THIS PAPER RELATES TO ITEM 11 ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to Council

Date: **15th December 2011**

Subject: **Mid Year Review - Treasury Report**

Report by: **Accountancy Manager**

1.0 Purpose

1.1. The purpose of this report is to present a mid year review of the Treasury Management activities for the Council for 2011/12.

2.0 Recommendations

2.1. It is recommended that the Council note and consider the 2011/12 mid year review report of the Council's Treasury Management activities.

3.0 Considerations

3.1. Background

3.2. The need to prepare a treasury management mid-year review is now a minimum requirement of the revised Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy in 2009.

3.3. The revised Code of Practice was adopted by the Council at its meeting in December 2010 with effect from 1 April 2010. The revised Code suggests that Council should be kept informed of treasury management activities at least twice a year in the form of an annual report after each financial year and a mid-year review report during each financial year. This report ensures compliance with the Code of Practice

3.4. One of the primary requirements of the Code is to prepare a mid year report on the Council's Treasury activities. The report covers the following:

- Brief economic update for the first half of 2011/12 and outlook for the next half.
- Borrowing position at 30 September 2011.
- Review of the Capital Expenditure plans and its financing.
- Review of the Investment Position
- Review of the Borrowing Strategy
- Compliance with Authorised and Operational Borrowing Limits

- Review of Debt Rescheduling opportunities

3.5. **Brief Economic update and outlook for 2011/12**

The current Euro Zone debt crisis has led to a much more difficult and uncertain outlook for the world economy including the UK There has only been modest growth in the UK economy in the first half of the year, and this is not expected to improve in the remainder of the year.

Inflation remains high, but the base Bank Rate still stands at 0.5% and leading economic commentators do not expect to see an increase until 2013. PWLB borrowing rates are comparatively low at present, but the expected longer trend is for them to show a modest rise. Over the next twelve months we might see a small increase in rates of around 0.10%.

With interest rate remaining low, the Council's opportunities to secure investment returns on its surplus cash are limited.

The Council's current borrowing strategy is to minimise new borrowings in order to reduce overall debt levels. With PWLB rates remaining relatively low over the medium term there is no need to change this strategy. Indeed, there may be merit in not replacing upcoming maturing debt and instead reduce surplus cash balances which are not earning a high investment return.

3.6. **Borrowing position at 30 September 2011.**

The Council's gross and net external debt positions as at 30 September 2011 are shown in Table 1 below. The comparative positions at 31 March 2011 are also shown:

Table 1

	Principal 31.3.2011		**Principal 30.9.2011**	
Fixed Rate Borrowing:				
- Public Works Loan Board	£ 99.702m		£ 99.702m	
- European Investment Bank	£ 0.110m		£ 0.084m	
- Market	£ 13.500m	£113.312m	£ 13.500m	£113.286m
Variable Rate Borrowing:				
- Market		£ 10.000m		£ 10.000m
Total External Debt		**£123.312m**		**£123.286m**
Investments:				
- Internally managed - Cash & Bank	£ 17.460m		£ 24.975m	
- Long Term Investments	£1,426m		£1.426m	
Total Investments		**£18.886m**		**£26.401m**
Total Net External Borrowing		**£ 104.426m**		**£ 96.885m**

There has been no long term borrowing undertaken in the first six months of 2011/12. Neither has there been any long term borrowing maturing for repayment in the first six month of the year. The only movement in the external debt position has been the repayment of an annual instalment of our European Investment Bank debt.

3.7. **Review of the Capital Expenditure Plans & its financing**.

The Council's net external borrowing position is driven by the demands of the approved capital programme. The total amount budgeted to be funded by borrowing in 2011/12 (after allowing for contribution from HRA Reserves) was £6.68million.

The latest projections indicate that the net borrowing will be substantially lower as a result of the current slippage in the capital programmes both in 2010/11 and the current year. This in turn will reduce the Capital Financing Requirement (CFR). Based on the projected borrowing, the revised CFR is expected to be approximately £123million, compared to the estimated figure for the year of £129million. The Net External Borrowing, which is the actual gross external borrowing, excluding PFI schemes, less investments, is currently £96.9million. The extent to which Net External Borrowing is lower than the CFR is a key indicator which demonstrates that borrowing is only for capital purposes.

Going forward, the Council's Capital Programme for the medium to long term will be comprehensively reviewed by the newly established Capital Investment Forum, which in addition to prioritising the future Capital plans, will focus on reducing new borrowing.

3.8. **Review of the Investment Position**.

In accordance with *the Code,* it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return with the Council's risk appetite.

The Council held £26.4million of funds available for investment purposes, as at 30th September 2011. This is an increase of £7.5million from the position as at 31st March 2011. These funds are available on a temporary basis, and the level of funds that were available was mainly dependent on the timing of payments, receipt of grants and progress on the capital programme...

The Council's average investment yield for the first half of 2011/12 is 1.70% against a benchmark of 0.82% (London Interbank Bid Rate). The Council has achieved a return 0.88% higher than the benchmark which reflects the previous favourable rate secured with an approved financial institution.

Having regard to the Investment Strategy to safeguard investments while maximising the return on those investments and at the same time ensuring sufficient liquidity to meet current commitments, the Council recently invested surplus cash of £5million on a short term deposit account at a higher interest rate with an approved credit rated bank.

3.9. **Review of the Borrowing Strategy**.

The key element of the Council's borrowing strategy is to minimise new borrowings to levels at or below the sums budgeted for repayment of debt, thereby reducing overall external borrowing. The comparatively large cash balance and the current reduced capital expenditure has meant that there was no requirement to undertake new borrowing in the first half of 2011/12 and the current projections indicate that this position will continue for the rest of the year.

The current PWLB loan rates are ranging from 1.5% to 5.0% depending on the life of loan borrowed, and as highlighted in paragraph 3.5, are expected to rise slightly in the longer term.

An external loan of £4million is due to mature and be repaid in early 2012/13. Given the reduction in capital financing requirement and high level of investment cash balances currently available it is not likely we will need to replace this loan. This will further assist in reducing the Council's overall external borrowing position.

3.10. **Compliance with Authorised and Operational Borrowing Limits**

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 February 2011 as £143m and £129m respectively. The current Total External Debt of the Council is £123million and is expected to reduce to £119million in early 2012/13. The limits were not exceeded during the first half of 2011/12 and the current projections indicate that the limits will not be breached in 2011/12.

While the current limits are sufficient to facilitate the borrowing activity during the year, it will be reviewed on an on-going basis. The Council will be advised if the limits are liable to be breached at any time.

3.11. **Review of Debt Rescheduling opportunities.**

No debt rescheduling was undertaken in the first half of the year and there are no plans to undertake any rescheduling this year as the opportunity to reschedule debt has been limited in the current economic climate., When interest rates begin to rise again in the medium term there may be opportunities for debt rescheduling. The Council will continue to review the position in conjunction with our Treasury Advisors, Sector Treasury Services.

4.0 Conclusions

4.1. No additional borrowing has been undertaken in the first half of 2011/12 and according to current projections, no borrowing is expected to be undertaken in the next half. An opportunity to reduce external debt will arise when an external loan is due for repayment early in 2012/13.

4.2. The Council's cash balance increased by £7.5m in the first half of the financial year. A combination of the surplus generated in the general operating activity and reduced capital expenditure has contributed to this increase..

4.3. The Council will continue to explore opportunities to invest the surplus cash in appropriate short term investments in accordance with the Investment

Strategy to maximise returns, balanced by the key requirement to safeguard investment and main sufficient liquidity.

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

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 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

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?

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".

None

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 Policy Statement referred to in Para 3.2

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