

REPORT FOR DECISION

MEETING: **CABINET
COUNCIL
OVERVIEW & SCRUTINY COMMITTEE**

DATE: **26 JUNE 2019
10 JULY 2019
16 JULY 2019**

SUBJECT: **TREASURY MANAGEMENT ANNUAL REPORT
2018/19**

REPORT FROM: **CABINET MEMBER FOR FINANCE AND HOUSING**

CONTACT OFFICER: **MIKE WOODHEAD, CHIEF FINANCE OFFICER**

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 2018/19.

**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 (FINANCE):**

This report provides information on the Council's debt, borrowing, and investment activity for the financial year ending on 31st March 2019 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 2019/20 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, £202,584 million at 31st March 2019 compared to £194,510 million at 31st March 2018. The average borrowing rate dropped slightly from 3.96% to 3.95%. Investments at 31 March 2019 stood at £14,760 million, compared to £21,250 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 0.66% in 2018/19 compared to 0.24% in 2017/18.

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

Chief Executive/ Strategic Leadership Team	Cabinet	Ward Members	Partners
10/6/19	26/6/19		
Overview & Scrutiny Committee		Committee	Council
16/7/19			10/7/19

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 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 21/02/2018)
- a mid-year (minimum) treasury update report (Council 28/11/2018)
- 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, before they were reported to the full council.

2.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING

- 2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:
- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need: or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
- 2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2017/18 Actual £'000	2018/19 Estimate £'000	2018/19 Actual £'000
Capital expenditure	27,471	24,518	35,348
Financed in Year	-26,113	-23,690	-32,397
Unfinanced Capital Expenditure	1,358	828	2,951

3.0 THE COUNCIL'S OVERALL BORROWING NEED

- 3.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).
- 3.2 **Gross borrowing and the CFR** – 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 (2017/18), plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2018/19. The Council has complied with this prudential indicator.

Capital Financing Requirement	2017/18 Actual £'000	2018/19 Estimate £'000	2018/19 Actual £'000
CFR – non HRA	128,293	124,704	131,244
CFR – HRA existing	40,531	40,531	40,531
Housing Reform Settlement	78,253	78,253	78,253
Total CFR	247,077	243,489	250,028

- 3.3 **The authorised limit** – this 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 2018/19 the Council has maintained gross borrowing within its authorised limit.
- 3.4 **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 are acceptable subject to the authorised limit not being breached.
- 3.4 **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.

	2018/19 £'000
Authorised limit	300,000
Maximum gross borrowing position	202,584
Operational Boundary	265,000
Average gross borrowing position	187,648
Financing costs as a proportion of net revenue stream:-	
Non - HRA	2.82%
HRA	14.74%

4.0 THE COUNCIL'S OVERALL TREASURY POSITION AS AT 31 MARCH 2019

- 4.1 At the beginning and the end of 2018/19 the Council's treasury (excluding borrowing by PFI and finance leases) position was as follows:

	Balance at 31/03/18			Balance at 31/03/19		
	General Fund £'000	HRA £'000	Total £'000	General Fund £'000	HRA £'000	Total £'000
Total Debt	75,726	118,784	194,510	83,800	118,784	202,584
CFR	128,293	118,784	247,077	131,244	118,784	250,028
Over / (under) borrowing	(52,567)	0	(52,567)	(47,444)	0	(47,444)
Total Investments			21,250			14,760
Net Debt			173,260			187,824

	Balance at 31/03/18		Balance at 31/03/19	
	Average Rate / Return	Average Life of Debt (years)	Average Rate / Return	Average Life of Debt (years)
Debt	3.96%	26	3.95%	28
Investments	0.24%		0.66%	

- 4.2 The maturity structure of the debt portfolio was as follows:

Maturity structure of fixed rate borrowing during 2018/19	2017/18 Actual £'000	2017/18 Actual %	2018/19 Actual £'000	2018/19 Actual %
Under 12 months	4,712	2.39%	19,034	9.32%
12 months and within 24 months	16,503	8.36%	1,000	0.49%
24 months and within 5 years	16,000	8.11%	8,000	3.92%
5 years and within 10 years	3,550	1.80%	550	0.27%
10 years and within 15 years	26,000	13.17%	26,000	12.73%
15 years and over	130,624	66.18%	149,626	73.27%
Total Debt	197,389	1.00	204,209	1.00

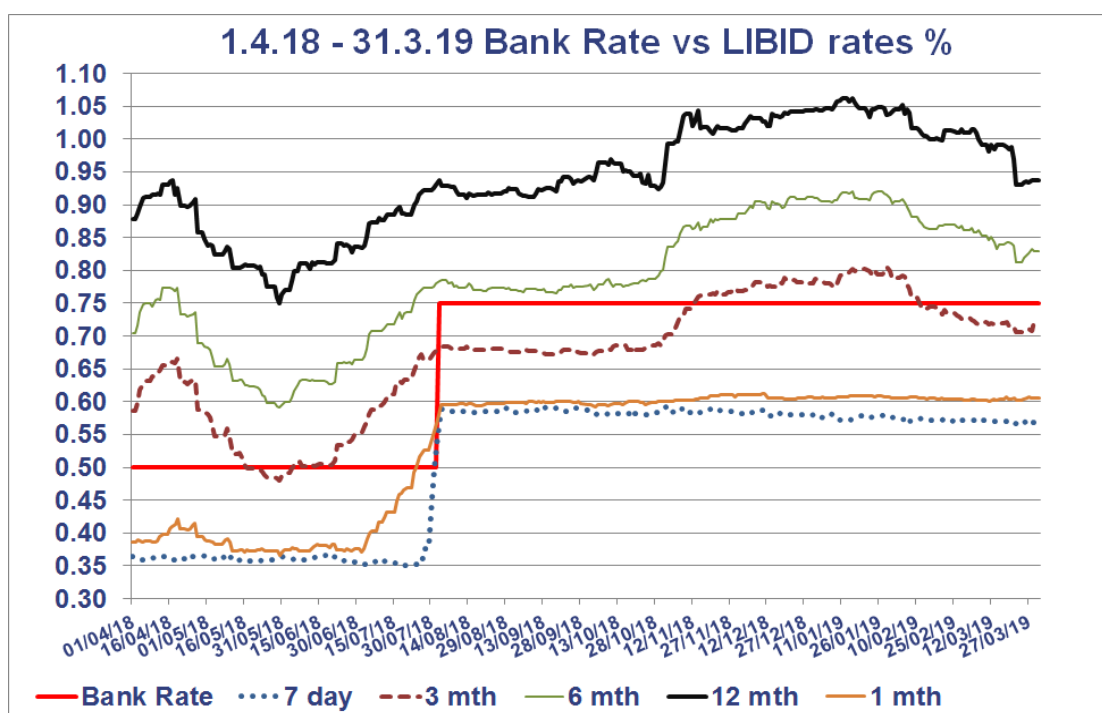
- 4.3 All investments within the investment portfolio have a maturity date within 1 year.

5.0 THE STRATEGY FOR 2018/19

5.1 Investment strategy and control of interest rate risk

5.1.1 Investment returns remained low during 2018/19. The expectation for interest rates within the Treasury Management Strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018/19, and after UK GDP growth had proved weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This happened at the MPC meeting on 2 August 2018. It was not expected that the MPC would raise Bank Rate again during 2018/19 in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019.

5.1.2 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1st November 2018, anticipated building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

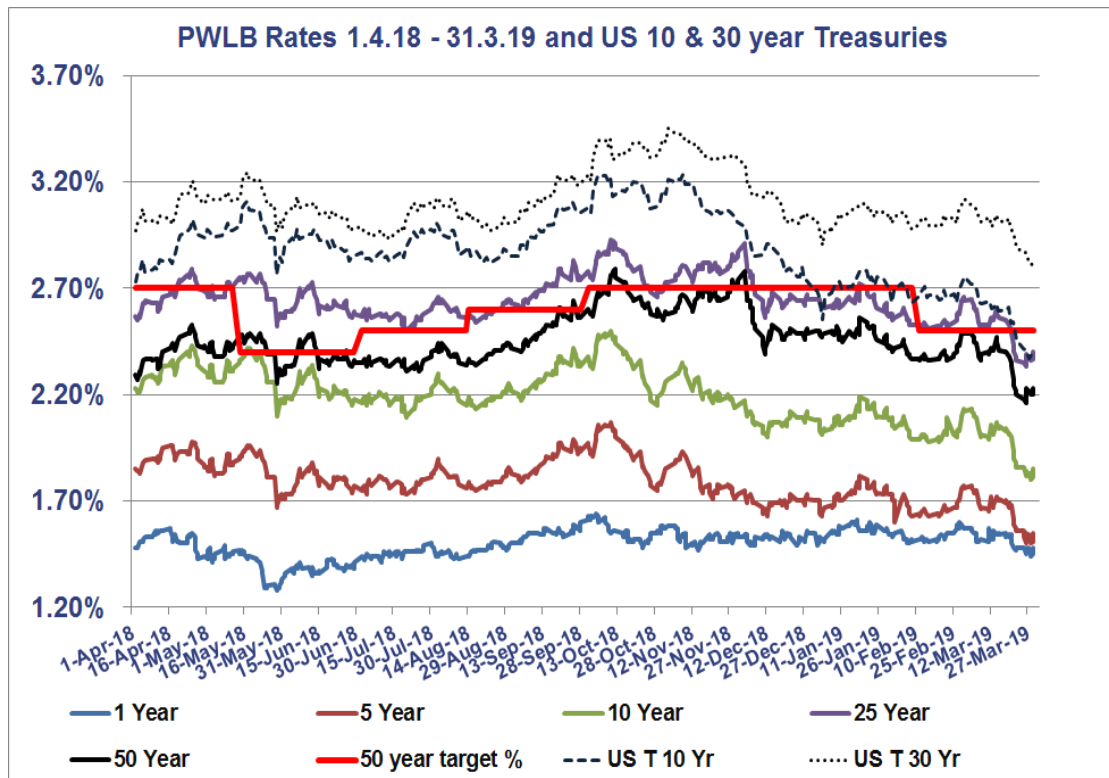


5.1.3 Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

5.2 Borrowing strategy and control of interest rate risk

- 5.2.1 During 2018/19 the Council maintained an under-borrowed position. This meant that the capital borrowing need, the capital Financing Requirement (CFR), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimizing counterparty risk on placing investments also needed to be considered.
- 5.2.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.
- 5.2.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 5.2.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Assistant Director (Finance) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principals to manage interest rate risks:
- If it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g.due to a marked increase in risks around relapse into recession or of risks of deflation), than long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
 - If it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USE and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few year.
- 5.2.5 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

Link Asset Services Interest Rate View 12.2.18													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%



5.2.6 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields – which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% - 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rates increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. Weak growth now also looks to be the outlook for china and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

6.0 BORROWING OUTTURN FOR 2018/19

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

	Balance at 31/03/18 £000's	Loans raised £000's	Loans repaid £000's	Balance at 31/03/19 £000's
PWLB	131,453	7,800	0	139,253
Market	60,500	0	(16,500)	44,000
Temporary Loans	2,000	11,100	(5,600)	7,500
Other loans	3	0	0	3
Bury MBC Debt	193,956	18,900	(22,100)	190,756
Airport PWLB Debt	554	11,278	(4)	11,828
Total Debt	194,510	30,178	(22,104)	202,584

- 6.2 Loans were raised to fund the net unfinanced capital expenditure and naturally maturing debt.
- 6.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.
- 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 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	2014/15	2015/16	2016/17	2017/18	2018/19
Average Interest Rate on Debt	3.96%	3.95%	3.96%	3.96%	3.95%

7.0 INVESTMENT OUTTURN FOR 2018/19

- 7.1 The Council's investment policy is governed by MHCLG guidance, which was been implemented in the annual investment strategy approved by the Council on 21 February 2018. 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 Link 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 Detailed below is the result of the investment strategy undertaken by the Council.

	Average Investment	Rate of Return	Benchmark Return *
Internally Managed	£15,236,681	0.66%	0.57%

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

- 7.5 Investments at 31 March 2019 stood at £14,760m (£21,250m at 31 March 2018).

	Investment at 31/03/18 £000's	Amount Invested in year £000's	Investments realised in year £000's	Balance at 31/03/19 £000's
Fixed Rate Investments				
GMCA	0	5,000	0	5,000
Total - Fixed rate	0	5,000	0	5,000
Notice Accounts				
Barclays Bank - 32 day Notice account	3,000	0	(2,000)	1,000
Barclays Bank - 95 day Notice account	5,500	0	(5,250)	250
Santander - 92 day Notice account	0	5,100	(4,000)	1,100
Total - Notice accounts	8,500	5,100	(11,250)	2,350
Call Accounts				
Barclays Bank - Flexible Interest Bearing Current Account	200	170,235	(163,375)	7,060
Bank of Scotland - Call Account	12,550	145,250	(157,450)	350
Total Investments	21,250	325,585	(332,075)	14,760

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

	Rate	Amount £000's	Start Date	End Date
GMCA	65.00%	5,000	21/03/2019	18/04/2019
Total		5,000		

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 2019/20 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 2018/19.

Councillor Eamon O'Brien
Cabinet Member for Finance and Housing

Background documents:

Unaudited Final Accounts Bury MBC 2018/19

CIPFA Treasury Management Code of Practice in the Public Services

CIPFA The Prudential Code for Capital Finance in Local Authorities

Treasury Management Report 2018-19

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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