REPORT FOR DECISION

Bury COUNCIL

DECISION OF:	**CABINET** **OVERVIEW & SCRUTINY COMMITTEE** **COUNCIL**
DATE:	**14 DECEMBER 2016** **11 JANUARY 2017** **1 FEBRUARY 2017**
SUBJECT:	**TREASURY MANAGEMENT STRATEGY – MID YEAR REVIEW 2016/17**
REPORT FROM:	**DEPUTY LEADER OF THE COUNCIL & CABINET MEMBER FOR FINANCE & HUMAN RESOURCES**
CONTACT OFFICER:	**STEPHEN KENYON, INTERIM EXECUTIVE DIRECTOR OF RESOURCES AND REGULATION**
TYPE OF DECISION:	**COUNCIL**
FREEDOM OF INFORMATION/STATUS:	The report is within the public domain
SUMMARY:	This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following: • An economic update for the 2016/17 financial year to 30 September 2016 • A review of the Treasury Management Strategy Statement and Annual Investment Strategy • The Council's capital expenditure (prudential indicators) • A review of the Council's investment portfolio for 2016/17 • A review of the Council's borrowing strategy for 2016/17 • A review of any debt rescheduling undertaken during 2016/17 • A review of compliance with Treasury and Prudential Limits for 2016/17
OPTIONS &	It is recommended that, in accordance with CIPFA's Code of Practice on Treasury Management, the report be

RECOMMENDED OPTION	noted. That the addition of Greater Manchester bodies to the Counterparty investment list be approved.

IMPLICATIONS:	
Corporate Aims/Policy Framework:	Do the proposals accord with the Policy Framework? Yes
Statement by the S151 Officer: Financial Implications and Risk Considerations:	Treasury Management is an integral part of the Council's financial framework and it is essential that the correct strategy is adopted in order to ensure that best value is obtained from the Council's resources and that assets are safeguarded.
Statement by Interim Executive Director of Resources and Regulation:	Treasury management activities so far have produced a projected underspending for the year of £1.0m. This will help to support other areas of the Council's budget that are under pressure from user demand or economic conditions. Addition of Greater Manchester bodies as investment counterparties will give greater flexibility under the devolution agenda.
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes
Wards Affected:	All
Scrutiny Interest:	Overview & Scrutiny Committee

TRACKING/PROCESS **DIRECTOR: STEVE KENYON**

Chief Executive/ Strategic Leadership Team	Cabinet Member/Chair	Ward Members	Partners
Yes	Yes	N/a	N/a
Scrutiny		Committee	Council
14 December			1 February

1.0 BACKGROUND

1.1 The Council operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

As a consequence treasury management is defined 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".

1.2 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council on 24 February 2010.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is: Overview & Scrutiny Committee.

1.3 This report fulfils the requirement to produce a mid-year review.

2.0 ECONOMIC UP-DATE (from Treasury Advisors)

2.1 Economic Performance to date

2.1.1 UK GDP growth rates were 2.2% and 2.9% in 2013 and 2014 respectively; falling to 1.8% for 2015. Growth fell back to +0.4% in quarter 1 of 2016, recovering to +0.7% (2.1% y/y) in quarter 2. The referendum vote for Brexit in June this year delivered an immediate fall in confidence indicators and business surveys, pointing to an impending slowdown in the economy. Subsequent surveys have shown it is generally expected that growth will be weak through the second half of 2016 and in 2017.

2.1.2 The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

2.1.3 The Inflation Report also included a rise in the forecast for inflation to around 2.4% in 2018 and 2019

2.2 Interest rate Forecasts and Outlook

2.2.1 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later.

2.2.2 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gradually. Our PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

2.2.3 The overall balance of risks to economic recovery in the UK remains on the downside.

3.0 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UP-DATE

3.1 The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by the Council on 24 February 2016.

3.2 The underlying TMSS approved previously requires revision in the light of proposals to add additional counterparties. The proposed additional counterparties are set out below:

- Greater Manchester Combined Authority (GMCA)
- Transport for Greater Manchester (TfGM)
- Greater Manchester Waste Disposal Authority (GMWDA)

4.0 THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget

Capital Expenditure	**2016/17 Original Estimate £m**	**2016/17 Revised Estimate £m**
Non-HRA	12.616	16.359
HRA	12.576	15.610
Total	**25.192**	**31.969**

The increase of the revised estimate over the original estimate is due to slippage from 2015/16 of £17.015m offset by estimated project reprofiling to 2017/18 of £12.606m

4.2 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table shows the Capital Financing Requirement, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

	2016/17 Original Estimate £m	**2016/17 Revised Estimate £m**
Prudential Indicator - Capital Financing Requirement		
CFR – non HRA	113.371	112.009
CFR – HRA existing	40.530	40.531
Housing Reform Settlement	78.253	78.253
Total CFR	**232.154**	**230.793**
Prudential Indicator - External Debt / the Operational Boundary		
Borrowing	232.200	230.800
Other long term liabilities	6.700	5.000
Total	**238.900**	**235.800**

4.3 Limits to Borrowing Activity

4.3.1 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

4.3.2 The Interim Executive Director of Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

4.3.3 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for External Debt	**2016/17 Original Indicator £m**	**2016/17 Revised Indicator £m**
Borrowing	267.200	265.800
Other long term liabilities	6.700	5.000
Total	**273.900**	**270.800**

5.0 INVESTMENT PORTFOLIO 2016/17

5.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

5.2 The Council held £28.5m of investments as at 30 September 2016 (£22.6m at 31 March 2016) and the investment portfolio yield for the first six months of the year is 0.83% against Capita's suggested investment earnings rate for returns on investments placed, for periods up to three months in 2016/17, of 0.38%.

5.3 The investments held as at 30 September were:-

Type of Investment	**£ Million**
Call Investments (Cash equivalents)	18.8
Fixed Investments (Short term investments)	10.0
Total	**28.8**

5.4 The Interim Executive Director of Resources & Regulation confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

5.5 The Council's budgeted investment return for 2016/17 is £0.5m, and performance for the year to date is in line with the budget.

5.6 There may be options to invest monies with Greater Manchester bodies, and approval is therefore required to add these bodies to the current investment counterparty list approved in the TMSS. These bodies are:-

- Greater Manchester Combined Authority (GMCA)
- Transport for Greater Manchester (TfGM)
- Greater Manchester Waste Disposal Authority (GMWDA)

5.7 The Cabinet have approved a "Property Investment Strategy" which aims to increase investment income by investing in property rather than investing with financial institutions where returns are low at present. Additional borrowing may need to be undertaken to finance property acquisitions; each investment will be subject to a robust business case and also non-financial factors (e.g. ethical stance) will be considered.

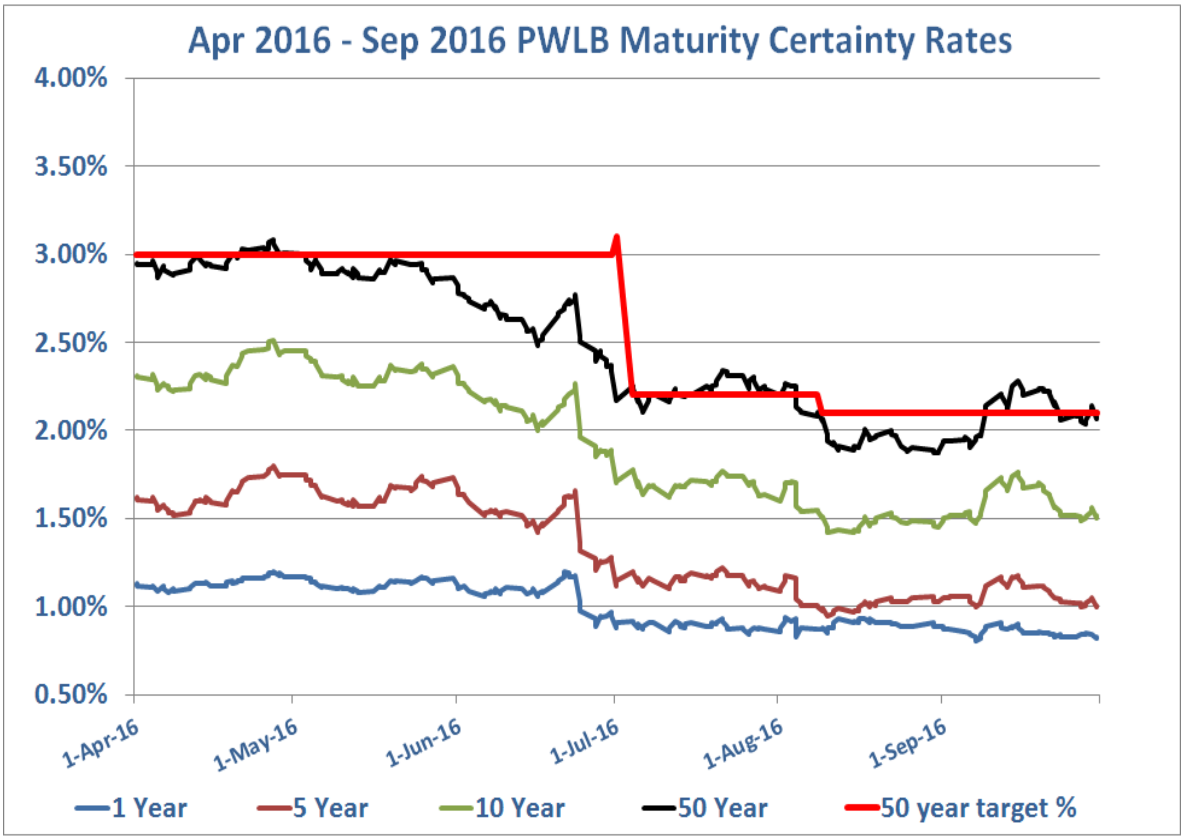
6.0 BORROWING

6.1 The Council's capital financing requirement (CFR) for 2016/17 is £230.8m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table below shows the Council has borrowings of £196.5m and has utilised £34m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevail.

		30 September 2016		
		Principal		**Avg.**
		£000	**£000**	**Rate**
Fixed rate funding				
	PWLB Bury	131,453		
	PWLB Airport	2,555		
	Market Bury	62,500	196,508	
Variable rate funding				
	PWLB Bury	0		
	Market Bury	0	0	
Temporary Loans / Bonds		3	3	
Total Debt			**196,511**	**3.95%**
Total Investments			**28,750**	**0.83%**

6.2 Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement – CFR), new temporary external borrowing of £17m was undertaken from the market. Of this, £16.5m was used to refinance loans repaid in the period. It is anticipated that new temporary external borrowing may be undertaken during the remainder of this financial year, dependent upon cash flow.

6.3 The graph below shows the movement in PWLB certainty rates for the first six months of the year to 30.09.16:



7.0 DEBT RESCHEDULING

7.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2016/17.

Councillor Jane Lewis
Deputy Leader and Cabinet Member for Finance and Human Resources

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List of Background Papers:-
None

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