

---

**Report to Council**

---

**Date: 16 December 2010**

---

**Subject: Annual Treasury Report**

---

**Report by: Accountancy Manager**

---

## **1.0 Purpose**

- 1.1. The purpose of this report is to detail the Treasury Management activities for the Council for 2009/10.

## **2.0 Recommendations**

- 2.1. It is recommended that the Council note and review this Annual Report on 2009/10 Treasury Management activities for Clackmannanshire Council.

## **3.0 Considerations**

### **3.1. Background**

- 3.2. The need to prepare a Treasury Management Annual Report is a requirement of the revised Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy.
- 3.3. Financial year 2009/10 saw a continuation of the economic downturn and historically low interest rates. This required proactive management of exposure to keep the loans fund interest rate low and to protect the Council's investments.
- 3.4. The Annual Report covers:
- The Council's borrowing and investment positions for 2009/10
  - performance measurement
  - borrowing strategy for 2009/10
  - borrowing outturn for 2009/10

- investment strategy for 2009/10
- investment outturn for 2009/10
- compliance with treasury limits
- debt rescheduling

#### 4.0 Borrowing and Investment Positions as at 31st March 2010

4.1. The Council funds its capital programme principally from loans borrowed from external bodies. This is mainly from Government sources (The Public Works Loan Board) which tends to offer better interest rates, but sometimes we source loans directly from financial institutions through the market when their interest rates are more attractive. The Council's actual external debt position is shown in the following table:

	<b>Principal 31.3.2010</b>	<b>Principal 31.3.2009</b>
Fixed Rate Funding:		
- Public Works Loan Board	£ 99.703m	£ 95.704m
- European Investment Bank	£ 0.158m	£ 0.202m
- Market	£ <u>13.500m</u> £113.361m	£ <u>10.000m</u> £105.906m
Variable Rate Funding:		
- Market	£ 10.000m	£ 13.500m
<b>Total External Debt</b>	<b>£123.361m</b>	<b>£119.406m</b>
Investments:		
- Internally managed	£10.194m	£ 18.012m
<b>Total Net External Borrowing</b>	<b>£113.167m</b>	<b>£ 101.394m</b>

4.2 The Council's net external borrowing position is driven by the demands of its approved capital programme, and the total estimated borrowings of the Council are outlined in the annual Prudential Indicators report. At the Special Council budget meeting in February 2010 the Prudential Indicators report highlighted that the net borrowing position at March 2010 was estimated to be £113.391m. It will be noted from the above table that the actual net borrowing position as at March 2010 is £113.167m and therefore consistent with our forecast.

- 4.3 Due to the economic downturn, interest rates both for borrowing and investing have dropped considerably over the past year. New loans could be borrowed at interest rates ranging from 2.47% to 4.85% depending on timing and life of loan borrowed. As a result, the average interest rate of our total external debt is now 4.0% compared to 5.1% the previous year, an improvement of 1.1%. Conversely, investment funds are only averaging 2.12% compared to 5.4% in 2008/09.
- 4.4 Loans fund charges to revenue, including the sums allocated towards repayments of principal borrowings are determined by the internally calculated 'pooled' interest rate. The loans fund interest rate in 2009/10 is detailed as follows:

	<b>Budget (%)</b>	<b>Actual (%)</b>
2009/10	<b>5.32</b>	<b>5.05</b>

## **5.0 Performance Measurement**

- 5.1. The loans pool interest rate for Clackmannanshire Council in 2009/10 was 5.05% as noted above. The loans fund comparative rates for 2009/10 for all other Scottish Authorities have yet to be published. The 2008/09 loans pool rate for Clackmannanshire Council was 5.79% compared to an average of 5.37% for Scottish Local Authorities. Although we remain higher than the national average, compared to the previous two years, there has been a trend of moving closer to the average position, and we would hope that this continues for 2009/10.
- 5.2. It should be noted that the Councils is assisted by the Council's Treasury Management Advisers - Sector treasury Services in undertaking Treasury Management activities

## **6.0 Borrowing Strategy for 2009/10**

- 6.1. The Council's treasury strategy for 2009/2010 reflected the anticipated very low interests rates of approximately 0.5% throughout the year. The key elements of the strategy were :-
- 1 key emphasis on mitigating risk by giving focus to security and liquidity. This has resulted in the use of the investment portfolio being used for the Council's capital programme rather than borrowing.
  - 2 cash balances held on an instant access basis rather than time deposits due to this option offering the most favourable rates of return.

- 3 Examination of the potential for making premature debt repayments in order to reduce investment balances more quickly. A debt restructuring which was in place in 2008/09 was concluded at the start of the year, however the subsequent levels of premiums that would have been incurred and the increase in risk exposure to significantly higher interest rates for new borrowing than current new borrowing rates and / or debt currently held, made further restructuring of the portfolio unattractive.
- 4 The borrowing strategy adopted for 2009/10 was to draw some shorter term borrowing during the year at lower interest rates which assisted in lowering debt servicing costs in the short-term whilst at the same time providing a degree of budget certainty for debt management budgets.

## 7.0 Borrowing Outturn for 2009/10

- 7.1. The table below details the interest rates and terms at which actual PWLB loans were borrowed during the year.

<b>Date Taken</b>	<b>Amount</b>	<b>Term</b>	<b>Rate (%)</b>
19/05/2009	£5m	5 years	2.65
30/06/2009	£5m	9 years	3.57

The highest and lowest PWLB interest rates available during the financial year 2009/10 for the periods 5,10, 25 and 50 years are detailed in the following table:

<b>Period</b>	<b>Interest Rate Low Point (%)</b>	<b>Interest Rate High Point (%)</b>
5 years	2.47	3.29
10 years	3.30	4.42
25 years	4.07	4.83
50 years	4.18	4.85

This demonstrates that our borrowings undertaken during the year were drawn down at opportune times that secured interest rates close to the low points available.

## **8.0 Investment Strategy for 2009/10**

- 8.1. The Council's investment strategy requires management of investments in-house and placement of investments with the institutions listed in the Council's lending list. The Council's investment strategy for 2009/10 also required placement of investments for a range of periods from overnight to 364 days dependent on the Council's cash flows, its interest rate view and the interest rates on offer.
- 8.2. As noted earlier, the strategy was to reduce external debt levels by running down investment balances in order to further reduce exposure to counterparty risk and provide savings in capital financing costs.

## **9.0 Investment Outturn for 2009/10**

- 9.1. At the start of 2009/10 investment rates were relatively high, however the Bank of England's approach to addressing the economic downturn through its quantitative easing operations resulted in investment rates falling markedly half way through the year.
- 9.2. Sums available for investment represent the revenue balances and funds of the Council together with any working balances. As noted at paragraph 4.1 above, the balance available for investment dropped from £18.012m to £10.194m as at March 2010 in line with both the borrowing and investment strategies. Although the average interest earned on these investment fell considerably in 2009/10 to 2.12%, this still compares very favourably with a benchmark market 3 month LIBID rate of 0.73%

## **10.0 Compliance with Treasury Limits**

- 10.1. During the financial year the Council operated within the treasury limits set out in the Treasury Strategy Statement.
- 10.2. Additionally, the Prudential Code requires the Council to set an authorised limit for gross external debt together with an operational limit that should only be exceeded for relatively short periods reflecting the timings of cash flows and debt management. These limits were approved by the Council at the Special Budget meeting in March 2009 as £139m and £128m respectively. These limits were not exceeded during the course of 2009/10.

## **11.0 Debt Rescheduling**

- 11.1. Opportunities for debt rescheduling arise when it is advantageous to repay higher interest loans early and replace them with lower interest loans with minimum penalty for early repayment, thus reducing the Council's ongoing debt charges. The Council had already put in place a debt rescheduling exercise at the tail end of the previous financial year that saw us moving £25.2m of longer-term debt to cheaper short-term debt. This gave the Council an initial cash injection of £8,400 in discount and an interest saving of £2.06m over the next 7 years as per the table below.

## Year on Year Interest Saving

Year	Annual Interest Saving from Restructuring
2009/2010	406,080
2010/2011	406,080
2011/2012	406,080
2012/2013	325,280
2013/2014	256,080
2014/2015	174,580
2015/2016	88,180
<b>Total</b>	<b>2,062,260</b>

## 12.0 Sustainability Implications

12.1. None

## 13.0 Resource Implications

13.1. *Financial Details*

13.2. 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

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

Yes

13.4. *Staffing*

## 14.0 Exempt Reports

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

## 15.0 Declarations

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

(1) **Our Priorities 2008 - 2011** (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

**16.0 Equalities Impact**

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

Yes  No

**17.0 Legality**

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

**18.0 Appendices**

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

None

**19.0 Background Papers**

19.1 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 Policy Statement referred to in Para 3.1**

**Author(s)**

<b>NAME</b>	<b>DESIGNATION</b>	<b>TEL NO / EXTENSION</b>
Martin Dunsmore	Accountancy Manager	2041

**Approved by**

<b>NAME</b>	<b>DESIGNATION</b>	<b>SIGNATURE</b>
Nikki Bridle	Director of Finance and Corporate Services	
Angela Leitch	Chief Executive	