REPORT FOR DECISION

MEETING:	**CABINET** **OVERVIEW & SCRUTINY COMMITTEE**
DATE:	**28 JUNE 2017** **4 JULY 2017**
SUBJECT:	**TREASURY MANAGEMENT ANNUAL REPORT 2016/2017**
REPORT FROM:	**CABINET MEMBER FOR FINANCE AND HOUSING**
CONTACT OFFICER:	**STEVE KENYON, INTERIM EXECUTIVE DIRECTOR OF RESOURCES & REGULATION**
TYPE OF DECISION:	**CABINET (KEY DECISION)**
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain
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 2016/17.
OPTIONS & RECOMMENDED OPTION	It is recommended that, in accordance with CIPFA's Code of Practice on Treasury Management, the report be noted.
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 Assistant Director of	This report provides information on the

Resources (Finance and Efficiency):	Council's debt, borrowing, and investment activity for the financial year ending on 31st March 2017 in conformity 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 2016/17 was to finance capital expenditure by running down cash/investment balances and using shorter term borrowing rather than more expensive long term loans. The taking out of longer term loans (1 to 10 years) to finance capital spending would only then be considered if required by the Council's underlying cash flow needs. Debt decreased slightly during the year, £195,682 million at 31st March 2017 compared to £196,011 million at 31st March 2016. The average borrowing rate rose slightly from 3.95% to 3.96%. Investments at 31 March 2017 stood at £18,550 million, compared to £22,600 million the previous year, the decrease being due to the use of cash/investment balances to repay maturing debt. The average rate of return on investments was 0.58% in 2016/17 compared to 0.71% in 2015/16.
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 30th 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

TRACKING/PROCESS INTERIM EXECUTIVE DIRECTOR: STEVE KENYON

Chief Executive/ Strategic Leadership Team	Cabinet	Ward Members	Partners
	28/6/17		
Overview & Scrutiny Committee		Committee	Council
4/7/17			

1.0 INTRODUCTION

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 24/02/2016)
- a mid-year (minimum) treasury update report (Council 01/02/2017)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

1.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.3 This Council confirms that it has complied with the requirement under the Code to give scrutiny to all of the above treasury management reports by the Overview & Scrutiny Committee.

2.0 THE ECONOMY AND INTEREST RATES

2.1 The two major events that had a significant influence on financial markets in the 2016-17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning that economic growth could fall in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

2.2 In the second half of 2016, after quarter 1 GDP growth of only +0.2%, the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall of 1.8%. This meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen.

3.0 THE COUNCIL'S OVERALL TREASURY POSITION AS AT 31 MARCH 2017

3.1 At the beginning and the end of 2016/17 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

	Balance at 31/03/16			Balance at 31/03/17		
	General Fund £'000	HRA £'000	Total £'000	General Fund £'000	HRA £'000	Total £'000
Total Debt	77,227	118,784	196,011	76,898	118,784	195,682
CFR	125,237	118,784	244,021	126,936	118,784	245,720
Over / (under) borrowing	**(48,010)**	**0**	**(48,010)**	**(50,038)**	**0**	**(50,038)**
Total Investments			22,600			18,550
Net Debt			**173,411**			**177,132**

	Balance at 31/03/16		Balance at 31/03/17	
	Average Rate / Return	Average Life of Debt (years)	Average Rate / Return	Average Life of Debt (years)
Debt	3.95%	27	3.96%	26
Investments	0.71%		0.58%	

4.0 THE STRATEGY FOR 2016/17

4.1 The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 4 of 2016) and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

4.2 In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

4.3 During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.

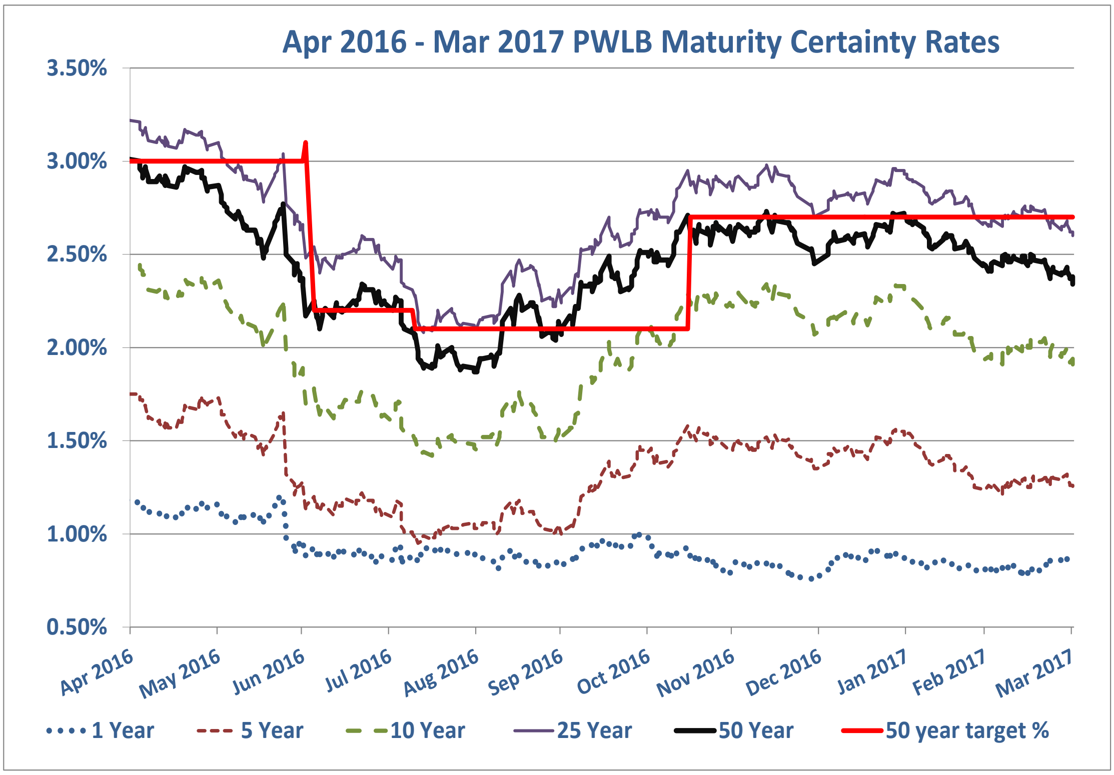
5.0 THE BORROWING REQUIREMENT AND DEBT

5.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

Capital Financing Requirement	2015/16 Actual £'000	2016/17 Estimate £'000	2016/17 Actual £'000
CFR – non HRA	125,237	112,009	126,936
CFR – HRA existing	40,531	40,531	40,531
Housing Reform Settlement	78,253	78,253	78,253
Total CFR	**244,021**	**230,793**	**245,720**

6.0 BORROWING RATES IN 2016/17

6.1 PWLB certainty maturity borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



7.0 BORROWING OUTTURN FOR 2016/17

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

	Balance at 31/03/16 £000's	Loans raised £000's	Loans repaid £000's	Balance at 31/03/17 £000's
PWLB	131,453	0	0	131,453
Market	62,000	17,000	(16,500)	62,500
Temporary Loans	0	0	0	0
Other loans	3	0	0	3
Bury MBC Debt	**193,456**	**17,000**	**(16,500)**	**193,956**
Airport PWLB Debt	2,555	0	(829)	1,726
Total Debt	**196,011**	**17,000**	**(17,329)**	**195,682**

7.2 A number of shorter term loans were raised during the year from other UK Local Authorities, to partly replace the loans maturing.

Lender	Rate	Amount £000's	Start Date	End Date
County Council	1.04%	2,000	21/04/2016	23/04/2018
Police & Crime Commissioner	1.04%	2,000	21/04/2016	23/04/2018
Borough Council	1.00%	3,000	21/04/2016	23/04/2018
London Borough	0.90%	5,000	05/07/2016	05/07/2018
District Council	1.50%	5,000	18/07/2016	19/07/2021
Total		**17,000**		

7.3 No debt rescheduling was undertaking during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

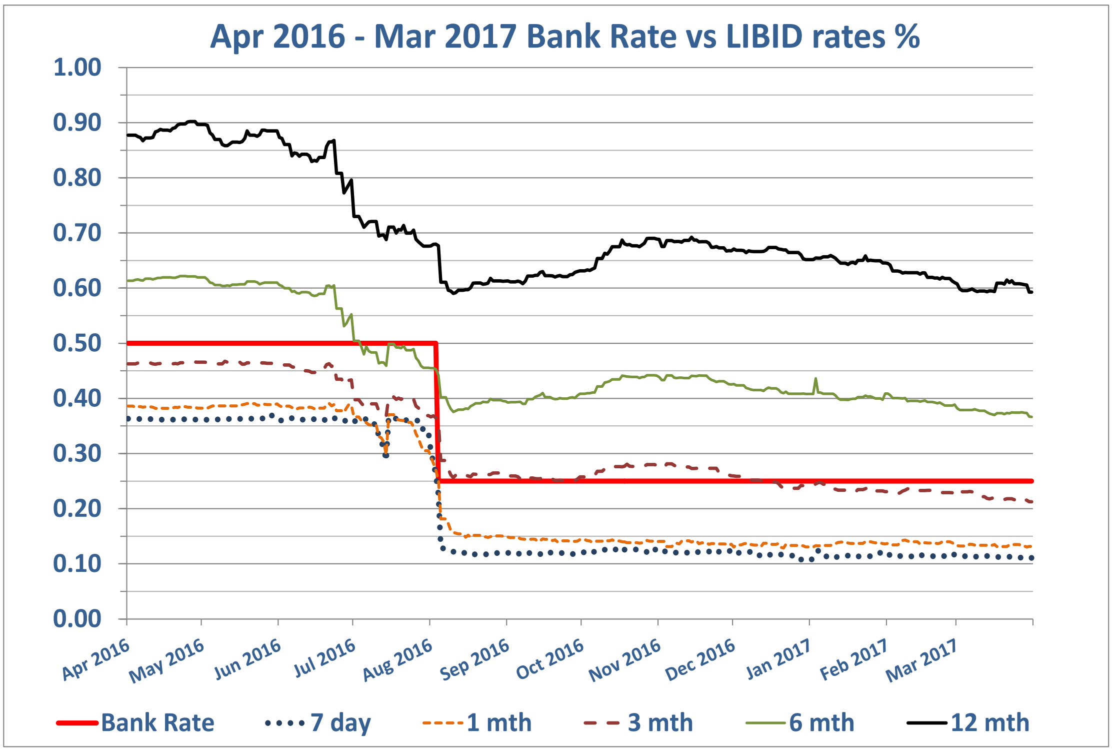
7.4 The active monitoring of the debt portfolio, the full year effect of previous rescheduling of loans, and the taking of new loans at historically low rates, have decreased the average Interest rate on the debt held over time:

Year	2012/13	2013/14	2014/15	2015/16	2016/17
Average Interest Rate on Debt	**4.43%**	**3.96%**	**3.96%**	**3.95%**	**3.96%**

7.5 From 2012/13 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.

8.0 INVESTMENT RATES IN 2016/17

8.1 After the EU referendum, the Bank Rate was cut from 0.5% to 0.25% on 4th August and remained at that level for the rest of the year. Market expectations as to the timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



9.0 INVESTMENT OUTTURN FOR 2016/17

9.1 The Council's investment policy is governed by CLG guidance, which was been implemented in the annual investment strategy approved by the Council on 24 February 2017. 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.).

9.2 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.

9.3 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

9.4 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.

9.5 Detailed below is the result of the investment strategy undertaken by the Council.

	Average Investment	Rate of Return	Benchmark Return *
Internally Managed	£33,460,303	0.55%	0.20%

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

9.6 Investments at 31 March 2017 stood at £18,550 (£22.600m at 31 March 2016).

	Investment at 31/03/16 £000's	Amount Invested in year £000's	Investments realised in year £000's	Balance at 31/03/17 £000's
Fixed Rate Investments				
Nationwide Building Society	3,000	0	(3,000)	0
Bank of Scotland	17,000	18,000	(32,000)	3,000
Coventry Building Society	0	0	0	0
Barclays Bank	0	0	0	0
Total - Fixed rate	**20,000**	**18,000**	**(35,000)**	**3,000**
Call Accounts				
Barclays Bank - Flexible Interest Bearing Current Account	2,600	126,850	(114,450)	15,000
Bank of Scotland - Call Account	0	123,700	(123,150)	550
NATWEST bank - Call Account	0	43,550	(43,550)	0
Total Investments	**22,600**	**312,100**	**(316,150)**	**18,550**

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

	Rate	Amount £000's	Start Date	End Date
BANK OF SCOTLAND	1.00%	5,000	09/04/2015	08/04/2016
BANK OF SCOTLAND	1.05%	5,000	14/09/2015	12/09/2016
BANK OF SCOTLAND	1.05%	5,000	30/09/2017	29/09/2016
BANK OF SCOTLAND	1.05%	2,000	17/11/2015	17/11/2016
Nationwide	0.50%	3,000	28/01/2016	28/04/2016
BANK OF SCOTLAND	0.65%	3,000	15/08/2016	15/02/2017
BANK OF SCOTLAND	0.65%	5,000	12/09/2016	13/03/2017
BANK OF SCOTLAND	0.45%	2,000	17/11/2016	17/02/2017
BANK OF SCOTLAND	0.45%	5,000	12/12/2016	13/03/2017
BANK OF SCOTLAND	0.60%	2,000	17/02/2017	17/08/2017
BANK OF SCOTLAND	0.60%	1,000	10/03/2017	11/09/2017
Total		**38,000**		

10.0 COMPLIANCE WITH TREASURY LIMITS

10.1 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.

11.0 EQUALITY AND DIVERSITY

11.1 There are no specific equality and diversity implications.

12.0 FUTURE ACTIONS

12.1 Treasury Management Updates and Prudential Indicators for 2017/18 will be presented on a quarterly basis to the Cabinet and the Overview & Scrutiny Committee.

13.0 CONCLUSION

13.1 It is recommended that Members note the treasury management activity that has taken place during the financial year 2016/17.

Councillor Eamon O'Brien
Cabinet Member for Finance and Housing

Background documents:

Unaudited Final Accounts Bury MBC 2016/17
CIPFA Treasury Management Code of Practice in the Public Services
CIPFA The Prudential Code for Capital Finance in Local Authorities
Treasury Management Report 2016-17
Financial markets and economic briefing papers
For further information on the details of this report and copies of the detailed variation sheets, please contact:

Mr S. Kenyon, Interim Executive Director of Resources & Regulation,
Tel. 0161 253 6922, E-mail: S.kenyon@bury.gov.uk,

Appendix 1: Prudential and Treasury Indicators

1. PRUDENTIAL INDICATORS	2015/16 Actual £'000	2016/17 Estimate £'000	2016/17 Actual £'000
Capital Expenditure			
Non - HRA	22,700	16,359	16,321
HRA	10,704	15,610	16,176
TOTAL	33,404	31,969	32,497
Ratio of financing costs to net revenue stream			
Non - HRA	3.22%	3.13%	3.10%
HRA	14.14%	14.14%	14.47%
Gross borrowing requirement			
Alternative financing	0	0	1,699
Replacement Borrowing	5,353	16,806	329
in year borrowing requirement	5,353	16,806	-1,370
Gross debt	196,011		195,682
CFR			
Non – HRA	125,237	112,009	126,936
HRA	118,784	118,784	118,784
TOTAL	244,021	230,793	245,720
Annual change in Cap. Financing Requirement			
Non – HRA	3,208		1,699
HRA	0		0
TOTAL	3,208		1,699
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	-£4.44	-£0.77	-£5.15
Increase in average housing rent per week	£0	£0	£0

2. TREASURY MANAGEMENT INDICATORS	2015/16 Actual £'000	2016/17 Estimate £'000	2016/17 Actual £'000
Authorised Limit for external debt -			
borrowing	279,021	279,021	280,720
other long term liabilities	5,000	5,000	5,000
TOTAL	284,021	284,021	285,720
Operational Boundary for external debt -			
borrowing	244,021	244,916	245,720
other long term liabilities	5,000	5,000	5,000
TOTAL	249,021	249,916	250,720
Actual external debt	196,011		195,682
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	113%	116%	110%
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments	-13%	-16%	-10%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£10 m	£10 m	£10 m

Maturity structure of fixed rate borrowing during 2016/17	upper limit	lower limit
under 12 months	40%	0%
12 months and within 24 months	35%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	50%	0%
10 years and within 20 years	90%	0%
20 years and within 30 years	90%	0%
30 years and within 40 years	90%	0%
40 years and within 50 years	90%	0%