CLACKMANNANSHIRE COUNCIL

THIS PAPER RELATES TO ITEM 11
ON THE AGENDA

Report to: **Council**

Date: **10 September 2020**

Subject: **Annual Treasury Management Report 2019/20**

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 2020 and how this compares to the 2019/20 Treasury Management Strategy Statement set in March 2019.

2.0 Recommendations

2.1 It is recommended that the Council note and consider this Annual Report for 2019/20 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 2019/20 the following reports were required to be reported to Council:

- annual treasury management and investment strategy (The Treasury Management Strategy Statement (TMSS) for 2019/20, which included the Annual Investment Strategy was approved by Council on 6th March 2019)
- a mid-year treasury update report (Treasury Management Update at 30th September 2019 submitted to the Council on 19th December 2019
- 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 2019/20
- Borrowing Requirement and Debt
- Borrowing Outturn for 2019/20
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

3.4 Economic growth in during 2019/20 has been volatile with quarters 1 and 3 showing growth of 0.5% whilst quarter 2 reported negative growth of 0.2% and quarter 4 remained level at 0.0%. The uncertainties, both in timing and agreement, over the UK's departure from the EU had a significant impact on economic forecasts at the beginning of the year. Although the UK left the EU on 31st January 2020 there is still uncertainty on whether a trade deal will be achieved by the end of 2020. The Covid-19 outbreak in February/March lead to the closedown of whole sections of the economy and the introduction of various schemes by the Government to support jobs and businesses.

3.5 The Monetary Policy Committee (MPC) has a Government set target to keep inflation at 2%. Inflation remained under 2% during 2019/20 with its lowest level of 1.4% in December raising to 1.8% in January and ending the year at 1.5% in March 2020. The Bank of England's latest forecasts for inflation in 2020 and 2021 of 0.6% and 0.5% are well below the target of 2% and are a reflection of the substantial reduction of economic activity caused by the measure to reduce Covid-19 outbreak and uncertainty over economic recovery (Monetary Policy Report May 2020).

3.6 The unemployment rate of 3.9% is the lowest level since 1975. Wage inflation was higher than CPI inflation which meant that consumer spending power is a real terms increase. However the recent fall in economic activity has lead to a sharp drop in the number of people in work with the MPC forecasting the unemployment rate to rise to 9% in quarter 2 of 2020/21 (Monetary Policy Report May 2020).

Interest Rate Forecast

3.7 The Council's treasury advisors - Link Asset Services, have provided the following interest rate forecast which is in line with the economic outlook set out in paragraphs 3.4 to 3.6 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
June 2020	0.10	1.90	2.50	2.30
Sept 2020	0.10	1.90	2.50	2.30
Dec 2020	0.10	1.90	2.50	2.30
March 2021	0.10	2.00	2.60	2.40
June 2021	0.10	2.00	2.60	2.40
Sept 2021	0.10	2.00	2.60	2.40
Dec 2021	0.10	2.10	2.70	2.50
March 2022	0.10	2.10	2.70	2.50

3.8 The forecast for interest rates within the 2019/20 TMSS was that the Bank Rate would rise from 0.75% to 1.0% in June 2019 with a further rise of 0.25% in March 2020 to 1.25% at the end of the year. For the Mid Year Treasury Management Update the forecast was that the Bank Rate would remain at 0.75% for 2019/20. Due to uncertainty over Brexit in the year as noted in paragraphs 3.4 and 3.5 above, the MPC maintained the Bank Rate at 0.75% until 11th March 2020 when it was reduced to 0.25% followed by another reduction to 0.1% on 19th March 2020. This was part of a number of measures announced by the Chancellor of the Exchequer, the MPC and HM Treasury to support the economy through the economic disruption caused by the spread of Covid-19 and the measures taken to contain the spread of the virus.

Investment Outturn for 2019/20

3.9 As at 31st March 20/20, the Council held investments of £28.1m made up of £18.8m short-term cash and cash equivalents held with banks and £9.3m of investments held mainly in Clackmannanshire Regeneration and Coalsnaughton NHT Project. Appendix 1 shows the analysis of the investment portfolio as at 31st March 2020.

3.10 The Council's treasury indicator and limit for investments for 2019/20 was that the maximum principal sum invested for a period greater that 364 days (long-term) was £12m. The approved limits within the Annual Investment Strategy relating to investments were not breached during 2019/20.

3.11 As at 31st March 2020 the Council held immediately available cash balances of £16.8m (£11.9m 2018/19). The average level of funds available for investment during the period to 31st March 2020 was £10.7m. During the year, a deposit of £5m was returned to the Council, one £5m deposit was invested for over six months, one £5m deposit was invested for one month and one £2m deposit was invested for over six months.

3.12 During 2019/20 investment rates remained low. Long term investment rates were decreasing for most of April to September, rising slightly in November but falling back in January. Investment rates also fluctuated during February and March due to the coronavirus outbreak in the UK with rates rising initially, falling and then rising again. The benchmark investment returns over the 12 months ending 31st March 2020 are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2019/20

Benchmark	Benchmark Return
7 day	0.53%
1 month	0.56%
3 month	0.63%
6 month	0.70%
12 month	0.80%

3.13 The Council's budgeted cash investment return for returns on investments placed for periods up to 100 days for 2019/20 was 1.15%, which was driven by the interest rate forecast at the start of 2019/20 as noted above. The Council achieved an actual investment return of 0.70% (£113k) on all investments for the year ended 31st March 2020. This comprised of two £5m six month investments with returns of 1.0% and 1.13%, one £2m six month investment at 0.95%, one £1m two month investments at 0.8%, one £2m one month investment at 0.95% and one £5m one month investment at 0.95%. All medium term investments out performed the benchmark return. A return of 0.54% was also achieved on everyday cash balances which was 0.01% more than the benchmark return for 7 day investments. The future prospect for interest rates during 20/21 is low however, the Council will continue to look at opportunities during 2020/21 to optimise its investment income in line with interest rate and cashflow forecasts.

Capital Outturn for 2019/20

3.14 The Council's capital expenditure plans are a key driver of treasury management activity. The TMSS for 2019/20 provided estimates of the total capital expenditure, split between General Fund Services and Housing Revenue Account (HRA), for 2019/20 and the following four financial years. The outturn for 2019/20 against budget is shown below:

Table 3: Capital Outturn 2019/20

	Approved Budget 2019/20 **£000**	**Actual Spend to 31 March 2020** **£000**	**(Under)/Over Spend** **£000**
General Fund Services	22,489	14,159	(8,330)
Housing Revenue Account	8,701	6,549	(2,152)
Total	**31,190**	**20,708**	**10,482**

3.15 The underspends on the General Fund are mainly due to rephasing of spend on large projects spanning multiple financial years such as Kilncraigs BPRA payment, City Region Deal, Digital Infrastructure Project and delays in the delivery of purchased vehicles. The HRA underspend is mainly due to delays on roof & render upgrading works, window replacement and electrical systems works. The unspent budget relating to re-phasing will be carried forward into 2020/21.

Borrowing Requirement 2019/20

3.16 Capital expenditure that is not financed by the use of capital receipts, capital grants, developers contributions or directly from revenue, will increase the Capital Financing Requirement (CFR) of the Council. The calculation of the CFR is therefore intended to reflect the Council's underlying need to borrow for capital purposes and it is used as a key measure in treasury management decisions for this reason. Increases in the borrowing requirement are offset by the Loans Fund Principal Repayments. This is the amount required to be charged to revenue 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) 2019/20

	31 March 2019 Actual £000	**31 March 2020 Budget £000**	**31 March 2020 Actual £000**
General Fund	121,325	123,455	121,509
HRA	23,655	23,818	23,046
Total	**144,980**	**147,273**	**144,555**

3.17 Overall the CFR for 2019/20 has decreased by £0.4m from 2018/19. The General Fund CFR has decreased by £0.4m due to in year Capital expenditure of £4.2m offset by Loans Fund and Lease repayments of £4.0m. The HRA CFR has decreased by £0.6m due to Loans Fund Principal Repayments. HRA capital expenditure has been funded by revenue and grant funding therefore has not increased the CFR. The CFR for both General Fund and HRA is less than budgeted due to underspends on both capital programmes as shown in table 3 offset by a reduction in the Loans Fund Principal Repayments.

During 2019/20, the Council reviewed and amended its Loans Fund policy. The amendments aimed to smooth the repayment profile of debt over the average life of the assets and as a consequence have reduced the loans fund principal repayments for 2019/20. Further details of the policy are set out in the Treasury Management Strategy Statement 2020/21 approved by Council in February 2020.

Ratio of financing costs to net revenue stream

3.18 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.

For the General Fund this is the ratio of financing costs of borrowing against net expenditure financed by Government Grant and Council Tax. For the HRA the indicator is the ratio of financing costs to gross rental income.

The outturn for 2019/20 is as follows:

Table 5: Ratio of financing costs to net revenue stream 2019/20

	2019/20 Budget	2019/20 Actual
General Fund	7.72%	5.47%
Housing Revenue Account	14.80%	9.67%

Borrowing Outturn for 2019/20

3.19 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 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.

3.20 During the year the Council repaid £0.063m towards a SALIX loan.

3.21 Repayments of £1.227m were also made in the year toward the Council's PFI and finance lease.

3.22 During the period to 31st March 2020, capital expenditure was funded by a new long-term loan from the PWLB of £5m undertaken in March 2020.

3.23 The Council's external borrowing position as at 31st March 2020 is illustrated in the undernoted table:

Table 6: External borrowing at 2019/20

	Actual March 2019 £000	Actual March 2020 £000
Public Works Loan Board	72,513	77,512
Market Loans	18,875	18,812
LOBO Loans	5,000	5,000
Other long term liabilities	40,374	39,147

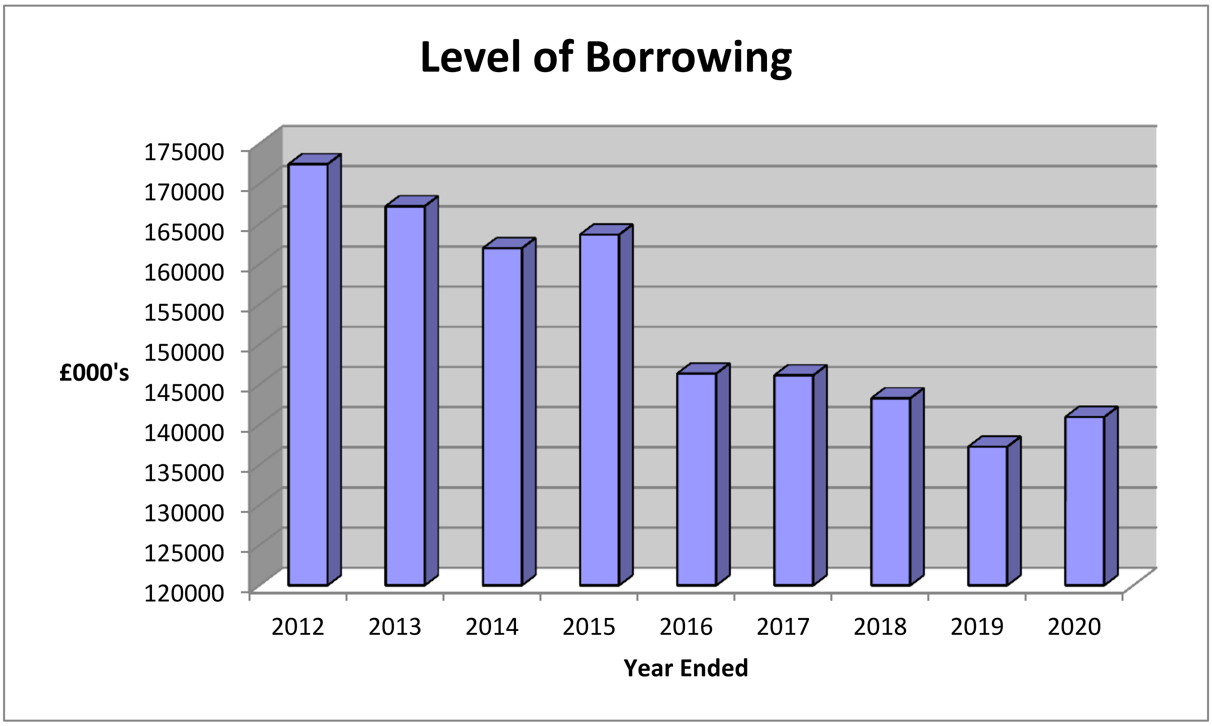
Total	**136,762**	**140,471**
CFR	**144,980**	**144,555**
(Under)/Over borrowing	**(8,218)**	**(4,084)**

3.24 In line with the Prudential Code, the Council is in an under borrowed position as at 31st March 2020.

3.25 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 2019/20 TMSS and shows that the Council has not breached these limits.

3.26 In 2012 the Council put in place a policy to minimise long term debt. To ensure debt is minimised, the capital programme should be set so that the level of borrowing does not increase over the longer term. The following chart illustrates the actual level of debt at the end of each year up to 31 March 2020.

Chart 1: External debt (actual)



3.27 The chart shows that overall there has been a reduction in cumulative external debt of 18% between March 2012 and March 2020, proving 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

3.28 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 2019/20

	2019/20 **£000**
Authorised Limit for External Debt	160,000
Operational Boundary for External Debt	150,000
Gross External Debt as at 31st March 2020	**140,471**

3.29 The Council did not exceed the authorised limit or the operational boundary during 2019/20 and was £9.5m below the operational boundary as at 31st March 2020.

Borrowing in advance of need

3.30 The Council has not borrowed in advance of need in the year ended 31st March 2020 and has no intention to borrow in advance in 2020/21.

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.

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 During the year the Council has operated within the treasury and prudential indicators set out in the Council's TMSS and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown at Appendix 2.

4.0 Conclusions

4.1 Throughout 2019/20 the Council has complied with its legislative and policy requirements.

4.2 In March 2020, the Council took out a new long-term loan from the PWLB of £5m.

4.3 During the year repayments of £0.063m towards long term debt and £1.227m towards PFI and Finance leases were made reducing other long term liabilities.

4.4 The Council achieved an actual return on investment of 0.70% generating income of £0.113m from short term cash investments.

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?

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 31st March 2020

Appendix 2 - Prudential and Treasury Indicators as at 31st March 2020

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 2019/20 - report to Council March 2018

Author

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Lindsay Sim	Chief Finance Officer	2022

Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	[redacted]
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APPENDIX 1: Investment Portfolio as at 31st March 2020

Borrower	Principal £000	Interest Rate	Start Date	Maturity Date
Bank of Scotland Plc	2,000	0.25%	32 day call	
Bank of Scotland Plc	3,035	0.15%	Instant Access	
Royal Bank of Scotland Plc	13,747	0.10% (balances above £1m)	Instant Access	
Other Accounts	32			
Total Cash and Cash Equivalents	**18,814**			

Short Term Investments	Principal £000
Coalsnaughton NHT 2012 LLP	2,499
CSBP Clackmannanshire Investments Ltd	1
Clackmannanshire Regeneration LLP	4,906
Total Short Term Investments	**7,406**

Long Term Investments	Principal £000
Coalsnaughton NHT 2012 LLP	1,859
Total Long Term investments	**1,859**

TOTAL INVESTMENTS	**28,079**

APPENDIX 2: Prudential and Treasury Indicators as at 31st March 2020

Treasury Indicators	2019/20 Approved Budget £000	2019/20 Outturn at 31 March 2020 £000
Authorised limit for external debt	160,000	160,000
Operational boundary for external debt	150,000	150,000
Gross external debt*	140,980	140,471
Investments	26,288	28,079
Net borrowing	114,692	112,392

*As at 31st March 2020, Gross external debt consisted of £101.324m fixed rate borrowing and £39.147m liabilities in relation to PFI and finance leases

Maturity structure of fixed rate borrowing - upper and lower limits (excluding PFI and Finance Leases)	Upper and Lower Limits	Fixed Rate Borrowing as at 31st March 2020 £000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	475	0.5%
12 months to 2 years	25% - 0%	63	0.1%
2 years to 5 years	50% - 0%	3,958	3.9%
5 years to 10 years	75% - 0%	5,321	5.3%
10 years and above	100% - 0%	91,507	90.2%
Total Fixed Rate Borrowing		101,324	100.0%

APPENDIX 2: Prudential and Treasury Indicators as at 31st March 2020

Prudential Indicators	2019/20 Approved Budget £000	2019/20 Outturn at 31 March 2020 £000
Capital expenditure - General Fund Services	22,489	14,159
Capital expenditure - Housing Revenue Account	8,701	6,549
Capital Financing Requirement (CFR) - General Fund	123,455	121,509
Capital Financing Requirement (CFR) - HRA	23,818	23,046
Annual change in CFR - General Fund	(1,761)	184
Annual change in CFR - HRA	(3,099)	(609)
In year borrowing requirement	6,293	3,605
Ratio of financing costs to net revenue stream - General Fund	7.72%	5.47%
Ratio of financing costs to net revenue stream - HRA	14.80%	9.67%