THIS PAPER RELATES TO ITEM 5

ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to: **Council**

Date: **5th October 2023**

Subject: **Annual Treasury Management Report 2022/23**

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 2023 and how this compares to the 2022/23 Treasury Management Strategy Statement set in March 2022.

2.0 Recommendations

2.1 It is recommended that the Council note and consider this Annual Report for 2022/23 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 2022/23 the following reports were required to be reported to Council:

- annual treasury management and investment strategy (The Treasury Management Strategy Statement (TMSS) for 2022/23, which included the Annual Investment Strategy was approved by Council on 4th March 2022)
- a mid-year treasury update report (Treasury Management Update at 30th September 2022 presented to Council on 2nd February 2023)
- 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 2022/23
- Borrowing Requirement and Debt
- Borrowing Outturn for 2022/23
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

3.4 High inflation remained the main feature of the UK economy in 2022/23 as the war in Ukraine and reopening of economies around the world after the COVID-19 pandemic continued to affect supply and demand. In March 2022 CPI inflation stood at 7.0% and rose to a peak of 11.1% in October 2022. It remained around that level until March 2023 before gradually falling to 6.8% in July 2023.

3.5 The Bank of England Monetary Policy Committee (MPC) responded to this by increasing the Base Rate steadily over the year, from 0.75% in March 2022 to 5.25% in August 2023. It is expected that interest rates will remain at this level for some time to ensure that inflation is reduced to its target of 2%.

Interest Rate Forecast

3.6 The Council's treasury advisors, Link Asset Services, provided the following interest rate forecast as at 17th August 2023 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 2023	5.50	5.60	5.40	5.10
Dec 2023	5.50	5.30	5.20	5.00
March 2024	5.50	5.10	5.10	4.90
June 2024	5.25	4.80	4.90	4.70
Sept 2024	4.75	4.50	4.70	4.50
Dec 2024	4.25	4.20	4.50	4.30
March 2025	3.75	3.90	4.20	4.00

3.7 The forecast for interest rates within the 2022/23 TMSS was that the Bank of England Base Rate would rise from 0.75% in March 2022 to 1.25% at

December 2022 and remain at that level for the next two years. Due to the sharp rise in inflation throughout 2022 caused by constraints in supply due to the opening up of economies after the COVID-19 pandemic and latterly, the war in Ukraine, the Base Rate has been increased 8 times over the financial year from 0.75% on 17th March 2022 to 4.25% on 23rd March 2023

3.8 Since 1st April 2023, there have been 3 further rises with the base rate currently (August 2023) at 5.25% following the latest 0.25% rise in August 2023. Although inflation appears to be falling, further base rate rises cannot be ruled out to ensure inflation is brought back down to its target 2%.

Investment Outturn for 2022/23

3.9 As at 31 March 2023, the Council held investments of £39.9m 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 2023.

3.10 The Council's treasury indicator and limit for investments for 2022/23 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 2022/23.

3.11 As at 31 March 2023 the Council held immediately available cash balances of £35.9m (£33.1m 2021/22), of which £5.9m was held in the Council's bank accounts and a further £30.0m was held in one Money Market Fund (MMF) and two Ultra Short Dated Bond Funds (USDBF).

3.12 In addition to immediately held cash balances, a further £4.0m was held with Bank of Scotland in a fixed term account, as detailed in Appendix A.

3.13 During the year, three maturing deposits totalling £8m were returned to the Council in May, July and October. In June, £2.5m was invested for a three month term. In October, £5m was invested for a three month term and £4m for a six month term. In November £4m was invested in the BlackRock MMF account. In January, the £5m maturing term deposit was reinvested in the BlackRock MMF account. Further deposits and redemptions were made from this account in February and March, which ended the year with a balance of £6m. The average level of funds available for longer-term investment during the period to 31 March 2023 was £37.5m.

3.14 As the bank rate increased in 2022/23 after a number of years at near zero rates, these increases began to filter through to the interest rates being offered to investors. As a result, the Councils investment portfolio was realigned from holding a number of fixed rate investments to holding a greater proportion of variable rate investments which are more responsive to increases in the bank rate.

3.16 The benchmark investment returns over the 12 months ending 31 March 2023, provided by Link Asset Services, are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2022/23

Benchmark	Benchmark Return
30 days	1.9332%
90 days	1.3804%
180 days	0.7397%
365 days	0.1407%

*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 2022/23 was 0.75%, which was based on an expected bank rate of 1.25% for 2022/23.

3.18 Investment interest rates rose throughout 2022/23 in line with increases in the Bank rate and the Treasury Team actively invested the Councils cash balance throughout the year to take advantage of these rising interest rates. As a result the Council achieved an actual investment return of 1.62% (£0.608m) on all investments for the year ended 31 March 2023. This comprised one fixed term investment of £2.5m for one year at 0.05%, one £2.5m for six months at base rate less 0.04%, one £3.0m for one month at 0.03%, one £2.5m investment for three months at 0.3%, one £5m investment at 2.87% for three months and £4m invested for six months at 3.72%. Average interest rates between 0.91% and 1.96% were achieved on the MMF and USDBF accounts. An average return of 0.79% was also achieved on everyday cash investments.

3.19 The Treasury Team continues to identify opportunities during 2023/24 to optimise the Councils investment income in line with interest rate and cashflow forecasts. During the first quarter of 2023/24, accounts have been opened with Bank of Scotland Treasury Services and the UK Treasury Debt Management Office that are currently being used to invest surplus cash for periods of 7 days at rates close to the Bank of England Base rate. These activities are being undertaken in line with the Councils investment priorities of security first, liquidity second and then return.

Capital Outturn for 2022/23

3.20 The Council's capital expenditure plans are a key driver of treasury management activity. The TMSS for 2022/23 provided estimates of the total capital expenditure that would be incurred in 2022/23, split between General Fund Services (GF) and Housing Revenue Account (HRA). The outturn for 2022/23 against budget is shown below:

Table 3: Capital Outturn 2022/23

	Revised Budget at 31 March 2023 £000	Actual Spend to 31 March 2023 £000	(Under)/Over Spend £000
General Fund Services	20,585	9,928	(10,657)
Housing Revenue Account	12,583	9,769	(2,814)
Total	**33,168**	**19,697**	**(13,471)**

3.21 During 2022/23 many projects in the GF programme faced delays during the financial year mainly due to delays as a consequence of lockdown and the resulting rephasing of spend on large projects spanning multiple financial years such as School Estate £2.015m, IT investment projects £2.366m Clackmannan Regeneration £1.333m and Wellbeing Project £2.700m.

3.22 The underspend on the HRA capital programme of £2.814m was mainly due to delays on the following projects: new build development in Clackmannan £1.385m, Electrical Refurbishment £0.829m, Roof and Render work £0.674m and Kitchen replacement £0.533m due to lockdown restrictions, contractor availability and supply chain issues. There were also additional costs associated with Off the shelf purchases of £1.217m that were funded through grant from the Scottish Government.

3.23 For both GF and HRA, unspent budgets of £5.188m and £0.530m respectively were approved to be carried forward into 2023/24 in order to complete those projects in 2023/24.

Borrowing Requirement 2022/23

3.24 Capital expenditure can be financed by the use of capital receipts, capital grants, developer contributions or directly from revenue. For any additional requirement outwith these means, 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 2022/23

	31 March 2022 Actual £000	31 March 2023 Estimate £000	31 March 2023 Actual £000
General Fund	122,650	131,156	124,225
HRA	22,147	21,746	21,763
Total	**144,797**	**152,902**	**145,988**

3.24 Overall the CFR for 2022/23 has increased by £1.2m from 2021/22. The General Fund CFR has increased by £1.6m due to in year capital expenditure of £2.8m funded by internal borrowing partly offset by Loans Fund and Lease and other repayments totalling of £1.2m.

3.25 The HRA CFR has decreased by £0.4m solely due to repayments of the Loans Fund Principal. 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 total CFR for both GF and HRA is less than budgeted due to underspends on the GF capital programme in 2022/23 as shown in table 3 and additional underspends in the previous financial year above estimated in the opening balance of CFR as at 1st April 2022.

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.

3.28 As a one off measure in 2022/23, Council agreed to utilise the flexibility to take a loans fund repayment holiday to support the 2022/23 General Fund budget. This reduced revenue expenditure in 2022/23 by £0.966m however this cost will be spread over future years. This flexibility was made available for Councils by the Scottish Government to use on an individual basis to address financial pressures associated with the recovery phase from the Covid-19 pandemic.

Ratio of financing costs to net revenue stream

3.29 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.

3.30 For the GF 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.

3.31 The outturn for 2022/23 against the estimate is shown in the following table.

Table 5: Ratio of financing costs to net revenue stream 2022/23

	2022/23 Estimate	**2022/23 Actual**
General Fund	3.13%	3.02%
Housing Revenue Account	8.04%*	7.21%

3.32 For both the General Fund and the HRA, the actual ratio is slightly less than estimated due to the increase in interest on investments which offsets the cost of borrowing interest. For both the GF and HRA the actual costs of borrowing were affordable against the approved budget. The estimated ratio for the HRA has been revised since reported in the 2022/23 TMSS as this was previously under estimated.

Borrowing Outturn for 2022/2

3.33 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.

3.34 In line with the Prudential Code, the Council was in an under borrowed position as at 31 March 2023.

3.35 The Council's external borrowing position as at 31 March 2023 is illustrated in the undernoted table:

Table 6: External borrowing at 2022/23

	Actual March 2022 £000	**Actual March 2023 £000**
Public Works Loan Board (PWLB)	77,096	74,149
Market Loans	19,151	19,079
LOBO Loans	5,000	5,000
Other long term liabilities	36,672	35,435
Total	**137,919**	**133,663**
CFR	**144,797**	**145,988**
(Under)/Over borrowing	**(6,878)**	**(12,325)**

3.36 During the year, repayments of £2.947m were made on PWLB loans and £0.063m was repaid towards a SALIX Loan and £9k for the annual effective interest rate adjustment shown within Market Loans above.

3.37 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 2022/23 TMSS and shows that the Council has not breached these limits.

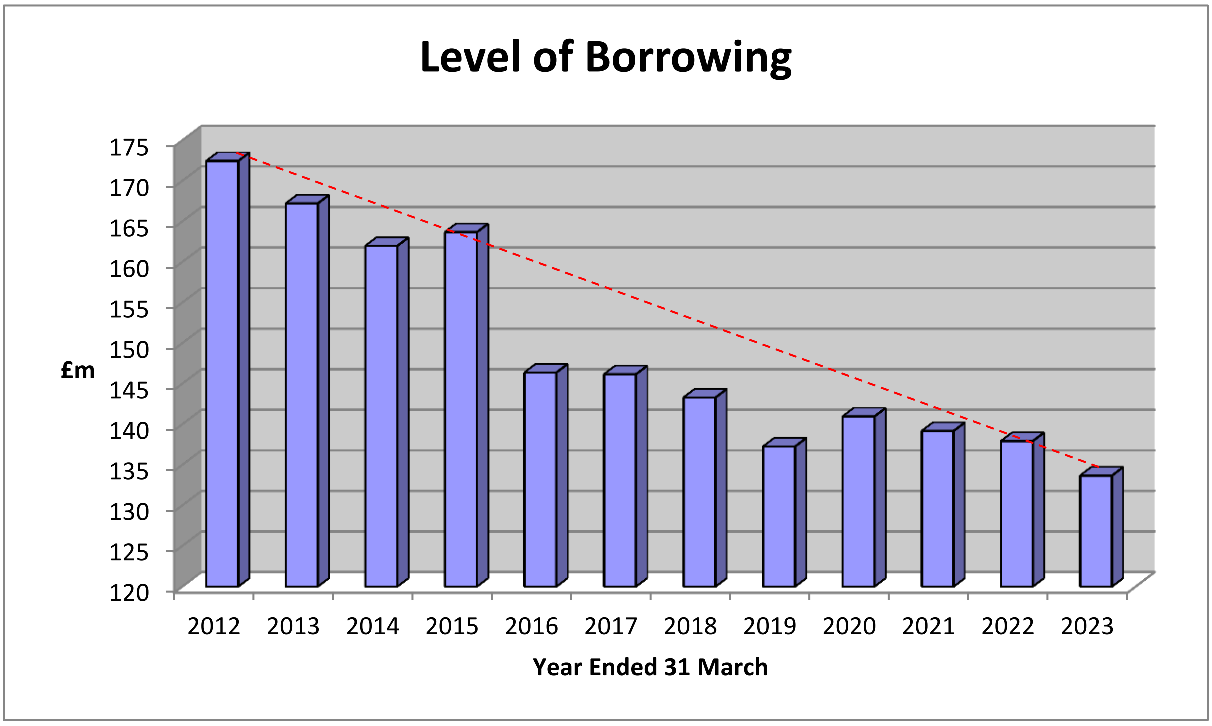
3.38 Under Other long term liabilities, repayments of £1.237m were also made in the year toward the Council's PFI lease.

3.39 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.

3.40 In March 2021, Council approved a 20 year Capital Investment Programme which is upated annually on a rolling basis. This programme set out planned significant capital investment areas across the Council's 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.

3.41 The following chart illustrates the actual level of debt at the end of each year up to 31 March 2023.

Chart 1: External debt (actual)



3.42 The chart shows that overall there has been a reduction in cumulative external debt of 22.5% between March 2012 and March 2023, 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

3.43 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 2022/23

	2022/23 **£000**
Authorised Limit for External Debt	157,000
Operational Boundary for External Debt	146,000
Gross External Debt as at 31 March 2023	**133,663**

3.44 The Council did not exceed either the authorised limit or the operational boundary during 2022/23 and was £12.3m below the operational boundary as at 31 March 2023.

Borrowing in advance of need

3.45 The Council did not borrow in advance of need in the year ended 31 March 2023 and has no intention to borrow in advance in 2023/24.

Debt Rescheduling

3.46 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 2022/23.

Compliance with Treasury and Prudential Limits

3.47 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.

3.48 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 with the exception of one indicator. Some of the Prudential and Treasury Indicators are shown at Appendix 2. In the TMSS 2022/23, the Interest Rate Exposure and Maturity Structure of Borrowing limit was set at 75% for variable interest rate investments. During the year this limit was exceeded during August-September 2022 and January-March 2023 (to a maximum of 89.2%). This was due to investments being held in the MMF and USDBF which totalled £24m from April to October, and which were increased to £28m in November for the remainder of the year. Returns on the MMF and USDBF are responsive to changes in the base rate and so provide a variable return. Due to the rising nature of interest rates through 2022/23 it was thought to be financially beneficial to the Council to continue to hold and increase its investments in variable rate funds to increase interest returns, whilst maintaining instant access to the funds ensuring liquidity.

3.49 In preparing the TMSS for 2023/24 a review of the indicators was carried out and the limit on variable rate investments was increased to 100% in the TMSS 2023/24 approved by Council on 9 March 2023. This will allow further opportunities to generate additional interest income through increasing interest rates in the current climate. There is relatively low risk to having a higher % of variable rate investments as the funds can be accessed immediately. The Treasury Team will continue to monitor this situation and ensure investments are being made in line with the Councils investment priorities of security first, liquidity second and then return.

4.0 Conclusions

4.1 Throughout 2022/23 the Council has complied with its legislative and policy requirements including its Treasury Management Strategy and Prudential Indicators (with the exception of the limit outlined in 3.48)

4.2 The Council achieved an actual return on investment of 1.62% generating income of £0.608m from short term cash investments.

4.3 During the year borrowing reduced through repayments of £3.019m towards long term debt and £1.237m 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 2023

Appendix 2 - Prudential and Treasury Indicators as at 31 March 2023

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) 2022/23 - report to Council March 2022

Treasury Management Mid-Year Report – report to Council February 2023

Author

NAME	DESIGNATION	TEL NO / EXTENSION
Helen Coleman	Team Leader – Corporate Accountancy	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 31 March 2023

Borrower	Principal £000	Interest Rate	Type
Bank of Scotland	5	Variable 0.01%	Instant Access
Royal Bank of Scotland plc	5,759	Variable 1.70%	Instant Access
Other Accounts	125	N/A	Petty Cash
Total Cash and Cash Equivalents	**5,889**		

Short Term Investments	Principal £000	Interest Rate	Start Date	Maturity Date
Bank of Scotland plc	4,000	Fixed 3.72%	12/10/2022	12/04/2023
Aberdeen Standard Money Market Fund	6,000	Variable Annual Return 3.95%	Instant Access	
Aberdeen Standard Ultra Short Duration Fund	13,000	Variable Annual Return 2.4%	4 working days	
BlackRock Money Market Fund	6,000	Variable Annual Return 4.06%	Instant Access	
BlackRock Ultra Short Duration Fund	5,000	Variable Annual Return 2.14%	Instant Access	
CSBP Clackmannanshire Investments Ltd	1			
Total Short Term Investments	**34,001**			

TOTAL INVESTMENTS	**39,890**

APPENDIX 2: Prudential and Treasury Indicators as at 31 March 2023

Treasury Indicators	2022/23 Approved Budget £000	2022/23 Outturn at 31 March 2023 £000
Authorised limit for external debt	157,000	157,000
Operational boundary for external debt	146,000	146,000
Gross external debt*	133,663	133,663
Investments	41,235**	39,890
Net borrowing	92,428	93,733

***As at 31 March 2023, Gross external debt consisted of £98.228m fixed rate borrowing and £35.435m liabilities in relation to PFI and finance leases
**Actual as at 31 March 2022

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 2023 £000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	475	0.48%
12 months to 2 years	25% - 0%	475	0.48%
2 years to 5 years	50% - 0%	4,820	4.91%
5 years to 10 years	75% - 0%	3,526	3.59%
10 years and above	100% - 0%	88,932	90.54%
Total Fixed Rate Borrowing		98,228	100.00%

APPENDIX 2: Prudential and Treasury Indicators as at 31 March 2023

Prudential Indicators	2022/23 Revised Budget £000	2022/23 Outturn at 31 March 2023 £000	Variance/ Movement £000
Capital expenditure - General Fund Services	20,585	9,928	(10,657)
Capital expenditure - Housing Revenue Account	12,583	9,769	(2,814)
Capital Financing Requirement (CFR) - General Fund	131,156	124,225	(6,931)
Capital Financing Requirement (CFR) - HRA	21,746	21,763	17
Annual change in CFR - General Fund	8,505	1,575	(6,930)
Annual change in CFR - HRA	(401)	(384)	17
In year borrowing requirement	25,711	12,325	(13,386)
Ratio of financing costs to net revenue stream - General Fund	3.13%	3.02%	(0.11%)
Ratio of financing costs to net revenue stream - HRA	8.04%	7.21%	(0.83%)