CLACKMANNANSHIRE COUNCIL	**THIS PAPER RELATES TO ITEM 11** **ON THE AGENDA**

Report to: **Council**

Date: **15 December 2016**

Subject: **Treasury Management Update at 30th September 2016**

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 2016.

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 2016/17
- Borrowing Requirement and Debt
- Borrowing Outturn for 2016/17
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

3.3 UK GDP growth rates in 2015 were lower than the previous two years, although compared favourably to other EU countries. Growth fell again in quarter one of 2016 before rising in quarter two of 2016. The referendum vote for Brexit in June this year saw confidence indicators and business surveys reduce, pointing to a slowdown in the economy. However, this recovered again a month later with consumer spending increasing in July. Although it is generally expected that the economy will now avoid flat lining, growth is forecast to be weak through the second half of 2016 and into 2017. The Bank of England addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%.

3.4 There has been an high level of volatility in financial markets over the last six months which has caused significant swings in PWLB Borrowing Rates. The overall longer run trend is for gilt yields and PWLB rates to slowly rise. New long term borrowing has therefore been taken out to refinance maturing debt in 2016/17. As per the Treasury Management Strategy, the debt requirement is 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

3.5 The Council's treasury advisors - Capita Asset Services, have provided the following interest rate forecast which is in line with the economic outlook set out in paragraph 3.3.

Table1: Investment Forecast provided by Capita Asset Management

	NOW	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.70%	1.90%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%
25yr PWLB Rate	3.00%	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%

3.6 Capita Asset Services undertook a quarterly review of its interest rate forecasts after the Bank Rate was cut to 0.25% in August and a further review after the updated Bank of England quarterly inflation report in November. It is anticipated that the bank rate will remain unchanged at 0.25% until the first increase to 0.50% in June 2019.

Investment Outturn for 2016/17

3.7 The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 3rd March 2016**.** It can be confirmed that the approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 2016.

3.8 As at 30th September 2016 the Council held immediately available cash balances of £20m (£6.7m at 31st March 2016). Cash balances have increased over the first six months of the year which is mainly due to the timing of payments, receipt of grants and capital receipts and progress on the Capital Programme. The average level of funds available for investment during the period to 30th September 2016 was £18m. These funds were available on a temporary basis and therefore to ensure the best interest rate was achieved a total of £8m was invested in short term deposits

3.9 The benchmark investment returns over the 6 months ended 30th September 2016 are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2016/17

Benchmark	Benchmark Return
7 day	0.28%
1 month	0.30%
3 month	0.38%
6 month	0.52%
12 month	0.76%

3.10 The Council's budgeted cash investment return for 2016/17 was 0.60%. The Council achieved an actual investment return of 0.61% (£38k) for the period ended 30th September 2016. This comprised of 0.80% return on a 175 day notice deposit of £3m and 0.85% return on a 175 notice deposit of £5m, outperforming the 6 month benchmark by 0.28% and 0.33% respectively. A return of 0.33% was achieved on everyday cash balances which also outperformed the benchmark return for both 7 day and 1 month investments. The actual investment return is marginally higher than the budgeted return of 0.60% due to an active review of ongoing available deposit rates, however, this level of return may not continue until the end of the year due to the forecasted reduction in interest rates.

Borrowing Requirement and Debt

3.11 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) 2016/17

	31 March 2016 Actual £000	31 March 2017 Budget £000	31 March 2017 Projected as at 30th September 2016 £000
CFR General Fund	125,041	124,071	122,754
CFR HRA	28,298	31,779	26,722
Total CFR	**153,339**	**155,850**	**149,476**

Borrowing Outturn for 2016/17

New Borrowing

3.12 During the period to 30th September 2016, the Council repaid a maturing £6.2m PWLB Loan which was budgeted to be replaced. This was replaced with a twenty-five year £4m PWLB loan and short term borrowing.

3.13 Short term borrowing consisting of a £5m loan over six months and a £3m loan over twelve months were taken to fund the balance of the PWLB repayment and to fund the budgeted capital spend.

3.14 Repayments of £0.656m were also made in the first six months of the year toward the Council's PFI and finance lease.

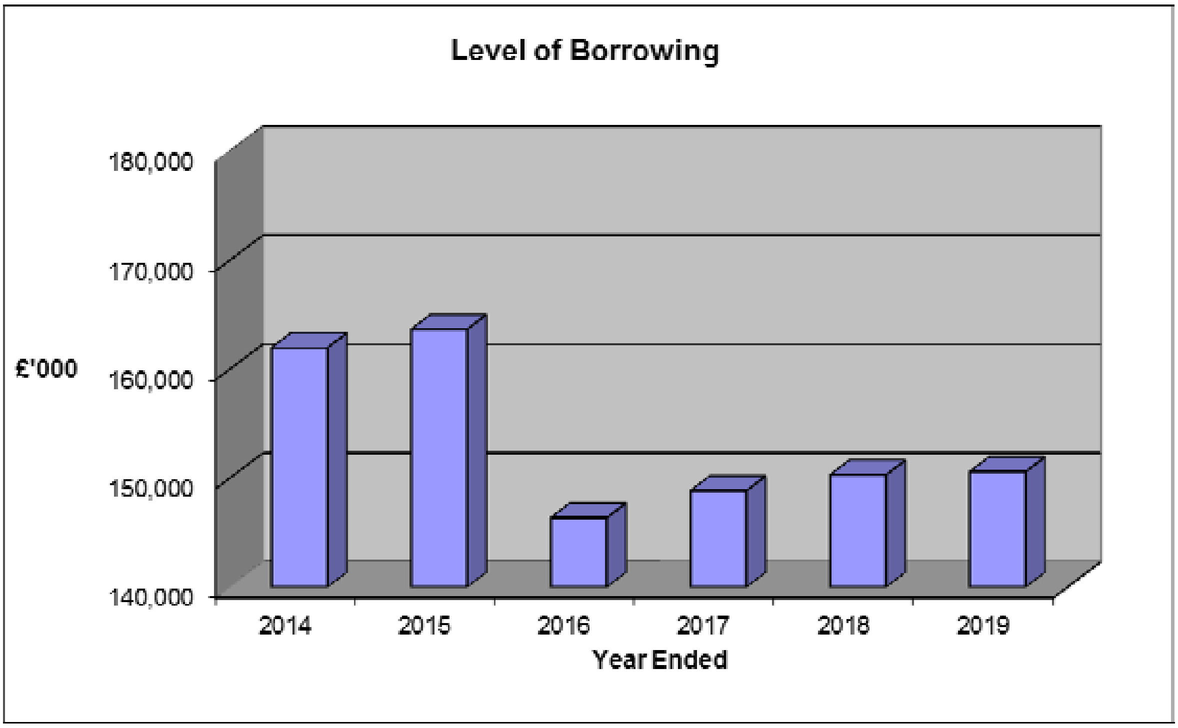
3.15 The Council's external borrowing position as at 30th September 2016 and expected year end position is illustrated in the undernoted table:

Table 4: External borrowing at 2016/17

	Actual March 2016 £000	Actual September 2016 £000	Projected March 2017 £000
Public Works Loan Board	78,645	76,445	76,445
Market Loans	24,006	24,003	24,000
Other long term liabilities	43,715	43,059	42,404
Temporary Loans (<1 year)		8,000	6,000
Total	**146,366**	**151,507**	**148,849**

3.16 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 2018/19.

Table 5: External debt (actual and forecast)



3.17 The Council's debt position reduced significantly in 2015/16 due to a continued strategy of internal borrowing, along with the underspends in the capital programme and the re-profiling of 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 current year and next two years as a result of a reduced level of repayment of maturing debt however by the end of 2019 there is a forecasted overall reduction in cumulative external debt of 13% since 2012, showing that over the longer term the Council is not increasing it's 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.

Borrowing in advance of need

3.18 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 2016/17.

Debt Rescheduling

3.19 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

3.20 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.

3.21 During the financial year to 30th September 2016 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 balances have increased over the first six months of the year which is mainly due to the timing of payments, receipt of grants and capital receipts and slippage on the Capital Programme

4.2 The council has repaid £0.656m 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£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 – Investment Portfolio as at 30th September 2016

Appendix 2 - Prudential and Treasury Indicators as at 30th September 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 2016/17 - report to Council March 2016

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 2016

Borrower	Principal (£000)	Interest Rate	Start Date	Maturity Date
Bank of Scotland Plc	5,000	0.85%	08/07/16	30/12/2016
Bank of Scotland Plc	3,014	0.40%	Instant Access	
Royal Bank of Scotland Plc	11,937	0.25%	Instant Access	
Other Accounts	25	-		
Total Cash and Cash Equivalents	**19,977**			

Short Term Investments	Principal (£000)
CSBP Developments	15
Total Short Term Investments	**15**

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	**27,875**

APPENDIX 2: Prudential and Treasury Indicators as at 30th September 2016

Treasury Indicators	2016/17 Budget £'000	2016/17 Outturn as at 30th September 16 £'000
Authorised limit for external debt	171,500	171,500
Operational boundary for external debt	161,500	161,500
Gross external debt	146,869	148,849
Investments	14,538	19,383
Net borrowing	132,331	129,466

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 2017 £'000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	6,000	6.8%
12 months to 2 years	25% - 0%	5,000	5.7%
2 years to 5 years	50% - 0%	412	0.5%
5 years to 10 years	75% - 0%	5,419	6.2%
10 years and above	100% - 0%	89,614	84.2%

APPENDIX 2: Prudential and Treasury Indicators as at 30th September 2016

Prudential Indicators	2016/17 Budget £'000	2016/17 Outturn as at 30th September 16 £'000
Capital expenditure - General Fund Services	10,042	7,918
Capital expenditure - Housing Revenue Account	8,431	9,799
Capital Financing Requirement (CFR) - General Fund	124,071	122,754
Capital Financing Requirement (CFR) - HRA	31,779	26,722
Annual change in CFR - General Fund	(970)	(2,287)
Annual change in CFR - HRA	3,481	(1,576)
In year borrowing requirement	8,017	10,000
Ratio of financing costs to net revenue stream - General Fund	8.24%	8.10%
Ratio of financing costs to net revenue stream - HRA	16.93%	16.97%