



Annual Treasury Management Report 2015/16

Committee Strategy & Programmes

Date of meeting 9 September 2016

Date of report 31 August 2016

Report by Assistant Chief Executive (Business Support)

1. Object of report

SPT is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual report reviewing treasury management activities and the actual prudential and treasury management indicators for 2015/16. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the “Code of Practice”) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the “Prudential Code”).

2. Background

SPT has adopted the Code of Practice and fully complies with its requirements.

The primary requirements of the Code of Practice are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of SPT’s Treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which SPT will seek to achieve those policies and objectives.
- Receipt by the Partnership of an annual strategy report for the year ahead and an annual review report of the previous year.
- Delegation by SPT of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

Treasury management in this context is defined as:

“The management of the local authority’s cash flows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks.”

During financial year 2015/16 the reporting requirements were that the Partnership should receive the following:

- an annual treasury strategy in advance of the year (Strategy & Programmes, 27 March 2015)
- a mid-year treasury update report (Strategy & Programmes, 13 November 2015)
- an annual report following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places 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 SPT's policies previously approved by members.

3. The Economy and Interest Rates in 2015/16

The Government maintained its tight fiscal policy stance and consequently there was no additional quantitative easing. However, economic growth (GDP) in the UK weakened slightly during the year from an annual rate of 2.4% in Quarter 1 (Jan to Mar) 2015 to 2.1% in Quarter 1 2016.

CPI inflation increased slightly from -0.1% in April 2015 to 0.5% in March 2016, having remained at, or near to, 0% throughout the financial year. This was mainly due to the collapse in oil prices in 2015.

Bank Rate ended the financial year unchanged at 0.5% and the challenging investment environment experienced in recent years continued. Market expectations for the first increase in Bank Rate moved considerably during the financial year and by the end of the year the expectation was for a gradual increase starting in Quarter 2 (Apr to June) 2018 (N.B. this relates to the forecasts issued in 2015/16 and not to subsequent events).

While the report outlines the 2015/2016 actual position, members will be made fully aware of the impacts of Brexit in future reports.

At the time of writing, base rates have been reduced to 0.25%, with further reductions not ruled out. This is being closely monitored.

4. Capital Expenditure and Financing

SPT undertakes capital expenditure on long-term assets. These activities may either be:

- financed through the application of capital or revenue resources (e.g. capital grants, capital receipts, revenue contributions etc.) which has no resultant impact on borrowing requirement; or
- if insufficient capital or revenue resources are available, or a decision is taken not to apply those resources, the capital expenditure will give rise to a borrowing requirement.

The actual capital expenditure forms one of the required Prudential Indicators. Table 1 below shows the actual capital expenditure over the last three financial years and how this was financed.

Table 1	2013/14 Actual £000	2014/15 Actual £000	2015/16 Actual £000
Capital Programme expenditure	38,373	40,693	54,595
Capital grants and contributions	33,758	25,135	26,333
Revenue contribution to the capital programme	4,615	5,802	5,596
Subway fund utilisation	0	9,735	16,969
Transfers from reserves	0	21	5,697
Borrowings	0	0	0
Capital Funding	38,373	40,693	54,595

5. Overall Treasury Position

At the beginning and end of 2015/16 SPT's debt position was as shown in Table 2 below:

Table 2	Principal 31 March 2015 £000	Principal 31 March 2016 £000	Principal Repaid £000	Interest Rate (including expenses) %
Total debt	0	0	0	0

As can be seen from Table 2, SPT is currently debt free. However, it should be noted that borrowing may be required in future years in support of the subway modernisation plans. This is consistent with the funding strategy agreed with the Scottish Government.

At the beginning and end of 2015/16 SPT's investment position was as shown in Table 3 below:

Table 3	Principal 31 March 2015 £000	Principal 31 March 2016 £000	Interest Earned £000
Total investments	101,168	96,568	787

As can be seen from Table 3, SPT earned interest of £787k during 2015/16. This is an increase of £185k when compared to the interest earned of £602k during 2014/15, mainly as a result of higher average balances being held during 2015/16.

6. Prudential and Treasury Management Indicators

The Local Government in Scotland Act 2003 and supporting regulations requires SPT to have regard to the Prudential Code and therefore to set Prudential Indicators to ensure that our capital investment plans are affordable, prudent and sustainable.

SPT has adopted the Code of Practice which requires it to set out an annual treasury management strategy for borrowing and investment. This includes setting Treasury Management Indicators to ensure that treasury activities are kept within authorised limits.

During financial year 2015/16 SPT operated within the Prudential and Treasury Management Indicators set out in the Treasury Management Strategy 2015/16.

Details of the Prudential and Treasury Management Indicators are shown in Appendix 1.

7. Annual Investment Strategy

The Annual Investment Strategy for 2015/16 was reported to and approved by the Strategy & Programmes Committee on 27 March 2015. The strategy was updated for 2015/16 to provide greater flexibility in managing counterparty limits.

Investment Policy

The 2015/16 strategy states that “SPT’s investment priorities will be security first, liquidity second and then return.”

Types of Investments

The 2015/16 strategy lists the potential cash type instruments and other investments permitted to be used by SPT.

Counterparties

The 2015/16 strategy lists the potential institutions permitted to be used by SPT.

Creditworthiness

SPT applies the creditworthiness service provided by its external treasury management advisors, Capita Asset Services. This service utilises a modelling approach, based on credit rating agency scores supplemented by additional market data, to classify counterparties into bands indicating relative creditworthiness and suggested duration for investments.

Counterparty Limits

The 2015/16 strategy sets out counterparty limits as follows:

- Principal Banker - the greater of £50m or 50% of total balances;
- UK Nationalised and Part Nationalised Banks - the greater of £30m or 30% of total balances;
- Other Institutions - the greater of £10m or 25% of total balances.

To allow for temporary operational circumstances, there is a tolerance level of 1% of the balance held with each counterparty.

The Annual Investment Strategy for 2015/16 was followed in full.

8. Investment Outturn

SPT's investment policy is governed by Scottish Government investment regulations, which have been implemented in the Annual Investment Strategy approved by the Strategy & Programmes Committee on 27 March 2015.

The result of the Annual Investment Strategy for 2015/16 is shown in Table 4 below:

Table 4	Average Investment £000	Average Rate of Return %	Benchmark Return* %
Account 1	9,414	0.55	0.36
Account 2	10,000	0.70	0.36
Account 3	0	0.00	0.36
Account 4	13,671	0.60	0.36
Account 5	350	0.10	0.36
Account 6	8,923	1.10	0.36
Account 7	7,945	0.70	0.36
Account 8	18,148	0.80	0.36
Account 9	0	0.00	0.36
Account 10	6,618	0.60	0.36
Account 11	17,183	0.95	0.36
Account 12	2	0.25	0.36
Account 13	6,524	0.50	0.36
Account 14	2,037	0.40	0.36
Account 15	1,925	0.65	0.36
Account 16	5,545	0.90	0.36

* The benchmark return is the 7 day LIBID un compounded.

The overall average rate of return equates to 0.75%, which exceeds the benchmark by 0.39% per annum.

As can be seen from Table 4, the Partnership holds a number of investment accounts with low balances. This is in order to maintain relationships with counterparties which currently offer low rates of return or do not meet the minimum acceptable credit quality. Retaining these accounts ensures quick access at the point that these accounts become competitive or regain the minimum acceptable credit quality.

9. Conclusion

During the financial year 2015/16 SPT operated within the Prudential and Treasury Management Indicators set out in the Treasury Management Strategy 2015/16.

The Annual Investment Strategy for 2015/16 was followed in full.

10. Committee action

The Committee is recommended to:

- (a) note the content of this report; and
- (b) note the prudential and treasury management indicators for 2015/16 as detailed in Appendix 1.

11. Consequences

Policy consequences	<i>None</i>
Legal consequences	<i>All legislation and regulations are adhered to.</i>
Financial consequences	<i>As detailed in the report</i>
Personnel consequences	<i>None</i>
Equalities consequences	<i>None</i>
Risk consequences	<i>As detailed in the report</i>

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Title **Assistant Chief Executive
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Prudential and treasury management indicators	2014/15 Actual £000	2015/16 Estimate £000	2015/16 Actual £000
Prudential indicators		Note (1)	
Capital Expenditure	40,693	78,441	54,595
Ratio of financing costs to net revenue stream	-2%	-1%	-2%
Net borrowing requirement / (net investments) ^{Note (2)}			
Brought forward 1 April	(80,455)	(90,049)	(101,168)
Carried forward 31 March	(101,168)	(59,115)	(96,568)
In year borrowing requirement	0	6,024	0
Capital Financing Requirement as at 31 March	0	6,024	0
Annual change in Capital Financing Requirement	0	6,024	0
Treasury management indicators			
External debt			
Indicator	0	6,024	0
Operational Boundary	10,000	20,000	20,000
Authorised Limit	11,000	22,000	22,000
Principal sums invested > 364 days ^{Note (3)}			
Indicator	14,000	35,000	0
Authorised Limit	35,000	35,000	35,000

Note (1) Information extracted from the Annual Treasury Management Strategy 2015/16.

Note (2) The total of external borrowings less investments held. Since SPT is debt free this indicator represents the investment balances held.

Note (3) Investments taken out during the financial year for a period greater than 364 days (2014/15: investments were for 365 days duration with a UK part-nationalised institution).