CLACKMANNANSHIRE COUNCIL	THIS PAPER RELATES TO ITEM 12 ON THE AGENDA

Report to: **Council**

Date: **27 June 2019**

Subject: **Annual Treasury Management Report 2018/19**

Report by: **Chief Finance Officer**

1.0 Purpose

1.1 The Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual review of treasury management activities. This report details the treasury management activities for the Council for the year ended 31 March 2019 and how this compares to the 2018/19 Treasury Management Strategy Statement set in March 2018.

2.0 Recommendations

2.1 It is recommended that the Council note and consider this Annual Report for 2018/19 on the Council's Treasury Management activities.

3.0 Considerations

3.1 This report meets the requirements of the Scottish Government's investment regulations, the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

3.2 During 2018/19 the following reports were required to be reported to Council:

- annual treasury management and investment strategy (The Treasury Management Strategy Statement (TMSS) for 2018/19, which included the Annual Investment Strategy was approved by Council on 8th March 2018)
- a mid-year treasury update report (Treasury Management Update at 30th September 2018 submitted to the Council on 20th December 2018)
- an annual review following the end of the year describing the activity compared to the strategy (this report).

Regulations place responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3.3 The report covers the following areas:

- 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

3.4 There was minimal growth in the economy during 2018/19 mainly due to Brexit. The uncertainties, both in timing and agreement, over the UK's departure from the EU had a significant impact on economic forecasts.

3.5 The Monetary Policy Committee (MPC) has a Government set target to keep inflation at 2%. Inflation has continued to fall since peaking at 3.1% in November 2017, falling to its lowest level of 1.8% in January 2019 before rising marginally again to 1.9% in February 2019. However the Bank of England's latest forecasts for inflation over the next few years are marginally above the target of 2%.

3.6 The unemployment rate of 3.9% is the lowest level since 1975 and the level of vacancies remain high. The rise in wage inflation and the fall in CPI inflation has increased consumer spending power as the difference between the two figures is a real terms increase. This increase in household spending power is expected to favourably impact on the overall rate of economic growth in the coming months.

Interest Rate Forecast

3.7 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 3.4 to 3.6 above.

Table1: Investment Forecast provided by Link Asset Management

Quarter Ended	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2019	0.75	1.80	2.70	2.50
June 2019	0.75	1.80	2.60	2.40
Sept 2019	0.75	1.80	2.70	2.50
Dec 2019	0.75	1.90	2.80	2.60
March 2020	1.00	2.00	2.90	2.70

Quarter Ended	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
June 2020	1.00	2.10	3.00	2.80
Sept 2020	1.25	2.20	3.10	2.90
Dec 2020	1.25	2.20	3.20	3.00
March 2021	1.25	2.30	3.30	3.10
June 2021	1.50	2.40	3.30	3.10
Sept 2021	1.50	2.50	3.40	3.20
Dec 2021	1.50	2.50	3.50	3.30
March 2022	1.75	2.60	3.50	3.30

3.8 The forecast for interest rates within the 2018/19 TMSS was that the Bank Rate would rise from 0.5% to 0.75% in June 2018 and a further 0.25% in December 2018 to 1.0% at the end of March 2019. Due to slow growth in the year as noted in paragraphs 3.4 and 3.5 above, the MPC only increased the Bank Rate once in 2018/19 on 2nd August 2018 by 0.25% to 0.75% with the next rise not expected until March 2020.

Investment Outturn for 2018/19

3.9 As at 31st March 2019, the Council held investments of £26.2m made up of £16.9m short-term cash and cash equivalents held with banks and £9.3m of investments held mainly in Clackmannanshire Regeneration and Coalsnaughton NHT Project. Appendix 1 shows the analysis of the investment portfolio as at 31st March 2019.

3.10 The Council's treasury indicator and limit for investments for 2018/19 was that the maximum principal sum invested for a period greater that 364 days (long-term) was £12m. The approved limits within the Annual Investment Strategy relating to investments were not breached during 2018/19.

3.11 As at 31st March 2019 the Council held immediately available cash balances of £11.9m (£9.6m 2017/18). The average level of funds available for investment during the period to 31st March 2019 was £19.2m. During the year, two deposits of £5m each were returned to the Council and one £5m deposit was invested for over six months.

3.12 During 2018/19 investment rates remained low, increasing slightly at the beginning of the year in line with the expected bank rate rise in August. Investment rates then remained steady rising in November then falling back toward the end of the year. The benchmark investment returns over the 12 months ending 31st March 2019 are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2018/19

Benchmark	Benchmark Return
7 day	0.51%
1 month	0.54%
3 month	0.68%
6 month	0.79%
12 month	0.94%

3.13 The Council's budgeted cash investment return for 2018/19 was 0.8%, which was driven by the interest rate forecast as noted above. The Council achieved an actual investment return of 0.77% (£147k) for the year ended 31st March 2019. This comprised of one £5m twelve month investment with a return of 0.80%, underperforming the 12 month benchmark by 0.14% and two £5m six month investments at 0.75% and 1%, generating an average return of 0.88% which outperformed the benchmark by 0.09%. A return of 0.47% was achieved on everyday cash balances which was 0.04% less than the benchmark return for 7 day investments. The Council will continue to look at opportunities during 2019/20 to optimise its investment income in line with interest rate and cashflow forecasts.

Capital Outturn for 2018/19

3.14 The Council's capital expenditure plans are a key driver of treasury management activity. The TMSS for 2018/19 provided estimates of the total capital expenditure, split between General Fund Services and Housing Revenue Account (HRA), for 2018/19 and the following four financial years. The outturn for 2018/19 against budget is shown below:

Table 3: Capital Outturn 2018/19

	31 March 2019 Budget £000	31 March 2019 Actual £000	(Under)/Over Spend £000
General Fund Services	23,764	17,562	(6,202)
Housing Revenue Account	8,269	4,580	(3,689)
Total	**32,033**	**22,142**	**(9,891)**

3.15 The underspends on the General Fund are mainly due to rephasing of spend on large projects spanning multiple financial years such as Tullibody South Campus, Clackmannanshire Regeneration, City Deal and the purchase of a new Social Services Integrated System. The HRA underspend is mainly due to delays on roof & render upgrading works, house purchases, window replacement and energy efficiency works. These underspends will be carried forward into 2019/20.

Borrowing Requirement 2018/19

3.16 Capital expenditure that is not financed by the use of capital receipts, capital grants, developers contributions or directly from revenue, will increase the Capital Financing Requirement (CFR) of the Council. The calculation of the CFR is therefore intended to reflect the Council's underlying need to borrow for capital purposes and it is used as a key measure in treasury management decisions for this reason. Increases in the borrowing requirement are offset by the Loans Fund Principal Repayments. This is the amount required to be charged to revenue for previous borrowing and it is charged over the life of the asset. The net figure is the increase in the CFR. The CFR is shown in the table below split between the General Fund and HRA.

Table 4: Borrowing Requirement (CFR) 2018/19

	31 March 2018 Actual £000	31 March 2019 Budget £000	31 March 2019 Actual £000
General Fund	119,616	125,216	121,325
HRA	25,172	26,917	23,655
Total	**144,788**	**152,132**	**144,980**

3.17 Overall the CFR for 2018/19 has increased by £0.2m from 2017/18. The General Fund CFR has increased by £1.7m due to in year Capital expenditure of £8.6m offset by Loans Fund and Lease repayments of £6.9m. The HRA CFR has decreased by £1.5m due to Loans Fund Principal Repayments. Capital expenditure has been funded by revenue and grant funding therefore has not increased the CFR. The CFR for both General Fund and HRA is less than budgeted due to underspends on the capital programme as shown in table 3.

Ratio of financing costs to net revenue stream

3.18 The Council is required to make estimates of the ratio of capital financing costs to its net revenue stream i.e. the estimate of total income which will be committed towards meeting future costs of borrowing. This ratio is required to assess the affordability of capital investment plans and to provide an indication of the impact of the capital investment plans on the Council's overall finances.

For the General Fund this is the ratio of financing costs of borrowing against net expenditure financed by Government Grant and Council Tax. For the HRA the indicator is the ratio of financing costs to gross rental income.

The outturn for 2018/19 is as follows:

Table 5: Ratio of financing costs to net revenue stream 2018/19

	2018/19 Budget	2018/19 Actual
General Fund	8.34%	8.31%
Housing Revenue Account	15.11%	14.92%

Borrowing Outturn for 2018/19

3.19 Borrowing activity is constrained by the prudential indicators for CFR and gross borrowing and by the authorised limit. The Council needs to ensure that gross debt does not, over the medium term, exceed the CFR. An over borrowing position is permissible in the short term to allow for early borrowing for future years and recognition of slippage and other funding becoming available but the Council must return to an under borrowed position in future years.

3.20 During the year the Council repaid a maturing PWLB loan of £5.0m and £0.063m towards a SALIX loan.

3.21 Repayments of £0.968m were also made in the year toward the Council's PFI and finance lease.

3.22 During the period to 31st March 2019, capital expenditure was funded from internal borrowing (cash balances).and no new long or short-term borrowing was undertaken.

3.23 The Council's external borrowing position as at 31st March 2019 is illustrated in the undernoted table:

Table 6: External borrowing at 2018/19

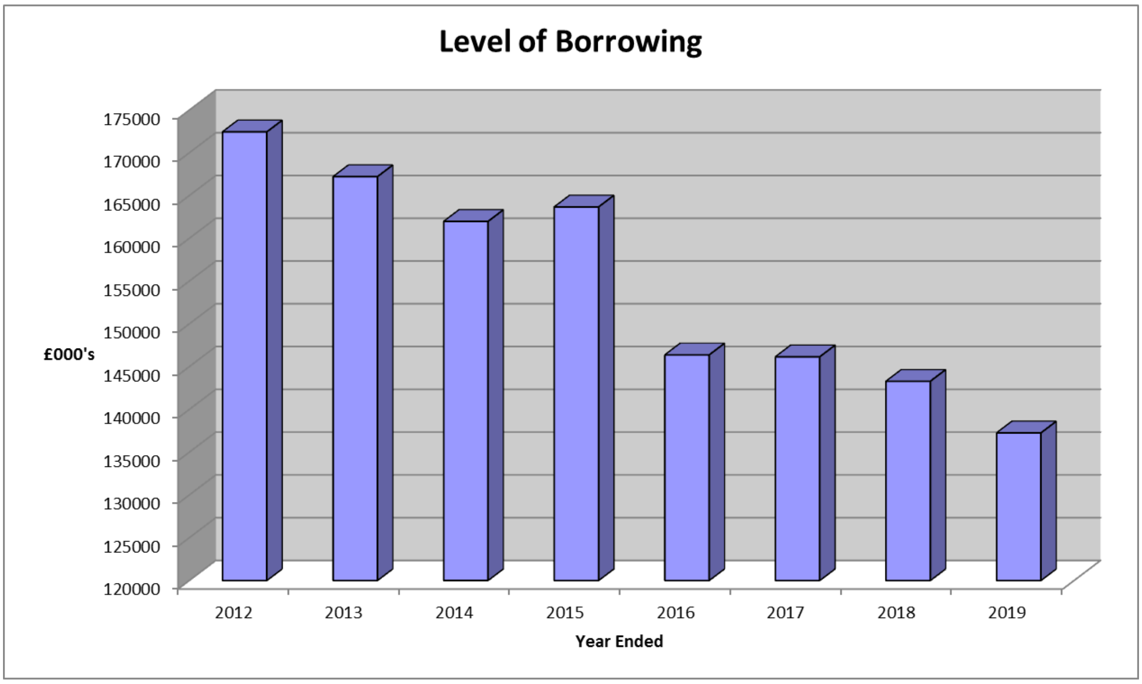
	Actual March 2018 £000	Actual March 2019 £000
Public Works Loan Board	77,515	72,513
Market Loans	18,938	18,875
LOBO Loans	5,000	5,000
Other long term liabilities	41,342	40,374
Total	**142,795**	**136,762**
CFR	**144,788**	**144,980**
(Under)/Over borrowing	**(1,993)**	**(8,218)**

3.24 In line with the Prudential Code, the Council is in an under borrowed position as at 31st March 2019.

3.25 The maturity structure of the PWLB loans, Market loans and LOBO loans are set out in Appendix 2. This also details the upper and lower limits for each category of loan as set out in the 2018/19 TMSS and shows that the Council has not breached these limits.

3.26 In 2012 the Council put in place a policy to minimise long term debt. To ensure debt is minimised, the capital programme should be set so that the level of borrowing required is less than the loan repayments in the year. The following chart illustrates the actual level of debt at the end of each year up to 31 March 2019.

Chart 1: External debt (actual)



3.27 Overall there has been a reduction in cumulative external debt of 20% between March 2012 and March 2019, 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 contribute to this reduction of the Council's overall level of external debt on an annual basis.

Limits for External Debt

3.28 The Council is required to set an authorised limit for external debt which includes external borrowing (gross of investments) and other long term liabilities such as finance lease obligations. The limit provides a maximum figure that the Council could borrow at any given point during each financial year. The Council also set an operational boundary for external debt which is lower than the authorised limit as it is based on an estimate of the most likely level of external borrowing at any point in the year.

Table 5: Authorised Limit for External Debt 2018/19

	2018/19 £000
Authorised Limit for External Debt	165,000
Operational Boundary for External Debt	155,000
Gross External Debt as at 31st March 2019	136,762

3.29 The Council did not exceed the authorised limit or the operational boundary during 2018/19 and was £18.2m below the operation boundary as at 31st March 2019.

Borrowing in advance of need

3.30 The Council has not borrowed in advance of need in the year ended 31st March 2019 and has no intention to borrow in advance in 2019/20.

Debt Rescheduling

3.31 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

3.32 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 TMSS.

3.33 During the year the Council has operated within the treasury and prudential indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown at Appendix 2.

4.0 Conclusions

4.1 Throughout 2018/19 the Council has complied with its legislative and policy requirements.

4.2 During the year repayments of £5.063m towards long term debt and £0.968m towards PFI and Finance leases were made reducing the overall level of borrowing.

4.3 The Councils achieved an actual return on investment of 0.77% generating income of £0.147m from short term cash investments.

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?

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	☐

(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 2019

Appendix 2 - Prudential and Treasury Indicators as at 31st March 2019

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	2256
Lindsay Sim	Chief Finance Officer	2022

Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	[redacted]
Stuart Crickmar	Strategic Director Partnership and Performance	[redacted]

APPENDIX 1: Investment Portfolio as at 31st March 2019

Borrower	**Principal £000**	**Interest Rate**	**Start Date**	**Maturity Date**
Bank of Scotland Plc	5,000	1.00%	28/09/2018	16/05/2019
Bank of Scotland Plc	6,926	0.65%	Instant Access	
Royal Bank of Scotland Plc	4,849	0.10% (balances above £1m)	Instant Access	
Other Accounts	188			
Total Cash and Cash Equivalents	**16,963**			

Short Term Investments	**Principal £000**
Clackmannanshire Regeneration	4,906
CSPB Investments	1
Total Short Term Investments	**4,907**

Long Term Investments	**Principal £000**
Coalsnaughton NHT Project	4,358
Total Long Term investments	**4,358**

TOTAL INVESTMENTS	**26,228**

APPENDIX 2: Prudential and Treasury Indicators as at 31st March 2019

Treasury Indicators	2018/19 Budget £000	2018/19 Outturn £000
Authorised limit for external debt	165,000	165,000
Operational boundary for external debt	155,000	155,000
Gross external debt*	149,135	136,762
Investments	28,917	26,228
Net borrowing	120,218	110,534

*As at 31st March 2019, Gross external debt consisted of £96.388m fixed rate borrowing and £40.374m liabilities in relation to the PFI and finance leases

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 2019 £000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	63	0.1%
12 months to 2 years	25% - 0%	475	0.5%
2 years to 5 years	50% - 0%	3,545	3.7%
5 years to 10 years	75% - 0%	5,295	5.5%
10 years and above	100% - 0%	87,010	90.2%
Total Fixed Rate Borrowing		96,388	100%

APPENDIX 2: Prudential and Treasury Indicators as at 31st March 2019

Prudential Indicators	2018/19 Budget £000	2018/19 Outturn £000
Capital expenditure - General Fund Services	23,764	17,562
Capital expenditure - Housing Revenue Account	8,269	4,580
Capital Financing Requirement (CFR) - General Fund	125,216	121,325
Capital Financing Requirement (CFR) - HRA	26,917	23,655
Annual change in CFR - General Fund	5,950	1,709
Annual change in CFR - HRA	1,287	(1,517)
In year borrowing requirement	5,668	2,609
Ratio of financing costs to net revenue stream - General Fund	8.34%	8.31%
Ratio of financing costs to net revenue stream - HRA	15.11%	14.92%