Report to Council

Treasury Management Review 2018/19

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Services

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Reason for Decision

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual review of treasury management activities together with the actual prudential and treasury indicators for 2018/19. 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 full Council should receive the following reports:

- an annual treasury strategy in advance of the year (approved 28 February 2018)
- a mid-year (minimum) treasury update report (approved 12 December 2018)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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.

The Council confirms that it has complied with the requirements under the Code to give prior scrutiny to all of the above treasury management reports. The Audit Committee is charged with the scrutiny of treasury management activities in Oldham and was therefore requested to review the content of the report prior to its consideration by Cabinet and Council. A programme of Treasury Management training has been developed in conjunction with Link Asset Services, the Council's Treasury Management advisors and a session for leading Members and senior officers has already been delivered and further training has been arranged to assist Members of the Audit Committee with their scrutiny role.

The Audit Committee scrutinised has the Treasury Management review at its meeting on 25 June 2019. In addition, the report was also presented to and approved by Cabinet at its meeting on 22 July 2019. Both the Audit Committee and Cabinet were content to commend the report to Council.

Executive Summary

During 2018/19, 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:

Prudential and Treasury Indicators	2017/18 Actual £'000	2018/19 Revised Budget Estimate £'000	2018/19 Actual £'000
Actual capital expenditure	25,803	48,952	48,564
Total Capital Financing Requirement:	505,049	519,540	493,880
Gross borrowing	147,851	147,849	147,846
External debt	403,966	393,992	394,456
Investments			
· Longer than 1 year	15,000	15,000	15,000
· Under 1 year	58,650	55,000	69,900
· Total	**73,650**	**70,000**	**84,900**
Net Borrowing	74,201	77,849	62,946

As can be seen in the table above, actual capital expenditure was less than the revised budget estimate for 2018/19 presented within the 2019/20 Treasury Management Strategy report considered at the Council meeting of 27 February 2019.

The outturn position was significantly less than the £89.658m original capital budget for 2018/19 as approved at Budget Council on 28 February 2018. During the course of the year, the Capital Programme saw substantial rephasing. A number of major schemes including the Eastern Gateway Improvement Regeneration scheme and the Coliseum Theatre project were re-phased or re-aligned into future years to allow for either a review of the scheme to be undertaken (as is the case with the theatre project) or to align with revised project timelines. The planned expenditure has therefore been re-profiled into 2019/20 and future years.

No borrowing was undertaken during the year. This was because of the policy of self-financing, utilised due to the uncertainty around interest rates and the availability of cash, caused the Council to use cash reserves rather than incur additional borrowing costs. Other prudential and treasury indicators are to be found in the main body of this report. The Director of Finance also confirms that the statutory borrowing limit (the Authorised Limit) was not breached.

The financial year 2018/19 continued the challenging investment environment of previous years, namely low investment returns.

Recommendations

Council is recommended to:

1) Approve the actual 2018/19 prudential and treasury indicators presented in this report
2) Approve the annual treasury management review report for 2018/19

Council **11 September 2019**

Treasury Management Review 2018/19

1 Background

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

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and 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 the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year
- 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 Oldham, this responsibility is delegated to the Section 151 Officer (Director of Finance).
- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

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"*

1.2 The report therefore summarises the following. The:-

- Council's capital expenditure and financing during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- 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

2 Current Position

2.1 The Council's Capital Expenditure and Financing during 2018/19

2.1.1 The Council incurs capital expenditure when it invests in or acquires 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
- Financed by borrowing if insufficient immediate financing is available, or a decision is taken not to apply available resources.

2.1.2 The actual level of capital expenditure forms one of the required prudential indicators. The table below shows the actual level of capital expenditure and how this was financed. As can be seen in the table below, actual capital expenditure in 2018/19 was less than the revised budget estimate. The revised budget estimate is based on the 2018/19 month 8 reported position and aligns with that included in the Annual Treasury Management Strategy 2019/20 report, and not the final position reported to Members at the Cabinet meeting of 25 March 2019. All prudential indicators in the 2019/20 strategy are based on this revised budget.

2.1.3 Capital expenditure was less than anticipated by the revised budget position due primarily to delays in delivering some IT projects, transport, property related schemes and education schemes that were expected to progress during the year.

	2017/18 Actual £'000	2018/19 Revised Budget Estimate £'000	2018/19 Actual £'000
Non-HRA capital expenditure	25,014	47,855	46,318
HRA capital expenditure	789	1,097	2,246
Total capital expenditure	**25,803**	**48,952**	**48,564**
Resourced by:			
• Capital receipts	6,780	5,793	14,919
• Capital grants	10,821	16,068	25,522
• HRA	744	88	851
• Revenue	7,458	8	7,272
Unfinanced capital expenditure	**0**	**26,995**	**0**

2.2 The Council's Overall Borrowing Need

2.2.1 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 capital expenditure. It represents the 2018/19 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been financed by revenue or other cash backed resources.

2.2.2 Part of the Council's treasury activity 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 by utilising temporary cash resources within the Council.

Reducing the CFR

2.2.3 The Council's non-Housing Revenue Account (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- 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.

2.2.4 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 minimum revenue provision (MRP) each year through a Voluntary Revenue Provision (VRP).

2.2.5 The Council's 2018/19 MRP Policy (as required by Government Guidance) was approved as part of the Treasury Management Strategy report for 2018/19 on 28 February 2018.

2.2.6 The Council's CFR for the year is shown in the table below and represents a key prudential indicator. It includes Private Finance Initiative (PFI) and leasing schemes disclosed on the balance sheet, which increase the Council's borrowing need. In 2018/19 the Council had seven PFI schemes in operation. However, no borrowing is actually required against these schemes as a borrowing facility is included within each contract.

Capital Financing Requirement (CFR)	2017/18 Actual £'000	2018/19 Revised Estimate £'000	2018/19 Actual £'000
Opening balance	521,790	505,049	505,049
Add unfinanced capital expenditure (as above)	0	26,995	0
Add adjustment for the inclusion of on-balance sheet PFI and leasing schemes (if applicable)	379	0	450
Less MRP/VRP*	(10,271)	(3,533)	(2,944)
Less PFI & finance lease repayments	(6,849)	(8,971)	(8,675)
Closing balance	505,049	519,540	493,880

* Includes voluntary application of capital receipts and revenue resources

2.2.7 The closing CFR balance was £25.7m lower than the revised estimate primarily due to capital programme reprofiling and the use of cash backed resources to finance capital expenditure in 2018/19. Borrowing activity is constrained by prudential indicators for net borrowing, the CFR and by the Authorised Limit.

Gross borrowing and the CFR

2.2.8 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.

2.2.9 This essentially means that the Council is not borrowing to support revenue expenditure.

2.2.10 This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2018/19 if so required. The table below highlights the Council’s gross borrowing position against the CFR. The Council has complied with this prudential indicator as the gross borrowing position is almost £100m lower than the actual CFR position.

	2017/18 Actual £'000	2018/19 Revised Estimate £'000	2018/19 Actual £'000
Gross borrowing position	403,966	393,992	394,456
CFR - including PFI / Finance Leases	505,049	519,540	493,880

The table above shows the position as at 31 March 2019 for the Councils gross borrowing position and CFR. This shows, compared to the revised budget position:

- Slight movement in the gross borrowing position, reflecting the fact that a small amount of short term borrowing had been repaid and repayment of transferred debt and finance leases.

- A reduction in the CFR, predominantly due to the reprofiling of the capital programme and financing of capital through cash backed resources.

The Authorised Limit

2.2.11 The Authorised Limit is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003 and was set by Council at £540m. Once this has been set, the Council does not have the power to borrow above this level.

The Operational Boundary

2.2.12 The Operational Boundary is the expected borrowing position of the Council during the year and was set by Council at £525m. Periods where the actual position is either below or over the boundary are acceptable subject to the Authorised Limit not being breached.

	2018/19 Actual £'000
Authorised limit	540,000
Operational boundary	525,000

Actual Financing Costs as a Proportion of Net Revenue Stream

2.2.13 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 and is within expected levels.

	2018/19 Actual £'000
External Debt	147,846
PFI / Finance leases	246,610
Actual external debt (Gross Borrowing)	**394,456**
Financing costs as a proportion of net revenue stream - General Fund	10.00%

2.2.14 The table above splits the gross borrowing position of the Council between actual external debt (loans) and PFI / Finance lease debt. As can be seen above the gross borrowing position is well within the Authorised Limit and Operational Boundary. The difference between the two reflects the Council’s under borrowed position disclosed at paragraph 2.2.10.

2.3 The Council's Debt and Investment Position

2.3.1 The Council's 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.

2.3.2 At the end of 2018/19 the Council's treasury position was as follows:

	31 March 2018 Principal £'000	Average Rate/ Return	Average Life (years)	31 March 2019 Principal £'000	Average Rate/ Return	Average Life (years)
Fixed rate funding:						
- Public Works Loan Board (PWLB)	15,482			15,482		
- Stock	6,600			6,600		
Market	125,769			125,764		
Total borrowings	**147,851**	4.49%	36.42	**147,846**	4.50%	35.42
PFI & Finance lease liabilities	**256,115**			**246,610**		
Total External debt	**403,966**			**394,456**		
CFR	**505,049**			**493,880**		
Over/ (under) borrowing	**(101,083)**			**(99,424)**		
Investments:						
Financial Institutions/Local Authorities	58,650	0.43%		69,900	0.76%	
Property	15,000	4.55%		15,000	4.36%	
Total investments	**73,650**			**84,900**		
Net Debt	**74,201**			**62,946**		

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

	2017/18 Actual %	Upper Limit %	Lower Limit %	2018/19 Actual %
Under 12 months	38%	50%	0%	30%
12 months and within 24 months	3%	7%	0%	0%
24 months and within 5 years	22%	35%	0%	33%
5 years and within 10 years	5%	5%	0%	5%
10 years and above	32%	100%	40%	32%

2.3.4 The investment portfolio and maturity structure was as follows:

INVESTMENT PORTFOLIO	**Actual 31 March 2018 £'000**	**Actual 31 March 2018 %**	**Actual 31 March 2019 £'000**	**Actual 31 March 2019 %**
Treasury investments				
Banks	20,000	27.16%	13,000	15.31%
Local Authorities / Public Bodies	25,000	33.94%	30,500	35.92%
Money Market Funds (MMF's)	13,650	18.53%	26,400	31.10%
Total managed in house	**58,650**	**79.63%**	**69,900**	**82.33%**
Bond funds				
Property funds	15,000	20.37%	15,000	17.67%
Cash fund managers				
Total managed externally	**15,000**	**20.37%**	**15,000**	**17.67%**
TOTAL TREASURY INVESTMENTS	**73,650**	**100.00%**	**84,900**	**100%**
TOTAL NON TREASURY INVESTMENTS *	0	0%	0	0%

*Members should note that there have been no Non-Treasury Investments during 2018/19.

	2017/18 Actual £'000	**2018/19 Actual £'000**
Investments		
Longer than 1 year	0	0
Under 1 year	58,650	69,900
Property	15,000	15,000
Total	**73,650**	**84,900**

2.3.5 Key features of the debt and investment position are:

a) Total external debt has reduced by £9.5m primarily due to the repayment of PFI and finance lease liabilities.

b) Over the course of the year 2018/19, investments increased by £11.250m.

c) The average rate of return on investments with Financial Institutions increased from 0.43% in 2017/18 to 0.76% in 2018/19. This increase relates to the Bank of England base rate rise to 0.75% in August 2018.

2.4 Investment Strategy and control of interest rate risk

2.4.1 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%.

2.4.2 At the start of 2018/19, and after UK Gross Domestic Product (GDP) growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018.

2.4.3 Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the Monetary Policy Committee (MPC) would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

2.4.4 It was not expected that the MPC would raise Bank Rate again during 2018/19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. The Council therefore sought to gain value by placing longer term investments after 2 August where cash balances were sufficient to allow this.

2.4.5 Investment rates were stable during the period of August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about its perception of 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.

2.4.6 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.

2.4.7 The table below shows the interest rate forecast as at the time of setting the 2018/19 strategy:

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%
3 Month LIBID	0.40%	0.70%	0.70%	0.90%	0.90%	0.90%	0.90%	1.20%	1.20%	1.20%	1.40%	1.40%	1.40%
6 Month LIBID	0.50%	0.80%	0.80%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.50%
12 Month LIBID	0.80%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.40%	1.40%	1.50%	1.70%	1.70%	1.70%

2.5 Borrowing Strategy and control of interest rate risk

2.5.1 During 2018/19, 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.

2.5.2 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 the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

2.5.3 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury Management Team and the Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

- if 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 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.

2.5.4 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.

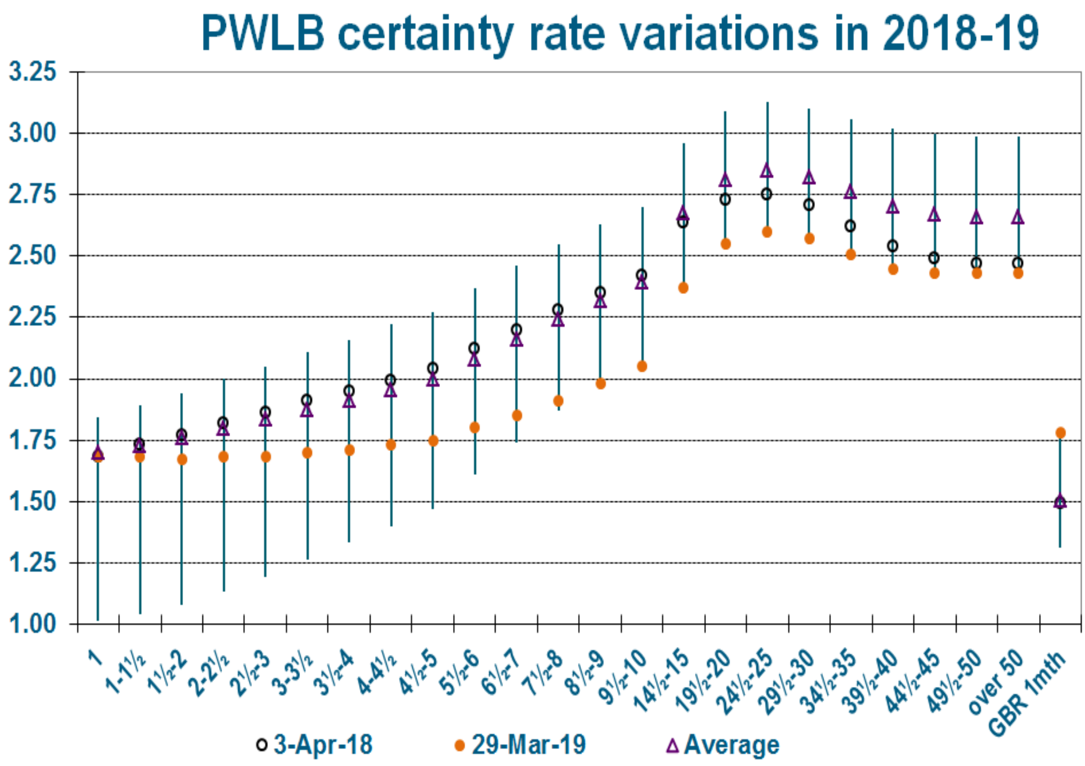
2.5.5 The information below and in graphs and tables in Appendix 3 show Public Works Loan Board (PWLB) rates for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year:

- 5 year PWLB rate - started the year at 1.85%, falling to a low for the year at 1.50% in March 2019, peaking at 2.07% in October 2018 and finishing the year at 1.55%.

- 10 year PWLB rate - started the year at 2.23%, falling to a low for the year at 1.80% in March 2019, peaking at 2.50% in October 2018 and finishing the year at 1.85%.

- 25 year PWLB rate - started the year at 2.57%, falling to a low for the year at 2.33% in March 2019, peaking at 2.93% in October 2018 and finishing the year at 2.40%.

- 50 year PWLB rate - started the year at 2.29%, falling to a low for the year at 2.16% in March 2019, peaking at 2.79% in October 2018 and finishing the year at 2.23%.



2.5.6 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.

2.5.7 There was a significant level of correlation between movements in US Treasury yields and UK gilt yields - which determine PWLB rates. The Federal Reserve (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%.

2.5.8 These rate 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 has also come round to the view that there are probably going to be no more increases in this cycle.

2.5.9 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. But 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.

2.6 Borrowing Outturn for 2018/19

Treasury Borrowing

2.6.1 The Council did not undertake any borrowing during 2018/19. The Council has continued with the policy of using spare cash balances to manage cash flows and to minimise both counterparty risk and low investment returns.

Repayment of Debt

2.6.2 In March 2019 £6k was repaid in relation to Charitable Investments that the Council held.

2.7 Investment Outturn

Investment Policy

2.7.1 The Council's investment policy is governed by Ministry of Housing Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy which for 2018/19 was approved by Council on 28 February 2018. 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.).

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

Resources

2.7.3 The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources reduced by almost £9m during 2018/19 to £159m, comprised as follows:

Balance Sheet Resources	31 March 2018 (£'000)	31 March 2019 (£'000)
Balances - General Fund	13,991	14,840
Balances - HRA	20,162	21,305
Earmarked Reserves	92,005	93,558
Provisions	33,130	29,251
Usable Capital Receipts	8,747	0
Total	**168,035**	**158,954**

Investments at 31 March 2019

2.7.4 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 £84.9m of investments. Of these, a total of £69.9m were with Local Authorities and Financial Institutions and £15m with the Churches, Charities and Local Authorities (CCLA) Property Fund as follows:

Institution	Type	Amount £'000	Term	Rate%	Start Date	End Date
CCLA Property Fund	Property	15,000		4.36%		
		15,000				
Police & Crime Commissioner - Thames Valley	Fixed	4,000	7	0.82%	29-Mar-19	05-Apr-19
Surrey Heath Borough Council	Fixed	1,000	182	0.90%	17-Oct-18	17-Apr-19
GM Combined Authority (GMCA)	Fixed	2,500	31	0.82%	29-Mar-18	29-Apr-19
Goldman Sachs International Bank	Fixed	3,000	181	0.95%	01-Nov-18	01-May-19
Aberdeenshire CC	Fixed	5,000	92	1.00%	05-Mar-19	05-Jun-19
Isle of Wight Council	Fixed	5,000	181	0.95%	07-Feb-19	07-Aug-19
West Dunbartonshire Council	Fixed	3,000	181	0.98%	08-Feb-19	08-May-19
Thurrock Council	Fixed	2,500	364	1.07%	27-Sep-18	26-Sep-19
Thurrock Council	Fixed	2,500	364	1.07%	05-Oct-18	04-Oct-19
North Tyneside Council	Fixed	5,000	364	1.07%	11-Oct-18	10-Oct-19
Total Fixed Deposits		**33,500**				
Bank of Scotland	Notice	2,500	95	1.10%	01-Mar-19	
Santander	Notice	7,500	95	1.00%	01-Mar-19	
Total Notice Accounts		**10,000**				
Federated MMF**	MMF	15,500	10	0.79%	29-Mar-19	01-Apr-19
Aberdeen MMF**	MMF	10,900	3	0.78%	22-Mar-19	01-Apr-19
Total Money Market Funds		**26,400**				
Total Investments		**84,900**				

** Money Market Funds (MMF)

2.7.5 The Council's investment strategy was to maintain sufficient cash reserves to give it necessary liquidity, whilst trying to attain a benchmark average rate of return of London Interbank Bid Rate (LIBID) on the relevant time deposit multiplied by 5%, whilst ensuring funds were invested in institutions which were the most secure. The table below shows the returns by the relevant time period.

	LIBID + 5%	Actual Return %
7 Day	0.533%	0.636%
1 Month	0.562%	0.767%
3 Month	0.709%	0.775%
6 Month	0.827%	0.800%
12 Month	0.988%	1.070%

2.7.6 The Council's overall average performance on its cash investments exceeded its LIBID benchmark in all periods except the 6 month period, due to earlier investments made prior to the bank rate rise.

2.7.7 The investments held with the CCLA Property Fund generated £626k of income with an average return in year of 4.36%. Furthermore, the Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during 2018/19.

2.8 The Economy and Interest Rates

UK

2.8.1 After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 was at 1.4% year on year (y/y) confirming that the UK was the third fastest growing country in the G7 in quarter 4.

2.8.2 After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. There is unlikely to be any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth.

2.8.3 Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December 2018 before falling only marginally to 3.4% in the three months to January 2019.

2.8.4 British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9%, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

2.8.5 As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC’s target of 2%.

2.8.6 The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit

2.8.7 The Conservative minority Government was consistently unable to muster a majority in the Commons over its Brexit deal. The current backstop date for a deal is 31 October 2019 and even with a recent change in Prime Minister, there remains uncertainty about the future.

2.8.8 If there was to be a General Election later in 2019 it could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA

2.8.9 President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4.

2.8.10 The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%.

2.8.11 The Fed increased rates another 0.25% in December 2018 to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 basis points by the end of 2020.

Eurozone

2.8.12 The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the Eurozone and that produced strong annual growth in 2017 of 2.3%.

2.8.13 However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4.

2.8.14 The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019.

2.8.15 The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt.

2.8.16 However, the downturn in 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. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates.

2.8.17 At its March 2019 meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of Targeted Longer Term Refinancing Operations (TLTROs); this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

China

2.8.18 Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan

2.8.19 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.

World Growth

2.8.20 Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone.

2.9 Other Key Issues

International Financial Reporting Standard (IFRS) 9

2.9.1 Risk management was taken into account in the 2018/19 Accounting Code of Practice proposals for the valuation of investments. With the adoption of accounting standard IFRS 9 Financial Instruments, the 'Available for Sale Financial Asset' category is no longer available. The new standard sets out that investments in equity should be classified as fair value through profit and loss unless there is an irrevocable election to designate the asset as fair value through other comprehensive income. The Council's investment in Manchester Airport Holdings Limited is an equity instrument and as such, gains and losses on changes in fair value would be recognised through profit and loss.

2.9.2 Classifying the shareholding as fair value through profit and loss would mean that changes in valuation are immediately recognised within the Council's Cost of Services. This would mean that the Council's revenue budget is susceptible to increased risk from volatility in the share valuations. Any major fluctuations in the valuation of the shareholding would have a significant impact on the General Fund balance.

2.9.3 The Council has a 3.22% shareholding in Manchester Airport Holdings Limited. The shareholding is a strategic investment and not held for trading and therefore the Council has decided to designate it as fair value through other comprehensive income. This means that there is no impact on the revenue budget.

2.9.4 The expected credit loss model was introduced under IFRS 9. The Council has calculated the Expected Loss Credit calculation and the figure calculated is immaterial therefore with the agreement of the Council's External Auditors no transactions have been included in the Council's Statement of Accounts for 2018/19.

2.9.5 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG) on IFRS 9 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 came into effect from 1 April 2018. The statutory override applies for five years from this date. The Council will use the statutory override to account for any changes in the fair value on its pooled investments. This was applied to the Councils CCLA Property Fund investment in 2018/19.

Other Treasury Management Issues

2.9.6 The Council is currently involved in legal action against Barclays Bank with regards to certain Lender Option Borrower Option (LOBO) transactions. This is based on the Bank's involvement in manipulation of the LIBOR benchmark rate and the subsequent impact on the Council's financial position. This matter is on-going.

3 Options/Alternatives

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management the Council has no option other than to consider and approve the contents of the report. Therefore, no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the contents of the report and recommendations are approved by Council.

5 Consultation

5.1 There has been consultation with Link Asset Services, Treasury Management Advisors.

5.2 The presentation of the Treasury Management Review 2018/19 to the Audit Committee for detailed scrutiny on 25 June 2019, ahead of the report being presented to and approved by Cabinet on 22 July 2019, is in compliance with the requirements of the CIPFA Code of Practice. The Audit Committee and Cabinet were content to commend the report to Council.

6 Financial Implications

6.1 All included in the report.

7 Legal Services Comments

7.1 None.

8 Co-operative Agenda

8.1 The treasury management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the co-operative ethos of the Council.

9 **Human Resources Comments**

9.1 None.

10 **Risk Assessments**

10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in Internal Audit reports and in the External Auditors' reports as presented to the Audit Committee as part of their scrutiny.

11 **IT Implications**

11.1 None.

12 **Property Implications**

12.1 None.

13 **Procurement Implications**

13.1 None.

14 **Environmental and Health & Safety Implications**

14.1 None.

15 **Equality, community cohesion and crime implications**

15.1 None.

16 **Equality Impact Assessment Completed?**

16.1 No.

17 **Key Decision**

17.1 No.

18 **Key Decision Reference**

18.1 FCS-05-19

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref: Background papers are provided in Appendices 1, 2 and 3
Officer Name: Lee Walsh
Contact No: 0161 770 6608

20 Appendices

Appendix 1 Prudential and Treasury Management Indicators
Appendix 2 Graphs
Appendix 3 Borrowing and Investment Rates

Appendix 1: Prudential and Treasury Management Indicators

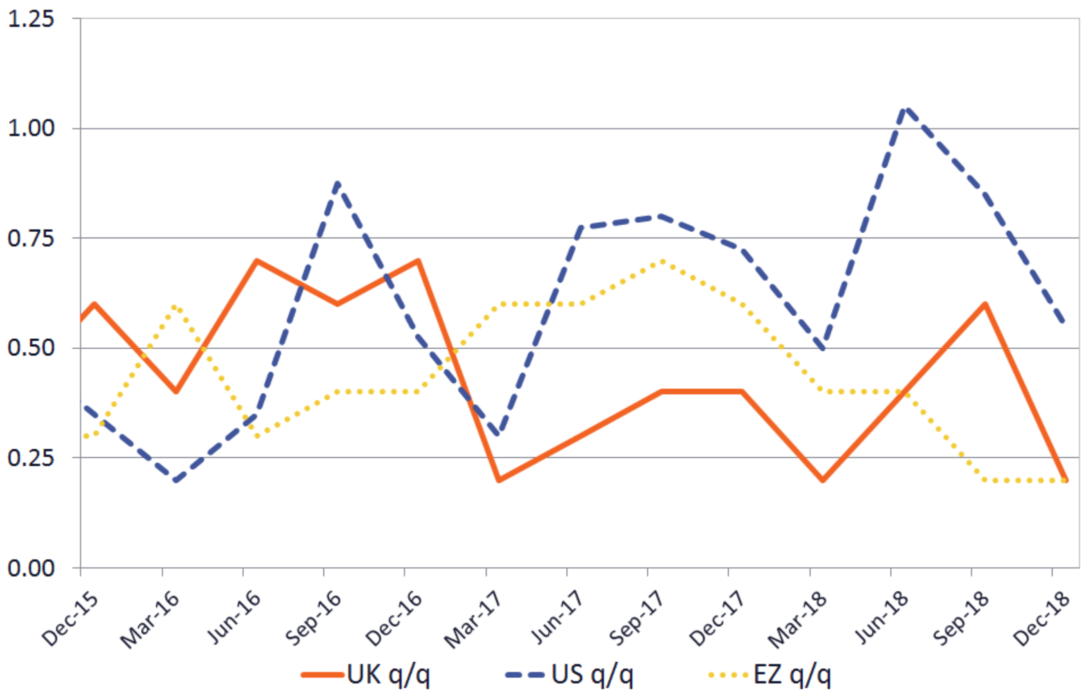
TABLE 1: Prudential indicators	2017/18 Outturn £'000	2018/19 Original £'000	2018/19 Revised Budget Estimate £'000	2018/19 Outturn £'000
Capital Expenditure				
Non – HRA	25,014	86,885	47,855	46,318
HRA	789	2,773	1,097	2,246
TOTAL	**25,803**	**89,658**	**48,952**	**48,564**
Ratio of financing costs to net revenue stream				
Non – HRA	11.52%	%	%	10%
In year Capital Financing Requirement				
Non – HRA	(16,741)	36,992	14,491	(11,169)
TOTAL	**(16,741)**	**36,992**	**14,491**	**(11,169)**
Capital Financing Requirement as at 31 March	505,049	542,041	519,540	493,880

TABLE 2: Treasury management Indicators	2017/18 Outturn £'000	2018/19 Original Budget £'000	2018/19 Revised Budget Estimate £'000	2018/19 Outturn £'000
Authorised Limit for external debt				
Borrowing	285,000	320,000	290,000	290,000
Other long term liabilities	260,000	250,000	250,000	240,000
TOTAL	**545,000**	**570,000**	**540,000**	**540,000**
Operational Boundary for external debt -				
Borrowing	275,000	300,000	280,000	280,000
Other long term liabilities	255,000	245,000	245,000	245,000
TOTAL	**530,000**	**545,000**	**525,000**	**525,000**
Actual external debt	403,966			394,456
Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Actual	100%			100%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing / investments	40%	40%	40%	40%
Actual	0%			0%
Upper limit for total principal sums invested for over 364 days	50,000	50,000	50,000	50,000

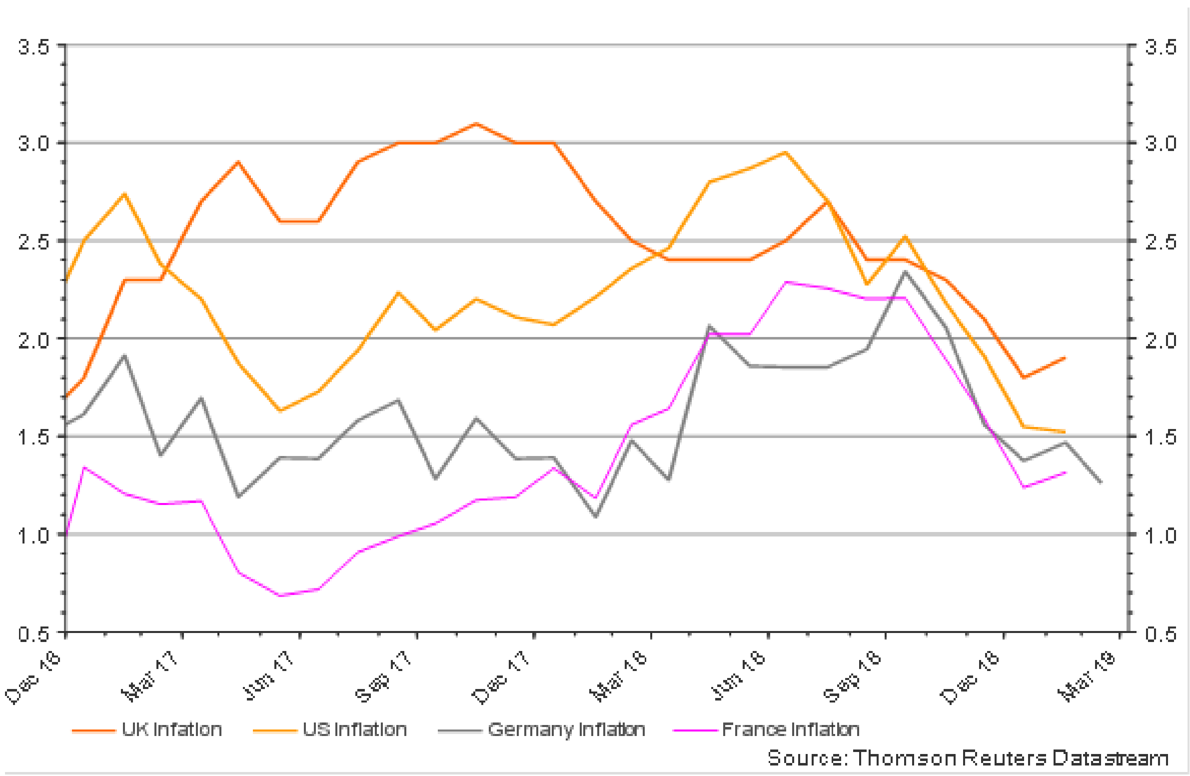
Maturity structure of fixed rate borrowing during 2018/19	Upper Limit	Lower Limit	Actual
Under 12 months	50%	0%	30%
12 months and within 24 months	7%	0%	0%
24 months and within 5 years	35%	0%	33%
5 years and within 10 years	5%	0%	5%
10 years and above	100%	40%	32%

Appendix 2: Graphs

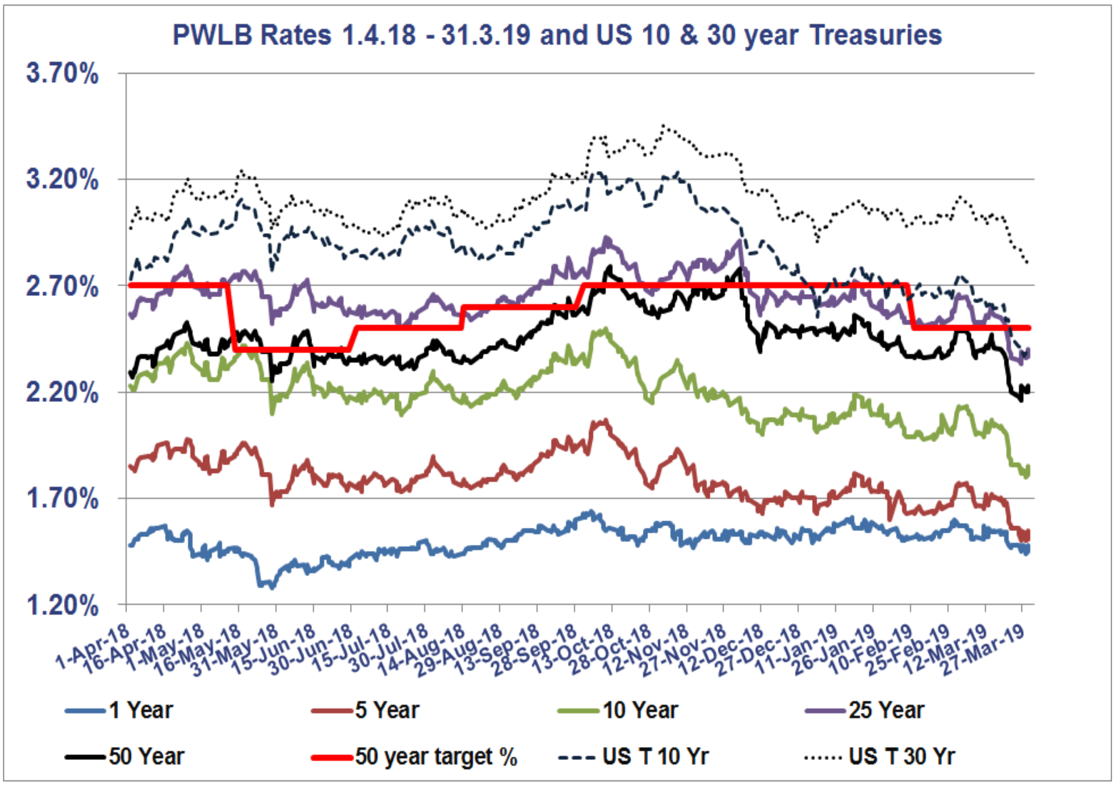
Comparisons - UK, US and Eurozone GDP growth

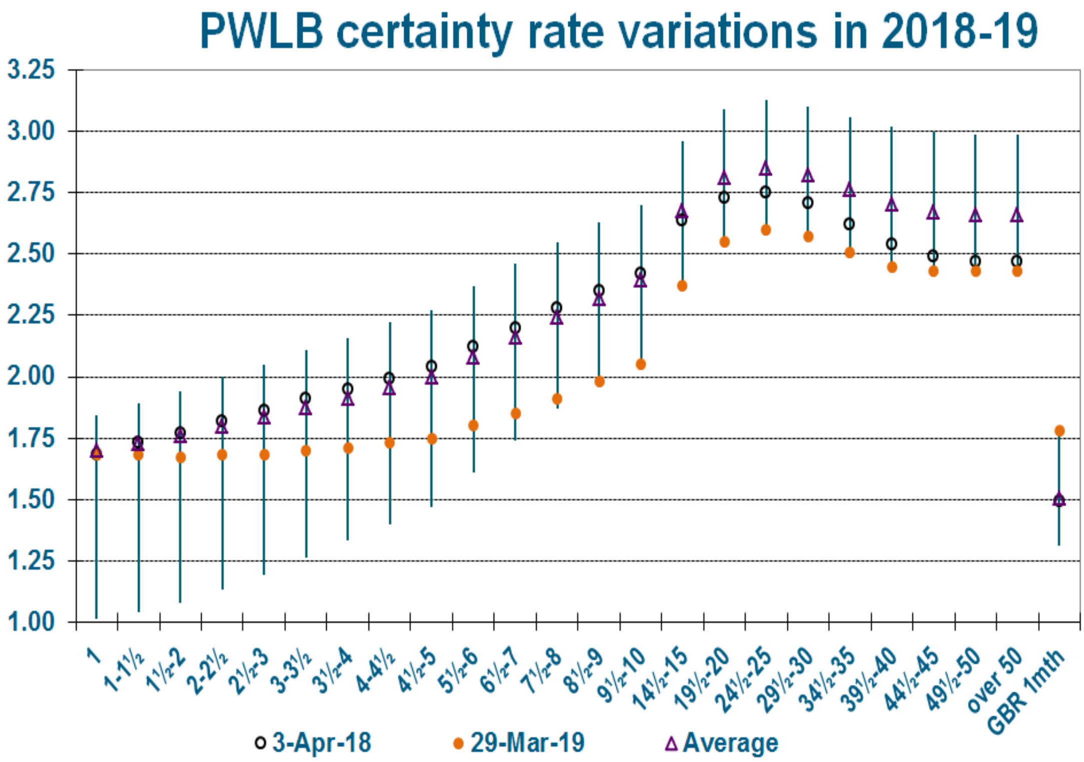


Comparisons - Inflation UK, US, Germany and France



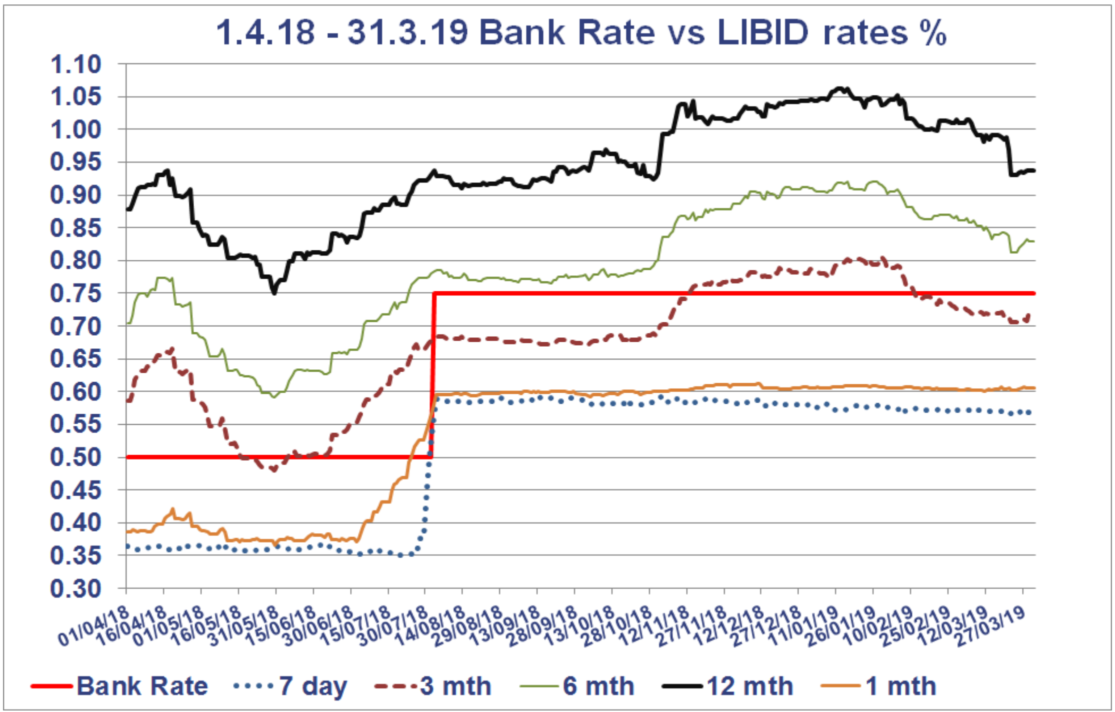
Appendix 3: Borrowing and Investment Rates





PWLB Borrowing Rate Variations

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%



Investment / LIBID Rate Variations

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
01/04/2018	0.50	0.36	0.39	0.59	0.70	0.88
31/03/2019	0.75	0.57	0.61	0.72	0.83	0.94
High	0.75	0.59	0.61	0.81	0.92	1.06
High Date	02/08/2018	01/11/2018	10/12/2018	29/01/2019	15/01/2019	11/01/2019
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.67	0.51	0.54	0.68	0.79	0.94
Spread	0.25	0.24	0.25	0.33	0.33	0.31