
Report to: Clackmannanshire Council

Date: 20 March 2025

Subject: Annual Treasury Management Report 2023/24

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 2024 and how this compares to the 2023/24 Treasury Management Strategy Statement set in March 2023.

2.0 Recommendations

- 2.1 It is recommended that the Council note and consider this Annual Report for 2023/24 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 2023/24 the following reports were required to be reported to Council:
- annual treasury management and investment strategy (The Treasury Management Strategy Statement (TMSS) for 2023/24, which included the Annual Investment Strategy was approved by Council on 9th March 2023)
 - a mid-year treasury update report (Treasury Management Update at 30th September 2022 presented to Council on 30th November 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 2023/24
- Borrowing Requirement and Debt
- Borrowing Outturn for 2023/24
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

3.4 Against a backdrop of inflationary pressures, the Russian invasion of Ukraine in February 2022, and war in the Middle East, interest rates were volatile for all of 2023/24. The Bank of England Monetary Policy Committee (MPC) sets monetary policy to meet a 2% inflation target and varies the Bank of England Base rate to achieve this target.

3.5 The forecast for interest rates within the 2023/24 TMSS was that the Bank of England Base Rate would increase from 4.0% in February 2023 to 4.5% at June 2023 and then fall steady to 2.5% in September 2025.

3.6 From 1st April 2023, there were 3 rate rises within the year, peaking at 5.25% in August 2023 where it remained for almost a year before starting to fall by 0.25% in August 2024 to 4.5% by February 2025.

3.7 CPI inflation fell throughout 2023/24 from 8.7% in April 2023 to 3.2% in March 2024. The UK experienced a shallow recession in the second half of 2023 recovering in early 2024. Labour markets remained tight by historical standards with unemployment just over 4% with annual wage inflation above 5%.

Interest Rate Forecast

3.6 The Council's treasury advisors, MUFG Corporate Markets, provided the following interest rate forecast as at 10th February 2025 which is in line with their current assessments of the economic outlook for the coming financial year.

Table1: Investment Forecast provided by MUFG Corporate Markets

Quarter Ended	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
March 2025	4.50	5.00	5.30	5.50
June 2025	4.25	4.90	5.20	5.40
Sept 2025	4.25	4.80	5.10	5.30
Dec 2025	4.00	4.70	5.00	5.20
March 2026	3.75	4.60	4.90	5.10

- 3.7 The table shows rates are expected to reduce, albeit slowly over the year to March 2026. Whilst reductions in rates reduces borrowing costs, it also reduces the interest income on short term investments.

Investment Outturn for 2023/24

- 3.9 As at 31 March 2024, the Council held investments of £12.5m 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 2024.
- 3.10 The Council's treasury indicator and limit for investments for 2023/24 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 2023/24.
- 3.11 As at 31 March 2024 the Council held immediately available cash balances of £12.5m (£35.9m 2022/23), of which £4.3m was held in the Council's bank accounts and a further £8.2m was held in a treasury call account, two Money Market Funds (MMF) and two Ultra Short Dated Bond Funds (USDBF).
- 3.12 During the year, there were no investments in fixed term deposits. All funds available for investment were held in the MMFs and USDBFs. A treasury call account was opened with Bank of Scotland, which offers daily interest rates close to money market rates. Extensive use was made of HM Treasury's Debt Management Office deposit facility, principally for very short-term deposits, often overnight, in order to secure a better rate than was available from the Royal Bank of Scotland.
- 3.14 The benchmark investment returns over the 12 months ending 31 March 2024, provided by MUFG Corporate Markets, are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2023/24

Benchmark	Benchmark Return
30 days	5.0032%
90 days	4.7358%
180 days	4.0944%
365 days	2.2740%

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

- 3.15 The Council's budgeted cash investment return for returns on investments placed for periods up to 100 days for 2023/24 was 2.00%, which was based on an expected bank rate of 4.00% for 2023/24.
- 3.16 As noted above, investment interest rates rose throughout 2023/24 in line with increases in the Bank rate and the Treasury Team actively invested the Council's cash balances throughout the year to take advantage of these rising interest rates. As a result, the Council achieved an actual investment return of 5.76% (£1.669m) on all investments for the year ended 31 March 2024 which is well above the benchmark shown in table 2 above. Average interest rates between 4.72% and 4.97% were achieved on the MMF and USDBF accounts, £4m was invested for six months at a rate of 3.72% which matured in April 2023 and an average return of 1.63% was also achieved on everyday cash investments.
- 3.17 The Treasury Team continues to identify opportunities during 2024/25 to optimise the Council's investment income in line with interest rate and cashflow forecasts. These activities are being undertaken in line with the Council's investment priorities of security first, liquidity second and then return.

Capital Outturn for 2023/24

- 3.18 The Council's capital expenditure plans are a key driver of treasury management activity. The TMSS for 2023/24 provided estimates of the total capital expenditure that would be incurred in 2023/24, split between General Fund Services (GF) and Housing Revenue Account (HRA). The outturn for 2023/24 against budget is shown below:

Table 3: Capital Outturn 2023/24

	Revised Budget at 31 March 2024 £000	Actual Spend to 31 March 2024 £000	(Under)/Over Spend £000
General Fund Services	26,971	14,168	(12,803)
Housing Revenue Account	21,844	14,756	(7,088)
Total	48,815	28,924	(19,891)

- 3.19 For 2023/24, the approved General Fund Capital programme set out significant gross investment in Clackmannanshire amounting to £17.760m. A further £5.188m was added as a result of carry forwards from 2022/23 and £4.022m has been added to reflect additional grant income for various projects and initiatives. These additional amounts have increased the approved budget for 2023/24 to £26.971m.
- 3.20 The total spend on the General Fund capital programme for the year was £14.168m resulting in an underspend of £12.803m. Whilst work on capital projects was progressed, delays were still incurred due to internal and external factors and as such £10.043m was carried forward to 2024/25.
- 3.21 The gross HRA Capital Programme for 2023/24 was £21.844m which included £0.530m carry forward of underspend from the 2022/23 Budget and an additional £1.305m of budget for the Westhaugh new site project, agreed at Council on the 18th May 2023.
- 3.22 The total gross expenditure on the HRA capital programme for the year was £14.756m resulting in an underspend of £7.088m, £6.906m of which was carried forward to 2024/25. A significant impact on the underspend is delays with the Westhaugh Travelling Site, Lochies Road project and Kitchen replacement project.

Borrowing Requirement 2023/24

- 3.23 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 2023/24

	31 March 2023 Actual £000	31 March 2024 Estimate £000	31 March 2024 Actual £000
General Fund	124,225	148,954	139,596
HRA	21,763	27,471	22,058
Total	145,988	176,425	161,654

- 3.24 Overall the CFR has increased by £15.7m as at March 2024 from the previous year. The General Fund CFR has increased by £15.4m due to in year capital expenditure of £4.6m funded by internal borrowing, a one off service concessions adjustment of £12.5m partly offset by Loans Fund and Lease and other repayments totalling of £1.9m.
- 3.25 The HRA CFR has increased by £0.3m as at 31 March 2024 from the previous year, solely due to in year capital expenditure of £0.8m funded by internal borrowing offset by Loans Fund principal repayments of 0.5m.
- 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 2023/24 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 2023.
- 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 The TMSS for 2023/24 set out revised accounting arrangements for Service Concessions which generated a one-off retrospective benefit of £12.5m in 2023/24 and will generate average annual benefits of £1m per annum in the near term. The revised arrangements extended the term of repayments from 30 years to 50 years which results in additional costs to the General Fund from years 30 to 50. It is anticipated these will be funded from existing budgets. The revised arrangements resulted in an increase to the CFR of £12.5m

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 2023/24 against the estimate is shown in the following table.

Table 5: Ratio of financing costs to net revenue stream 2023/24

	2023/24 Estimate	2023/24 Actual
General Fund	4.11%	3.72%
Housing Revenue Account	8.13%	7.09%

- 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, as the actual ratio is less than budgeted, the actual costs of borrowing were affordable against the approved budget.

Borrowing Outturn for 2023/24

- 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 2024.
- 3.35 The Council's external borrowing position as at 31 March 2024 is illustrated in the undernoted table:

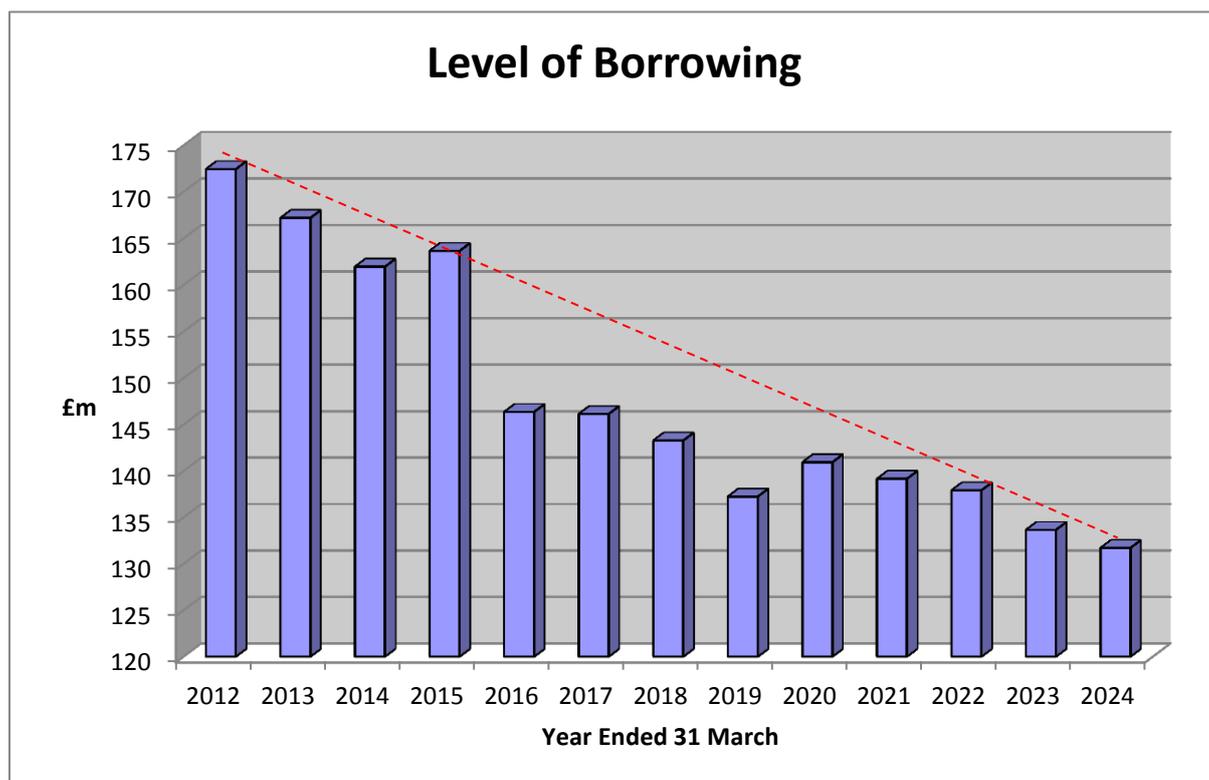
Table 6: External borrowing at 2023/24

	Actual March 2023 £000	Actual March 2024 £000
Public Works Loan Board (PWLB)	74,149	73,710
Market Loans	19,079	19,008
LOBO Loans	5,000	5,000
Other long term liabilities	35,435	33,995
Total	133,663	131,713
CFR	145,988	161,654
(Under)/Over borrowing	(12,325)	(29,941)

- 3.36 During the year, repayments of £0.412m were made on PWLB loans, £0.027m for the early redemption of two PWLB annuity loans, £0.062m 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 2023/24 TMSS and shows that the Council has not breached these limits.
- 3.38 Under Other long term liabilities, repayments of £1.440m 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 updated 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 2024.

Chart 1: External debt (actual)



- 3.42 The chart shows that overall there has been a reduction in cumulative external debt of 24.4% between March 2012 and March 2024, 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 2023/24

	2023/24 £000
Authorised Limit for External Debt	157,000
Operational Boundary for External Debt	146,000
Gross External Debt as at 31 March 2024	131,713

- 3.44 The Council did not exceed either the authorised limit or the operational boundary during 2023/24 and was £14.3m below the operational boundary as at 31 March 2024.

Borrowing in advance of need

- 3.45 The Council did not borrow in advance of need in the year ended 31 March 2024 and has no intention to borrow in advance in 2024/25.

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 2023/24.

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. Some of the Prudential and Treasury Indicators are shown at Appendix 2.

4.0 Conclusions

4.1 Throughout 2023/24 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 5.76% generating income of £1.669m from short term cash investments.

4.3 During the year borrowing reduced through repayments of £0.510m towards long term debt and £1.440m 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

- Complies with relevant Council Policies

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 2024

Appendix 2 - Prudential and Treasury Indicators as at 31 March 2024

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) 2023/24 - report to Council March 2023

Treasury Management Mid-Year Report – report to Council February 2024

Author

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Approved by

NAME	DESIGNATION	SIGNATURE
Chris Alliston	Strategic Director Partnership and Performance	

APPENDIX 1: Investment Portfolio as at 31 March 2024

Counter party	Principal £000	Interest Rate	Type
Bank of Scotland	80	Variable 0.01%	Instant Access
Royal Bank of Scotland plc	4,188	Variable Annual Return 1.65%	Instant Access
Other Accounts	27	N/A	Petty Cash
Total Cash and Cash Equivalents	4,295		

Short Term Investments	Principal £000	Interest Rate	Start Date	Maturity Date
Bank of Scotland	649	Variable Annual Return 5.15%	Treasury Call Account	
Aberdeen Standard Money Market Fund	1,000	Variable Annual Return 4.86%	Instant Access	
Aberdeen Standard Ultra Short Duration Fund	2,500	Variable Annual Return 4.97%	4 working days	
BlackRock Money Market Fund	500	Variable Annual Return 4.72%	Instant Access	
BlackRock Ultra Short Duration Fund	3,516	Variable Annual Return 4.97%	2 working days	
CSBP Clackmannanshire Investments Ltd	1			
Total Short Term Investments	8,166			

TOTAL INVESTMENTS	12,461
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APPENDIX 2: Prudential and Treasury Indicators as at 31 March 2024

Treasury Indicators	2023/24 Approved Budget £000	2023/24 Outturn at 31 March 2024 £000
Authorised limit for external debt	157,000	157,000
Operational boundary for external debt	146,000	146,000
Gross external debt*	133,663	131,713
Investments	39,890**	12,461
Net borrowing	92,428	119,072

*As at 31 March 2024, Gross external debt consisted of £97.718m fixed rate borrowing and £33.995m liabilities in relation to PFI and finance leases

**Actual as at 31 March 2023

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 2024 £000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	475	0.49%
12 months to 2 years	25% - 0%	2,308	2.36%
2 years to 5 years	50% - 0%	2,512	2.57%
5 years to 10 years	75% - 0%	3,499	3.58%
10 years and above	100% - 0%	88,924	91.00%
Total Fixed Rate Borrowing		97,718	100.00%

APPENDIX 2: Prudential and Treasury Indicators as at 31 March 2024

Prudential Indicators	2023/24 Revised Budget £000	2023/24 Outturn at 31 March 2023 £000	Variance/ Movement £000
Capital expenditure - General Fund Services	26,971	14,168	-12,803
Capital expenditure - Housing Revenue Account	21,844	14,756	-7,088
Capital Financing Requirement (CFR) - General Fund	151,897	139,596	-12,301
Capital Financing Requirement (CFR) - HRA	27,440	22,058	-5,382
Annual change in CFR - General Fund	19,029	15,371	-3,658
Annual change in CFR - HRA	934	295	-639
In year borrowing requirement (includes Service Concession Adjustment)	47,663	29,941	-17,722
Ratio of financing costs to net revenue stream - General Fund	4.11%	3.72%	-0.39%
Ratio of financing costs to net revenue stream - HRA	8.13%	7.09%	-1.04%