| THIS PAPER RELATES TO ITEM 11 ON THE AGENDA |
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**CLACKMANNANSHIRE COUNCIL**

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| **Report to:** | **Audit & Scrutiny Committee** |
| **Date:** | **17th April 2025** |
| **Subject:** | **Treasury Management Quarterly Update to 31st December 2024** |
| **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 3 quarters of the 2024/25 financial year - 1st April to 31st December 2024.

## 2.0 Recommendations

2.1 It is recommended that the Committee 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 2024/25 and the Prudential Indicators for 2024/25 to 2026/27 were approved by the Council on 29 February 2024**.** 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 the 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 2024/25;
- Borrowing Requirement and Debt;
- Borrowing Outturn for 2024/25, and
- Compliance with Treasury and Prudential Limits.

**The Economy and Interest Rates**

3.3 The continuing war in Ukraine, the Israel-Gaza war and the US foreign and trade policies including import tariffs continue to increase uncertainty for the global economy. In the UK, CPI inflation fell from 2.3% in April 2024 to a low of 1.7% in September, increasing to 3.0% in January 2025 and decreasing slightly to 2.8% in February 2025.

3.4 The Bank of England's Monetary Policy Committee (MPC) sets its monetary policy in line with its 2% inflation target with the aim of sustaining growth and employment. As inflation was above the 2% target, the MPC reduced the base rate three times this financial year, decreasing it from 5.25% to 5.00% in August, to 4.75% in November and further to 4.50% in February 2025. The MPC maintained the rate at 4.5% at its meeting on 19th March 2025. The forecast is for Bank Rate to reduce steadily over the next few years as the MPC continues to take action to combat on-going inflationary and economic uncertainty.

**Interest Rate Forecast**

3.5 The Council's treasury advisors, MUFG Corporate Markets, provided the following interest rate forecast as at March 2025 for Bank Rates and Public Works Loan Board (PWLB) borrowing rates.

**Table 1: MUFG Corporate Markets Investment Forecast as at 6th March 2025**

| | Mar 2025 | Jun 2025 | Sep 2025 | Dec 2025 | Mar 2026 | Jun 2026 | Sep 2026 | Dec 2026 |
|---|---|---|---|---|---|---|---|---|
| **Bank Rate** | 4.50 | 4.25 | 4.25 | 4.00 | 3.75 | 3.75 | 3.75 | 3.50 |
| **5yr PWLB Rate** | 5.00 | 4.90 | 4.90 | 4.70 | 4.60 | 4.50 | 4.40 | 4.40 |
| **10yr PWLB Rate** | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 | 4.70 | 4.60 |
| **25yr PWLB Rate** | 5.80 | 5.70 | 5.60 | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 |
| **50yr PWLB Rate** | 5.50 | 5.40 | 5.30 | 5.20 | 5.10 | 5.00 | 4.90 | 4.80 |

3.6 As outlined in paragraphs 3.3 and 3.4 above, inflation is above target however it has fallen from its peak in October 2022 and as a result the UK Base Rate has reduced throughout 2024/25. The rate is now expected to continue to steadily reduce to 3.5% by December 2026. However, there remains uncertainty due to geopolitical and global trade which could lead to the forecast being changed within a short timeframe.

3.7 Similar to bank rates, PWLB borrowing rates are expected gradually reduce over the next two years as shown in the interest forecast table above.

**Investment Outturn for 2024/25**

3.8 The Treasury Management Strategy Statement (TMSS) for 2024/25 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 period from 1st April 2024 to 31 December 2024.

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).

3.10 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.

3.11 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.

3.11 As at 31 December 2024, the Council held cash balances of £12.7m, of which £4.7m was immediately available in the Council's bank accounts and a further £8.0m immediately available from holdings in MMFs and SDBFs.

3.12 The average level of funds available for investment during the nine months to 31 December 2025 was £12.9m. 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.

3.13 The benchmark investment returns over the 9 months ended 31 December 2024 are illustrated in the undernoted table:

**Table 3: Benchmark Investment Returns 2024/25**

| Benchmark Period | Benchmark Return as at 31 Dec 2024 |
|---|---|
| **7 Days** | 5.02% |
| **1 Month** | 5.05% |
| **3 Months** | 5.12% |
| **6 Months** | 5.20% |
| **12 Months** | 5.25% |

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

3.14 The Council's budgeted cash investment return for 2024/25 is 2.25%. 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 3.75% for 2024/25.

3.15 For the nine months ended 31 December 2024 the Council achieved an actual investment return of 4.70% (£0.611m) which is higher than budgeted due to the increases in interest rates above the budgeted level. The majority of this return was from investments in MMF and USDBF which achieved rates of between 5.47% and 4.79% for the nine months to 31 December 2024.

3.16 An average return of 3.14% was achieved on everyday cash balances held with the Royal Bank of Scotland (RBS). The cash balances in RBS accounts achieve a return of between 2.75% and 3.41% and are held as working balances (£41k for the nine months to 31st December 2024). The DMO account was used deposits for less than 7 days when temporary excesses of working funds were identified, achieving returns of between 4.45% and 5.19% (£29k for the nine months to 31st December 2024). Balances held with the Bank of Scotland achieved a return of 5.14% for the nine months to 31st December 2024 (£17k for the nine months to 31st December 2024).

3.17 The bank rate has reduced during 2024/25 to 4.5% in February 2025. It is expected that there will be two further reductions in 2025, reaching 4.00% by December 2025, 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 2024/25, it is anticipated that actual investment returns will also continue be higher than budgeted.

**Borrowing Requirement and Debt**

3.18 The Council's underlying need to borrow to finance capital expenditure, termed the Capital Financing Requirement (CFR) is shown below. The 2023/24 Actual CFR increased by £15.666m mainly 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 2023/24 being less than anticipated;
- the forecast General Fund capital expenditure for 2024/25 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) 2024/25**

| | 31 March 2024<br>Actual<br>£000 | 31 March 2025<br>Budget Estimate<br>£000 | 31 March 2025<br>Projected as at Dec 2024<br>£000 |
|---|---|---|---|
| CFR General Fund | 139,596 | 152,441 | 146,818 |
| CFR HRA | 22,058 | 34,957 | 30,396 |
| **Total CFR** | **161,654** | **187,398** | **177,214** |

**Borrowing Outturn for 2024/25**

3.19 The approved Capital programmes for both the General Fund and the HRA for 2024/25 indicated that additional external borrowing would need to be undertaken to finance capital expenditure within the year.

3.20 During the period to 31 December 2024, the Council undertook borrowing from the PWLB of £5m for 1 year in May 2025 and £10m for 3.5 years in November 2025. MUFG Corporate Markets, the Council's treasury management advisers, provided information on the economic outlook and interest rate forecast to enable the Council to make an informed decision on borrowing. The duration of the loans was varied between short and medium terms on the expectation of a forecast reduction in the bank rate. It is anticipated that the Council will refinance the debt as it falls due at a lower interest rate. Following the additional borrowing being undertaken, the Council remains in an under borrowed position.

3.21 In the same period, the Council made repayments of £1.671m against its external borrowing. This included repayments of £0.412m towards PWLB debt, repayments of £0.031m towards the Salix interest free loan and repayments of £1.228m towards the Council's PFI arrangement.

3.22 Capital spend in 2024/25 has been funded from £15m new external PWLB borrowing and internal borrowing (cash balances). At the time of writing this report, there is no additional external borrowing forecasted to be undertaken by 31 March 2025 but this will be subject to review of progress on the approved capital programme and the level of cash balances held.

3.23 The Council's external borrowing position as at 31 December 2024 and expected year end position is illustrated in the undernoted table:

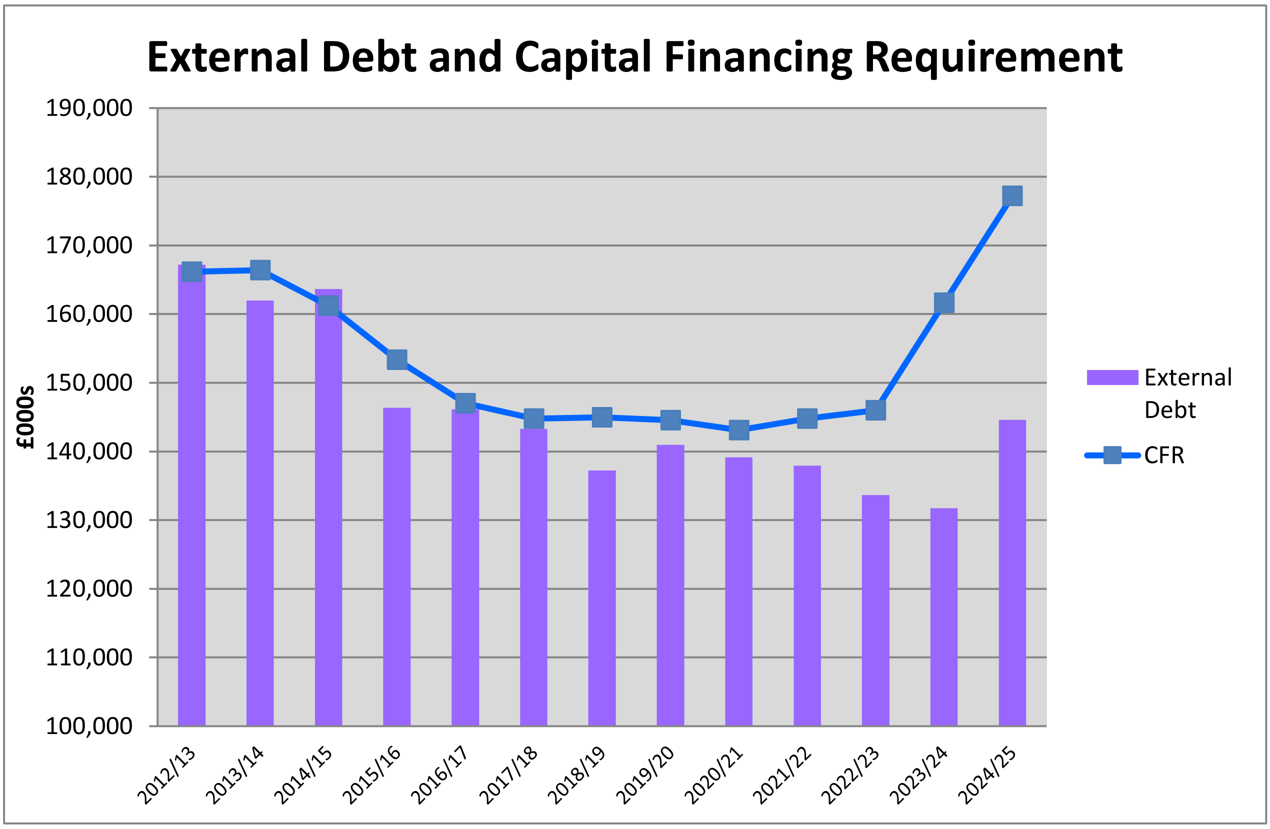
**Table 5: External borrowing at 2024/25**

| | Actual March 2024 £000 | Actual Dec 2024 £000 | Projected March 2025 £000 |
|---|---|---|---|
| Public Works Loan Board | 73,710 | 88,297 | 88,297 |
| Market Loans | 18,946 | 18,939 | 18,937 |
| LOBO Loans | 5,000 | 5,000 | 5,000 |
| Other long term liabilities | 63 | 31 | 0 |
| Long term Liabilities - PFI | 33,995 | 32,767 | 32,358 |
| **Total** | **131,714** | **145,034** | **144,592** |

3.24 The level of borrowing is forecast to marginally reduce by the end of 2024/25. This is on the basis that no new external borrowing is undertaken during the remaining 3 months of the year.

3.25 The following chart shows the actual and forecast level of debt up to the end of 2024/25. 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)**



3.26 Overall there is a forecasted reduction in cumulative external debt of £28m (17%) 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 2024/25 to 2043/44, approved by Council at its meeting in February 2024, 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. External debt has increased in 2024/25 and is forecast to increase in the medium term before 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.

3.27 In line with the 2024/25 TMSS and Prudential Indicators, total external debt of £144.6m is forecast at end of the year which remains below the Operational Boundary for External Debt (£155m) and the Authorised Limit for External Debt (£167m).

**Liability Benchmark**

3.28 The Liability Benchmark was a new prudential indicator introduced in the 2021 Code and is included in the 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 2043/44 in line with the approved GF and HRA 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:

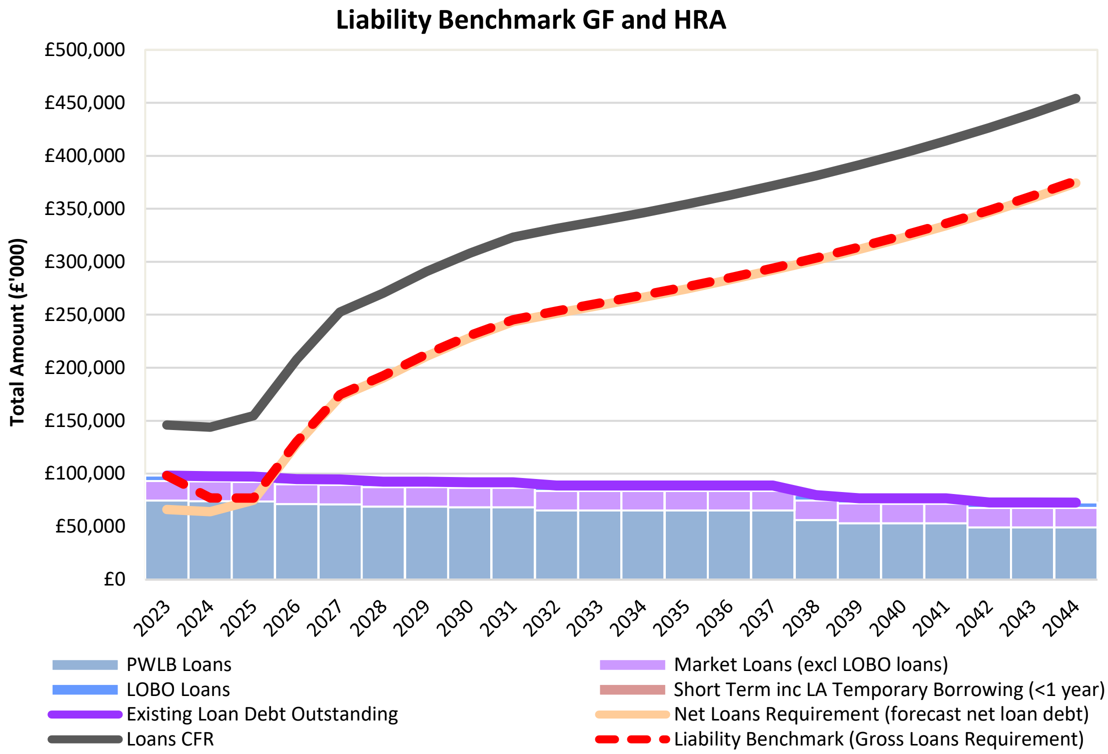
a) **Existing loan debt outstanding**: the Council's existing loans that are outstanding at the end of each financial year.

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**




3.29 The combined Liability Benchmark across the GF and HRA above, shows that it is anticipated that the Council will need to borrow in order to ensure it holds sufficient funds to finance its capital spending plans.

The Liability Benchmarks for the GF and HRA were reported separately in the TMSS. In line with the borrowing strategy for the GF, the borrowing requirement increases then falls towards the end of the programme. The borrowing requirement for the HRA increases year on year and the revenue cost of borrowing will need to be contained within affordable revenue budgets.

**Borrowing in Advance of Need**

3.30 The Council has not borrowed in advance of need in the nine months ended 31 December and has no intention to borrow in advance during the remainder of 2024/25.

**Debt Rescheduling**

3.31 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.

**Compliance with Treasury and Prudential Limits**

3.32 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.

3.33 All treasury and prudential indicators set out in the Council's TMSS have been complied with in the financial period to 31 December 2024. These prudential and treasury Indicators are shown in Appendix 2.

**4.0 Conclusions**

4.1 Cash balances were £12.7m as at 31 December 2024 which contributes to supporting the Council's capital financing requirement internally.

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

4.3 The Council has repaid £1.228m towards PFI arrangements and £0.443m towards other external debt.

4.4. During the period to 31 December 2024, the Council undertook borrowing from the PWLB of £15m. No new external borrowing is expected to be undertaken during the remainder of the financial year.

4.5 Immediate cash balances have increased by £0.236m over the first nine months of the year. A total of £8.016m 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**

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 December 2024

Appendix 2 - Prudential and Treasury Indicators as at 30th June, 30th September and 31st December 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 2024/25 - report to Council February 2024**

**Author**

| NAME | DESIGNATION | TEL NO / EXTENSION |
| --- | --- | --- |
| Helen Coleman | Team Leader - Corporate Accountancy | |

**Approved by**

| NAME | DESIGNATION | SIGNATURE |
| --- | --- | --- |
| Lindsay Sim | Chief Finance Officer | |
| Chris Alliston | Director of Partnership & Performance | [redacted] |

APPENDIX 1: Investment Portfolio as at 31 December 2024

| Short Term Investments – Counterparty | Principal as at 31 Dec 2024 £000 | Interest Rate | Type |
|---|---|---|---|
| Aberdeen Standard Money Market Fund | 3,250 | Average Yield: Oct - Dec 4.96% | Instant access |
| Aberdeen Standard Ultra Short Dated Bond Fund | 1,000 | Average Yield: Oct – Dec 5.03% | Instant access |
| Blackrock Money Market Fund | 1,750 | Average Yield: Oct - Dec 4.83% | Instant access |
| Blackrock Ultra Short Dated Bond Fund | 2,016 | Average Yield: Oct - Dec 4.79% (Accumulating interest) | Instant access |
| CSBP Clackmannanshire Investments Ltd | 1 | | |
| **Total Short Term Investments** | **8,017** | | |

| Cash and Cash Equivalents – Counterparty | Principal as at 31Dec 2024 £000 | Interest Rate |
|---|---|---|
| Royal Bank of Scotland plc | 4,524 | 3.00% from 1st Sep 2024 2.75% from 1st Dec 2024 |
| Bank of Scotland plc | 80 | 4.62% as at 31st Dec 2024 |
| Other Accounts | 76 | - |
| **Total Cash and Cash Equivalents** | **4,680** | |

| | |
|---|---|
| **TOTAL INVESTMENTS** | **12,697** |

## APPENDIX 2: Prudential and Treasury Indicators

| Treasury Indicators | 2024/25 Budgeted Estimate £'000 | Actual as at 30 June 2024 £'000 | Actual as at 30 Sept 2024 £'000 | Actual as at 31 Dec 2024 £'000 | Projected 31 March 2025 £'000 |
|---|---|---|---|---|---|
| **Authorised limit for external debt** | 167,000 | 167,000 | 167,000 | 167,000 | 167,000 |
| **Operational boundary for external debt** | 155,000 | 155,000 | 155,000 | 155,000 | 155,000 |
| **Gross external debt** | 142,513 | 136,303 | 135,860 | * 145,034 | 144,592 |
| **Investments** | ** 12,461 | 10,635 | 16,048 | 12,697 | 10,795 |
| **Net borrowing** | 130,052 | 125,668 | 119,812 | 132,337 | 133.797 |

*****As at 31 December 2024, Gross external debt consisted of £112.267m fixed rate borrowing and £32.767m liabilities in relation to PFI
**Actual as at 31 March 2024

| Maturity structure of fixed rate borrowing - upper and lower limits (excluding PFI) | Upper and Lower Limits | Fixed Rate Borrowing as at 30 June 2024 £'000 | Fixed Rate Borrowing as at 30 Sept 2024 £'000 | Fixed Rate Borrowing as at 31 Dec 2024 £'000 | % of Total Fixed Rate Borrowing as at 31 Dec 2024 |
|---|---|---|---|---|---|
| **Under 12 months** | 25% - 0% | 475 | 443 | 31 | 0.03% |
| **12 months to 2 years** | 25% - 0% | 7,308 | 7,308 | 7,308 | 6.51% |
| **2 years to 5 years** | 50% - 0% | 2,512 | 2,512 | 12,512 | 11.14% |
| **5 years to 10 years** | 75% - 0% | 3,499 | 3,499 | 3,499 | 3.12% |
| **10 years and above** | 100% - 0% | 88,922 | 88,920 | 88,917 | 79.20% |
| | | 102,716 | 102,682 | 112,267 | 100.00% |

## Prudential and Treasury Indicators

| 2024/25 | As at 31 December 2024 | | |
| --- | --- | --- | --- |
| **Prudential Indicators** | **Budgeted Estimate £'000** | **Projected Outturn £'000** | **Variance £'000** |
| **Capital expenditure: General Fund Services** | 20,011 | 13,747 | (6,264) |
| **Capital expenditure: Housing Revenue Account** | 14,650 | 16,573 | (1,077) |
| **Capital Financing Requirement (CFR): General Fund** | 152,441 | 146,818 | (5,623) |
| **Capital Financing Requirement (CFR): HRA** | 34,957 | 30,396 | (4,561) |
| **In year borrowing requirement** | 44,885 | 32,622 | (12,263) |
| **Ratio of financing costs to net revenue stream - General Fund** | 3.99% | 3.64% | (0.35%) |
| **Ratio of financing costs to net revenue stream - HRA** | 6.93% | 7.61% | (0.68%) |