THIS PAPER RELATES TO ITEM 7

ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to: **Council**

Date: **20 December 2018**

Subject: **Treasury Management Update at 30th September 2018**

Report by: **Chief Accountant (Interim)**

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 2018.

2.0 Recommendations

2.1 It is recommended that the Council note, comment and challenge as appropriate the mid year review of the Council's Treasury Management activities.

Considerations

3.1 The Treasury Management Strategy Statement (TMSS) for 2018/19 and the Prudential Indicators for 2018/19 to 2022/23 were approved by the Council on 8th March 2018**.** No changes to the TMSS are proposed in this report.

3.2 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 2018/19
- Borrowing Requirement and Debt
- Borrowing Outturn for 2018/19
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

3.3 The economy saw modest growth in the first half of 2018/19 after a slow start during January to March 2018. Growth was driven mainly by the services sector, although the construction sector also had a notable positive contribution. Growth is forecast to be around 1.5% for 2018 increasing to 1.8% in 2019.

3.4 The Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target. At its meeting of 1st August 2018, the MPC voted unanimously to increase Bank Rate by 0.25% to 0.75%. The MPC's updated projections for inflation and activity in the August Inflation Report are were broadly similar to its projections in May.

The continued low unemployment, high level of vacancies and negligible growth in total employment numbers indicates that employers are now having difficulties filling job vacancies with suitable staff. This has lead to wage inflation at around 3%. The MPC views wage inflation as an increasing inflationary pressure in the UK economy.

Interest Rate Forecast

3.5 The Council's treasury advisors, Link 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 Link Asset Management

	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21
Bank Rate	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

3.6 The MPC increased the bank rate in August 2018 to 0.75%. At it's meeting on 1st November 2018, the MPC anticipated that any future increases in Bank Rate were likely to be at a gradual pace and to a limited extent. However, its also estimates that the bank rate will need to rise to 1.5% by March 2021, in order to meet the inflation target.

Investment Outturn for 2018/19

3.7 The Treasury Management Strategy Statement (TMSS) for 2018/19 includes the Annual Investment Strategy, which sets out the approved upper limits of investments with fixed and variable interest rates. It can be confirmed that these limits were not breached during the six months ending 30th September 2018.

3.8 As at 30th September 2018, the Council held immediately available cash balances of £22.6m (£19.7m at 31st March 2018). The average level of funds available for investment during the period to 30th September 2018 was £19.1m. These funds were available on a temporary basis and are dependent on a number of factors including cash flow and the borrowing strategy.

In order to maintain the availability of cash, mainly for the significant expenditure within the capital programme, use has been made of the Bank of Scotland instant access account. One deposit of £5m has invested in a Bank of Scotland 175 day call account. This has affected the investment return as investments with higher liquidity generally have lower yields. This is in line with the Councils' investment priorities which are security first, liquidity second and then return.

3.9 The benchmark investment returns over the 6 months ended 30th September 2018 are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2018/19

Benchmark	Benchmark Return
7 day	0.44%
1 month	0.47%
3 month	0.61%
6 month	0.71%
12 month	0.94%

3.10 The Council's budgeted cash investment return for 2018/19 is 0.8%. The Council achieved an actual investment return of 0.54% (£41k) for the period ended 30th September 2018 which is less than budgeted. This is a composite rate of all investments which is a mixture of instant access balances and investments with maturity dates in excess of six months. One six month investment of £5m, with a return of 0.75%, matured in August 2018. This marginally outperformed the 6 month benchmark by 0.04%. A return of 0.40% was achieved on everyday cash balances, which was marginally less than the benchmark return of 0.44% for 7 day investments.

The budgeted cash investment return for 2018/19 of 0.8% was set with reference to a forecast bank rate of 0.75% in June 2018, rising to 1% in December 2018. The current forecast anticipates the rate will not rise to 1% until September 2019. The increase in the bank interest rate 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.

As shown by the interest rate forecast in paragraph 3.5, it is a very difficult investment market in terms of earning interest, as rates are very low and generally in line with the current 0.75% bank rate.

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 net effect of:

- re-phasing of spend in the capital programme to future years and
- an increase in the HRA CFR due to slippage carried forward from 2017/18 increasing the capital spend in 2018/19.

Overall this results in a net reduction from the budgeted CFR.

Table 3: Borrowing Requirement (CFR) 2018/19

	31 March 2018 Actual £000	**31 March 2019 Estimate £000**	**31 March 2019 Projected as at 30th September 2019 £000**
CFR General Fund	119,616	125,216	120,697
CFR HRA	25,172	26,917	30,635
Total CFR	**144,788**	**152,132**	**151,332**

3.12 **Borrowing Outturn for 2018/19**

New Borrowing

3.13 During the period to 30th September 2018, the Council repaid a maturing PWLB loan of £5.0m and £31k of principal on the Salix interest free 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. The need for external borrowing will be reviewed during the remainder of the financial year.

3.15 Repayments of £0.484m 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 2018 and expected year end position is illustrated in the undernoted table:

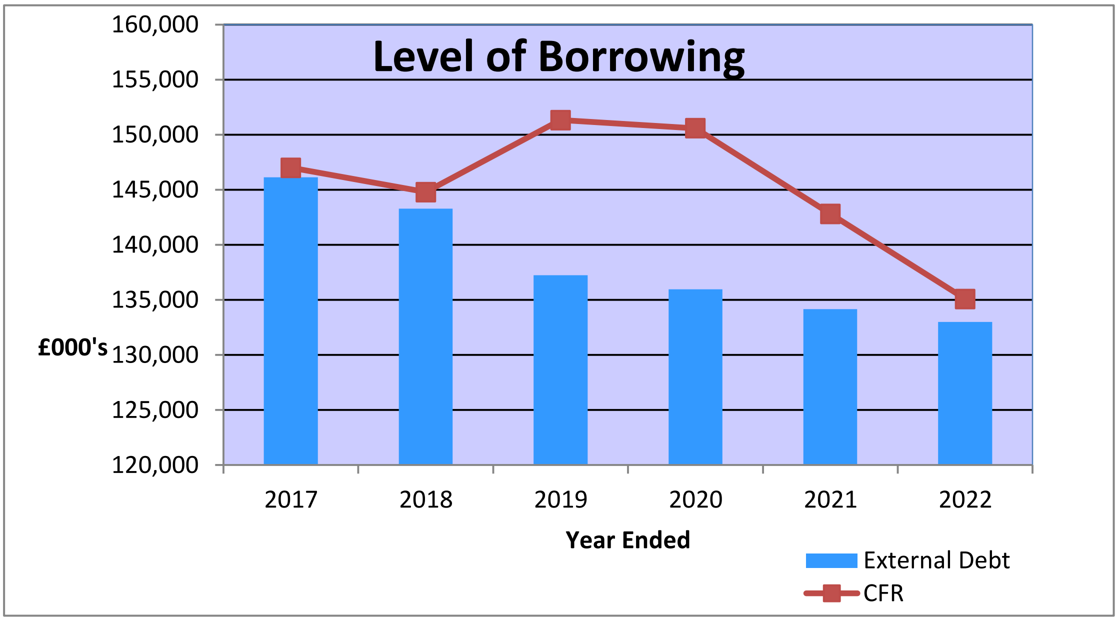
Table 4: External borrowing at 2018/19

	Actual March 2018 £000	Actual September 2018 £000	Projected March 2019 £000
Public Works Loan Board	77,515	72,514	72,513
Market Loans	18,993	18,997	19,000
LOBO Loans	5,000	5,000	5,000
Other long term liabilities	438	406	375
Temporary Loans (<1 year)	0	0	0
Long term Liabilities under Finance Lease	41,342	40,858	40,374
Total	**143,288**	**137,775**	**137,262**

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 marginally reduce by the end of 2019, providing no new external borrowing is undertaken during 2018-19. However the Council has significant capital projects, including Tullibody South Campus and the Kilncraigs final payment, which may require new external borrowing to be undertaken.

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 and Capital Financing Requirement (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 its 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.

The total external debt of £137m is less than the Operational Boundary for External Debt (£155m) and the Authorised Limit for External Debt (£165m)

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 2018/19.

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 in the current financial year.

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 All other treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement have been complied with in, the financial period to 30th September 2018. The prudential and treasury Indicators are shown in Appendix 2.

4.0 Conclusions

4.1 Cash balances have increase by £3.0m over the first six months of the year however, it is anticipated to that this will reduce during the remainder of the financial year, as the capital programme is delivered.

4.2 The Council has repaid £0.484m towards PFI and Finance leases.

4.3 The Councils return on investments has been close to the benchmarks for the first six months of the financial year. Scope for 6 and 12 months investments are considered limited. Cash balances are at a level of £22.6m 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 ☑)

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all	☐
Our families; children and young people will have the best possible start in life	☐
Women and girls will be confident and aspirational, and achieve their full potential	☐

Our communities will be resilient and empowered so that they can thrive and flourish ☑

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 2018

Appendix 2 - Prudential and Treasury Indicators as at 30th September 2018

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 2018/19 - report to Council March 2018

Author

NAME	DESIGNATION	TEL NO / EXTENSION
Helen Coleman	Corporate Accountant	
Ashley MacGregor	Corporate Accountancy Team Leader	

Approved by

NAME	DESIGNATION	SIGNATURE
Paula Tovey	Chief Accountant (Interim)	[redacted]
Stuart Crickmar	Director of Partnership & Performance	

APPENDIX 1: Investment Portfolio as at 30 September 2018

Borrower	Principal (£000)	Interest Rate	Start Date	Maturity Date
Bank of Scotland Plc	5,000	1.00% fixed	175 day call account	
Bank of Scotland Plc	11,891	0.65% variable	Instant Access	
Royal Bank of Scotland Plc	2,852	0.15% variable	Instant Access	
Other Accounts	2,901	-		
Total Cash and Cash Equivalents	**22,644**			

Short Term Investments	Principal (£000)
CSBP Developments	0.3
Total Short Term Investments	**0.3**

Long Term Investments	Principal (£000)
CSPB Investments	1
Clackmannanshire Regeneration	4,906
Coalsnaughton NHT Project	4,357
Total Long Term investments	**9,264**

TOTAL INVESTMENTS	**31,908**

APPENDIX 2: Prudential and Treasury Indicators as at 30 September 2018

Treasury Indicators	2018/19 Estimate £'000	Actual as at 30th September 18 £'000
Authorised limit for external debt	165,000	165,000
Operational boundary for external debt	155,000	155,000
Gross external debt	149,135	137,775
Investments (as at 31/03/2018)	28,917	31,908
Net borrowing	120,218	105,867

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 2018 £'000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	5.063	5.0%
12 months to 2 years	25% - 0%	63	0.1%
2 years to 5 years	50% - 0%	3.545	3.5%
5 years to 10 years	75% - 0%	5.769	5.7%
10 years and above	100% - 0%	87.506	85.7%

APPENDIX 2: Prudential and Treasury Indicators as at 30 September 2018

Prudential Indicators	2018/19 Estimate £'000	2018/19 Outturn Projected as at 30th Sept 17 £'000
Capital expenditure - General Fund Services	18,792	18,792
Capital expenditure - Housing Revenue Account	7,944	7,519
Capital Financing Requirement (CFR) - General Fund	125,216	120,697
Capital Financing Requirement (CFR) - HRA	26,917	30,635
Annual change in CFR - General Fund	1,576	5,680
Annual change in CFR - HRA	1,360	864
In year borrowing requirement	5,668	0
Ratio of financing costs to net revenue stream - General Fund	8.34%	8.35%
Ratio of financing costs to net revenue stream - HRA	15.11%	14.78%