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**Report to: Council**

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**Date: 19 December 2019**

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**Subject: Treasury Management Update at 30th September 2019**

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**Report by: Chief Finance Officer**

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## **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 2019.

## **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 2019/20 and the Prudential Indicators for 2019/20 to 2023/24 were approved by the Council on 6<sup>th</sup> March 2019. 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 2019/20;
  - Borrowing Requirement and Debt;
  - Borrowing Outturn for 2019/20, and
  - Compliance with Treasury and Prudential Limits.

### The Economy and Interest Rates

- 3.3 The economy saw a fall in growth in the first half of 2019/20 mainly as a result of uncertainty over Brexit.
- 3.4 At its meeting of 6<sup>th</sup> November 2019 the Monetary Policy Committee (MPC) voted to maintain the Bank Rate at 0.75% but indicated that the rate may need to change in either direction, at a gradual pace and to a limited extent, in order to meet its inflation target of 2%.

Throughout the UK, continued low unemployment and high level of vacancies indicates that employers are continuing to have difficulties filling job vacancies with suitable staff. This has led to wage inflation at around 3.6% in September 2019. 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 19 | Mar 20 | Jun 20 | Sep 20 | Dec 20 | Mar 21 | Jun 21 | Sep 21 | Dec 21 | Mar 22 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bank Rate      | 0.75%  | 0.75%  | 0.75%  | 0.75%  | 0.75%  | 1.00%  | 1.00%  | 1.00%  | 1.00%  | 1.25%  |
| 5yr PWLB Rate  | 2.30%  | 2.40%  | 2.40%  | 2.50%  | 2.50%  | 2.60%  | 2.70%  | 2.80%  | 2.90%  | 2.90%  |
| 10yr PWLB Rate | 2.60%  | 2.70%  | 2.70%  | 2.70%  | 2.80%  | 2.90%  | 3.00%  | 3.10%  | 3.20%  | 3.20%  |
| 25yr PWLB Rate | 3.20%  | 3.30%  | 3.40%  | 3.40%  | 3.50%  | 3.60%  | 3.70%  | 3.70%  | 3.80%  | 3.90%  |
| 50yr PWLB Rate | 3.10%  | 3.20%  | 3.30%  | 3.30%  | 3.40%  | 3.50%  | 3.60%  | 3.60%  | 3.70%  | 3.80%  |

- 3.6 The Bank Rate has remained at 0.75% since August 2018 and is forecast to slowly rise over the next few years. An increase of 0.25% to 1.00% is expected in March 2021 with a further 0.25% in March 2022.
- 3.7 On 9<sup>th</sup> October 2019 HM Treasury announce an immediate rate increase of 1% on all PWLB borrowing increasing the typical loan rate to around 2.8% from 1.8%. This move was taken to ensure continued availability of lending following substantial increases in borrowing by councils over the summer. Since the rate increase, borrowing from the PWLB had fallen substantially.

### Investment Outturn for 2019/20

- 3.8 The Treasury Management Strategy Statement (TMSS) for 2019/20 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 2019.

- 3.9 As at 30th September 2019, the Council held cash balances of £17.3m, of which £5.3m was immediately available and £12m held in short term deposits. The average level of funds available for investment during the period to 30th September 2019 was £7.9m. These funds were available on a temporary basis and vary depending on a number of factors including cash flow and the borrowing strategy.

In order to maintain the availability of cash to meet daily cashflow payments, cash is held in the Bank of Scotland instant access account. Current accounts generally have lower interest rates, therefore cash is invested with other banks on a short term basis to achieve a higher return. This is in line with the Councils' investment priorities which are security first, liquidity second and then return.

A number of short term investments were made in the six months to 30th September 2019 to achieve higher interest rates. These consisted of: one deposit of £5m invested for over six months and deposits of £1m, £2m, £2m and £5m invested for one month. One deposit of £5m was returned to the Council on maturity during the period.

- 3.10 The benchmark investment returns over the 6 months ended 30th September 2019 are illustrated in the undernoted table:

**Table 2: Benchmark Investment Returns 2019/20**

| Benchmark | Benchmark Return |
|-----------|------------------|
| 7 day     | 0.57%            |
| 1 month   | 0.60%            |
| 3 month   | 0.66%            |
| 6 month   | 0.73%            |
| 12 month  | 0.83%            |

- 3.11 The Council's budgeted cash investment return for 2019/20 is 1.15%. This is a composite rate of all investments which is a mixture of instant access balances and short term investments with maturity dates up to six months. The budgeted rate was based on an expected rise in the bank rate to 1% in June 2019 and a further increase to 1.25% in March 2020.

For the period ended 30th September 2019 the Council achieved an actual investment return of 0.77% (£58k) which is less than budgeted largely due to interest rates remaining lower than expected at 0.75%. Individual investments performed well against the benchmark; one 6 month investment of £5m which matured in May 2019, achieved a return of 1.0% outperforming the 6 month benchmark by 0.27%. A return of 0.64% was achieved on everyday cash balances, which outperformed the benchmark return of 0.57% for 7 day investments.

The bank rate has remained at 0.75% since August 2018 and the current forecast anticipates the rate will not rise to 1% until March 2021. As shown by the interest rate forecast in paragraph 3.5, it is a very difficult investment market in terms of earning interest, as investment rates generally fall in line with bank rates. Opportunities to meet the budgeted investment return for the remainder of the year are therefore limited.

### **Borrowing Requirement and Debt**

3.12 The Council's underlying need to borrow to finance capital expenditure, termed the Capital Financing Requirement (CFR) is shown below. This shows an decrease in the CFR from budgeted, due to the net effect of:

- the underspend on the General Fund capital programme in 2018/19 being less than anticipated;
- re-phasing of spend in the General Fund capital programme into 2020/21 and future years, and
- an increase in the HRA CFR due to a reduction in the level of internal borrowing estimated for 2019/20.

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

**Table 3: Borrowing Requirement (CFR) 2019/20**

|                  | <b>31 March 2019<br/>Actual<br/>£000</b> | <b>31 March 2020<br/>Estimate<br/>£000</b> | <b>31 March 2020<br/>Projected as at<br/>30th September<br/>2019<br/>£000</b> |
|------------------|--|--|---|
| CFR General Fund | 121,325                                  | 123,455                                    | 120,273   |
| CFR HRA          | 23,655                                   | 23,818                                     | 23,367  |
| <b>Total CFR</b> | <b>144,980</b>                           | <b>147,273</b>                             | <b>143,640</b>  |

### **3.13 Borrowing Outturn for 2019/20**

3.14 During the period to 30th September 2019, the Council repaid £31k of towards the Salix interest free loan and £1k on a PWLB annuity loan.

3.15 Repayments of £0.613m were also made in the first six months of the year toward the Council's PFI and finance lease.

3.16 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.

3.17 The Council's external borrowing position as at 30th September 2019 and expected year end position is illustrated in the undernoted table:

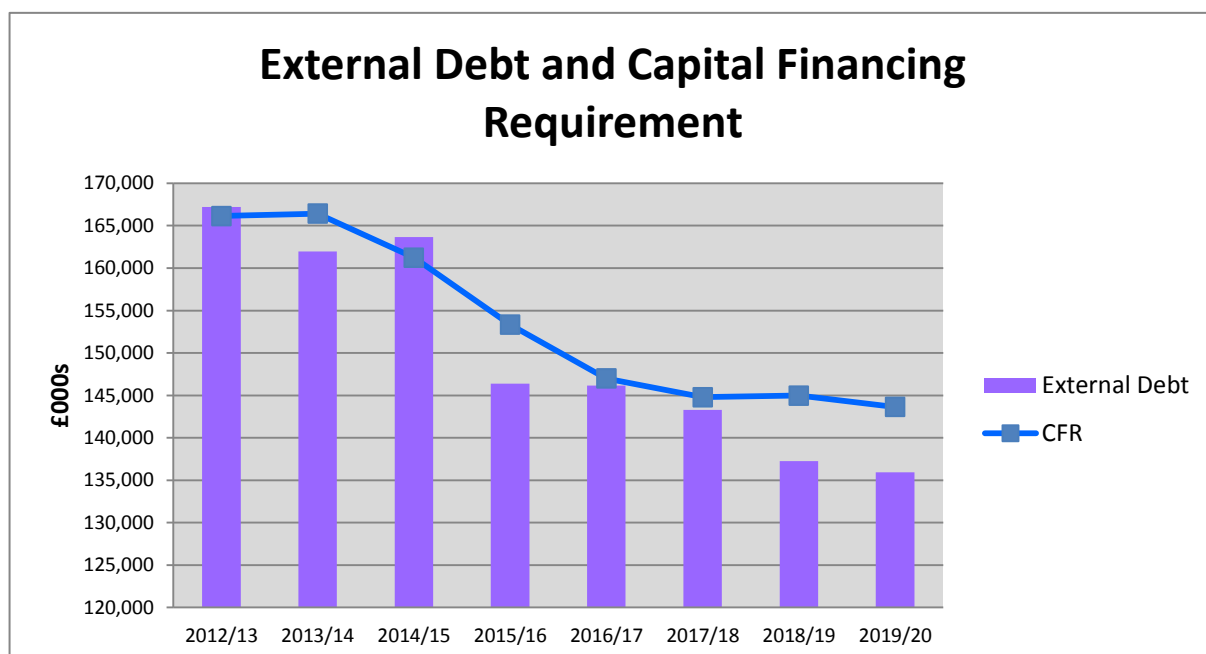
**Table 4: External borrowing at 2019/20**

|   | <b>Actual<br/>March 2019<br/>£000</b> | <b>Actual<br/>September 2019<br/>£000</b> | <b>Projected<br/>March 2020<br/>£000</b> |
|---|---------------------------------------|---|--|
| Public Works Loan Board                   | 72,513                                | 72,512                                    | 72,511                                   |
| Market Loans                              | 18,986                                | 18,983                                    | 18,979                                   |
| LOBO Loans                                | 5,000                                 | 5,000                                     | 5,000                                    |
| Other long term liabilities               | 375                                   | 344                                       | 313                                      |
| Temporary Loans (<1 year)                 | 0                                     | 0   | 0  |
| Long term Liabilities under Finance Lease | 40,374                                | 39,761                                    | 39,148                                   |
| <b>Total</b>                              | <b>137,248</b>                        | <b>136,600</b>                            | <b>135,951</b>                           |

3.18 The Capital Programme has been set in line with the Council's strategy to minimise long term debt with the level of borrowing forecast to marginally reduce by the end of 2020. This is on the basis that no new external borrowing is undertaken during 2019/20. However the Council has significant capital projects, such as Tullibody South Campus, which may require new external borrowing to be undertaken.

The following chart shows the actual and forecast level of debt up to the end of 2019/20. In addition to programmed 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)**



3.19 Overall there is a forecasted reduction in cumulative external debt of £31m (19%) since 2012, 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 £136m forecast at end of the year remains below the Operational Boundary for External Debt (£150m) and the Authorised Limit for External Debt (£160m)

**Borrowing in advance of need**

3.20 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 2019/20.

**Debt Rescheduling**

3.21 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**

3.22 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.

3.23 All treasury and prudential indicators set out in the Council’s Treasury Management Strategy Statement have been complied with in, the financial

period to 30<sup>th</sup> September 2019. These prudential and treasury Indicators are shown in Appendix 2.

#### 4.0 Conclusions

- 4.1 Immediate cash balances have reduced by £6.6m over the first six months of the year as funds have been invested in short term investments which have increased by £7m. It is anticipated that short term investments will reduce during the remainder of the financial year, as the capital programme is delivered.
- 4.2 The Council has repaid £0.613m towards PFI and Finance leases and £1.031m towards other external debt.
- 4.3 The Council's return on investments has out performed the benchmarks for the first six months of the financial year but is below the budgeted return.
- 4.4 Cash balances are at a level of £17.3m 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

**(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 2019

Appendix 2 - Prudential and Treasury Indicators as at 30th September 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 2019/20 - report to Council March 2019**

**Author**

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

**Approved by**

| NAME            | DESIGNATION                           | SIGNATURE   |
|-----------------|---------------------------------------|---|
| Lindsay Sim     | Chief Finance Officer                 |  |
| Stuart Crickmar | Director of Partnership & Performance |  |



APPENDIX 1: Investment Portfolio as at 30 September 2019

| <b>Borrower</b>                        | <b>Principal (£000)</b> | <b>Interest Rate</b> | <b>Start Date</b>    | <b>Maturity Date</b>           |
|--|-------------------------|----------------------|----------------------|--------------------------------|
| Bank of Scotland Plc                   | 5,000                   | 1.13% fixed          | 175 day call account | 11 <sup>th</sup> December 2019 |
| Bank of Scotland Plc                   | 5,000                   | 0.95% fixed          | 32 day call account  | 22 <sup>nd</sup> October 2019  |
| Bank of Scotland Plc                   | 2,000                   | 0.95% fixed          | 32 day call account  |                                |
| Bank of Scotland Plc                   | 2,977                   | 0.65% variable       | Instant Access       |                                |
| Royal Bank of Scotland Plc             | 2,306                   | 0.15% variable       | Instant Access       |                                |
| Other Accounts                         | 25                      | -                    |                      |                                |
| <b>Total Cash and Cash Equivalents</b> | <b>17,308</b>           |                      |                      |                                |

| <b>Short Term Investments</b>       | <b>Principal (£000)</b> |
|-------------------------------------|-------------------------|
| Clackmannanshire Regeneration       | 4,906                   |
| CSPB Investments Ltd                | 1                       |
| <b>Total Short Term Investments</b> | <b>4,907</b>            |

| <b>Long Term Investments</b>       | <b>Principal (£000)</b> |
|------------------------------------|-------------------------|
| Coalsnaughton NHT Project          | 4,358                   |
| <b>Total Long Term investments</b> | <b>4,358</b>            |

|                          |               |
|--------------------------|---------------|
| <b>TOTAL INVESTMENTS</b> | <b>26,573</b> |
|--------------------------|---------------|



APPENDIX 2: Prudential and Treasury Indicators as at 30 September 2019

| Treasury Indicators  | 2019/20<br>Estimate<br>£'000 | Actual as at 30 <sup>th</sup><br>September 19<br>£'000 |
|--|------------------------------|--|
| Authorised limit for external debt                         | 160,000                      | 160,000  |
| Operational boundary for external debt                     | 150,000                      | 150,000  |
| Gross external debt (estimate 31 <sup>st</sup> March 2020) | 140,980                      | 136,600  |
| Investments (actual as at 31 <sup>st</sup> March 2019)     | 26,288                       | 25,731   |
| Net borrowing  | 114,752                      | 110,525  |

| Maturity structure of fixed rate borrowing - upper and lower limits (excluding PFI and Finance Leases) | Upper and Lower Limits | Fixed Rate Borrowing as at 31 <sup>st</sup> March 2019 £'000 | % of Total Fixed Rate Borrowing |
|--|------------------------|--|---------------------------------|
| Under 12 months  | 25% - 0%               | 63   | 0.06%                           |
| 12 months to 2 years   | 25% - 0%               | 475  | 0.49%                           |
| 2 years to 5 years   | 50% - 0%               | 3,545  | 3.66%                           |
| 5 years to 10 years  | 75% - 0%               | 5,295  | 5.47%                           |
| 10 years and above   | 100% - 0%              | 87,496   | 90.32%                          |

## APPENDIX 2: Prudential and Treasury Indicators as at 30 September 2019

| Prudential Indicators  | 2019/20<br>Estimate<br>£'000 | 2019/20 Projected<br>Outturn as at 30 <sup>th</sup><br>Sept 19<br>£'000 |
|--|------------------------------|---|
| Capital expenditure - General Fund Services                      | 22,489                       | 16,899  |
| Capital expenditure - Housing Revenue Account                    | 8,701                        | 9,472   |
| Capital Financing Requirement (CFR) - General Fund               | 123,455                      | 120,273   |
| Capital Financing Requirement (CFR) - HRA                        | 23,818                       | 23,367  |
| Annual change in CFR - General Fund                              | (1,761)                      | (1,051)   |
| Annual change in CFR - HRA                                       | (3,099)                      | (289)   |
| In year borrowing requirement                                    | 6,272                        | (1,340)   |
| Ratio of financing costs to net revenue stream -<br>General Fund | 7.72%                        | 7.72%   |
| Ratio of financing costs to net revenue stream - HRA             | 14.80%                       | 14.44%  |