CLACKMANNANSHIRE COUNCIL	**THIS PAPER RELATES TO ITEM 7** **ON THE AGENDA**

Report to: **Clackmannanshire Council**

Date: **30 November 2023**

Subject: **Treasury Management Quarterly Updates at 30th June 2023 & 30th September 2023**

Report by: **Chief Finance Officer**

1.0 Purpose

1.1 The purpose of this report is to present an update of Treasury Management activity for the first 2 quarters of the year - 1st April to 30th September 2023.

2.0 Recommendations

2.1 It is recommended that the Council note, comment and challenge as appropriate on the review of the Council's Treasury Management activities.

3.0 Considerations

3.1 The Treasury Management Strategy Statement (TMSS) for 2023/24 and the Prudential Indicators for 2023/24 to 2025/26 were approved by the Council on 9th March 2023**.** 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 quarterly reports). This quarterly 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 2023/24;
- Borrowing Requirement and Debt;
- Borrowing Outturn for 2023/24, and
- Compliance with Treasury and Prudential Limits.

The Economy and Interest Rates

3.3 The invasion of Ukraine by Russia continues to have a major effect on the world economy. Although prices of energy and other commodities have reduced from the peaks seen in 2022, they remain at around double the level of two years ago. In the UK, CPI inflation fell from its peak of 11.1% in October 2022 to 7.9% in June and 6.7% in September, which is its lowest rate since February 2022. This remains well above target and is the highest rate in the G7 group of advanced economies. 3.4 The Bank of England's Monetary Policy Committee (MPC) sets its monetary policy in line with its inflation target, currently 2%, with the aim of sustaining growth and employment. As inflation remained substantially above target, the MPC raised the base rate twice so far this financial year, increasing from, from 4.25% to 5.00% in June and to 5.25% in August 2023. At its meetings in September and November 2023 the MPC maintained the base rate at 5.25%.

Interest Rate Forecast

3.5 The Council's treasury advisors, Link Group, provided the following interest rate forecast as at September 2023 for Bank Rates and Public Works Loan Board (PWLB) borrowing rates.

Table 1: Link Group Investment Forecast as at 25th September 2023

	Dec 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024	Mar 2025	Jun 2025	Sep 2025
Bank Rate	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00
5yr PWLB Rate	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90
10yr PWLB Rate	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80
25yr PWLB Rate	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10
50yr PWLB Rate	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90

3.6 As outlined in paragraphs 3.3 and 3.4 above, the UK is continuing to experience high inflation and as a result the UK Base Rate has continued to rise, reaching 5.25% in August 2023. The rate is now expected to remain at this level for the next twelve months before starting to reduce in September 2024 to 5.25% and gradually reducing thereafter to 3.00% by September 2025. However, there remains a high level of uncertainty as the economy continues to recover from the effects of the pandemic and the ongoing war in Ukraine, which could lead to the forecast being changed within a short timeframe. The outcome of the UK General Election, which will take place within the timeframe of the forecast, may also have a bearing on the economy.

3.7 Similar to bank rates, PWLB borrowing rates are expected to reach their peak by December 2023 before gradually reducing, as shown in the interest forecast table above.

Investment Outturn for 2022/23

3.8 The Treasury Management Strategy Statement (TMSS) for 2023/24 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 quarters ended 30 June 2023 and 30 September 2023.

3.9 In order to maintain the availability of cash to meet daily cash flow payments, cash is held in easily accessible current accounts, call accounts, Money Market Funds (MMFs) and Short Duration Bond Funds (SDBFs). Current accounts generally have low interest rates; therefore cash is invested in MMFs and SDBFs on a short term basis to achieve a higher return. MMFs and SDBFs are mutual funds that invest in a range of short-term and medium-term money market instruments such as cash deposits (e.g. with banks), short term fixed and variable income securities (such as bonds) and, for SDBFs, mortgage and asset backed securities. These funds allow investors to participate in a more diverse and high-quality portfolio holdings than if they were to invest independently. Their primary aims are the preservation of capital and the provision of liquidity whilst offering a level of return consistent with money market investment. This aim is consistent with the Council's investment priorities of security first, liquidity second and then returns. The Council also has an account with the UK Treasury Debt Management Office (DMO) to place deposits for fixed periods up to six months at rates close to the Bank of England Base rate.

3.10 As at 30 June 2023, the Council held cash balances of £33.9m, of which £3.9m was immediately available in the Council's bank accounts and a further £30m immediately available from holdings in MMFs and SDBFs. By 30 September, the cash held in bank accounts has increased to £6.5m whilst the holdings in MMFs and SDBFs were unchanged.

3.11 The average level of funds available for investment during the three months to 30 June 2023 was £37.9m and the six months to September 2023 was £39.2m. These funds were available on a temporary basis with the amount available varying at any one time depending on a number of factors including cash flow and the borrowing strategy.

3.12 The benchmark investment returns over the 3 months ended 30 June 2023 and the 6 months ended September 2023 are illustrated in the undernoted table:

Table 3: Benchmark Investment Returns 2023/24

Benchmark Period	Benchmark Return as at 30 Jun 2023	Benchmark Return as at 30 Sep 2023
7 Days	4.34%	4.71%
1 Month	4.27%	4.64%
3 Months	4.11%	4.44%
6 Months	3.74%	4.10%

12 Months	2.70%	3.16%

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

3.13 The Council's budgeted cash investment return for 2023/24 is 2.00%. 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 100 days. The budgeted rate was based on an expected average bank rate of 4.00% for 2023/24.

3.14 For the three months ended 30 June 2023 the Council achieved an actual investment return of 3.39% (£303k) which is higher than budgeted due to the increases in interest rates above the budgeted level. For the six months to 30 September 2023 the total investment return was 3.79% (£649k). Investments in MMF and USDBF achieved rates of between 4.20% and 4.32% for the three months to 30th June and between 4.70% and 5.02% for the three months to 30th September.

3.15 An average return of 1.37% was achieved on everyday cash balances held with the Royal Bank of Scotland (RBS). The cash balances in RBS accounts achieve a minimal return of between 1.00% and 1.70% and are held as working balances. The DMO account was used to place 7 day deposits when temporary excesses of working funds were identified, achieving returns of between 4.38% and 5.25% (£16k). Balances in the Bank of Scotland account are held pending future investments and achieved a return of 0.52% over the six month period.

3.16 The bank rate increased to 5.25% in August 2023, where it has remained as at November 2023. It is expected to remain at this level before falling progressively from September 2024 as shown in Table 1 above. Investment rates generally follow the bank rate and as the bank rate is forecast to be higher than previously expected for the remainder of 2023/24, it is anticipated that actual investment returns will also continue be higher than budgeted.

Borrowing Requirement and Debt

3.17 The Council's underlying need to borrow to finance capital expenditure, termed the Capital Financing Requirement (CFR) is shown below. The 2023/24 Budget Estimate has been increased by £13.687m due to the adoption of the revised accounting arrangements for Service Concessions as set out in the TMSS 2023/24. The projected CFR shows a decrease from budgeted, due to the net effect of:

- the General Fund capital expenditure for 2022/23 being less than anticipated;
- the forecast General Fund capital expenditure for 2023/24 being less than anticipated (with proposed re-phasing of spend into future years).

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

Table 4: Borrowing Requirement (CFR) 2023/24

	31 March 2023 Actual £000	31 March 2024 Budget Estimate £000	31 March 2024 Projected as at June 2023 £000	31 March 2024 Projected as at Sept 2023 £000
CFR General Fund	124,225	151,897	148,954	148,954
CFR HRA	21,763	27,440	27,471	27,471
Total CFR	**145,988**	**179,337**	**176,425**	**176,425**

Borrowing Outturn for 2023/24

3.18 During the period to 30 September 2023, the Council reduced its external borrowing by £0.756m. This included repayments of £0.001m towards PWLB Debt, repayments of £0.032m towards the Salix interest free loan and repayments of £0.720m towards the Council’s PFI arrangement.

3.19 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. At this time there is no additional external borrowing forecasted to be undertaken by 31 March 2024 but this will be subject to review of progress on the approved capital programme and the level of cash balances held.

3.20 The Council's external borrowing position as at 30 September 2023 and expected year end position is illustrated in the undernoted table:

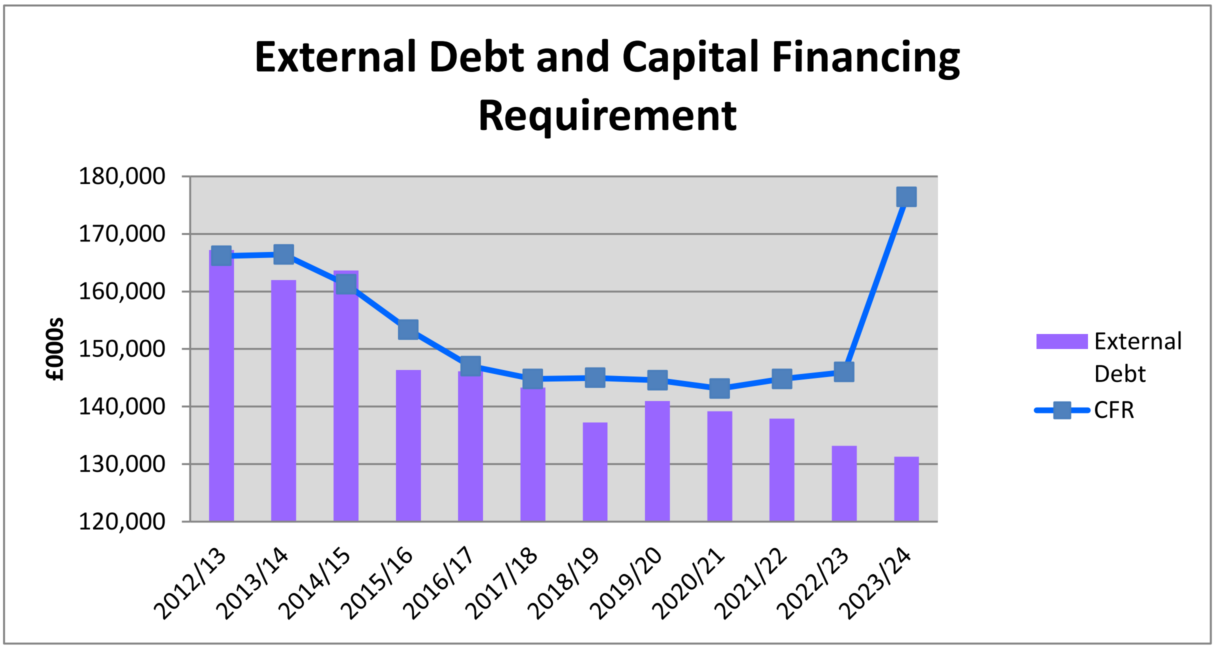
Table 5: External borrowing at 2023/24

	Actual March 2023 £000	Actual June 2023 £000	Actual Sept 2023 £000	Projected March 2023 £000
Public Works Loan Board	74,149	74,148	74,148	73,735
Market Loans	18,954	18,952	18,950	18,946
LOBO Loans	5,000	5,000	5,000	5,000
Other long term liabilities	125	125	94	63
Long term Liabilities - PFI	35,435	35,075	34,715	33,995
Total	**133,663**	**133,300**	**132,907**	**131,739**

3.21 The level of borrowing is forecast to marginally reduce by the end of 2023/24. This is on the basis that no new external borrowing is undertaken during the remaining 6 months of the year.

3.22 The following chart shows the actual and forecast level of debt up to the end of 2023/24. In addition to programmed capital spend, repayment profiles of debt maturity mean there are variations in annual change in debt year on year.

Chart 1: External debt and Capital Financing Requirement (actual and forecast)



3.23 Overall there is a forecasted reduction in cumulative external debt of £41m (25%) since 2012, showing that over the longer term the Council has not increased its level of debt to finance its capital programme. However the rolling 20 year capital programme for 2023/24 to 2042/43, approved by Council at its meeting in March 2023, included a significant increase in capital investment with the expectation that new external borrowing would need to be undertaken over this period to ensure sufficient cash is available to meet the capital investment. As a result external debt is forecast to increase in the medium term, falling again towards the end of the 20 year programme. Repayments towards PFI also continue to reduce the Council's overall level of external debt on an annual basis.

3.24 In line with the 2023/24 TMSS and Prudential Indicators, total external debt of £131.7m is forecast at end of the year which remains below the Operational Boundary for External Debt (£146m) and the Authorised Limit for External Debt (£157m).

Liability Benchmark

3.25 The Liability Benchmark was a new prudential indicator for 2023/24 introduced in the 2021 Code and was included in the 2023/24 TMSS. As a minimum, the Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years. The chart below estimates the Liability Benchmark to 2042/43 in line with the approved GF Capital Programme. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

There are four components to the Liability Benchmark are:

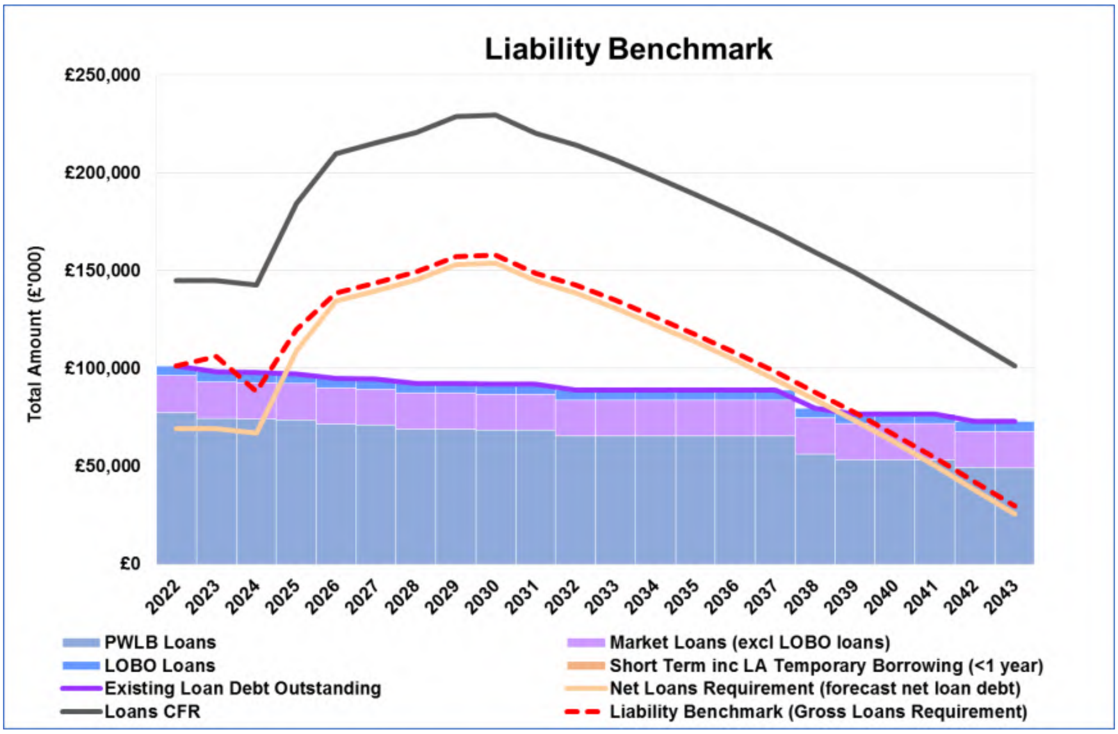
a) **Existing loan debt outstanding**: the Council's existing loans that are outstanding at the end of each financial year.

b) **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing, and planned Loans Fund advances and Loans Fund principal repayments.

c) **Net loans requirement**: this shows the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows forecast.

d) **Liability Benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Chart 2: Liability Benchmark



3.26 The Liability Benchmark shows that over the short term the Council is not anticipated to undertake any external borrowing but over the medium to long-term it is anticipated that the Council will need to borrow in order to ensure it holds sufficient funds to finance its capital spending plans.

Borrowing in Advance of Need

3.27 The Council has not borrowed in advance of need in the six months ended 30 September and has no intention to borrow in advance during the remainder of 2023/24.

Debt Rescheduling

3.28 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 to date in the current financial year however the Council will seek early redemption two PWLB annuity loans by 31st March 2024. The loans were advanced in 1970 and 1972 for 60 years with interest rates of 9.125% and 9.250% respectively. The balance on the loans as at 30th September 2023 is £25,914. The PWLB will charge a premium for early redemption which is anticipated to be approximately £6k. This can be funded from within the current loans fund revenue budget. The premium will be offset by a saving of interest of £12,719 over the next 9 years. The redemption will aid the administrative efficiency of the loan portfolio.

Compliance with Treasury and Prudential Limits

3.29 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.

3.30 All treasury and prudential indicators set out in the Council's TMSS have been complied with in the financial period to 30 September 2023. These prudential and treasury Indicators are shown in Appendix 2.

4.0 Conclusions

4.1 Cash balances 2023 were £33.9m as at 30 June 2023 and £36.5m as at 30 September 2023, which contributes to supporting the Council's capital financing requirement internally.

4.2 The Council's return on investments was higher than most of the benchmark rates for the first six months of the financial year and higher than the budgeted return.

4.3 The Council has repaid £0.720m towards PFI arrangements and £0.036m towards other external debt.

4.4. No new external borrowing is expected to be undertaken during the remainder of the financial year.

4.5 Immediate cash balances have decreased by £3.239m over the first six months of the year and £30m is held in two MMFs and two SDBFs. It is anticipated that the balances in the MMFs and SDBFs will reduce during the remainder of the financial year as funds are transferred to fulfil revenue and capital commitments.

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 double click on the check box ☑)

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 June and 30th September 2023

Appendix 2 - Prudential and Treasury Indicators as at 30th June and 30th September 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 2023/24 - report to Council March 2023

Author

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Approved by

NAME	DESIGNATION	SIGNATURE
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APPENDIX 1: Investment Portfolio

Short Term Investments – Counterparty	**Principal as at 30 Jun 2023 £000**	**Principal as at 30 Sep 2023 £000**	**Interest Rate**	**Type**
Aberdeen Standard Money Market Fund	6,000	6,000	Average Yield: Apr-Jun 4.20% Jul-Sep 4.88%	Instant access
Aberdeen Standard Ultra Short Dated Bond Fund	13,000	13,000	Average Yield: Apr-Jun 4.31% Jul-Sep 5.02%	Instant access
Blackrock Money Market Fund	6,000	6,000	Average Yield: Apr-Jun 4.32% Jul-Sep 4.70%	Instant access
Blackrock Ultra Short Dated Bond Fund	5,000	5,000	4.68% Average annual rate (accumulating interest)	Instant access
Bank of Scotland plc Treasury Call Account	10	5,010	4.90% as at 30th June 2023 5.14% as at 30th Sept 2023	Instant access
CSBP Clackmannanshire Investments Ltd	1	1		
Total Short Term Investments	**30,011**	**35,011**		

Cash and Cash Equivalents – Counterparty	**Principal as at 30 Jun 2023 £000**	**Principal as at 30 Sep 2023 £000**	**Interest Rate**
Royal Bank of Scotland plc	3,793	1,412	1.70% (balances above £1m)
Bank of Scotland plc	80	80	0.01% from 27th Jan 2023
Other Accounts	27	25	-
Total Cash and Cash Equivalents	**3,900**	**1,518**	

TOTAL INVESTMENTS	**33,911**	**36,528**

APPENDIX 2: Prudential and Treasury Indicators

Treasury Indicators	2023/24 Budgeted Estimate £'000	Actual as at 30 June 2023 £'000	Actual as at 30 Sept 2023 £'000	Projected 31 March 2024 £'000
Authorised limit for external debt	157,000	157,000	157,000	157,000
Operational boundary for external debt	146,000	146,000	146,000	146,000
Gross external debt	133,663	133,300	* 132,907	131,739
Investments	** 39,890	33,911	36,528	36,528
Net borrowing	93,773	99,389	96,379	95,211

*As at 30 September 2023, Gross external debt consisted of £98.192m fixed rate borrowing and £34,715m liabilities in relation to PFI
**Actual as at 31 March 2023

Maturity structure of fixed rate borrowing - upper and lower limits (excluding PFI)	Upper and Lower Limits	Fixed Rate Borrowing as at 30 June 2023 £'000	% of Total Fixed Rate Borrowing	Fixed Rate Borrowing as at 30 Sept 2023 £'000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	475	0.49%	443	0.45%
12 months to 2 years	25% - 0%	475	0.49%	475	0.49%
2 years to 5 years	50% - 0%	4,280	4.93%	4,280	4.93%
5 years to 10 years	75% - 0%	3,525	3.61%	3,525	3.61%
10 years and above	100% - 0%	88,478	90.49%	88,478	90.52%
		97,773	100.00%	97,741	100.00%

Prudential and Treasury Indicators

2023/24	As at 30th June 2023*		
Prudential Indicators	**Budgeted Estimate £'000**	**Projected Outturn £'000**	**Variance £'000**
Capital expenditure: General Fund Services	25,762	24,664	(1,098)
Capital expenditure: Housing Revenue Account	21,844	20,344	(1,500)
Capital Financing Requirement (CFR): General Fund	151,897	148,954	(2,943)
Capital Financing Requirement (CFR): HRA	27,440	27,471	31
In year borrowing requirement	45,674	43,125	(2,549)
Ratio of financing costs to net revenue stream - General Fund	4.11%	3.88%	(0.23%)
Ratio of financing costs to net revenue stream - HRA	8.13%	7.27%	(0.86%)

**Forecast figures not yet available as at 30th September*