

REPORT FOR DECISION

DECISION OF:	Cabinet/Council	
DATE:	2 September 2020 9 September 2020	
SUBJECT:	Treasury Management Review 2019/20	
REPORT FROM:	Leader of the Council and Cabinet Member for Finance and Growth	
CONTACT OFFICER:	Mike Woodhead, Joint Chief Finance Officer	
TYPE OF DECISION:	Council	
FREEDOM OF INFORMATION/STATUS:	This paper is within the public domain	
SUMMARY:	This report outlines the financial position and update on treasury management activity throughout 2019/20. The council is required by legislation to produce an annual treasury management review of activities and the actual prudential and treasury indicators. This report meets 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).	
OPTIONS & RECOMMENDED OPTION	Cabinet is asked to: <ul style="list-style-type: none"> • Approve the Treasury Management Review 2019/20 report; • Approve the actual 2019/20 prudential and treasury indicators presented in the report; • Commend the report to Full Council on 9 September 2020. 	
IMPLICATIONS:		
Corporate Aims/Policy Framework:	The proposals accord with the Policy Framework	

Statement by Section 151 Officer:	There are no direct financial implications arising from the report however treasury management activity is a significant strategy within the Council's overall financial framework. The treasury management activity has been reflected and reported in the council's out turn position and also the draft Statement of Accounts.
Equality/Diversity implications:	No
Considered by Monitoring Officer:	Yes The report sets out the Council's statutory obligations under the Local Government Act 2003 to monitor its income and expenditure against its budget and the regulatory requirements to undertake regular reviews. There are no legal implications arising from the report.
Are there any legal implications?	No
Wards Affected:	All
Scrutiny Interest:	Overview and Scrutiny Committee

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 2019/20. 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).
- 1.2 During 2019/20 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year (approved 20/02/2019);
 - a mid-year, (minimum), treasury update report (approved 22/01/2020);
 - an annual review following the end of the year describing the activity compared to the strategy, (this report).
- 1.3 In addition, this Council has received quarterly treasury management update reports on the following dates:-
- 12th September 2019
 - 21st November 2019
 - 11th February 2020
- and which were received by the Overview and Scrutiny Committee.
- 1.4 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.
- 1.5 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by Cabinet before they were reported to the full Council.

2 EXECUTIVE SUMMARY

- 2.1 During 2019/20, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual Prudential and Treasury Indicators	2018/19 Actual	2019/20 Original	2019/20 Actual
	£m	£m	£m
Actual Capital Expenditure:			
Non-HRA	24.340	37.254	25.017
HRA	11.008	9.830	7.666
TOTAL	35.348	47.084	32.683
Capital Financing Requirement:			
Non-HRA	131.244	136.099	140.520
HRA	118.784	118.784	118.784
TOTAL	250.028	254.883	259.304
Gross Borrowing			
External Debt	202.856	221.307	216.174
Investments:			
Longer than 1 year	5.000	0.000	0.000
Under 1 year	9.760	7.503	29.410
TOTAL	14.760	7.503	29.410
NET BORROWING	188.096	213.804	186.764

- 2.2 As can be seen from the table above, the actual capital expenditure was less than the budget for 2019/20 that was presented to Cabinet and Full Council in February 2020 and was reflected in the Treasury Management Strategy report. The outturn position was significantly less than the £47.084m original capital budget for 2019/20 as approved by Full Council in February 2019.
- 2.3 During the year the capital programme saw some significant rephasing and budgets for projects that had slipped were carried forward and included in the 2020/21 capital programme. A full review of the capital strategy is planned for 2020/21 to better align capital to new corporate strategies and priorities.
- 2.4 Borrowing of £13.318m was undertaken during the year and was only undertaken for a capital purpose and the Joint Chief Finance Officer confirms that the statutory borrowing limit, (the authorised limit), was not breached.
- 2.5 The financial year 2019/20 continued the challenging investment environment of previous years, namely low investment returns.

3 BACKGROUND

3.1 The Council has adopted the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2017. The primary requirements of the code are:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the objectives of the Council's treasury Management activities;
- Creation and maintenance of Treasury Management practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by 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 covering activities during the previous year;
- 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. In Bury this is the Joint Chief Finance Officer;
- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a named specific body. In Bury this is Cabinet.

3.2 Treasury management in this context 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'.

3.3 This report therefore summarises:

- 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.

4 CURRENT POSITION

The Council's Capital Expenditure and Financing during 2019/20

4.1 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.
- 4.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed. As can be seen from the table, the actual capital expenditure is less than the revised budget position. The revised budget was based on Quarter 3 monitoring position. Capital expenditure was less in year due to schemes slipping and being carried forward into the next financial year. This includes ICT projects, education schemes and property related schemes. All prudential indicators in the report are based on this revised budget.

	2018/19 Actual	2019/20 Budget	2019/20 Actual
	£M	£M	£M
Capital Expenditure:			
Non-HRA	24.340	37.254	25.017
HRA	11.008	9.830	7.666
TOTAL CAPITAL EXPENDITURE	35.348	47.084	32.683
Resourced By:			
Capital Receipts	1.749	0.783	1.931
Capital Grants	15.949	23.787	11.772
HRA	9.091	11.190	7.136
Revenue	5.608	0.000	2.568
Unfinanced capital expenditure	2.951	11.323	9.276

The Council's Overall Borrowing Need

- 4.3 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 2019/20 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 4.4 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.
- 4.5 **Reducing the CFR** – 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). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

4.6 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).

4.7 The Council's 2019/20 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2019/20 on 20/02/2019 and updated at Full Council on 26 February 2020.

4.8 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract (if applicable).

Capital Financing Requirement (Non HRA)	31st March 2019 Actual	31st March 2020 Budget	31st March 2020 Actual
	£M	£M	£M
Opening balance	128.293	128.754	131.244
Add unfinanced capital expenditure	6.517	11.323	9.276
Less MRP/VRP*	(2.752)	(3.168)	(0.478)
Less PFI & finance lease repayments	(0.814)	(0.809)	(0.853)
Closing balance	131.244	136.099	139.189

Capital Financing Requirement (HRA)	31st March 2019 Actual	31st March 2020 Budget	31st March 2020 Actual
	£M	£M	£M
Opening balance	118.784	118.784	118.784
Add unfinanced capital expenditure	0	0	0
Less MRP/VRP*	0	0	0
Less PFI & finance lease repayments	0	0	0
Closing balance	118.784	118.784	118.784

* Includes voluntary application of capital receipts

4.9 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

4.10 **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 (2019/20) plus the estimates of any additional capital

financing requirement for the current (2020/21) and next two financial years.

- 4.11 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 2019/20. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31st March Actual £M	31st March Budget £M	31st March Actual £M
Gross borrowing position	202.856	221.307	216.174
CFR	250.028	254.883	259.304
Under / over funding of CFR	(47.172)	(33.577)	(43.130)

- 4.12 The above tables shows the position as at 31 March 2020 for the Council's gross borrowing position. This shows in comparison to the revised budget position:

	31st December 2019 Revised Budget £M
Gross borrowing position	215.203
CFR	259.866
Under / over funding of CFR	(44.663)

- 4.13 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 2019/20 the Council has maintained gross borrowing within its authorised limit.

- 4.14 **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 are acceptable subject to the authorised limit not being breached.

- 4.15 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.

	2019/20 £M
Authorised limit	309.300
Maximum gross borrowing position during the year	215.994
Operational boundary	274.300
Average gross borrowing position	196.224

Financing costs as a proportion of net revenue stream:-	
Non - HRA	2.93%
HRA	15.92%

4.16 As can be seen from the table above, the gross borrowing position is well within the Authorised limit and the Operational Boundary. The difference between the two reflects the Council's under borrowed position.

The Council's Debt and Investment Position

4.17 The Council's treasury management debt and investment position is organised 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.

4.18 At the end of 2019/20 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

	31st March 2019			31st March 2020		
	Principal		Avg. Rate	Principal		Avg. Rate
	£M	£M		£M	£M	
Fixed rate funding						
PWLB Bury	139.253			134.071		
PWLB Airport	11.828			11.828		
Market Bury	44.272	195.353		49.272	195.171	
Variable rate funding						
PWLB Bury						
Market Bury		0.000			0.000	
Temporary Loans / Bonds	7.503	7.503		21.003	21.003	
Total Debt		202.856	3.95%		216.174	3.70%
Capital Financing Requirement		250.028			259.304	
Over/ (under) borrowing		(47.172)			(43.130)	
Total Investments		14.760	0.66%		29.410	0.61%
Net Debt		188.096			186.764	

4.19 The maturity structure of the debt portfolio was as follows:

Maturity structure of fixed rate borrowing	2018/19 Actual £M	2018/19 Actual %	2019/20 Actual £M	2019/20 Actual %
Under 12 months	17.680	8.72%	22.187	10.26%
12 months and within 24 months	1.000	0.49%	5.000	2.31%

24 months and within 5 years	8.000	3.94%	8.000	3.70%
5 years and within 10 years	0.550	0.27%	5.550	2.57%
10 years and within 15 years	26.000	12.82%	26.000	12.03%
15 years and over	149.626	73.76%	149.437	69.13%
Total Debt	202.856	1.00	216.174	1.00

	Investment at 31/03/19 £M	Amount Invested in year £M	Investments realised in year £M	Balance at 31/03/20 £M
Fixed Rate Investments				
GMCA	5.000		(5.000)	0.000
Total - Fixed rate	5.000	0.000	(5.000)	0.000
Notice Accounts				
Barclays Bank - 32 day Notice account	1.000			1.000
Barclays Bank - 95 day Notice account	0.250			0.250
Lloyds - 32 day Notice account	0.000	6.000	(3.000)	3.000
Santander - 92 day Notice account	1.100	4.000	(4.100)	1.000
Total - Notice accounts	2.350	10.000	(7.100)	5.250
Call Accounts				
Barclays Bank - Flexible Interest Bearing Current Account	7.060	220.270	(203.170)	24.160
Bank of Scotland - Call Account	0.350	80.700	(81.050)	0.000
Total Investments	14.760	310.970	(296.320)	29.410

4.20 Key features of the debt and investment position are:

- Over the course of the year, investments have increased by £16.650m. The large increase in investments related to borrowing completed during the year in line with Council's Treasury Management strategy, additional government grants received in March 2020 to tackle the Covid-19 pandemic and an upfront payment for grant in lieu of business rates for 2020/21 that was also received in March 2020.
- The average rate of return on investments with financial institutions was 0.60% compared to 0.66% in the previous 2018/19 year.

Investment strategy and control of interest rate risk

4.21 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled, but would only rise to 1.0% during 2020.

4.22 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in

January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

- 4.23 Whilst the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

- 4.24 The table below shows the interest rate forecast as at mid-year 2019/20:

Link Asset Services Interest Rate View 11.11.19													
	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

Borrowing strategy and control of interest rate risk

- 4.25 During 2019-20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), 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 minimising counterparty risk on placing investments also needed to be considered.
- 4.26 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.
- 4.27 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Joint Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks (please adapt this outline to what you actually did in the year):
- 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 of risks around relapse into recession or of risks of deflation), then long term borrowings

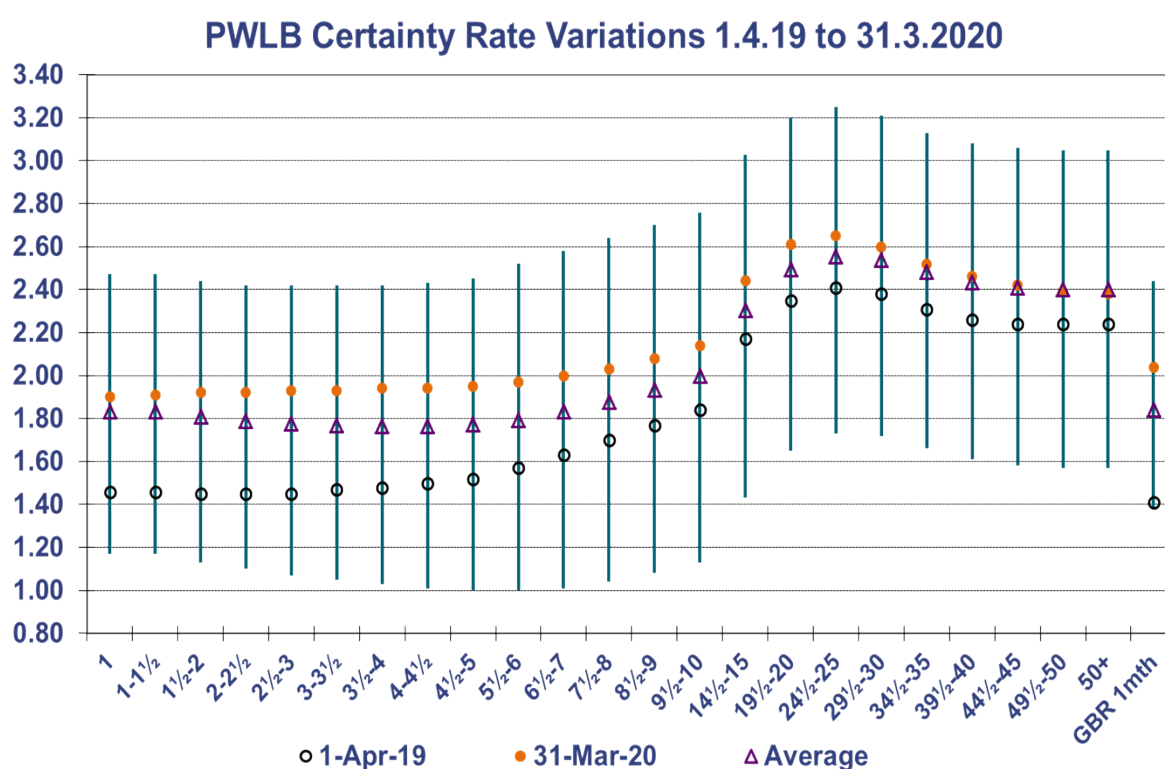
would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

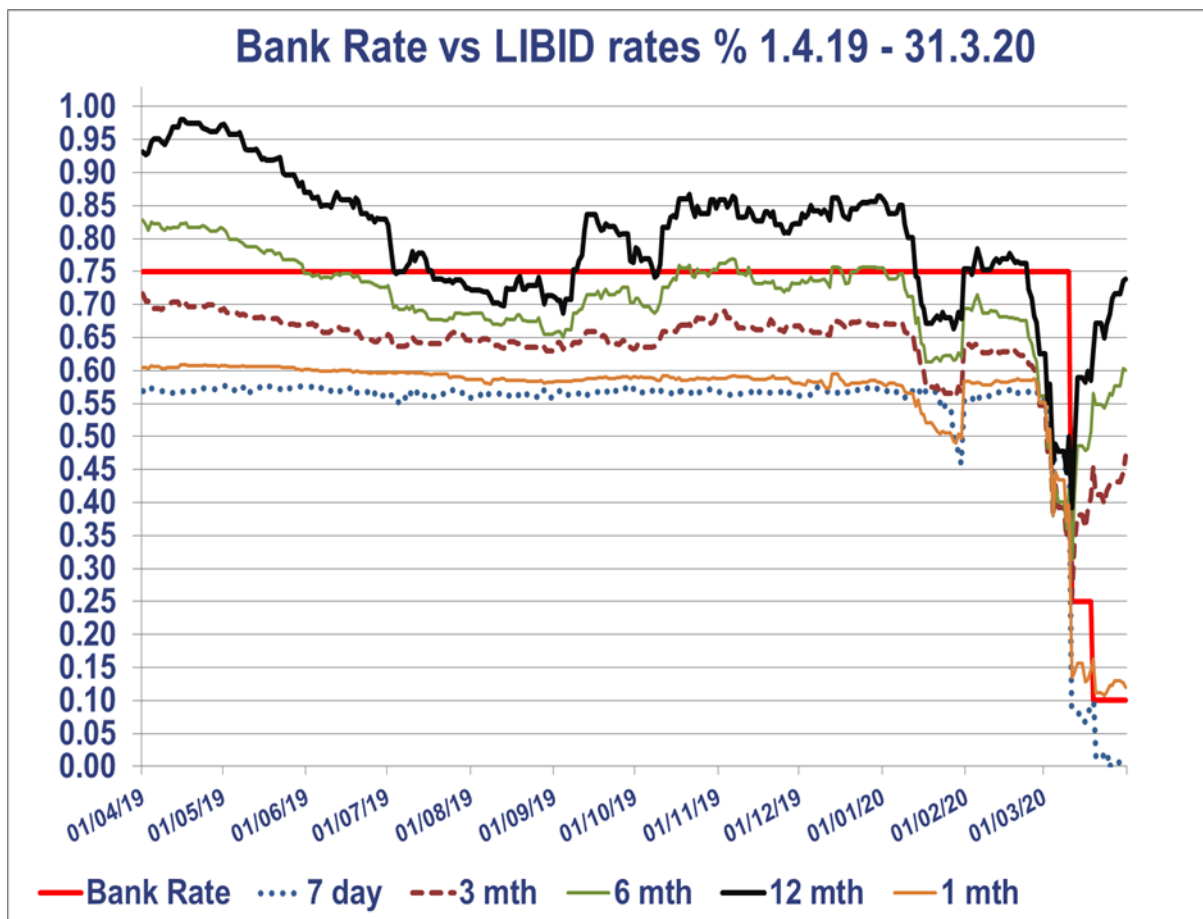
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden 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 years.

4.28 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

4.29 the information below and in the graphs and Appendices 2 and 3 show PWLB rates for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates and the end of the financial year.

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%





- 4.30 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020, and a general background of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued; these conditions were conducive to very low bond yields.
- 4.31 While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc.
- 4.32 This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have therefore seen, over the last year, many bond yields up to 10 years in the Eurozone turn negative. In addition, there has, at times, been an inversion of bond yields in the US

whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

- 4.33 Gilt yields were on a generally falling trend during the last year up until the coronavirus crisis hit western economies. Since then, gilt yields have fallen sharply to unprecedented lows as investors have panicked in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks also started quantitative easing purchases of government bonds which will act to maintain downward pressure on government bond yields at a time when there is going to be a huge and quick expansion of government expenditure financed by issuing government bonds; (this would normally cause bond yields to rise). At the close of the day on 31 March, all gilt yields from 1 to 5 years were between 0.12 – 0.20% while even 25-year yields were at only 0.83%.
- 4.34 However, HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020, at the same time as the Government announced in the Budget a programme of increased spending on infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ends on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.
- 4.35 Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -
- PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
 - PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
 - PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
 - PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
 - Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- 4.36 There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

5 BORROWING OUTTURN 2019/20

Treasury Borrowing

- 5.1 The Council borrowed £5m from PWLB in September 2019. The borrowing was undertaken when the market rates reached the Council's internal

trigger points. This ensure borrowing was undertaken at the optimum point to minimise future costs, securing good value for money. In line with the treasury management strategy, short term borrowing was used for further borrowing during the year rather than more expensive longer term loans.

	Balance at 31/03/19 £M	Loans raised £M	Loans repaid £M	Balance at 31/03/20 £M
PWLB	139.253	5.000	(10.182)	134.071
Market	44.272	5.000		49.272
Temporary Loans	7.500	21.000	(7.500)	21.000
Other loans	0.003			0.003
Bury MBC Debt	191.028	31.000	(17.682)	204.346
Airport PWLB Debt	11.828			11.828
Total Debt	202.856	31.000	(17.682)	216.174

Debt Rescheduling

- 5.2 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Borrowing in advance of need

- 5.3 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.

Repayment of Debt

- 5.4 During 2019/20 the Council repaid £17.682m at an average rate of 2.33%.

Summary of debt transactions

- 5.5 Management of the debt portfolio resulted in a fall in the average interest rate of 0.24%.

6 Investment Outturn

Investment Policy

- 6.1 The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 20/02/2019. This policy sets 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.).
- 6.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources

- 6.3 The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2019	31 March 2020
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	£M	£M
Balances General Fund	7.703	6.990
Balances HRA	6.970	8.393
Earmarked reserves	32.551	52.626
Provisions	40.094	13.996
Usable capital receipts	5.415	6.974
Total	92.733	88.979

Investments as at 31 March 2020

- 6.4 The Council managed all of its investments in house with the institutions listed in the Council's approved lending list. At the end of the financial year the Council had £29.410m of investments as follows:

Type	Institution	Amount	Term	Rate
		£M	Days	%
Call Accounts	Barclays Bank	24.160	0	0.43%
Total Call Accounts		24.160		
Notice Accounts	Barclays Bank	1.000	32	0.72%
	Barclays Bank	0.250	95	0.92%
	Lloyds Bank	3.000	32	0.81%
	Santander	1.000	92	0.75%
Total Notice Accounts		5.250		
Total Investments		29.410		

- 6.5 The Council maintained an average balance of £16.375m of internally managed funds and earned an average rate of return of 0.60%. The comparable performance indicator is the average 7 day LIBID rate which was 0.63%.

7 THE ECONOMY AND INTEREST RATES

UK. Brexit

- 7.1 The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Teresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet

impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

Economic growth

- 7.2 in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.
- 7.3 After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government in April and beyond. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

Inflation

- 7.4 Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

Employment

- 7.5 Employment had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.

USA

- 7.6 Growth in quarter 1 of 2019 was strong at 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarters 3 and 4. The slowdown in economic growth resulted in the Fed cutting rates from 2.25-2.50% by 0.25% in each of July, September and October. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a \$2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to \$6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of \$1,200 to individuals.
- 7.7 The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost \$367bn and 100% of the cost of lost wages for four months will also be covered. In addition there will be \$500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including \$50bn for airlines.
- 7.8 However, all this will not stop the US falling into a sharp recession in quarter 2 of 2020; some estimates are that growth could fall by as much as 40%. The first two weeks in March of initial jobless claims have already hit a total of 10 million and look headed for a total of 15 million by the end of March.

Eurozone

- 7.9 The annual rate of GDP growth has been steadily falling, from 1.8% in 2018 to only 0.9% y/y in quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the

ECB to take new measures to stimulate growth. At its March 2019 meeting it announced a third round of TLTROs; this provided banks with cheap two year maturity borrowing every three months from September 2019 until March 2021. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount, plus more TLTRO measures. Once coronavirus started having a major impact in Europe, the ECB took action in March 2020 to expand its QE operations and other measures to help promote expansion of credit and economic growth. What is currently missing is a coordinated EU response of fiscal action by all national governments to protect jobs, support businesses directly and promote economic growth by expanding government expenditure on e.g. infrastructure; action is therefore likely to be patchy.

China

- 7.10 Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lock down of the country and a major contraction of economic activity in February-March 2020. While it appears that China has put a lid on the virus by the end of March, these are still early days to be confident and it is clear that the economy is going to take some time to recover its previous rate of growth. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.

Japan

- 7.11 Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It appears to have missed much of the domestic impact from coronavirus in 2019-20 but the virus is at an early stage there.

World Growth

- 7.12 The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

8 OTHER KEY ISSUES

International Financial reporting Standards (IFRS) 9 – Financial Instruments

- 8.1 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG], on IFRS9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective from 1 April 2018 for 2018/19. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

International Financial Reporting Standards (IFRS) 16 - Leases

- 8.2 IFRS 16 should have been introduced for Local Authorities from 1 April 2020 which meant that the annual accounts for 2020/21 were to be the first set of accounts produced in accordance with this standard. The Code Of Practice on Local Authority Accounting requires the Council to disclose information relating to the impact of an accounting change required by a new standard that has been issued but not yet adopted by the 2019/20 Code as a note in the 2019/20 accounts. Therefore, the Treasury team has been looking at the impact of the standard on the Council's treasury indicators that would be included in the Treasury Management Strategy 2020/21.
- 8.3 However, due to Covid-19 and the additional pressure local authorities are facing, on 20 March 2020, the Financial Reporting Advisory Board (FRAB) announced the deferral of International Financial Reporting Standard 16 implementation to 2021/22.

9 CONSULTATION

- 9.1 There has been consultation with Link Asset Services, Treasury Management Advisers.
- 9.2 The presentation of the Treasury Management Review 019/20 to Cabinet for scrutiny is in compliance with the requirements of the CIPFA Code of Practice. The report will be present to Full Council in September for approval.

10 FINANCIAL IMPLICATIONS

- 10.1 The financial implications are set out in the report.

11 LEGAL IMPLICATIONS

- 11.1 There are no direct legal implications arising from the report.

12 ASSOCIATED RISKS

- 12.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed.

Appendix 1

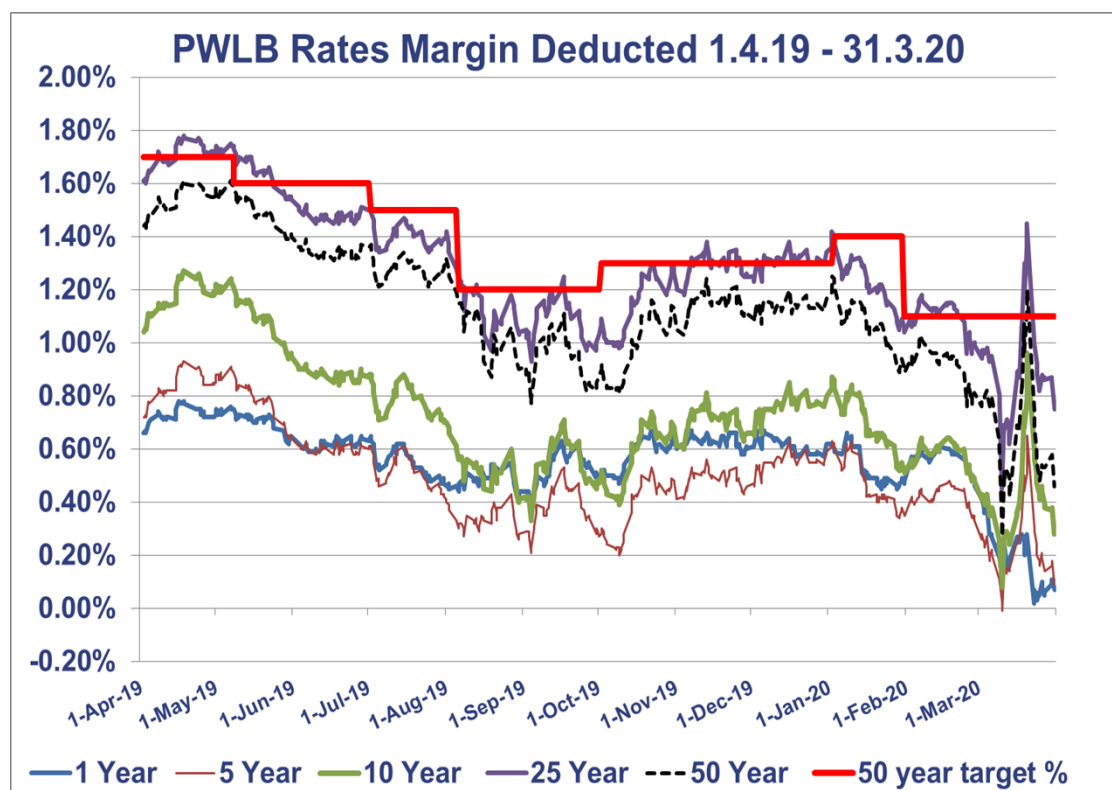
1. PRUDENTIAL AND TREASURY INDICATORS	2018/19 Actual £M	2019/20 Estimate £M	2019/20 Actual £M
Capital Expenditure			
Non - HRA	24.340	37.254	25.017
HRA	11.008	9.830	7.666
TOTAL	35.348	47.084	32.683
Ratio of financing costs to net revenue stream			
Non - HRA	2.82%	2.99%	2.93%
HRA	14.74%	14.15%	15.92%
Gross borrowing requirement			
Alternative financing	6.517	11.323	9.276
Replacement Borrowing	8.074	17.680	13.318
in year borrowing requirement	14.591	29.003	22.595
Gross debt	158.628		171.947
CFR			
Non – HRA	131.244	136.099	140.520
HRA	118.784	118.784	118.784
TOTAL	250.028	254.883	259.304
Annual change in Cap. Financing Requirement			
Non – HRA	6.517		9.276
HRA	0.000		0.000
TOTAL	6.517		9.276
Incremental impact of capital investment decisions			
Increase in council tax (band D) per annum	-£2.45	-£1.10	£2.85
Increase in average housing rent per week	£0	£0	£0

2. PRUDENTIAL AND TREASURY INDICATORS	2018/19 Actual £M	2019/20 Estimate £M	2019/20 Actual £M
Authorised Limit for external debt -			
borrowing	295.000	298.200	304.300
other long term liabilities	5.000	5.000	5.000
TOTAL	300.000	303.200	309.300
Operational Boundary for external debt -			
borrowing	260.000	263.200	269.300
other long term liabilities	5.000	5.000	5.000
TOTAL	265.000	268.200	274.300
Actual external debt	158.628		171.947
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	112%	105%	116%
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments	-12%	-5%	-5%
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 2018/19	Actual 2019/20
under 12 months	9%	10%
12 months and within 24 months	0%	2%
24 months and within 5 years	4%	4%
5 years and within 10 years	0%	3%
10 years and within 15 years	13%	12%
15 years and within 50 years	74%	69%

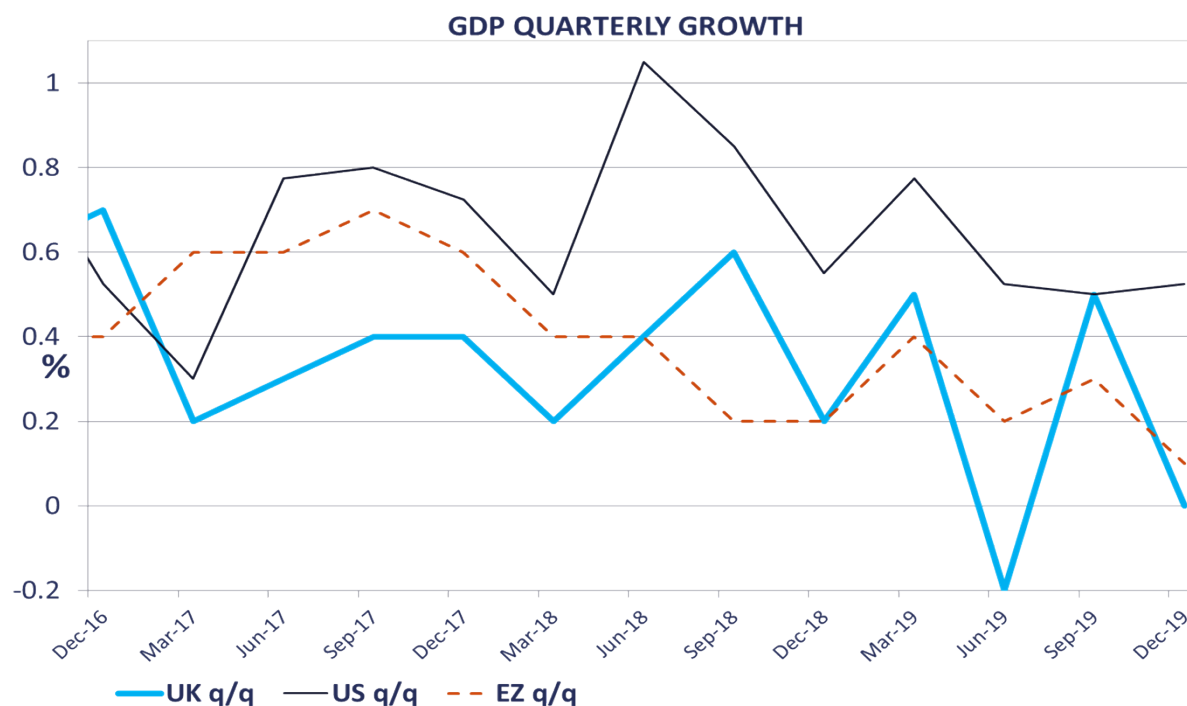
Graphs

On 9.10.19, the margin over gilt yields for PWLB certainty rates was increased from 80 bps to 180 bps. The graph below shows PWLB rates less the margins added over gilt yields. This graph therefore shows more clearly the **actual movements in gilt yields** during the year on which PWLB rates are based.

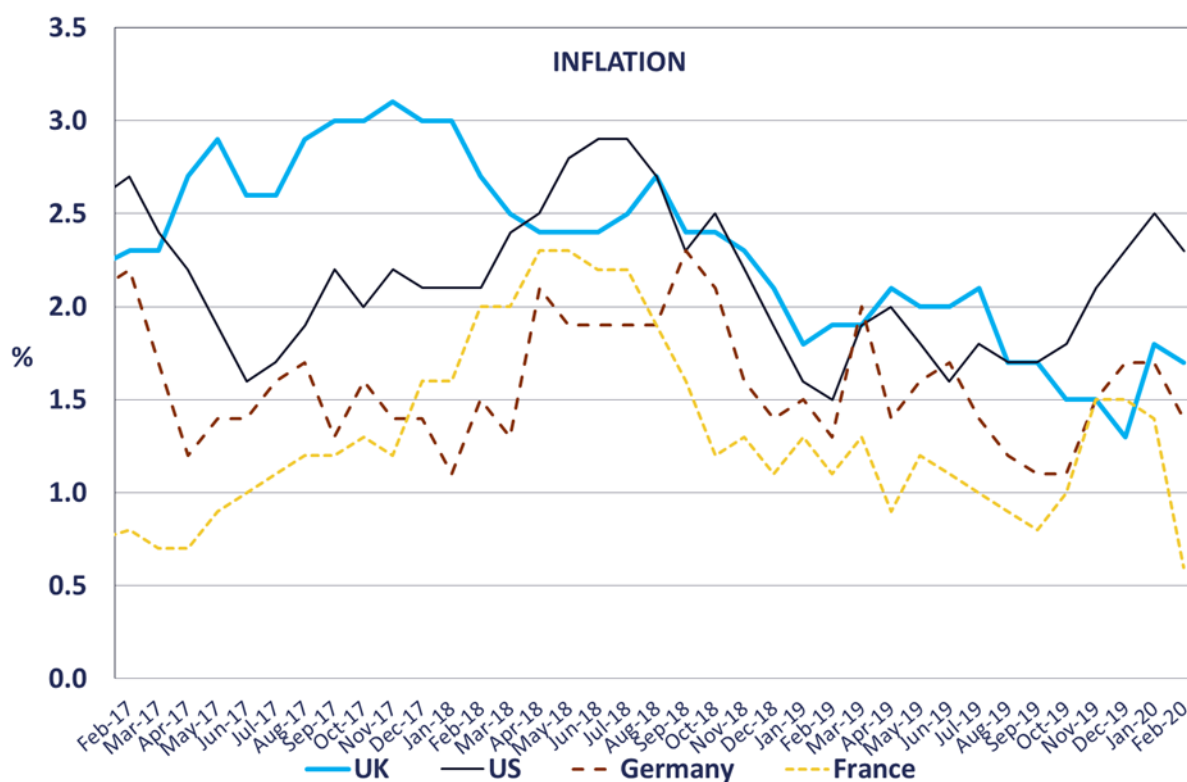


	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	0.66%	0.72%	1.04%	1.61%	1.44%
31/03/2020	0.10%	0.15%	0.34%	0.85%	0.59%
Low	0.02%	-0.01%	0.08%	0.45%	0.27%
Date	20/03/2020	09/03/2020	09/03/2020	09/03/2020	09/03/2020
High	0.78%	0.93%	1.27%	1.78%	1.61%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	0.55%	0.49%	0.72%	1.28%	1.12%

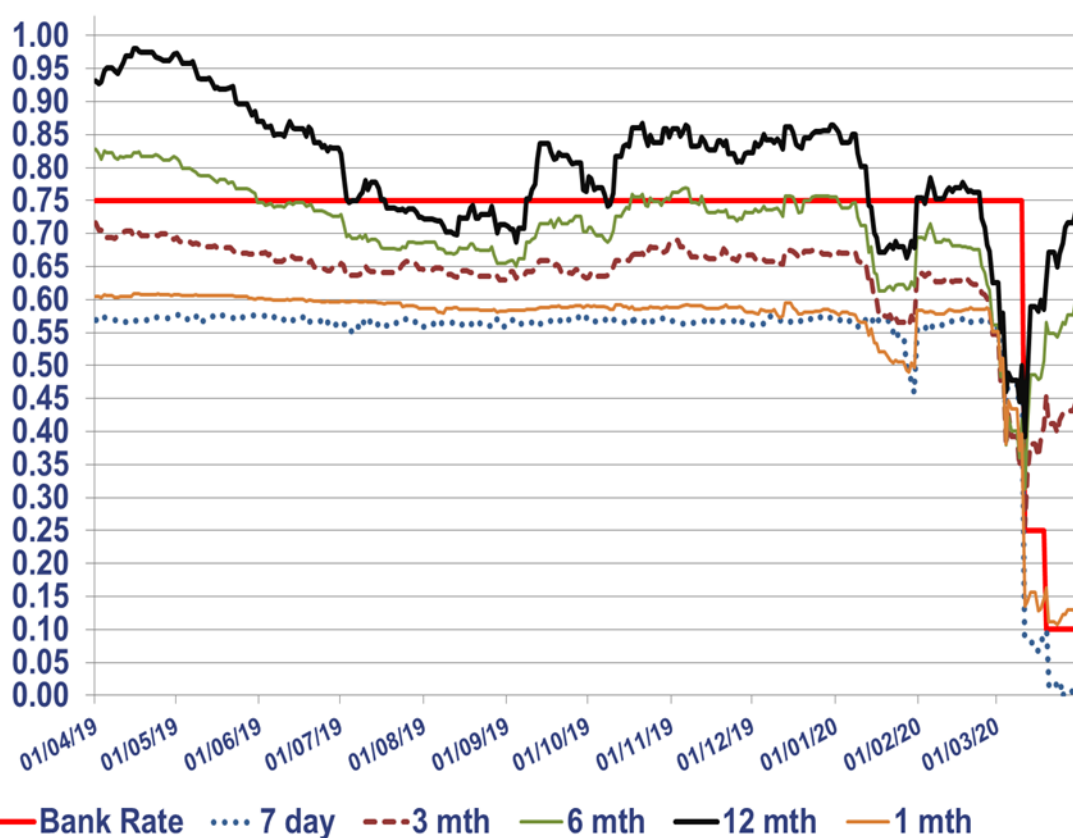
UK, US and EZ GDP growth



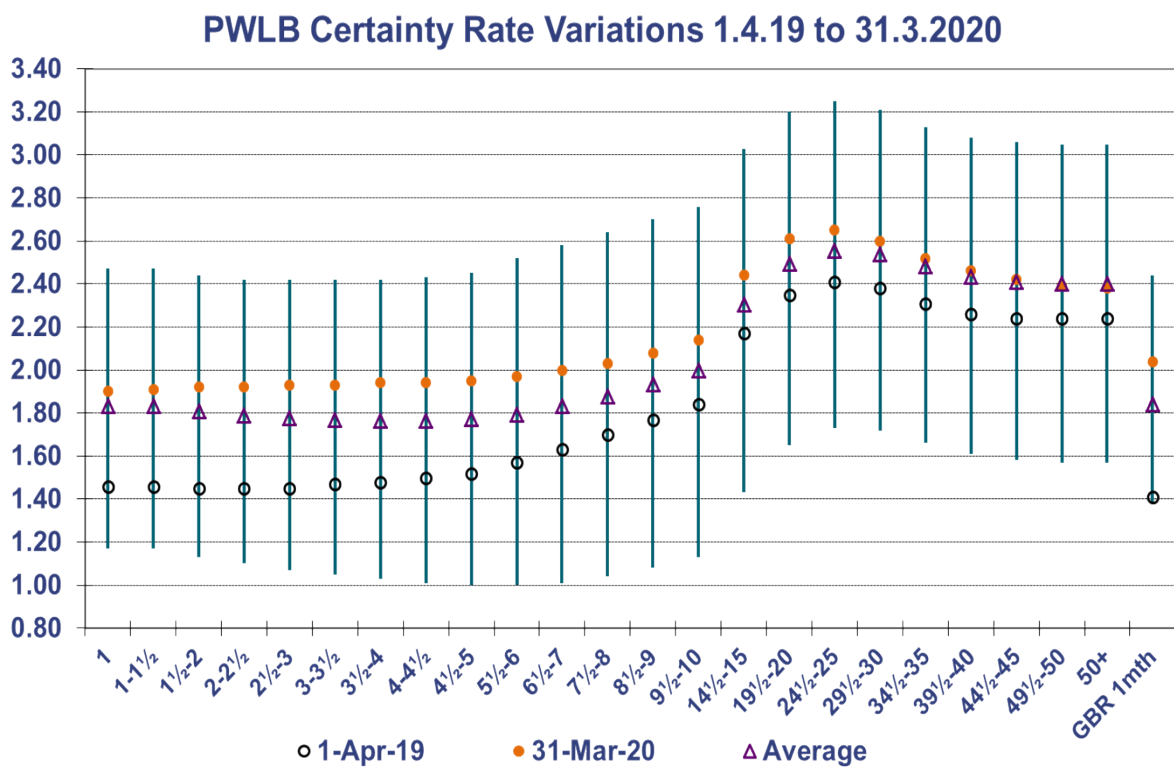
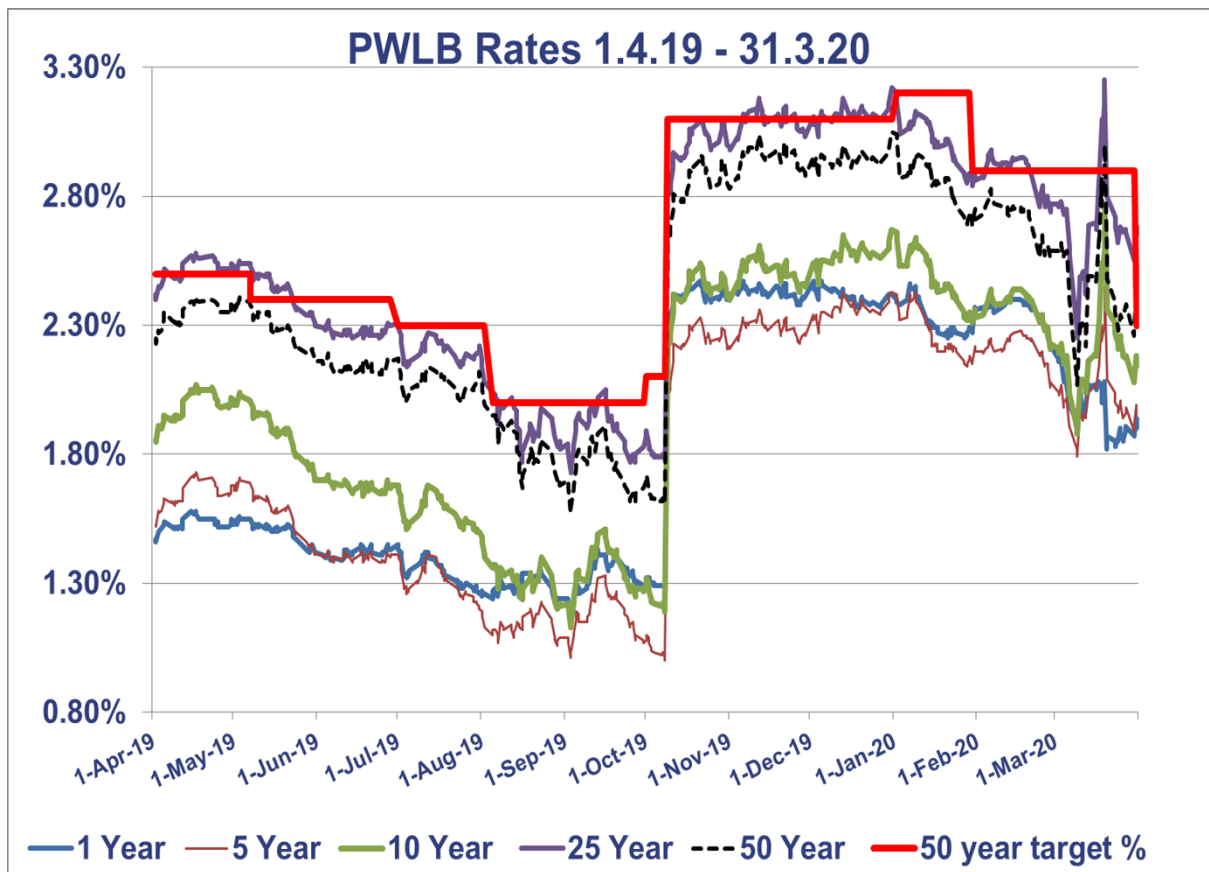
Inflation UK, US, Germany and France



Bank Rate vs LIBID rates % 1.4.19 - 31.3.20



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.58	0.61	0.72	0.83	0.98
High Date	01/04/2019	09/05/2019	15/04/2019	01/04/2019	01/04/2019	15/04/2019
Low	0.10	0.00	0.11	0.26	0.31	0.39
Low Date	19/03/2020	25/03/2020	23/03/2020	11/03/2020	11/03/2020	11/03/2020
Average	0.72	0.53	0.56	0.63	0.70	0.80
Spread	0.65	0.58	0.50	0.46	0.52	0.59



	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%