REPORT FOR DECISION

MEETING:	**CABINET** **OVERVIEW & SCRUTINY COMMITTEE**
DATE:	**27 JUNE 2018** **10 JULY 2018**
SUBJECT:	**TREASURY MANAGEMENT ANNUAL REPORT 2017/18**
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 2017/18.
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 2018 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 2017/18 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, £194,510 million at 31st March 2018 compared to £195,682 million at 31st March 2017. The average borrowing rate rose slightly from 3.96% to 3.95%. Investments at 31 March 2018 stood at £21,250 million, compared to £18,550 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 0.24% in 2017/18 compared to 0.58% in 2016/17.
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
	27/6/18		
Overview & Scrutiny Committee		Committee	Council
10/7/18			

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 2017/18. 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 2017/18 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 22/02/2017)
- a mid-year (minimum) treasury update report (Council 17/01/2018)
- 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 During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy showed growth in the second half of 2016, growth in the first half of 2017 was disappointingly weak, being the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up modestly in the second half of 2017. Consequently, market expectations during the autumn, rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The minutes of the MPC meeting of 14 September indicated that the MPC was likely to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting raised Bank Rate from 0.25% to 0.50%.

2.2 The 8 February MPC meeting minutes then revealed another sharp hardening in MPC warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected. Market expectations for increases in Bank Rate, therefore, shifted considerably during the second half of 2017-18 and resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

2.3 PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

2.4 The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets.

3.0 THE COUNCIL'S OVERALL TREASURY POSITION AS AT 31 MARCH 2018

3.1 At the beginning and the end of 2017/18 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

	Balance at 31/03/17			Balance at 31/03/18		
	General Fund £'000	**HRA £'000**	**Total £'000**	**General Fund £'000**	**HRA £'000**	**Total £'000**
Total Debt	76,898	118,784	195,682	75,726	118,784	194,510
CFR	128,293	118,784	247,077	128,293	118,784	247,077
Over / (under) borrowing	**(51,395)**	**0**	**(51,395)**	**(52,567)**	**0**	**(52,567)**
Total Investments			18,550			21,250
Net Debt			**177,132**			**173,260**

	Balance at 31/03/17		Balance at 31/03/18	
	Average Rate / Return	**Average Life of Debt (years)**	**Average Rate / Return**	**Average Life of Debt (years)**
Debt	3.96%	27	3.96%	26
Investments	0.58%		0.24%	

4.0 THE STRATEGY FOR 2017/18

4.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31.3.2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. 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 2017/18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.

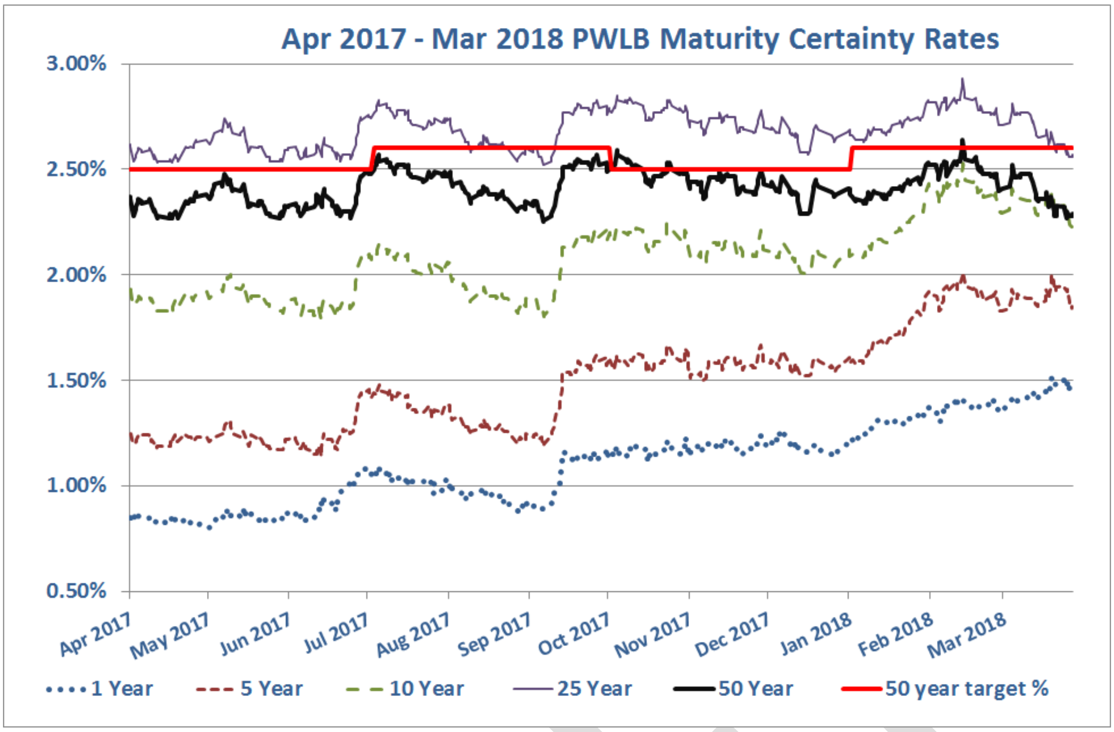
5.0 THE BORROWING REQUIREMENT AND DEBT

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

Capital Financing Requirement	2016/17 Actual £'000	2017/18 Estimate £'000	2017/18 Actual £'000
CFR – non HRA	126,936	123,875	128,293
CFR – HRA existing	40,531	40,531	40,531
Housing Reform Settlement	78,253	78,253	78,253
Total CFR	**245,720**	**242,660**	**247,077**

6.0 BORROWING RATES IN 2017/18

6.1 **PWLB certainty maturity borrowing rates -** the graph below shows how PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March. During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.5% in quarters 1 and 3 and 2.6% in quarters 2 and 4.



7.0 BORROWING OUTTURN FOR 2017/18

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

	Balance at 31/03/17 £000's	Loans raised £000's	Loans repaid £000's	Balance at 31/03/18 £000's
PWLB	131,453	0	0	131,453
Market	62,500	0	(2,000)	60,500
Temporary Loans	0	2,000	0	2,000
Other loans	3	0	0	3
Bury MBC Debt	**193,956**	**2,000**	**(2,000)**	**193,956**
Airport PWLB Debt	1,726	0	(1,172)	554
Total Debt	**195,682**	**2,000**	**(3,172)**	**194,510**

7.2 No new loans were raised during the year.

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.

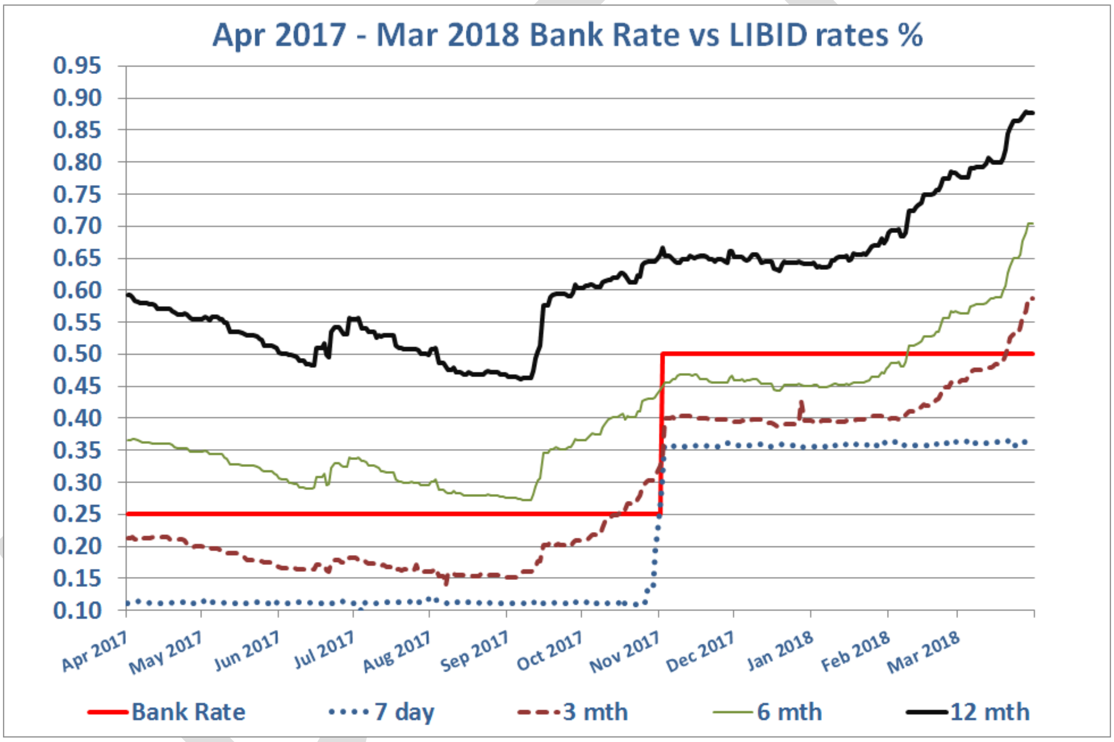
7.4 The active monitoring of the debt portfolio, the full year effect of previous rescheduling of loans, and the taking of new loans at historically low rates, have decreased the average Interest rate on the debt held over time:

Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
Average Interest Rate on Debt	**3.96%**	**3.96%**	**3.95%**	**3.96%**	**3.96%**

7.5 From 2013/14 the average interest rate has stayed constant due to the borrowing of new loans at historically low levels.

8.0 INVESTMENT RATES IN 2017/18

8.1 Investments rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 2.11.17 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28.2.18.



9.0 INVESTMENT OUTTURN FOR 2017/18

9.1 The Council's investment policy is governed by MHCLG guidance, which was been implemented in the annual investment strategy approved by the Council on 22 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	£30,445,229	0.24%	0.21%

* 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 2018 stood at £21,250m (£18.550m at 31 March 2017).

	Investment at 31/03/17 £000's	**Amount Invested in year £000's**	**Investments realised in year £000's**	**Balance at 31/03/18 £000's**
Fixed Rate Investments				
Bank of Scotland	3,000	0	(3,000)	0
Plymouth City Council	0	10,000	(10,000)	0
Total - Fixed rate	**0**	**10,000**	**(10,000)**	**0**
Notice Accounts				
Barclays Bank - 32 day Notice account	0	6,000	(3,000)	3,000
Barclays Bank - 95 day Notice account	0	15,750	(10,250)	5,500
Total - Notice accounts	**0**	**21,750**	**(13,250)**	**8,500**
Call Accounts				
Barclays Bank - Flexible Interest Bearing Current Account	15,000	80,180	(94,980)	200
Bank of Scotland - Call Account	550	222,300	(210,300)	12,550
Total Investments	**15,550**	**334,230**	**(328,530)**	**21,250**

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	0.60%	2,000	17/02/2017	17/08/2017
BANK OF SCOTLAND	0.60%	1,000	10/03/2017	11/09/2017
BANK OF SCOTLAND	0.36%	1,000	29/09/2017	28/12/2017
BANK OF SCOTLAND	0.36%	1,000	28/12/2017	29/03/2018
Plymouth City Council	0.35%	10,000	10/11/2017	12/02/2018
Total		**15,000**		

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 2018/19 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 2017/18.

Councillor Eamon O'Brien
Cabinet Member for Finance and Housing

Background documents:

Unaudited Final Accounts Bury MBC 2017/18
CIPFA Treasury Management Code of Practice in the Public Services
CIPFA The Prudential Code for Capital Finance in Local Authorities
Treasury Management Report 2017-18
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	2016/17 Actual £'000	2017/18 Estimate £'000	2017/18 Actual £'000
Capital Expenditure			
Non - HRA	16,321	27,779	20,100
HRA	16,176	8,772	7,371
TOTAL	32,497	36,551	27,471
Ratio of financing costs to net revenue stream			
Non - HRA	3.10%	3.01%	2.96%
HRA	14.47%	14.47%	14.15%
Gross borrowing requirement			
Alternative financing	1,699	0	1,357
Replacement Borrowing	5,353	3,166	1,172
in year borrowing requirement	3,654	3,166	-185
Gross debt	195,682		194,510
CFR			
Non – HRA	126,936	123,875	128,293
HRA	118,784	118,784	118,784
TOTAL	245,720	242,660	247,077
Annual change in Cap. Financing Requirement			
Non – HRA	3,208		1,357
HRA	0		0
TOTAL	3,208		1,357
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	-£5.15	-£1.02	-£3.45
Increase in average housing rent per week	£0	£0	£0

2. TREASURY MANAGEMENT INDICATORS	2016/17	2017/18	2017/18

	Actual £'000	Estimate £'000	Actual £'000
Authorised Limit for external debt -			
borrowing	245,700	242,700	240,100
other long term liabilities	5,000	5,000	5,000
TOTAL	250,700	247,700	245,100
Operational Boundary for external debt -			
borrowing	280,700	277,700	275,100
other long term liabilities	5,000	5,000	5,000
TOTAL	285,700	282,700	280,100
Actual external debt	195,682		194,510
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	110%	113%	112%
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments	-10%	-13%	-12%
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	Actual 2016/17	Actual 2017/18
under 12 months	2%	10%
12 months and within 24 months	8%	5%
24 months and within 5 years	8%	5%
5 years and within 10 years	2%	0%
10 years and within 15 years	13%	13%
15 years and within 50 years	67%	67%