CLACKMANNANSHIRE COUNCIL	THIS PAPER RELATES TO ITEM 6 ON THE AGENDA

Report to: **Council**

Date: **11 February 2021**

Subject: **Treasury Management Update at 30th September 2020**

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 period to 30th September 2020.

2.0 Recommendations

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

3.0 Considerations

3.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 and the Prudential Indicators for 2020/21 to 2024/25 were approved by the Council on 27th February 2020**.** 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 midyear reports). This midyear 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 2020/21;
- Borrowing Requirement and Debt;
- Borrowing Outturn for 2020/21, and
- Compliance with Treasury and Prudential Limits.

The Economy and Interest Rates

3.3 The COVID 19 pandemic has had major impact on the UK and world economies. In reaction to this, the Bank of England's Monetary Policy Committee (MPC) took emergency action to cut Bank Rate to 0.25% (from 0.75%) on 10th March 2020 and then further reduced it to 0.1% on the 19th March 2020. The rate remained unchanged at 0.1% as at 30th September 2020.

3.4 The UK's economy is made up of a large number of consumer-facing services which have been particularly affected by national and local coronavirus lockdowns. This has contributed to a significant reduction in Gross Domestic Product (GDP) in the first half of 2020.

3.5 The unemployment rate has also been impacted and has increased from 3.9% by the end of March 2020 to 4.8% by the end of September and is expected to rise further. This rise has so far been limited by government schemes and a rise in the inactivity rate i.e. those without work and either not searching for employment or unavailable to work.

3.6 Forecasters predict that the pace of economic recovery is not expected to be rapid but a more elongated and prolonged one. A sharp recovery in the economy was seen in June through to August but this was still 11.7% less than in February 2020. The last three months of 2020 is expected to show no growth with some longer term adjustments such as office space and travel by planes, trains and busses not expected to recover for several years. Further lockdown restrictions into 2021 has pushed this forecast out even further. Digital services, however, is one area that has already seen huge growth. The MPC is forecasting that there would not be excess demand in the economy causing CPI inflation to rise above the 2% target until September 2022.

3.7 Alongside COVID 19, uncertainty over the UK/EU withdrawal trade negotiations ahead of the 31 December deadline has also negatively impacted the economy.

Interest Rate Forecast

3.8 The Council's treasury advisors, Link Asset Services, have provided the following interest rate forecast on 11 August 2020, which is in line with the economic outlook set out in paragraphs 3.3 & 3.4 above.

Table1: Investment Forecast provided by Link Asset Management

	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70

PWLB Rate										
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

3.9 The coronavirus outbreak has had a significant detrimental impact on the UK and other economies around the world. As outlined in paragraph 3.3 above the Bank Rate as at 30th September 2020 is 0.1% and the above table shows no increase is anticipated within the forecast period ending March 2023 as economic recovery is anticipated to be gradual and prolonged.

3.10 As shown in the interest forecast table above for PWLB certainty rates, there is unlikely to be any increase in PWLB certainty rates over the next two years. It is expected to take economies, including the UK's, a prolonged period to recover from the sharp recession caused during the coronavirus shut down period. Inflation is likely to also be low during this period and with potential to become negative in some of the significant economically developed economies.

Investment Outturn for 2020/21

3.11 The Treasury Management Strategy Statement (TMSS) for 2020/21 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 six months ending 30th September 2020.

3.12 As at 30th September 2020, the Council held cash balances of £36.2m, of which £13.2m was immediately available in the Councils bank accounts and a further £18.0m immediately available held in two money market funds (MMF). £5m was also held in short term deposits accounts. The average level of funds available for investment during the period to 30th September 2020 was £10.6m. These funds were available on a temporary basis and vary depending on a number of factors including cash flow and the borrowing strategy.

In order to maintain the availability of cash to meet daily cashflow payments, cash is held in current accounts and, more recently, in money market funds. Current accounts generally have low interest rates, therefore cash has been invested in MMFs on a short term basis to achieve a higher return. MMFs are mutual funds that invest in a range of short-term money market instruments such as cash deposits (e.g. with banks), short term fixed and variable income securities (such as bonds). MMFs 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 which is consistent with the Council's investment priorities of security first, liquidity second and then return.

A number of short term investments were made in the six months to 30th September 2020 to achieve higher interest rates. One deposit of £3m was invested for two months and one deposit of £3m invested for 3 months. Both deposits were returned to the Council on maturity during the period. A further deposit of £3m was invested for a fixed term of one year to September 2021.

3.13 The benchmark investment returns over the 6 months ended 30th September 2020 are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2020/21

Benchmark	Benchmark Return
7 day	(0.06%)
1 month	(0.02%)
3 month	0.11%
6 month	0.21%
12 month	0.35%

3.14 The Council's budgeted cash investment return for 2020/21 is 0.65%. 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 bank rate of 0.75% for 2020/21 set prior to the emergence of COVID 19.

For the period ended 30th September 2020 the Council achieved an actual investment return of 0.21% (£17k) which is less than budgeted largely due to interest rates being much lower than anticipated. Individual investments performed in line with the benchmarks. Short term deposits (including MMF) up to one month achieved rates of between 0.01% and 0.03% against the negative benchmarks of (0.06%) and (0.02%) and one 3 month investment of £3m achieved a return of 0.09% against the benchmark of 0.11%. A return of 0.18% was achieved on everyday cash balances, which outperformed the benchmark for 7 day investments which was negative for the period.

The bank rate was reduced to 0.1% in March 2020 and is not expected to rise for the next 2 years. As investment rates generally fall in line with bank rates, it is a very difficult investment market in terms of earning interest. Opportunities to meet the budgeted investment return for the remainder of the 2020/21 financial year are therefore limited.

Borrowing Requirement and Debt

3.15 The Council's underlying need to borrow to finance capital expenditure, termed the Capital Financing Requirement (CFR) is shown below. This shows a decrease in the CFR from budgeted, due to the net effect of:

- the General Fund capital expenditure for 2019/20 being less than anticipated;

- the forecast General Fund capital expenditure for 2020/21 being less than anticipated (with proposed re-phasing of spend into future years), and
- a decrease in the HRA CFR due to a reduction in the level of internal borrowing estimated for 2020/21.

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

Table 3: Borrowing Requirement (CFR) 2020/21

	31 March 2020 Actual £000	31 March 2021 Budget Estimate £000	31 March 2021 Projected as at 30th September 2020 £000
CFR General Fund	121,509	132,977	129,205
CFR HRA	23,046	24,573	22,451
Total CFR	**144,555**	**157,550**	**151,565**

Borrowing Outturn for 2020/21

3.16 During the period to 30th September 2020, the Council repaid £31k of towards the Salix interest free loan, £412k on a PWLB maturity loan and £1k on a PWLB annuity loan.

3.17 Repayments of £650k were also made in the first six months of the year toward the Council’s PFI and finance lease.

3.18 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. There is no additional external borrowing forecasted to be undertaken by the 31 March 2021 but this will be subject to review.

3.19 The Council's external borrowing position as at 30th September 2020 and expected year end position is illustrated in the undernoted table:

Table 4: External borrowing at 2020/21

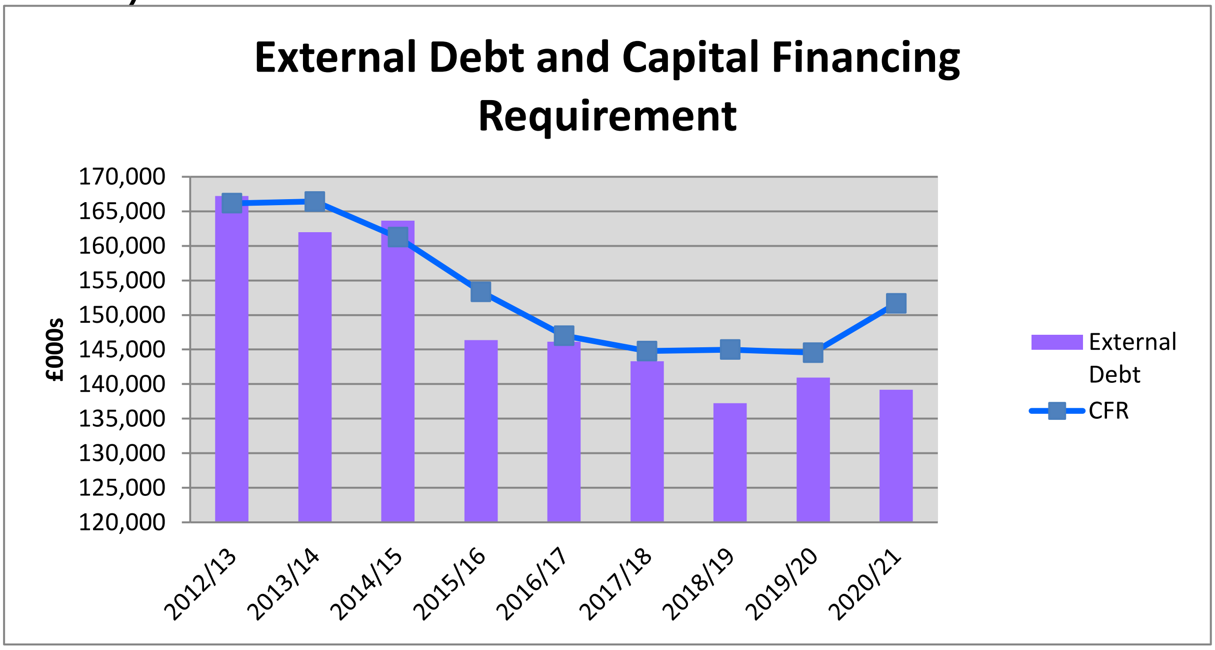
	Actual March 2020 £000	Actual September 2020 £000	Projected March 2021 £000
Public Works Loan Board	77,512	77,099	77,098
Market Loans	18,500	18,500	18,500

LOBO Loans	5,000	5,000	5,000
Other long term liabilities	312	281	250
Temporary Loans (<1 year)	0	0	0
Long term Liabilities under Finance Lease	39,147	38,497	37,845
Total	**140,471**	**139,377**	**138,693**

3.20 The Capital Programme has been set in line with the Council's strategy to minimise long term debt with the level of borrowing forecast to marginally reduce by the end of 2020/21. This is on the basis that no new external borrowing is undertaken during the remaining 6months of the year.

The following chart shows the actual and forecast level of debt up to the end of 2020/21. In addition to programmed capital spend, repayment profiles of debt maturity mean there are variations in annual change in debt year on year.

Table 5: External debt and Capital Financing Requirement (actual and forecast)



3.21 Overall there is a forecasted reduction in cumulative external debt of £28m (17%) since 2012, showing that over the longer term the Council is not increasing its level of debt, to finance its capital programme. Repayments towards PFI and finance leases also continue to reduce the Council's overall level of external debt on an annual basis.

The total external debt of £139m forecast at end of the year remains below the Operational Boundary for External Debt (£161m) and the Authorised Limit for External Debt (£171m).

Borrowing in advance of need

3.22 The Council has not borrowed in advance of need in the six months ended 30th September and has no intention to borrow in advance during the remainder of 2020/21.

Debt Rescheduling

3.23 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 in the current financial year.

Compliance with Treasury and Prudential Limits

3.24 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 Treasury Management Strategy Statement.

3.25 All treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement have been complied with in the financial period to 30th September 2020. These prudential and treasury Indicators are shown in Appendix 2.

4.0 Conclusions

4.1 Cash balances as at 30th September were at a level of £36.2m which contributes to supporting the Council's capital financing requirement internally.

4.2 The Councils return on investments was in line the benchmarks for the first six months of the financial year and is below the budgeted return due to the investment rates following the reduction in the base rate in March to 0.1%.

4.3 The Council has repaid £0.650m towards PFI and Finance leases and £0.444m 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 increased by £14.4m over the first six months of the year and £18m is now held in two money market funds. Short term investments have also increased by £3m. It is anticipated that the balances in the MMF's 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 September 2020

Appendix 2 - Prudential and Treasury Indicators as at 30th September 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 2020/21 - report to Council February 2020

Author

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Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	[redacted]
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APPENDIX 1: Investment Portfolio as at 30 September 2020

Borrower	Principal (£000)	Interest Rate	Start Date	Maturity Date
Bank of Scotland Plc	2,000	0.25% Variable	32 day call account	
Bank of Scotland Plc	3,000	0.2% Fixed	30/09/2020	30/09/2021
Aberdeen Standard Money Market Fund	9,000	Variable (0.03% average)		
Blackrock Money Market Fund	9,000	Variable (0.02% average)		
Royal Bank of Scotland Plc	13,132	0.1% (balances above £1m)		
Other Accounts	73	-		
Total Cash and Cash Equivalents	**36,205**			

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	**45,470**

APPENDIX 2: Prudential and Treasury Indicators as at 30 September 2020

Treasury Indicators	2020/21 Budgeted Estimate £'000	Actual as at 30th September 2020 £'000	Projected 31st March 2021 £'000
Authorised limit for external debt	171,000	171,000	171,000
Operational boundary for external debt	161,000	161,000	161,000
Gross external debt	139,166	139,377	138,693
Investments	28,079*	45,470	45,470
Net borrowing	111,087	93,696	93,223

*Actual as at 31st March 2020

Maturity structure of fixed rate borrowing - upper and lower limits (excluding PFI and Finance Leases)	Upper and Lower Limits	Fixed Rate Borrowing as at 30th September 2020 £'000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	31	0.03%
12 months to 2 years	25% - 0%	0	0.00%
2 years to 5 years	50% - 0%	4,020	3.98%
5 years to 10 years	75% - 0%	5,321	5.27%
10 years and above	100% - 0%	91,508	90.71%
		100,880	100.00%

APPENDIX 2: Prudential and Treasury Indicators

Prudential Indicators	2020/21 Budgeted Estimate £'000	2020/21 Projected Outturn as at 30th September 2020 £'000	Variance £'000
Capital expenditure - General Fund Services	18,806	18,505	(301)
Capital expenditure - Housing Revenue Account	6,885	6,555	(330)
Capital Financing Requirement (CFR) - General Fund	132,977	129,205	(3,772)
Capital Financing Requirement (CFR) - HRA	24,573	22,451	(2,122)
In year borrowing requirement	17,489	12,491	(4,998)
Ratio of financing costs to net revenue stream - General Fund	4.37%	4.60%	0.23%
Ratio of financing costs to net revenue stream - HRA	9.07%	8.90%	(0.17%)