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**Report to: Council**

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**Date: 25th June 2015**

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**Subject: Annual Treasury Report 2014/15**

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**Report by: Depute Chief Executive**

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### **1.0 Purpose**

- 1.1. The purpose of this report is to detail the Treasury Management activities for the Council for 2014/15.

### **2.0 Recommendations**

- 2.1. It is recommended that the Council note and consider the Annual Report 2014/15 of the Council's Treasury Management activities.

### **3.0 Considerations**

- 3.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Council be updated on treasury management activities regularly (Treasury Management Strategy Statement, annual and midyear reports). This annual report therefore ensures the Council is implementing best practice in accordance with the Code.

- 3.2 The report covers the following:

- The Economy and Interest Rates
- Interest Rate Forecast
- Investment Outturn for 2014/15
- Borrowing Requirement and Debt
- Borrowing Outturn for 2014/15
- Compliance with Treasury and Prudential Limits

#### **The Economy and Interest Rates**

- 3.3 The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 of 2015 as the unemployment rate had fallen much faster than expected. In May, however, the Bank revised its

forward guidance. In August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand.

- 3.4 By the end of 2014, it was clear that inflation in the UK was headed towards zero in 2015 with the possibility of turning negative. As a result, this made it clear that the Monetary Policy Committee would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016. Gilt yields were also on a falling trend for much of the last 8 months of 2014/15.
- 3.5 On the upside, strong growth in the US has caused an increase in confidence that the US was well on its way to a full recovery and would be the first country to start increasing its central rate, probably by the end of 2015. The UK is expected to closely follow the US due to similar strong growth over both 2013 and 2014 and good prospects for continuation into 2015 and beyond.
- 3.6 In the Eurozone, the Greek election in January 2015 has caused a resurgence of fears of the EU Sovereign debt crisis which had subsided since 2012. The UK and its banking system has little direct exposure to Greece, however it is much more difficult to quantify what impact this would have on banks within other EU countries and any knock on affect for the UK.

#### Interest Rate Forecast

- 3.7 The Council's treasury advisors - Capita Asset Services, have provided the following interest rate forecast which shows an expected increase in Bank rate in the third quarter of 2016.

**Table 1: Investment Forecast provided by Capita Asset Management**

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
<b>Bank rate</b>	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%
<b>5yr PWLB rate</b>	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.80%	2.90%
<b>10yr PWLB rate</b>	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%
<b>25yr PWLB rate</b>	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%
<b>50yr PWLB rate</b>	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.10%	4.20%

#### Investment Outturn for 2014/15

- 3.8 The Treasury Management Strategy Statement (TMSS) for 2014/15, which includes the Annual Investment Strategy, was approved by the Council on 15th May 2014. It can be confirmed that the approved limits within the Annual

Investment Strategy were not breached during the year ended 31st March 2015.

- 3.9 The Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of an increase to this rate have been pushed back to the third quarter of 2016.
- 3.10 As at 31st March 2015 the Council held £21m of short term investments (£18m at 31st March 2014). The average level of funds available for investment during the year was £14m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of payments, receipt of grants and progress on the Capital Programme.
- 3.11 The benchmark investment returns over the last quarter of the 2014/15 financial year are illustrated in the undernoted table:

**Table 2: Benchmark Investment Returns 2014-15**

Benchmark	Benchmark Return
7 day	0.34%
1 month	0.36%
3 month	0.40%
6 month	0.50%
12 month	0.78%

- 3.12 The Council's budgeted cash investment return for 2014/15 was 0.59%. The Council achieved an actual investment return of 0.59% for the year ended 31st March 2015 on cash balances of £20m. This comprised of 1.01% return on the remaining 3 months of a 12month deposit and 0.98% return on the remaining 6 months of a 12 month deposit where both rates outperformed the benchmark by 0.2%, and 0.4% on everyday cash balances which also outperformed the benchmark return for both 7day and 1 month investments.

As at 31st March 2015 the Council reclassified it's investment in CSBP Developments from a long term investment to a short term investment. This is explained in more detail within Appendix 1.

### **Borrowing Requirement and Debt**

- 3.13 The Council's underlying need to borrow to finance capital expenditure, termed the Capital Financing Requirement (CFR) is shown below. This shows a reduction in actual CFR from Budget mainly due to slippage in the Capital programme.

**Table 3: Borrowing Requirement (CFR) 2014-15:**

	<b>31 March 2014 Actual £000</b>	<b>31 March 2015 Budget £000</b>	<b>31 March 2015 Actual £000</b>
CFR General Fund	142,723	139,563	130,794
CRA HRA	30,754	32,028	30,702
<b>Total CFR</b>	<b>173,477</b>	<b>171,591</b>	<b>161,496</b>

### **Borrowing Outturn for 2014/15**

#### **New Borrowing**

- 3.14 During 2014/15, the Council repaid £10m of maturing debt which was budgeted to be replaced. Due to low interest rates, short term borrowing was undertaken to replace this debt. An additional £5m was also undertaken on a short term basis to December 14 to fund budgeted Capital Expenditure.
- 3.15 Repayments of £1.2m were made in the year toward the Council's PFI and finance lease
- 3.16 During the year, the Council invested in a Social Housing Project with a third party and undertook an additional PWLB loan of £2.9m to fund this investment. This loan is fully funded through repayments from the third party and underwritten by the Scottish Government. This therefore increased the Council's long term borrowing.
- 3.17 The Council's external borrowing position as at 31st March 2015 is illustrated in the undernoted table:

**Table 4: External borrowing at 31 March 2105**

	<b>March 2014 £000</b>	<b>March 2015 £000</b>
Public Works Loan Board	91,702	84,646
Market Loans	24,018	24,012
Other long term liabilities	46,248	45,005
Temporary Loans (<1 year)	0	10,000
<b>Total</b>	<b>161,968</b>	<b>163,663</b>

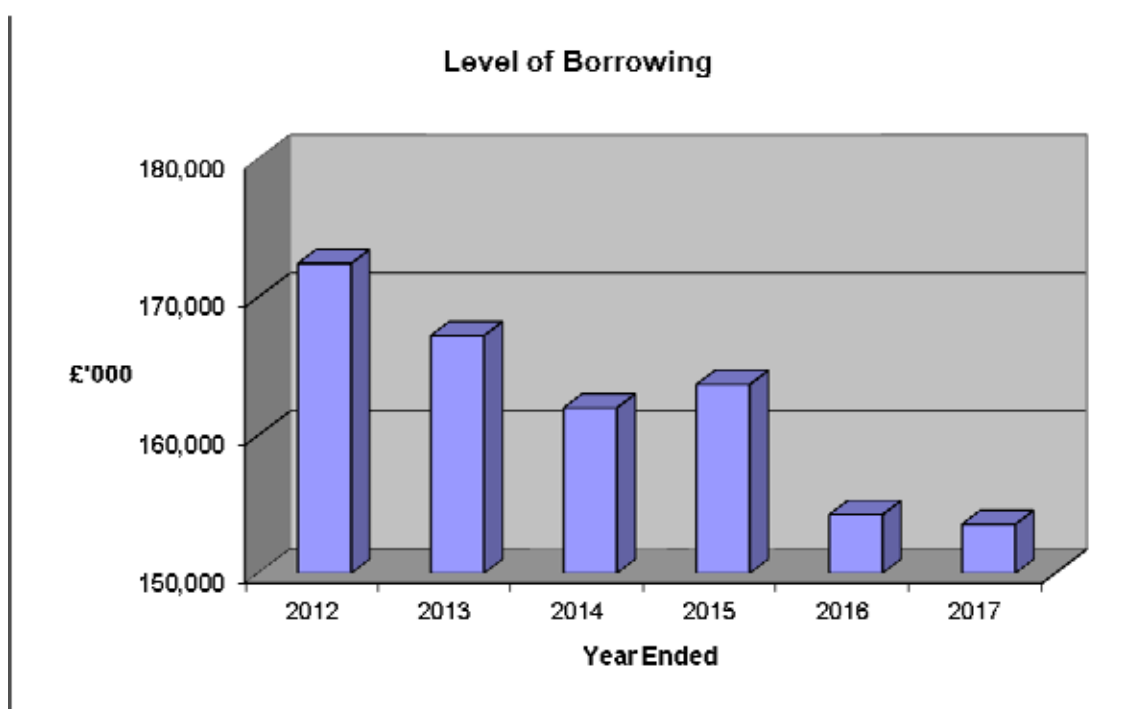
- 3.18 The code requires local authorities to maintain a level of borrowing below their CFR over the longer term. As reported in the Treasury Management Strategy 2015/16 submitted to Council in March 2015, the Council was projected to be over-borrowed at the end of 2014/15 which was mainly due to the late award

of a £4m grant from the Scottish Government for the costs of the Redwell School Development. The actual over-borrowed position at the 31 March 2015 is £2,167k which is the amount by which the total borrowing of £163,633k shown in table 5 is greater than the Council's CFR for the year of £161,946k, shown in Table 3. This is higher than the £992k over-borrowed position previously forecast due to the actual Capital spend at the end of the year on both the General Fund and the HRA being less than projected. Over the next few years borrowing is forecast to be below CFR and as such the Council will maintain an under-borrowed position in compliance with requirements of the Code.

3.19 The Council continues to work towards reducing overall external debt in line with the Treasury Strategy. This is illustrated in the following chart, demonstrating actual and forecast level of debt up to 2016/17. In line with the Treasury Strategy maturing debt in previous years has not been replaced due to the running down of internal cash balances. At 31<sup>st</sup> March 2015 cash balances remain strong and utilisation of these balances will be assessed against the cost of external borrowing to fund any future financing requirement. The level of cash balances and interest rates will continue to be monitored and reviewed if significant changes occurred.

Whilst borrowing to fund the capital programme remains steady, the repayments towards PFI and finance leases continue to reduce the Council's overall level of external debt.

**Table 5: External debt (actual and forecast)**



**Borrowing in advance of need**

3.20 The Council has not borrowed in advance of need during 2014/15 and has no intention to borrow in advance in 2015/16.

## **Debt Rescheduling**

- 3.21 Debt rescheduling opportunities have been limited in the current economic climate as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable. Consequently no debt rescheduling was undertaken during the year.

## **Compliance with Treasury and Prudential Limits**

- 3.22 It is a statutory duty for the Council to determine and keep under review the affordable capital expenditure limits. The Council's Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement.
- 3.23 During the financial year the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in appendix 3.

## **4.0 Conclusions**

- 4.1 Additional long term borrowing of £2.9m was undertaken during 2014/15 to fund a long term investment in Social Housing.
- 4.2 Short term loans totalling £15m were undertaken to repay matured debt and to fund budgeted capital expenditure of which £5m was repaid in December 2014.
- 4.3 The council has repaid £1.2m towards PFI and Finance leases.
- 4.4 The Council continues to outperform the benchmark return in interest on investments and cash balances are at a level of c£20m which contributes to supporting the Council's capital financing requirement internally.

## **5.0 Sustainability Implications**

- 5.1 None

## **6.0 Resource Implications**

### *6.1 Financial Details*

- 6.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate.

Yes

- 6.3 Finance have been consulted and have agreed the financial implications as set out in the report.

Yes

### *6.4 Staffing*

- 6.5 None

## 7.0 Exempt Reports

7.1 Is this report exempt? Yes  (please detail the reasons for exemption below)  
No

## 8.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please tick )

- The area has a positive image and attracts people and businesses
- Our communities are more cohesive and inclusive
- People are better skilled, trained and ready for learning and employment
- Our communities are safer
- Vulnerable people and families are supported
- Substance misuse and its effects are reduced
- Health is improving and health inequalities are reducing
- The environment is protected and enhanced for all
- The Council is effective, efficient and recognised for excellence

(2) **Council Policies** (Please detail)

Treasury Management Policy Statement and Practices

## 9.0 Equalities Impact

9.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

N/A Yes  No

## 10.0 Legality

10.1 In adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

## 11.0 Appendices

11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix 1 - Classification of CSBP - short term/long term

Appendix 2 – Investment Portfolio as at 31<sup>st</sup> March 2015

Appendix 3 - Prudential and Treasury Indicators as at 31<sup>st</sup> March 2015

## 12.0 Background Papers

12.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes  (please list the documents below) No

### Treasury Management Strategy 2014/15 - report to Council May 2014

#### Author

NAME	DESIGNATION	TEL NO / EXTENSION
Lindsay Sim	Team Leader - Corporate Accountancy	2078

#### Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Depute Chief Executive	Signed: N Bridle
Elaine McPherson	Chief Executive	Signed: E McPherson



## APPENDIX 1: Classification of CSBP – Short term/long term

The Council is a partner in CSBP Developments Ltd which is a Joint Venture with Valad Europe. The Council transferred assets as part of the investment which were to be developed for sale or rental. A restriction preventing the winding of the Joint Venture has now expired and the Board have now set the process in motion for winding up the company. The expected deadline for winding up is the end of June 2015. For this reason the investment the Council holds has been reclassified from a long term investment which covers investment greater than 1 year to a short term investment. The investment is valued at £848k at 31<sup>st</sup> March 2015 which is expected to be repaid to the council on winding up.

## APPENDIX 2: Investment Portfolio as at 31st March 2015

<b>Borrower</b>	<b>Principal (£000)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>
Bank of Scotland Plc	20,205	0.40%	Instant Access	
Other Accounts	24	-		
<b>Total Cash and Cash Equivalents</b>	<b>20,229</b>	<b>0.40%</b>		

<b>Short Term Investments</b>	<b>Principal (£000)</b>
CSBP Developments	848
<b>Total Short Term Investments</b>	<b>848</b>

<b>Long Term Investments</b>	<b>Principal (£000)</b>
CSPB Investments	1
Clackmannanshire Regeneration	4,906
Coalsnaughton NHT Project	2,976
<b>Total Long Term investments</b>	<b>7,883</b>

<b>TOTAL INVESTMENTS</b>	<b>28,960</b>
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## APPENDIX 3: Prudential and Treasury Indicators as at 31st March 2015

Treasury Indicators	2014/15 Budget £'000	2014/15 Actual £'000
Authorised limit for external debt	187,000	187,000
Operational boundary for external debt	175,000	175,000
Gross external debt	160,720	163,663
Investments	28,000	28,960
Net borrowing	132,720	134,703

Maturity structure of fixed rate borrowing - upper and lower limits (excluding PFI and Finance Leases)	Upper and Lower Limits	Fixed Rate Borrowing as at 31st March 2015 £'000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	6,000	15.9%
12 months to 2 years	25% - 0%	6,200	6.2%
2 years to 5 years	50% - 0%	5,000	5.0%
5 years to 10 years	75% - 0%	4,182	4.2%
10 years and above	100% - 0%	68,776	68.7%

<b>Prudential Indicators</b>	<b>2014/15 Budget £'000</b>	<b>2014/15 Actual £'000</b>
<b>Capital expenditure - General Fund Services</b>	14,609	10,755
<b>Capital expenditure - Housing Revenue Account</b>	10,586	9,326
<b>Capital Financing Requirement (CFR) - General Fund</b>	139,563	130,794
<b>Capital Financing Requirement (CFR) - HRA</b>	32,028	30,702
<b>Annual change in CFR - General Fund</b>	2,684	(3,551)
<b>Annual change in CFR - HRA</b>	883	(1,372)
<b>In year borrowing requirement</b>	3,567	0
<b>Ratio of financing costs to net revenue stream - General Fund</b>	8.05%	8.25%
<b>Ratio of financing costs to net revenue stream - HRA</b>	17.54%	16.93%