CLACKMANNANSHIRE COUNCIL

THIS PAPER RELATES TO ITEM 10

ON THE AGENDA

Report to: **Council**

Date: **6 October 2022**

Subject: **Annual Treasury Management Report 2021/22**

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 2022 and how this compares to the 2021/22 Treasury Management Strategy Statement set in March 2021.

2.0 Recommendations

2.1 It is recommended that the Council note and consider this Annual Report for 2021/22 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 2021/22 the following reports were required to be reported to Council:

- annual treasury management and investment strategy (The Treasury Management Strategy Statement (TMSS) for 2021/22, which included the Annual Investment Strategy was approved by Council on 24 March 2021)
- a mid-year treasury update report (Treasury Management Update at 30th September 2021 presented to Council on 16 December 2021)
- 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 2021/22
- Borrowing Requirement and Debt
- Borrowing Outturn for 2021/22
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

3.4 The COVID-19 pandemic had major impact on the UK and world economies during 2020/21 and the early part of 2021/22. In reaction to this, the Bank of England's Monetary Policy Committee (MPC) took emergency action to cut the Bank Rate several times settling at 0.1% by March 2020.

3.5 The UK economy has continued to fluctuate through the early part of 2021/22 with the continued impact of the pandemic and towards the end of the year, due to the war with Ukraine and resulting cost of living impacts. Inflation rose above the 2% target level set by the MPC resulting in mitigating action being taken to increase interest rates. The rate of inflation currently quoted by the Bank of England is 9.9% as at September 2022 with further increase expected over the shorter term.

Interest Rate Forecast

3.6 The Council's treasury advisors, Link Asset Services, provided the following interest rate forecast as at 1 September 2022 which is in line with the economic outlook set out in paragraphs 3.4 and 3.5 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
Sept 2022	2.25	2.80	3.40	3.10
Dec 2022	2.50	3.00	3.50	3.20
March 2023	2.75	3.10	3.50	3.20
June 2023	2.75	3.10	3.50	3.20
Sept 2023	2.75	3.00	3.50	3.20
Dec 2023	2.50	3.00	3.40	3.10
March 2024	2.50	2.90	3.40	3.10

3.7 The forecast for interest rates within the 2021/22 TMSS was that the Bank Rate would remain at 0.1% throughout 2021 and 2022 with no rise anticipated before March 2024. Due to the sharp rise in inflation towards the end of 2021 caused by constraints in supply due to the opening up of economies after the COVID-19 pandemic and latterly, the war in Ukraine, the Bank Rate was increased to 0.25% on 16 December 2021, 0.5% on 3 February 2022 and 0.75% on 17 March 2022.

3.8 Since the 1st April 2022, there have been 4 further rate rises with the rate currently at 2.25% following the latest 0.50% rate rise in September 2022. Further rate rises are expected during 2022/23.

Investment Outturn for 2021/22

3.9 As at 31 March 2022, the Council held investments of £41.2m almost wholly made up of short-term cash and cash equivalents held with banks and other institutions. £500 was also held in CSBP Clackmannanshire Investments Ltd. Appendix 1 shows the analysis of the investment portfolio as at 31 March 2022.

3.10 The Council's treasury indicator and limit for investments for 2021/22 was that the maximum principal sum invested for a period greater than 365 days (long-term) was £12m. The approved limits within the Annual Investment Strategy relating to investments were not breached during 2021/22.

3.11 As at 31 March 2022 the Council held immediately available cash balances of £33.1m (£32.9m 2020/21), of which £9.1m was held in the Council's bank accounts and a further £24.0m was held in one Money Market Fund (MMF) and two Ultra Short Dated Bond Funds.

3.12 A further £8.0m was held with Bank of Scotland in one fixed term and 2 call accounts, as detailed in Appendix A.

3.13 During the year, a maturing deposit of £3m was returned to the Council, and £2.5m was invested for a fixed term of twelve months in July 2021. A further £3.5m was invested for two months and £3m was invested for four months maturing during the year. Investments of £3m in a 32 day call account and £2.5m in a 175 day call account were also made and still held as at 31 March 2022. The average level of funds available for longer-term investment during the period to 31 March 2022 was £10.7m.

3.14 Investment returns remained at near zero in 2021/22 with some institutions falling into negative rates. The Bank of England and the Government maintained various monetary and fiscal measures, including supplying the banking system and the economy with a large amount of cheap credit so that banks could support businesses in need of cash during the lockdown. The Scottish Government also set aside significant sums for local authorities to pass on to businesses.

3.15 These measures meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year. As a result the Bank of England and other central banks recognised they would need to lift interest rates to slow down increasing levels of inflation.

3.16 The benchmark investment returns over the 12 months ending 31 March 2022, provided by Link Asset Services, are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2021/22

Benchmark	Benchmark Return
30 days	0.1304%
90 days	0.1286%
180 days	0.1286%
365 days	0.1389%

*The rates shown above are based on the backward looking Sterling Overnight Index Average (SONIA).

3.17 The Council's budgeted cash investment return for returns on investments placed for periods up to 100 days for 2021/22 was 0.10%, which was based on an expected bank rate of 0.10% for 2021/22.

3.18 The Council achieved an actual investment return of 0.21% (£22.9k) on all investments for the year ended 31 March 2022. This comprised one £3m twelve month investment at 0.2%, one £5m twelve month investment at 0.05%, one £3.5m one month investment at 0.03%, one £3.0m three month investment at 0.05% and one £3.0m one month investment at 0.03%. Interest rates between 0.00% and 0.15% were achieved on the MMF and USDBF accounts. A return of 0.05% was also achieved on everyday cash investments.

3.19 Investment Interest rates have started to rise in the first quarter of 2022/23 in line with increases in the Bank rate. The Council will continue to look at opportunities during 2022/23 to optimise its investment income in line with interest rate and cashflow forecasts.

Capital Outturn for 2021/22

3.20 The Council's capital expenditure plans are a key driver of treasury management activity. The TMSS for 2021/22 provided estimates of the total capital expenditure, split between General Fund Services (GF) and Housing Revenue Account (HRA), for 2021/22. The outturn for 2021/22 against budget is shown below:

Table 3: Capital Outturn 2021/22

	Revised Budget at 31 March 2022 £000	Actual Spend to 31 March 2022 £000	(Under)/Over Spend £000
General Fund Services	17,815	10,660	(7,155)
Housing Revenue Account	8,993	5,755	(3,238)
Total	**26,808**	**16,415**	**(10,393)**

3.21 The capital programme for 2021/22 was again adversely impacted by the Covid19 pandemic. Many projects faced delays during the financial year due to slow market recovery from the previous years lockdown restrictions, reprioritisation of Council resources and availability of contractors and supplies. For GF this includes projects such as Clackmannan Regeneration, City Region Deal and Digital Infrastructure projects and also includes delays in the delivery of purchased vehicles.

3.22 The HRA underspend was mainly across window replacement and new build projects, again, due to the impact of further lockdown restrictions, contractor availability and supply chain issues. For both GF and HRA, unspent budgets of £7.505m and £2.282m respectively were approved to be carried forward into 2022/23 in order to complete those projects that were not able to be completed.

Borrowing Requirement 2021/22

3.23 Capital expenditure can be financed by the use of capital receipts, capital grants, developers' contributions or directly from revenue. For any additional requirement the Council will need to undertake borrowing. This additional borrowing will increase the Capital Financing Requirement (CFR) of the Council, therefore the CFR represents the Council's underlying need to borrow for capital purposes and it is used as a key measure in treasury management decisions. Increases in the borrowing requirement are offset by the Loans Fund Principal Repayments. This is the amount required to be charged to revenue each year 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 2021/22

	31 March 2021 Actual £000	31 March 2022 Estimate £000	31 March 2022 Actual £000
General Fund	120,666	131,547	122,650
HRA	22,451	21,855	22,147
Total	**143,117**	**153,402**	**144,797**

3.24 Overall the CFR for 2021/22 has increased by £1.7m from 2020/21. The General Fund CFR has increased by £2.0m due to in year capital expenditure of £3.9m offset by Loans Fund and Lease repayments of £1.9m.

3.25 The HRA CFR has decreased by £0.3m solely due to Loans Fund Principal Repayments. All HRA capital expenditure has been funded by revenue and grant funding therefore there has been no borrowing to increase the CFR.

3.26 In summary, the CFR for both General Fund and HRA is less than budgeted due to underspends on both capital programmes in 2021/22 as shown in table 3 and underspends in previous financial years which impacts on the CFR as at 1st April 2021.

3.27 Loans Fund repayments are set in line with the Loans Fund Policy which was previously amended by the Council in 2019/20. The policy smooths the repayment profile of debt over the average life of the Councils assets. Further details of the policy are set out in the Treasury Management Strategy Statement 2020/21 approved by Council in February 2020.

Ratio of financing costs to net revenue stream

3.28 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.

3.29 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.

3.30 The outturn for 2021/22 against the estimate is shown in the following table.

Table 5: Ratio of financing costs to net revenue stream 2021/22

	2021/22 Estimate	**2021/22 Actual**
General Fund	3.78%	3.74%
Housing Revenue Account	7.57%	7.32%

3.31 For both the General Fund and The HRA the actual ration is slightly less than estimated due to underspends across both Capital programmes. This means that the actual costs of borrowing were affordable against the approved budget.

Borrowing Outturn for 2021/22

3.32 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 borrowed position is only 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.

3.33 In line with the Prudential Code, the Council was in an under borrowed position as at 31 March 2022.

3.34 The Council's external borrowing position as at 31 March 2022 is illustrated in the undernoted table:

Table 6: External borrowing at 2021/22

	Actual March 2021 £000	**Actual March 2022 £000**
Public Works Loan Board (PWLB)	77,098	77,096
Market Loans	18,750	18,688
LOBO Loans	5,000	5,000
Other long term liabilities	37,845	36,672
Total	**138,693**	**137,456**
CFR	**143,117**	**144,797**
(Under)/Over borrowing	**(4,424)**	**(7,341)**

3.35 During the year, loan repayments of £0.002m were made on PWLB loans and £0.062m was repaid towards a SALIX Loan shown within Market Loans above.

3.36 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 2021/22 TMSS and shows that the Council has not breached these limits.

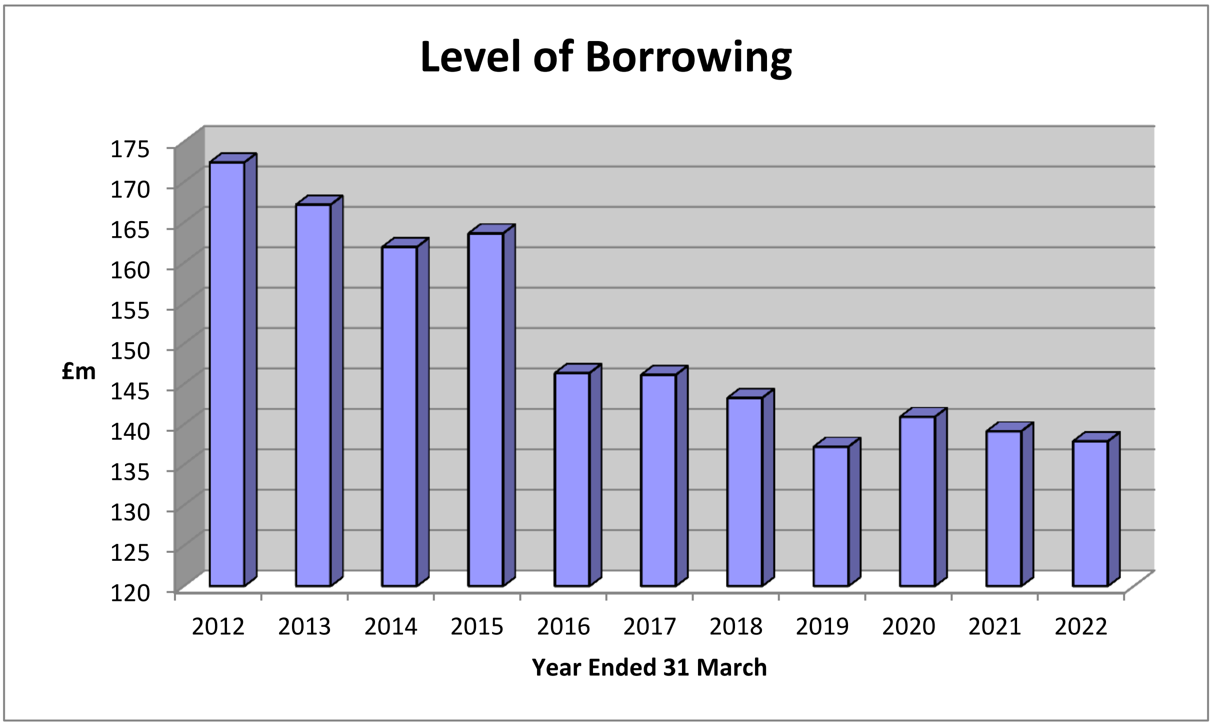
3.37 Under Other long term liabilities, repayments of £1.173m were also made in the year toward the Council's PFI and finance leases.

3.38 In 2012 the Council put in place a policy to minimise long term debt. To ensure debt is minimised, the capital programme was set so that the level of borrowing did not increase over the longer term.

3.39 For 2021/22 Council approved a 20 year Capital Investment Programme covering the years, from 2021/22 to 2040/41. This programme set out planned significant capital investment areas across the Councils Be The Future priorities. In order to support this 20 year capital programme, the previous borrowing strategy to minimise external debt was revised to one that supports growth and investment but also looks to reduce external debt over the longer term.

3.40 The following chart illustrates the actual level of debt at the end of each year up to 31 March 2022.

Chart 1: External debt (actual)



3.41 The chart shows that overall there has been a reduction in cumulative external debt of 20.2% between March 2012 and March 2022, showing that over the longer term the Council is not increasing its level of debt. 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

3.42 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 2021/22

	2021/22 £000
Authorised Limit for External Debt	164,000
Operational Boundary for External Debt	152,000
Gross External Debt as at 31 March 2022	**137,456**

3.43 The Council did not exceed either the authorised limit or the operational boundary during 2021/22 and was £14.5m below the operational boundary as at 31 March 2022.

Borrowing in advance of need

3.44 The Council did not borrow in advance of need in the year ended 31 March 2022 and has no intention to borrow in advance in 2022/23.

Debt Rescheduling

3.45 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 during 2021/22.

Compliance with Treasury and Prudential Limits

3.46 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.

3.47 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 2021/22 the Council has complied with its legislative and policy requirements including its Treasury Management Strategy and Prudential Indicators.

4.2 The Council achieved an actual return on investment of 0.21% generating income of £22.9k from short term cash investments.

4.3 During the year borrowing reduced through repayments of £0.064m towards long term debt and £1.173m towards PFI and Finance leases, reducing other long term liabilities.

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 31 March 2022

Appendix 2 - Prudential and Treasury Indicators as at 31 March 2022

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 Statement (TMSS) 2021/22 - report to Council March 2021

Treasury Management Mid-Year Report – report to Council December 2021

Author

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Approved by

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Lindsay Sim	Chief Finance Officer	[redacted]
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APPENDIX 1: Investment Portfolio as at 31 March 2022

Borrower	Principal £000	Interest Rate	Type
Bank of Scotland	20	Variable (Base rate less 0.1%)	Instant Access
Royal Bank of Scotland plc	9,086	0.01% (balances above £1m)	Instant Access
Other Accounts	128	N/A	Petty Cash
Total Cash and Cash Equivalents	**9,234**		

Short Term Investments	Principal £000	Interest Rate	Start Date	Maturity Date
Bank of Scotland plc	2,500	0.05%	23/07/2021	25/07/2022
Bank of Scotland plc	2,500	Variable (Base rate less -0.04%)	23/07/2021	30/05/2022
Bank of Scotland plc	3,000	0.03%	08/03/2022	30 day call account
Aberdeen Standard Money Market Fund	6,000	Variable	Instant Access	
Aberdeen Standard Short Duration Fund	13,000	Variable	4 working days	
Blackrock Money Market Fund	5,000	Variable	Instant Access	
CSBP Clackmannanshire Investments Ltd	1			
Total Short Term Investments	**32,001**			

TOTAL INVESTMENTS	**41,235**

APPENDIX 2: Prudential and Treasury Indicators as at 31 March 2022

Treasury Indicators	2021/22 Approved Budget £000	2021/22 Outturn at 31 March 2022 £000
Authorised limit for external debt	164,000	154,000
Operational boundary for external debt	152,000	152,000
Gross external debt*	138,693	137,456
Investments	35,951	41,235
Net borrowing	102,742	96,221

*****As at 31 March 2022, Gross external debt consisted of £100.784m fixed rate borrowing and £36,672m liabilities in relation to 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 31 March 2022 £000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	3,008	2.98%
12 months to 2 years	25% - 0%	0	0.00%
2 years to 5 years	50% - 0%	3,670	3.64%
5 years to 10 years	75% - 0%	5,600	5.56%
10 years and above	100% - 0%	88,506	87.82%
Total Fixed Rate Borrowing		100,784	100.00%

APPENDIX 2: Prudential and Treasury Indicators as at 31 March 2022

Prudential Indicators	2021/22 Revised Budget £000	2021/22 Outturn at 31 March 2022 £000	Variance/ Movement £000
Capital expenditure - General Fund Services	17,815	10,660	(7,155)
Capital expenditure - Housing Revenue Account	8,993	5,755	(3,238)
Capital Financing Requirement (CFR) - General Fund	131,547	122,650	(8,897)
Capital Financing Requirement (CFR) - HRA	21,855	22,147	292
Annual change in CFR - General Fund	(1,430)	1,984	3,414
Annual change in CFR - HRA	(2,718)	(304)	2,414
In year borrowing requirement	8,277	6,878	(1,399)
Ratio of financing costs to net revenue stream - General Fund	3.78%	3.74%	(0.04%)
Ratio of financing costs to net revenue stream - HRA	7.57%	7.32%	(0.25%)