
Report to: Council

Date: 28 June 2017

Subject: Annual Treasury Report 2016/17

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 2016/17.

2.0 Recommendations

- 2.1 It is recommended that the Council note and consider the Annual Report 2016/17 on 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 2016/17
- Borrowing Requirement and Debt
- Borrowing Outturn for 2016/17
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

- 3.3 The Bank of England addressed the expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25% in August 2016. This has meant reduced rates being offered on short term cash deposits.

- 3.4 There has been an exceptional level of volatility in financial markets over the last 12 months which has caused significant swings in PWLB Borrowing Rates. 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

	Jun-17	Sep-17	Dec-17	Mar-18	Jun18	Sep-18	Dec-18	Mar-19
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
5yr PWLB rate	1.40%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.80%
10yr PWLB rate	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%
25yr PWLB rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%
50yr PWLB rate	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	2.90%

- 3.6 Capita Asset Services updated its interest rate forecast after the Bank Rate was cut to 0.25% in August 2016 and a further review after the updated Bank of England quarterly inflation report in November 2016. The most recent review undertaken in May 2017 is reflected in the above table and remains relatively static with the bank rate anticipated to 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 year ended 31st March 2017.
- 3.8 As at 31st March 2017 the Council held immediately available cash balances of £7.1m (£6.7m at 31st March 2016). The average level of funds available for investment during the year was £11.9m. These funds were available on a temporary basis and therefore to ensure the best interest rate was achieved a total of £13m was invested in short term deposits.

- 3.9 Capita provide benchmark investment returns based on available deposits during the year. The average returns for the 2016/17 financial year are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2016/17

Benchmark	2016/17 Average Benchmark Return
7 day	0.20%
1 month	0.22%
3 month	0.32%
6 month	0.46%
12 month	0.70%

- 3.10 The Council's budgeted cash investment return for 2016/17 was 0.60%. The Council achieved an actual investment return of 0.80% (£107k) for the year ended 31st March 2017. This comprised of 0.80% return on a 175 day notice deposit of £3m and three £5m 175 day notice deposits with returns of 0.90%, 0.65% and 0.85% respectively outperforming the 6 month benchmark of 0.46%. An average return of 0.25% was achieved throughout the year on everyday cash balances which also outperformed the benchmark return for both 7 day and 1 month investments. The actual investment return is 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 be sustainable in future years as interest rates for deposits have now levelled out in line with the bank rate of 0.25% which is not expected to increase until at least 2019.

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 the Capital programme.

Table 3: Borrowing Requirement (CFR) 2016/17

	31 March 2016 Actual £000	31 March 2017 Budget £000	31 March 2017 Actual £000
CFR General Fund	125,041	124,071	120,322
CFR HRA	28,298	31,779	26,729
Total CFR	153,339	155,850	147,051

Borrowing Outturn for 2016/17**New Borrowing**

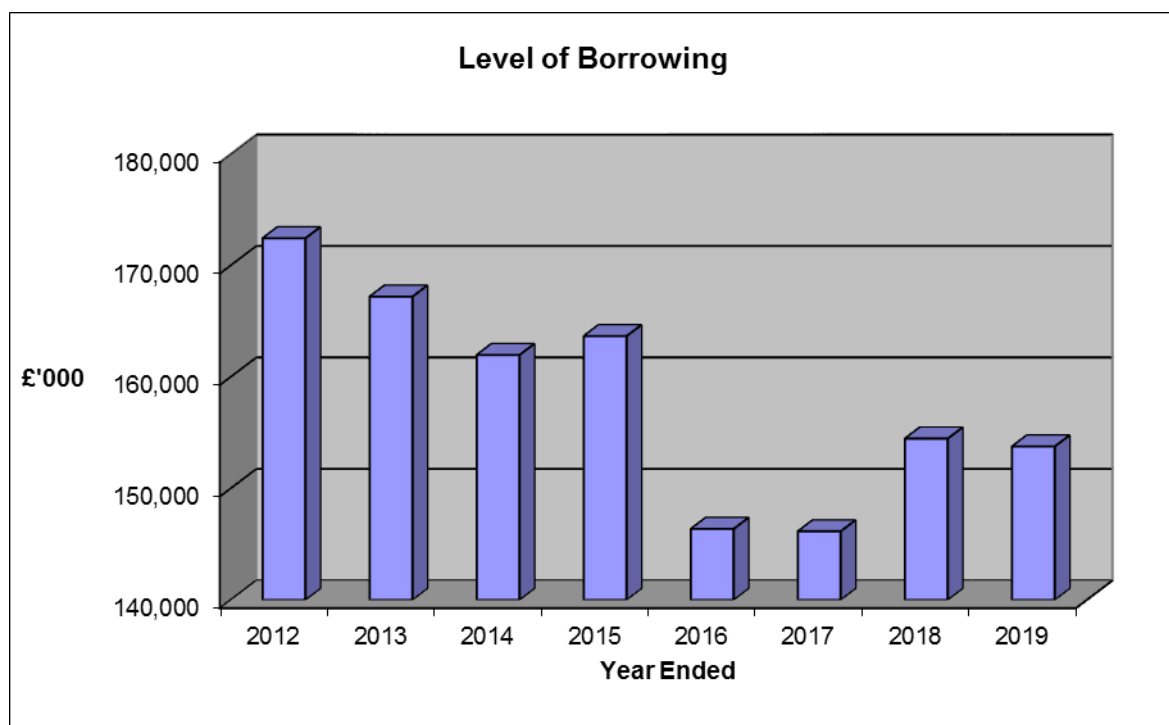
- 3.12 During the year ended 31st March 2017, the Council repaid a maturing £6.2m PWLB Loan which was budgeted to be replaced. This was replaced with a twenty-five year £4m PWLB loan and short term borrowing consisting of a £3m loan over twelve months. These were taken to fund the balance of the PWLB repayment and to fund the budgeted capital spend.
- 3.13 The Council also took out a SALIX loan of £300k to fund Street Lighting energy efficiency improvements. This loan is over a period of 8 years at a rate of 0%.
- 3.14 Repayments of £1.311m were made in the year toward the Council's PFI and finance lease.
- 3.15 The Council's external borrowing position as at 31st March 2017 is illustrated in the undernoted table:

Table 4: External borrowing at 2016/17

	March 2016 £000	March 2017 £000
Public Works Loan Board	78,646	76,445
Market Loans	24,006	24,000
Other long term liabilities	43,715	42,404
SALIX Loan	-	300
Other short term borrowing	-	3,000
Total	146,357	146,149

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 remained relatively stable with a net reduction of £0.2m. This reduction is made up of repayments towards PFI and finance leases of £1.3m offset by £1.1m of external borrowing to support the capital programme. 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 in line with the approved capital programme, however by the end of 2019 there is a forecasted overall reduction in cumulative external debt of 11% since 2012, showing that over the longer term the Council is not increasing its level of debt to finance its capital programme.

Borrowing in advance of need

3.18 The Council has not borrowed in advance of need during 2016/17 and has no intention to borrow in advance in 2017/18.

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 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 The Council continues to outperform the benchmark return in interest on investments and cash balances are at a level of £7.1m which contributes to supporting the Council's capital financing requirement internally.
- 4.2 External borrowing has reduced by £0.2m, due to the net increase of external debt of £1.1m for repayment of matured debt and replacement debt and repayment of £1.3m towards PFI and Finance leases.

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 31st March 2017

Appendix 2 - Prudential and Treasury Indicators as at 31st March 2017

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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Anne Bryce	Accountant	2256
Lindsay Sim	Chief Accountant	2078

Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Depute Chief Executive	
Elaine McPherson	Chief Executive	

APPENDIX 1: Investment Portfolio as at 31st March 2017

Borrower	Principal (£000)	Interest Rate	Start Date	Maturity Date
Bank of Scotland Plc	5,000	0.90%	30/12/16	29/12/17
Bank of Scotland Plc	5,000	0.65%	21/10/16	21/04/17
Bank of Scotland Plc	3,742	0.15%	Instant Access	
Royal Bank of Scotland Plc	3,345	0.01%	Instant Access	
Other Accounts	23	-		
Total Cash and Cash Equivalents	17,110			

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	25,008
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APPENDIX 1: Investment Portfolio as at 31st March 2017

APPENDIX 2: Prudential and Treasury Indicators as at 31st March 2017

Treasury Indicators	2016/17 Budget £'000	Outturn as at 31st March 17 £'000
Authorised limit for external debt	171,500	171,500
Operational boundary for external debt	161,500	161,500
Gross external debt	146,869	146,149
Investments	14,538	25,008
Net borrowing	132,331	121,141

Maturity structure of fixed rate borrowing - upper and lower limits (excluding PFI and Finance Leases)	Upper and Lower Limits	Fixed Rate Borrowing as at 31 st March 2017 £'000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	3,000	2.9%
12 months to 2 years	25% - 0%	5,000	4.8%
2 years to 5 years	50% - 0%	412	0.4%
5 years to 10 years	75% - 0%	5,719	5.5%
10 years and above	100% - 0%	89,614	86.4%

APPENDIX 2: Prudential and Treasury Indicators as at 31st March 2017

Prudential Indicators	2016/17 Budget £'000	Outturn as at 31 st March 17 £'000
Capital expenditure - General Fund Services	11,324	7,060
Capital expenditure - Housing Revenue Account	11,994	8,479
Capital Financing Requirement (CFR) - General Fund	124,071	120,322
Capital Financing Requirement (CFR) - HRA	31,779	26,729
Annual change in CFR - General Fund	(970)	(4,719)
Annual change in CFR - HRA	3,481	(1,569)
In year borrowing requirement	8,017	1,999
Ratio of financing costs to net revenue stream - General Fund	8.24%	8.12%
Ratio of financing costs to net revenue stream - HRA	16.93%	16.38%