CLACKMANNANSHIRE COUNCIL

THIS PAPER RELATES TO ITEM 9

ON THE AGENDA

Report to: **Council**

Date: **3 March 2016**

Subject: **Treasury Management Update at 30th September 2015**

Report by: **Chief Accountant**

1.0 Purpose

1.1. The purpose of this report is to present an update of Treasury Management activity for the period to 30th September 2015.

2.0 Recommendations

2.1. It is recommended that the Council note and consider this mid year review 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 midyear 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 2015/16
- Borrowing Requirement and Debt
- Borrowing Outturn for 2015/16
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

3.3 The growth rate of the previous two years is expected to continue through 2015. The strong growth rate has resulted in employment falling quickly over the last three years, however this is increasing again due to the significant increases in the minimum and living wage that were announced in July by the Chancellor.

3.4 There are considerable risks around whether inflation will rise in the near future as strongly and quickly as previously expected. This will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had previously been expected, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from fallen oil and commodity prices, and the volatility in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

3.5 There are potential risks around the UK EU membership which could impact on investor sentiment towards the UK and towards gilts as an investment and this would impact on PWLB rates. Interest rate forecasts therefore need to be considered with caution as high volatility around PWLB rates is expected to continue.

3.6 New borrowing has therefore been avoided in 2015/16 by running down surplus cash balances as per the Councils Treasury strategy to reduce long term debt. This will need to be carefully reviewed to avoid incurring higher borrowing costs in future years, when the council may not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt.

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 second quarter of 2016.

Table1: Investment Forecast provided by Capita Asset Management

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Investment Outturn for 2015/16

3.8 The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 5th March 2015**.** It can be confirmed that the approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 2015.

3.9 The Bank Rate has remained at its historic low of 0.5% throughout the first six months of the year; it has now remained unchanged for over six years. Market expectations as to the timing of the start of an increase to this rate have been pushed back to the second quarter of 2016.

3.10 As at 30th September 2015 the Council held £13m of cash and cash equivalents (£21m at 31st March 2015). These have reduced in the first six months of the year due to the repayment of two £5m short term loans and a £6m PWLB loan being repaid from cash balances instead of undertaking new borrowing.

3.11 The average level of funds available for investment during the period to 30th September 2015 was £17m. These funds were available on a temporary basis and therefore to ensure the best interest rate was achieved a total of £9m was invested in short term deposits. The level of funds available was mainly dependent on the timing of payments, receipt of grants and progress on the Capital Programme.

3.12 The benchmark investment returns over the 6 months ended 30th September 2015 are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2015/16

Benchmark	Benchmark Return
7 day	0.36%
1 month	0.38%
3 month	0.45%
6 month	0.60%
12 month	0.90%

3.13 The Council's budgeted cash investment return for 2015/16 was 0.60%. The Council achieved an actual investment return of 0.52% (£49K) for the period ended 30th September 2015. This comprised of 0.57% return on two 3 month deposits of £5m and £4m outperforming the benchmark by 0.12% and 0.4% on everyday cash balances which also outperformed the benchmark return for both 7 day and 1 month investments. The actual investment return is lower than the budgeted return of 0.60% which was originally based on an expected interest rate rise during 2015/16. To date interest rates have remained at 0.5% and are expected to do so until the next financial year.

Borrowing Requirement and Debt

3.14 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 Capital programme.

Table 3: Borrowing Requirement (CFR) 2015/16

	31 March 2015 Actual £000	31 March 2016 Budget £000	31 March 2016 Projected as at 30th September 2015 £000
CFR General Fund	130,536	127,683	124,689
CFR HRA	30,702	34,576	34,549
Total CFR	**161,238**	**162,259**	**159,238**

Borrowing Outturn for 2015/16

New Borrowing

3.15 During the period to 30th September 2015, the Council repaid £16m of maturing debt consisting of £10m short term borrowing undertaken in 14/15 and a £6m PWLB loan. Existing temporary available cash funding has been used to repay the maturing debt. It is anticipated that only £2m new borrowing will be required by the year end due to the current slippage in the capital programme.

3.16 The £2m new borrowing will be funded by internal cash balances or through external debt.

3.17 Repayments of £0.645m were also made in the first 6 months of the year toward the Council's PFI and finance lease.

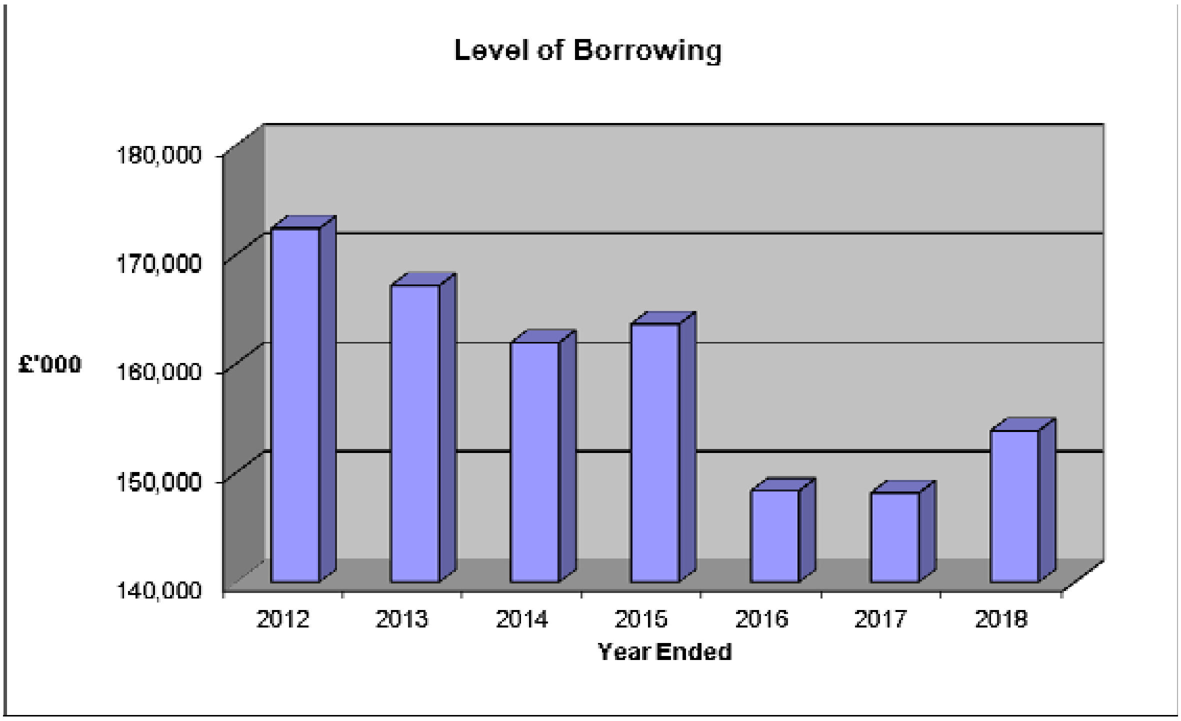
3.18 The Council's external borrowing position as at 30th September 2015 and expected year end position is illustrated in the undernoted table:

Table 4: External borrowing at 2015/16

	Actual March 2015 £000	Actual September 2015 £000	Projected March 2016 £000
Public Works Loan Board	84,646	78,646	78,646
Market Loans	24,012	24,007	24,007
Other long term liabilities	45,005	44,360	43,715
Temporary Loans (<1 year)	10,000	0	2,000
Total	**163,663**	**147,013**	**148,368**

3.19 The Capital Programme has been set in line with the Council's strategy to reduce long term debt and budgeted levels remain fairly consistent over the next few years. This is illustrated in the following chart, demonstrating actual and forecast level of debt up to the end of 2017/18.

Table 5: External debt (actual and forecast)



3.20 Repayment profiles of debt maturity mean there are variations in annual change in debt year on year. The table shows a reduction in cumulative external debt over the next two financial years, rising slightly at the end of 2017/18. This is due to there being no debt due to be repaid in the year that would offset the level of capital expenditure required per the capital programme. Despite these fluctuations, overall the table shows a continuing trend of reducing debt with a reduction of £19m in loan debt over the years 2011/12 to 2017/18. This reduction is also as a result of maturing debt not being replaced due to the running down of internal cash balances. As at 30th September 2015 cash balances remain strong and further utilisation of these balances will be assessed against the cost of external borrowing to fund any future financing requirement.

Borrowing in advance of need

3.21 The Council has not borrowed in advance of need in the six months ended 30th September and has no intention to borrow in advance in 2015/16.

Debt Rescheduling

3.22 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 has been undertaken.

Compliance with Treasury and Prudential Limits

3.23 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.

3.24 During the financial year to 30 September 2015 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 2.

4.0 Conclusions

4.1 Cash and cash equivalents have reduced in the first six months of the year due to the repayment of two £5m short term loans and a £6m PWLB loan being repaid from cash balances instead of undertaking new borrowing.

4.2 The council has repaid £0.645m towards PFI and Finance leases

4.3 The Council continues to outperform the benchmark return in interest on investments and cash balances are at a level of c£13m 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 – Investment Portfolio as at 30th September 2015

Appendix 2 - Prudential and Treasury Indicators as at 30th September 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 2015/16 - report to Council March 2015

Author

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Approved by

NAME	DESIGNATION	SIGNATURE
Stephen Coulter	Head of Resources & Governance	Signed: S Coulter
Nikki Bridle	Depute Chief Executive	Signed: N Bridle

APPENDIX 1: Investment Portfolio as at 30th September 2015

Borrower	Principal (£000)	Interest Rate	Start Date	Maturity Date
Bank of Scotland Plc	5,000	0.57%	03/07/15	05/10/15
Bank of Scotland Plc	4,000	0.57%	05/08/15	05/11/15
Bank of Scotland Plc	3,859	0.40%	Instant Access	
Other Accounts	24	-		
Total Cash and Cash Equivalents	**12,883**	**0.52%**		

Short Term Investments	Principal (£000)
CSBP Developments	848
Total Short Term Investments	**848**

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

TOTAL INVESTMENTS	**21,614**

APPENDIX 2: Prudential and Treasury Indicators as at 30th September 2015

Treasury Indicators	2015/16 Budget £'000	2015/16 Outturn as at 30th September 15 £'000
Authorised limit for external debt	175,000	175,000
Operational boundary for external debt	165,000	165,000
Gross external debt	154,246	148,368
Investments	21,447	21,614
Net borrowing	132,799	126,754

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 2016 £'000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	8,200	9.3%
12 months to 2 years	25% - 0%	-	0.0%
2 years to 5 years	50% - 0%	5,412	6.2%
5 years to 10 years	75% - 0%	5,006	7.6%
10 years and above	100% - 0%	67,534	76.9%

Prudential Indicators	2015/16 Budget £'000	2015/16 Outturn as at 30th September 15 £'000
Capital expenditure - General Fund Services	9,895	7,751
Capital expenditure - Housing Revenue Account	14,743	14,012
Capital Financing Requirement (CFR) - General Fund	127,683	126,399
Capital Financing Requirement (CFR) - HRA	34,576	32,839
Annual change in CFR - General Fund	(2,853)	(4,137)
Annual change in CFR - HRA	3,874	2,137
In year borrowing requirement	7,871	2,000
Ratio of financing costs to net revenue stream - General Fund	8.16%	8.11%
Ratio of financing costs to net revenue stream - HRA	18.31%	16.92%