CLACKMANNANSHIRE COUNCIL	**THIS PAPER RELATES TO ITEM 05** **ON THE AGENDA**

Report to: **Council**

Date: **12 December 2017**

Subject: **Treasury Management Update at 30th September 2017**

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 2017.

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.

2.2 It is recommended that council approve a change to the Treasury Management Limits contained within the Treasury Management Strategy Statement 2017 as detailed in para. 3.12 of this report.

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 2017/18
- Borrowing Requirement and Debt
- Borrowing Outturn for 2017/18
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

3.3 The economy saw strong growth in 2016 but the first half of 2017 has been the lowest of any year since 2012. This is due to the sharp increase in inflation caused by the devaluation of sterling after the EU referendum. The increase in inflation has also reduced consumer's disposable income and spending power.

3.4 The Monetary Policy Committee (MPC) meeting of 14 September 2017 indicated that the Bank Rate was likely to rise in November which is earlier than previously expected. The potential bank rate rise was attributed to the CPI inflation of 2.9% in August which was marginally higher than previously forecast, and unemployment falling to only 4.3%, the lowest level since 1975. Low unemployment has a significant impact on the capacity in the labour market to support growth in the economy therefore the UK will face competition from overseas labour markets.

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 paragraphs 3.3 & 3.4 above.

Table1: Investment Forecast provided by Capita Asset Management

	Dec 17	Mar 18	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%
10yr PWLB Rate	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%

3.6 The MPC increased the bank rate in November 2017 as indicated at the September meeting. The interest rate forecast reflects the changes and estimates the bank rate will rise slowly over the next 3 year increasing by 0.25% per year.

Investment Outturn for 2017/18

3.7 The Treasury Management Strategy Statement (TMSS) for 2017/18, which includes the Annual Investment Strategy, was approved by the Council on 27th March 2017**.** It can be confirmed that the approved limits within the Annual Investment Strategy relating to investments were not breached during the period ended 30th September 2017.

3.8 As at 30th September 2017 the Council held immediately available cash balances of £17.3m (£20m at 31st March 2017). The cash balances have reduced over the first six months of the year which is mainly due to the scheduled repayment of the £3m temporary loan. The average level of funds available for investment during the period to 30th September 2017 was £16.7m. These funds were available on a temporary basis and therefore to ensure the best interest rate was achieved two £5m twelve month deposits have been invested.

3.9 The benchmark investment returns over the 6 months ended 30th September 2017 are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2017/18

Benchmark	Benchmark Return
7 day	0.11%
1 month	0.13%
3 month	0.18%
6 month	0.32%
12 month	0.53%

3.10 The Council's budgeted cash investment return for 2017/18 was 0.25%. The Council achieved an actual investment return of 0.45% (£45k) for the period ended 30th September 2017. This comprised of two £5m, twelve month investments with returns of 0.80% and 0.90% outperforming the 12 month benchmark by 0.27% and 0.37% respectively. A return of 0.13% was achieved on everyday cash balances which also outperformed the benchmark return for 7 day investments. The actual investment return is higher than the budgeted return of 0.25% due to an active review of ongoing available deposit rates. Due to the increase in the bank rate this may increase opportunities to maximise investment income for the remainder of the year, depending on how the banks react to the increased bank rate and if they transfer the increase to customers.

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 the General Fund CFR from budgeted due to the re-phasing of spend in the capital programme to future years and an increase in the HRA CFR due to slippage carried forward from 2016/17 increasing the capital spend in 2017/18. Overall this results in a net reduction from the budgeted CFR.

Table 3: Borrowing Requirement (CFR) 2017/18

	31 March 2017 Actual £000	1 April 2018 Budget £000	31 March 2018 Projected as at 30th September 2017 £000
CFR General Fund	120,273	123,640	118,219
CFR HRA	26,729	25,557	29,926
Total CFR	**147,002**	**149,197**	**148,143**

3.12

Borrowing Outturn for 2017/18

New Borrowing

3.13 During the period to 30th September 2017, the Council repaid a maturing £3.0m temporary loan.

3.14 The budgeted capital spend was funded from internal borrowing (cash balances) with no additional external borrowing being undertaken for the first 6 months of the year.

3.15 Repayments of £0.531m were also made in the first six months of the year toward the Council's PFI and finance lease.

3.16 The Council's external borrowing position as at 30th September 2017 and expected year end position is illustrated in the undernoted table:

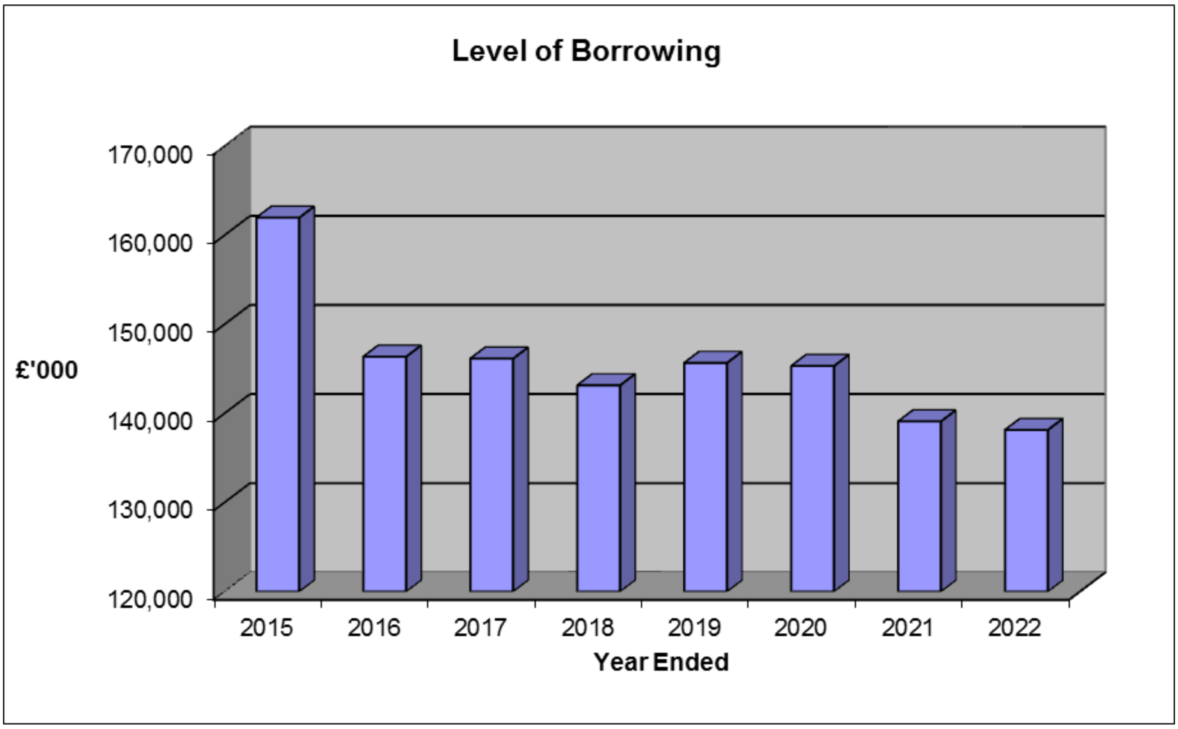
Table 4: External borrowing at 2017/18

	Actual March 2017 £000	Actual September 2017 £000	Projected March 2018 £000
Public Works Loan Board	76,444	76,444	77,516
Market Loans	19,300	19,465	19,462
LOBO Loans	5,000	5,000	5,000
Other long term liabilities	42,404	41,873	41,342
Temporary Loans (<1 year)	3,000	0	0
Total	**146,148**	**142,782**	**143,320**

3.17 The Capital Programme has been set in line with the Council's strategy to reduce long term debt. The level of borrowing is set to reduce by the end of 2018, then increase slightly in 2019 and 2020 before reducing again from

2021 onwards. The increase is due to significant capital projects in these years, including Tullibody South Campus and Kilncraigs final payment. This is illustrated in the following chart, demonstrating actual and forecast level of debt up to the end of 2021/22. In addition to programme capital spend repayment profiles of debt maturity mean there are variations in annual change in debt year on year.

Table 5: External debt (actual and forecast)



3.18 Overall there is a forecasted reduction in cumulative external debt of 14% since 2015, 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

3.19 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 2017/18.

Debt Rescheduling

3.20 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates which has impacted on PWLB new borrowing rates since October 2010. Consequently no debt rescheduling has been undertaken.

Compliance with Treasury and Prudential Limits

3.21 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.

3.22 During 2016/17, £18.5m of variable rate Lender Option Borrower Option (LOBO) loans were transferred from variable rate to fixed rate market loans by the lender. Due to this change the council has exceeded the upper limit set in the Treasury Management Strategy Statement. It is therefore recommended that the council approve a change to the treasury management limits for fixed rate borrowing. The current upper limit for fixed interest rate borrowing is 90%. It is recommended that this is increased to 100% for the next 3 years. Due to the current low interest rates and the expectation rates will rise over the next few years the risk to the council of having 100% fixed rate loans is low. This limit will be reviewed annually to ensure the current limit is appropriate.

3.23 All other treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement have been complied with in the financial year to 30th September 2017. The prudential and treasury Indicators are shown in appendix 2.

4.0 Conclusions

4.1 Cash balances have reduced over the first six months of the year which is mainly due to the repayment of the £3m temporary loan.

4.2 The council has repaid £0.531m 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£17.3m which contributes to supporting the Council's capital financing requirement internally.

4.4 The council is asked to approve the change to the Treasury Management limits on fixed interest rate borrowing.

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 2017

Appendix 2 - Prudential and Treasury Indicators as at 30th September 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 2017/18 - report to Council March 2017

Author

NAME	**DESIGNATION**	**TEL NO / EXTENSION**
Ashley MacGregor	Corporate Accountancy Team Leader	2058
Lindsay Sim	Chief Accountant	2078

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 30 September 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	0.80%	21/04/17	20/04/18
Bank of Scotland Plc	4,500	0.25%	Instant Access	
Royal Bank of Scotland Plc	2,760	0.01%	Instant Access	
Other Accounts	23	-		
Total Cash and Cash Equivalents	**17,283**			

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	4,048
Total Long Term investments	**8,955**

TOTAL INVESTMENTS	**26,253**

APPENDIX 2: Prudential and Treasury Indicators as at 30 September 2017

Treasury Indicators	2017/18 Budget £'000	2017/18 Outturn as at 30th September 17 £'000
Authorised limit for external debt	162,000	162,000
Operational boundary for external debt	152,000	152,000
Gross external debt	148,943	142,782
Investments	25,008	26,253
Net borrowing	123,935	116,529

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%	0	0.0%
12 months to 2 years	25% - 0%	5,000	5.0%
2 years to 5 years	50% - 0%	412	0.4%
5 years to 10 years	75% - 0%	5,888	5.8%
10 years and above	100% - 0%	89,609	88.8%

APPENDIX 2: Prudential and Treasury Indicators as at 30 September 2017

Prudential Indicators	2017/18 Budget £'000	2017/18 Outturn as at 30th September 17 £'000
Capital expenditure - General Fund Services	15,634	13,778
Capital expenditure - Housing Revenue Account	9,940	8,878
Capital Financing Requirement (CFR) - General Fund	123,640	118,219
Capital Financing Requirement (CFR) - HRA	25,557	29,926
Annual change in CFR - General Fund	1,121	(2,054)
Annual change in CFR - HRA	(1,165)	3,197
In year borrowing requirement	7,160	1,072
Ratio of financing costs to net revenue stream - General Fund	8.24%	8.02%
Ratio of financing costs to net revenue stream - HRA	16.93%	17.07%