Rate on Debt</b>	<b>4.81%</b>	<b>4.56%</b>	<b>4.43%</b>	<b>3.96%</b>	<b>3.96%</b>	<b>3.95%</b>

- 6.7 From 2010/11 the average interest rate has fallen due to rescheduling of loans to lower interest rates and the borrowing of new loans at historically low levels.



- 6.8 The Council’s policy on the fall out of debt has been to establish a debt profile where the amount of debt due to be refinanced each year is stable and large scale financing in any one year avoided. Market LOBO (Lenders Option Borrower’s Option) loans are recorded in accordance with the regulations set down in the Prudential Code which states “the maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment”.
- 6.9 PWLB certainty maturity borrowing rates - the graph below shows for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.



## 7.0 INVESTMENT OUTTURN FOR 2015/16

- 7.1 The Council’s investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council on 25 February 2015. This policy set out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).
- 7.2 The Council manages its investments in-house (with advice from Capita Asset Services) with the overall objective to balance risk with return and the overriding consideration being given to the security of the available funds.

- 7.3 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
- 7.4 The strategy recognised that the Council's funds would be mainly cash-flow driven. The Council would seek to utilise business reserve accounts and short dated deposits in order to benefit from the compounding of interest.
- 7.5 Detailed below is the result of the investment strategy undertaken by the Council.

	<b>Average Investment</b>	<b>Rate of Return</b>	<b>Benchmark Return *</b>
<b>Internally Managed</b>	£47,185,894	0.71%	0.36%

\* the benchmark return is the average 7-day London Interbank Bid (LIBID) uncompounded rate sourced from Capita Asset Services

- 7.6 Investments at 31 March 2016 stood at £22,600 (£32.322m at 31 March 2015).

	<b>Investment at 31/03/15 £000's</b>	<b>Amount Invested in year £000's</b>	<b>Investments realised in year £000's</b>	<b>Balance at 31/03/16 £000's</b>
<b>Fixed Rate Investments</b>				
Nationwide Building Society	10,000	16,000	(23,000)	3,000
Bank of Scotland	14,000	17,000	(14,000)	17,000
Coventry Building Society	0	2,000	(2,000)	0
Barclays Bank	6,000	2,000	(8,000)	0
<b>Total - Fixed rate</b>	<b>30,000</b>	<b>37,000</b>	<b>(47,000)</b>	<b>20,000</b>
<b>Call Accounts</b>				
Barclays Bank - Flexible Interest Bearing Current Account	922	124,174	(122,496)	2,600
Bank of Scotland - Call Account	1,400	125,400	(126,800)	0
NATWEST bank - Call Account	0	24,350	(24,350)	0
<b>Total Investments</b>	<b>32,322</b>	<b>310,924</b>	<b>(320,646)</b>	<b>22,600</b>

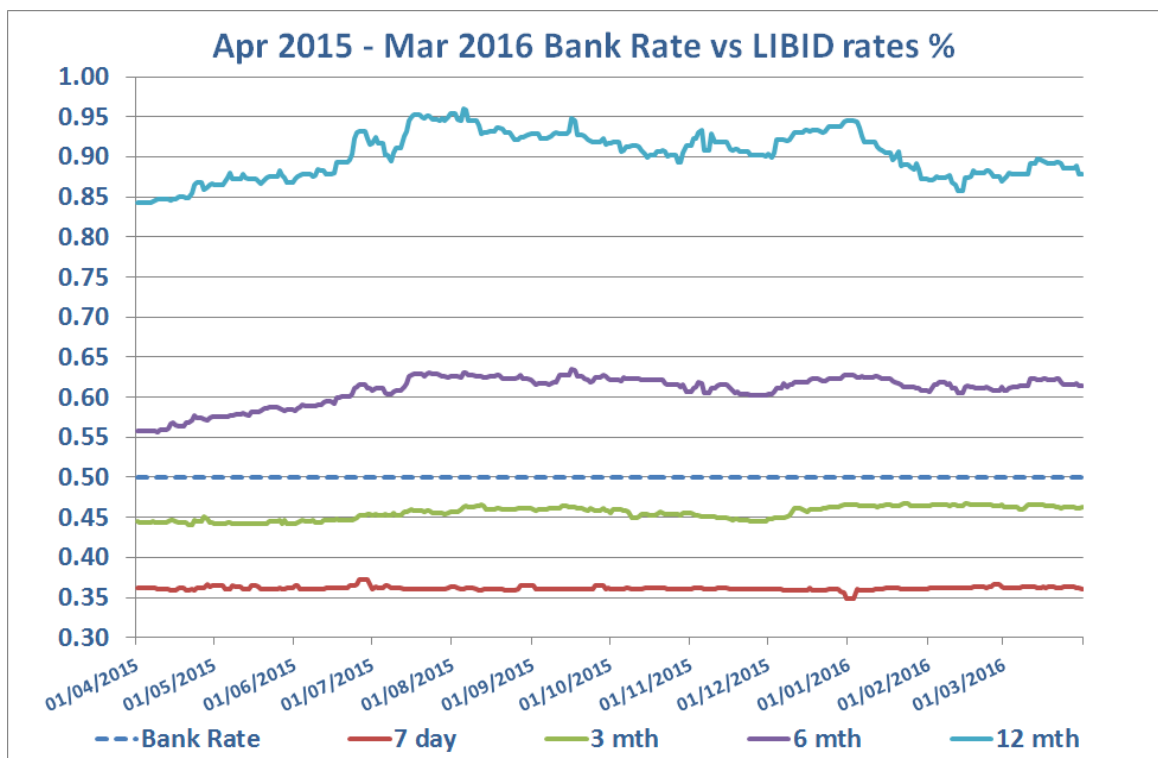
- 7.7 The table below gives details of the fixed rate investments made during the year.

	<b>Rate</b>	<b>Amount £000's</b>	<b>Start Date</b>	<b>End Date</b>
Bank of Scotland	0.95%	5,000	10/04/2014	09/04/2015
Bank of Scotland	1.00%	2,000	17/04/2014	17/11/2015
Nationwide	0.66%	8,000	12/12/2014	12/06/2015
Barclays	0.61%	5,000	06/01/2015	06/07/2015
Barclays	0.48%	1,000	16/02/2015	18/05/2015
BANK OF SCOTLAND	1.00%	5,000	27/02/2015	26/02/2016
Nationwide	0.46%	2,000	06/03/2015	06/05/2015
BANK OF SCOTLAND	1.00%	2,000	19/03/2015	17/03/2016
BANK OF SCOTLAND	1.00%	5,000	09/04/2015	07/04/2016
Nationwide	0.46%	2,000	06/05/2015	06/07/2015
Barclays	0.49%	1,000	18/05/2015	18/08/2015
Nationwide	0.50%	8,000	12/06/2015	14/09/2015

Barclays	0.53%	1,000	18/08/2015	18/11/2015
BANK OF SCOTLAND	1.05%	5,000	14/09/2015	12/09/2016
Nationwide	0.66%	3,000	14/09/2015	14/03/2016
BANK OF SCOTLAND	1.05%	5,000	30/09/2015	29/09/2016
BANK OF SCOTLAND	1.05%	2,000	17/11/2015	17/11/2016
Coventry Building Society	0.43%	2,000	15/01/2016	15/03/2016
Nationwide	0.50%	3,000	28/01/2016	28/04/2016
<b>Total</b>		<b>67,000</b>		

7.8 Total interest earned on investments in the financial year was £0.323 million compared to £0.379 million in 2014/15. This reflects the fact that investment returns were poor throughout the year. The Council is actively responding to this through it's Property Investment Strategy.

7.9 The Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme and due to the continuing weak expectations as to when Bank Rates would start rising.



## 8.0 COMPLIANCE WITH TREASURY LIMITS

8.1 During the financial year the Council operated within the treasury limits and Prudential Indicators set out the Council's Treasury Policy Statement and annual Treasury Management Strategy Statement.

## 9.0 EQUALITY AND DIVERSITY

9.1 There are no specific equality and diversity implications.

## **10.0 FUTURE ACTIONS**

10.1 Treasury Management Updates and Prudential Indicators for 2016/17 will be presented on a quarterly basis to the Cabinet and the Overview & Scrutiny Committee.

## **11.0 CONCLUSION**

11.1 It is recommended that Members note the treasury management activity that has taken place during the financial year 2015/16.

**Councillor Jane Lewis**  
**Deputy Leader of the Council and Cabinet Member for Finance and Human Resources**

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### ***Background documents:***

*Unaudited Final Accounts Bury MBC 2015/16*

*CIPFA Treasury Management Code of Practice in the Public Services*

*CIPFA The Prudential Code for Capital Finance in Local Authorities*

*Treasury Management Report 2015-16*

*Financial markets and economic briefing papers*

***For further information on the details of this report and copies of the detailed variation sheets, please contact:***

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