
Report to: Council

Date: 23 June 2016

Subject: Annual Treasury Report 2015/16

Report by: Chief Accountant

1.0 Purpose

- 1.1. The purpose of this report is to detail the Treasury Management activities for the Council for 2015/16.

2.0 Recommendations

- 2.1. It is recommended that the Council note and consider the Annual Report 2015/16 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 2015/16
- Borrowing Requirement and Debt
- Borrowing Outturn for 2015/16
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

- 3.3 Market expectations for the timing of the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3, 2015 but soon moving back to quarter 1, 2016. However, by the end of the 2015/16 financial year, market expectations have again moved back to quarter 1, 2017. This is due to fears

and uncertainties including concerns about China's economic growth; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

- 3.4 These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing, with growth falling steadily from an annual rate of 2.9% in quarter 1, 2015 to 2.1% in quarter 4. The proposed referendum on the UK remaining part of the EU has also created uncertainty.
- 3.5 Forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.
- 3.6 In America, the economy has continued to grow healthily on the back of resilient consumer demand. The first increase in the central rate occurred in December 2015, though this has subsequently been tempered due to concerns around the risks to world economic growth.

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 first quarter of 2017 in line with the economic outlook set out in paragraph 3.3.

Table1: Investment Rate Forecast provided by Capita Asset Management

	Jun-16	Sep-16	Dec-16	Mar-17	Jun17	Sep-17	Dec-17	Mar-18
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%
5yr PWLB rate	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.60%	2.70%
10yr PWLB rate	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%
25yr PWLB rate	3.20%	3.30%	3.30%	3.50%	3.50%	3.60%	3.60%	3.70%
50yr PWLB rate	3.00%	3.10%	3.10%	3.30%	3.30%	3.40%	3.40%	3.50%

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 year ended 31st March 2016.
- 3.9 The Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for seven years. Market expectations as to the timing of the start of an increase to this rate have been pushed back to the first quarter of 2017.
- 3.10 As at 31st March 2016 the Council held immediately available cash balances of £3m (£20m at 31st March 2015). Cash balances have reduced in 2015/16 due to the repayment of maturing debt. The average level of funds available for investment during the year was £9m. 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 2015/16 financial year are illustrated in the undernoted table:

Benchmark	Benchmark Return
7 day	0.36%
1 month	0.39%
3 month	0.46%
6 month	0.62%
12 month	0.88%

- 3.12 The Council's budgeted cash investment return for 2015/16 was 0.60%. The Council achieved an actual investment return of 0.46% (£74k) for the year ended 31st March 2016 on cash deposits. This comprised of 0.57% return on four separate 3 month deposits and 0.80% of the initial 1 month of a 6 month deposit where both rates outperformed the benchmark by 0.11%, and 0.18% respectively. Everyday cash balances earned interest at 0.4% which also outperformed the benchmark return for both 7day 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 end of the next financial year.

3.13 Borrowing Requirement and Debt

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 Council's General Services and HRA Capital programme.

	31 March 2015 Actual £000	31 March 2016 Budget £000	31 March 2016 Actual £000
CFR General Fund	130,536	127,710	124,994
CFR HRA	30,702	34,549	28,319
Total CFR	161,238	162,259	153,313

3.14 Borrowing Outturn for 2015/16

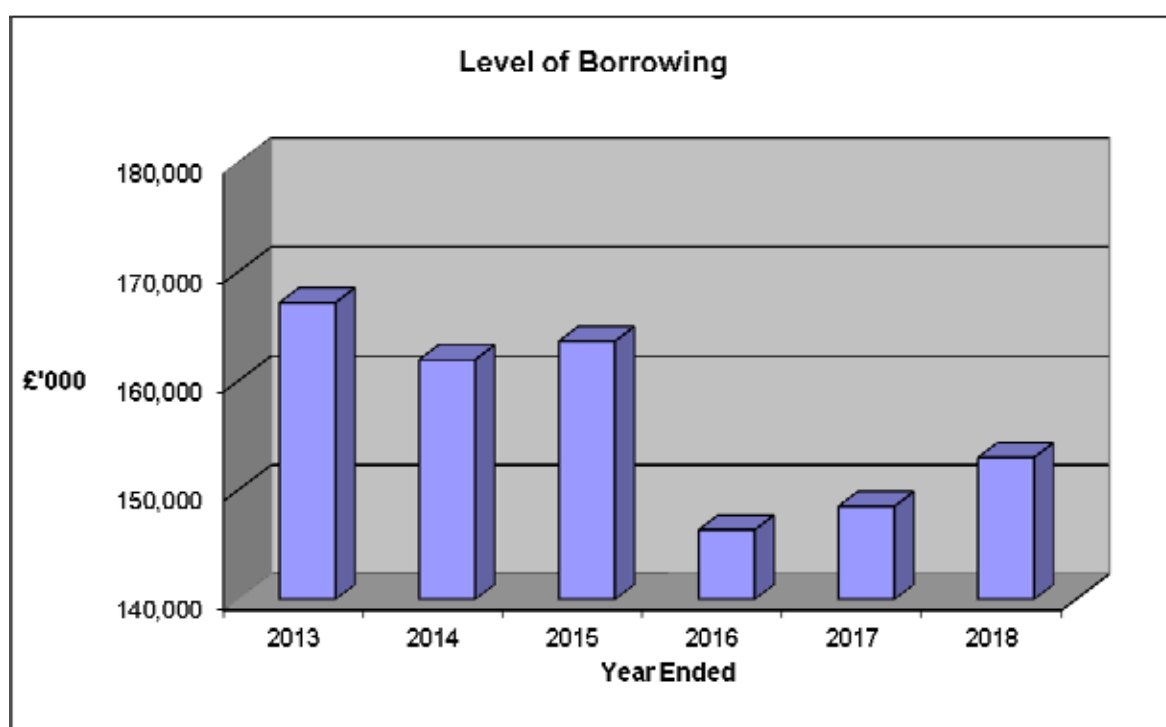
New Borrowing

- 3.15 During 2015/16, the Council repaid £16m of maturing debt which was budgeted to be replaced. In line with the Treasury Strategy, maturing debt has not been replaced due to the running down of internal cash balances.
- 3.16 Repayments of £1.3m were made in the year toward the Council's PFI and finance lease
- 3.17 The Council's external borrowing position as at 31st March 2016 is illustrated in the undernoted table:

	March 2015 £000	March 2016 £000
Public Works Loan Board	84,646	78,646
Market Loans	24,012	24,006
Other long term liabilities	45,005	43,715
Temporary Loans (<1 year)	10,000	0
Total	163,663	146,367

- 3.18 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 2017/18. In line with the Treasury Strategy maturing debt has not been replaced due to the running down of internal cash balances, however it is anticipated that this borrowing will be replaced in future years to fund the re-profiled capital programme and as cash balances are now at a sufficient level. The level of cash balances and interest rates will continue to be monitored and this will be reviewed if significant changes occur.
- 3.19 The Council's debt position has reduced significantly in 2015/16 due to underspends in the capital programme and the re-profiling of current year capital spend to future years. Repayment profiles of debt maturity mean there are variations in annual change in debt year on year. The table shows a slight increase in the next two years as a result of repayment of maturing debt however there is an overall reduction in cumulative external debt by the end of 2018 showing that the Council is not increasing its level of debt to finance its capital programme. Repayments towards PFI and finance leases also

continue to reduce the Council's overall level of external debt on an annual basis.



3.20 Borrowing in advance of need

3.21 The Council has not borrowed in advance of need during 2015/16 and has no intention to borrow in advance in 2016/17.

3.22 Debt Rescheduling

3.23 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.

3.24 Compliance with Treasury and Prudential Limits

3.25 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.

3.26 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 2.

4.0 Conclusions

4.1 No additional borrowing was undertaken during 2015/16.

4.2 Matured debt totalling £16m was repaid in 2015/16.

- 4.3 The council has repaid £1.3m 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£4m 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 | <input type="checkbox"/> |
| Our communities are more cohesive and inclusive | <input type="checkbox"/> |
| People are better skilled, trained and ready for learning and employment | <input type="checkbox"/> |
| Our communities are safer | <input type="checkbox"/> |
| Vulnerable people and families are supported | <input type="checkbox"/> |
| Substance misuse and its effects are reduced | <input type="checkbox"/> |
| Health is improving and health inequalities are reducing | <input type="checkbox"/> |
| The environment is protected and enhanced for all | <input type="checkbox"/> |
| The Council is effective, efficient and recognised for excellence | <input checked="" type="checkbox"/> |

(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 31st March 2016

Appendix 2 - Prudential and Treasury Indicators as at 31st March 2016

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
Nikki Bridle	Depute Chief Executive	Signed: N Bridle
Elaine McPherson	Chief Executive	Signed: E McPherson

APPENDIX 1: Investment Portfolio as at 31st March 2016

Borrower	Principal (£000)	Interest Rate	Start Date	Maturity Date
Bank of Scotland Plc	3,640	0.40%	Instant Access	
Other Accounts	25	-		
Total Cash and Cash Equivalents	3,665	0.40%		

Short Term Investments	Principal (£000)
CSBP Developments	15
Bank of Scotland	3,000
Total Short Term Investments	3,015

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	14,563
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APPENDIX 2: Prudential and Treasury Indicators as at 31st March 2016

Treasury Indicators	2015/16 Budget £'000	2015/16 Actual £'000
Authorised limit for external debt	175,000	175,000
Operational boundary for external debt	165,000	165,000
Gross external debt	154,246	146,367
Investments	21,447	14,538
Net borrowing	132,799	131,829

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%	6,200	7.4%
12 months to 2 years	25% - 0%	0	0.0%
2 years to 5 years	50% - 0%	5,412	6.4%
5 years to 10 years	75% - 0%	5,007	5.9%
10 years and above	100% - 0%	67,532	80.3%

Prudential Indicators	2015/16 Budget £'000	2015/16 Actual £'000
Capital expenditure - General Fund Services	9,895	6,694
Capital expenditure - Housing Revenue Account	14,743	9,784
Capital Financing Requirement (CFR) - General Fund	127,683	124,994
Capital Financing Requirement (CFR) - HRA	34,576	28,319
Annual change in CFR - General Fund	(2,853)	(5,542)
Annual change in CFR - HRA	3,874	(2,383)
In year borrowing requirement	7,871	0
Ratio of financing costs to net revenue stream - General Fund	8.16%	8.37%
Ratio of financing costs to net revenue stream - HRA	18.31%	16.80%

