THIS PAPER RELATES TO ITEM 10

ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to: **Council**

Date: **19 August 2021**

Subject: **Annual Treasury Management Report 2020/21**

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 2021 and how this compares to the 2020/21 Treasury Management Strategy Statement set in February 2020.

2.0 Recommendations

2.1 It is recommended that the Council note and consider this Annual Report for 2020/21 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 2020/21 the following reports were required to be reported to Council:

- annual treasury management and investment strategy (The Treasury Management Strategy Statement (TMSS) for 2020/21, which included the Annual Investment Strategy, was approved by Council on 27 February 2020)
- a mid-year treasury update report (Treasury Management Update at 30th September 2020 presented to Council on 11 February 2021)
- 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 2020/21
- Borrowing Requirement and Debt
- Borrowing Outturn for 2020/21
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

3.4 The COVID-19 pandemic has had a 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 the Bank Rate to 0.25% (from 0.75%) on 10 March 2020 and then further reduced it to 0.1% on 19 March 2020. The rate was unchanged during 2020/21 and remains at 0.1% as at 31 March 2021.

3.5 The first national lockdown in late March 2020 had a significant detrimental impact on the economy. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown was put in place in November and a further third, more restrictive, lockdown was implemented in January 2021. During this third lockdown, businesses and individuals had become more resilient in adapting to working in new ways during this three month lockdown and as a result the impact on the economy was felt to a lesser extent than that experienced by the first lockdown, a year earlier.

3.6 The advent of vaccines starting in November 2020 and the roll out of the vaccination programme in the UK, which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is pent-up demand and purchasing power stored up for services such as the retail, hospitality and leisure sectors as they begin to reopen fully. It is therefore expected that the UK economy could recover its pre-pandemic level of economic activity during the first quarter of 2022.

3.7 The final agreement on the UK withdrawal from the EU on 24 December 2020 eliminated a significant risk for the UK economy. However, this initial agreement only covered trade operations and further work is required to reach agreement on the services sector. The trade agreement caused initial disruption in January 2021 due to additional administrative burdens and although this appears to have eased, there are still likely financial impacts on businesses and consumers expected.

Interest Rate Forecast

3.8 The Council's treasury advisors, Link Asset Services, provided the following interest rate forecast on 12 April 2021 which is in line with the economic outlook set out in paragraphs 3.4 to 3.7 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 2021	0.10	1.20	2.10	1.90
Sept 2021	0.10	1.20	2.10	1.90
Dec 2021	0.10	1.20	2.20	2.00
March 2022	0.10	1.20	2.30	2.10
June 2022	0.10	1.20	2.30	2.10
Sept 2022	0.10	1.20	2.30	2.10
Dec 2022	0.10	1.30	2.40	2.20
March 2023	0.10	1.30	2.40	2.20

3.9 The forecast for interest rates within the 2020/21 TMSS was that the Bank Rate would rise from 0.75% to 1.00% in June 2021 with a further rise of 0.25% in June 2022 to 1.25% at the end of the year. Due to uncertainty over the economy, the MPC maintained the Bank Rate at 0.1% throughout the whole of 2020/21. 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 disruption caused by the spread of COVID-19.

3.10 As shown in the interest forecast table above, PWLB certainty rates are expected to increase slowly over the next two years. This is on the basis that forecasters expect it will take economies, including the UK's, a prolonged period to recover from the sharp recession caused during the coronavirus lockdown period.

Investment Outturn for 2020/21

3.11 As at 31 March 2021, the Council held investments of £35.9m 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. During the year 2 of the Councils previous investments were realised: Clackmannanshire Regeneration and Coalsnaughton NHT Project. Appendix 1 shows the analysis of the investment portfolio as at 31 March 2021.

3.12 The Council's treasury indicator and limit for investments for 2020/21 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 2020/21.

3.13 As at 31 March 2021 the Council held immediately available cash balances of £32.9m (£16.8m 2019/20), of which £16.9m was held in the Council's bank accounts and a further £16.0m was held in two money market funds (MMF). The average level of funds available for longer-term investment during the period to 31 March 2021 was £8.6m. During the year, a deposit of £2m was returned to the Council, £3.0m was deposited for two months and rolled over for a further three months, and £3.0m was invested for twelve months.

3.14 In line with the low bank rate, investment returns which had been low during 2019/20, reduced further during 2020/21 to near zero with some institutions even falling into negative rates. The Bank of England and the Government introduced new programmes of financial support, supplying the banking system and the economy with considerable amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The Scottish Government also set aside significant sums for local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, keeping investment earnings returns low.

3.15 The benchmark investment returns over the 12 months ending 31 March 2021, provided by Link Asset Services, are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2020/21

Benchmark	Benchmark Return
7 day	-0.07%
1 month	-0.05%
3 month	0.01%
6 month	0.07%
12 month	0.17%

3.16 The Council's budgeted cash investment return for returns on investments placed for periods up to 100 days for 2020/21 was 0.65%. This was set prior to the full extent of COVID-19 being known (February 2020) and was based on an expected bank rate of 0.75% for 2020/21.

3.17 Despite the lower benchmark rates presented in the above table, the Council achieved an actual investment return of 0.31% (£26.5k) on all investments for the year ended 31 March 2021. This comprised one £2m one month investment at 0.95%, one £3.03m two month investment at 0.05%, one £3.03m three month investment at 0.45%, one £3.0m six month investment at 0.2% and interest rates between 0.01% and 0.03% in the MMF accounts. All medium term investments out performed the benchmark return. A return of 0.23% was also achieved on everyday cash investments. The future prospect for interest rates during 2021/22 remains low as seen in table 1 above, however opportunities during 2021/22 to optimise investment income will be looked for in line with interest rate and cashflow forecasts.

Capital Outturn for 2020/21

3.18 The Council's capital expenditure plans are a key driver of treasury management activity. The TMSS for 2020/21 provided estimates of the total capital expenditure, split between General Fund Services and Housing Revenue Account (HRA) for 2020/21 and the following four financial years. The outturn for 2020/21 against budget is shown below:

Table 3: Capital Outturn 2020/21

	Approved Gross Budget 2020/21 £000	**Actual Spend to 31 March 2021 £000**	**(Under)/Over Spend £000**
General Fund Services	23,064	13,647	(9,417)
Housing Revenue Account	8,665	4,292	(4,373)
Total	**31,729**	**17,939**	**(13,790)**

3.19 The underspends on the General Fund and the HRA are mainly due to delays caused by the Covid-19 pandemic and the resulting rephasing of spend on large projects spanning multiple financial years. For GF this includes projects such as Alva Village and Small Town, Clackmannan Regeneration, and Tullibody South Campus and also includes delays in the delivery of purchased vehicles. The HRA underspend was across all projects, again, due to delays impacted by contractors furloughing staff, local and national lockdowns and the availability of goods and materials. The largest underspends were on kitchen replacements and window replacements projects. For both GF and HRA, the unspent budget relating to delayed projects will be carried forward into 2021/22 where required.

Borrowing Requirement 2020/21

3.20 Capital expenditure that is not financed by the use of capital receipts, capital grants, developers' contributions or directly from revenue will require the Council to undertake borrowing. Any 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 2020/21

	31 March 2020 Actual £000	31 March 2021 Estimate £000	31 March 2021 Actual £000
General Fund	121,508	132,977	120,666
HRA	23,047	24,573	22,451
Total	**144,555**	**157,550**	**143,117**

3.21 Overall the CFR for 2020/21 has decreased by £1.4m from 2019/20. The General Fund CFR has decreased by £1.4m due to in year capital expenditure of £6.5m offset by Loans Fund and Lease repayments of £3.0m and the repayment/redemption of the £4.3m long term investment with Coalsnaughton NHT 2012 LLP upon the sale of the housing stock to Kingdom Housing Association on 5 March 2021.

3.22 The HRA CFR has decreased by £0.6m solely due to Loans Fund Principal Repayments. All HRA capital expenditure has been funded by revenue and grant funding therefore there has been no borrowing to increase the CFR.

3.23 In summary, the CFR for both General Fund and HRA is less than budgeted due to: underspends on both capital programmes as shown in table 3, HRA capital expenditure being fully funded by revenue and grant funding and the redemption of the £4.3m long term investment.

3.24 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 reduced the loans fund principal repayments for 2020/21. 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

3.25 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.

3.26 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 2020/21 is as follows:

Table 5: Ratio of financing costs to net revenue stream 2020/21

	2020/21 Estimate	2020/21 Actual
General Fund	4.62%	4.68%
Housing Revenue Account	9.07%	8.80%

Borrowing Outturn for 2020/21

3.27 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 as this results in an over borrowed position. 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.

3.28 In line with the Prudential Code, the Council was in an under borrowed position as at 31 March 2021.

3.29 The Council's external borrowing position as at 31 March 2021 is illustrated in the undernoted table:

Table 6: External borrowing at 2020/21

	Actual March 2020 £000	Actual March 2021 £000
Public Works Loan Board	77,512	77,098
Market Loans	18,812	18,750
LOBO Loans	5,000	5,000
Other long term liabilities	39,147	37,845
Total	**140,471**	**138,693**
CFR	**144,555**	**143,117**
(Under)/Over borrowing	**(4,084)**	**(4,424)**

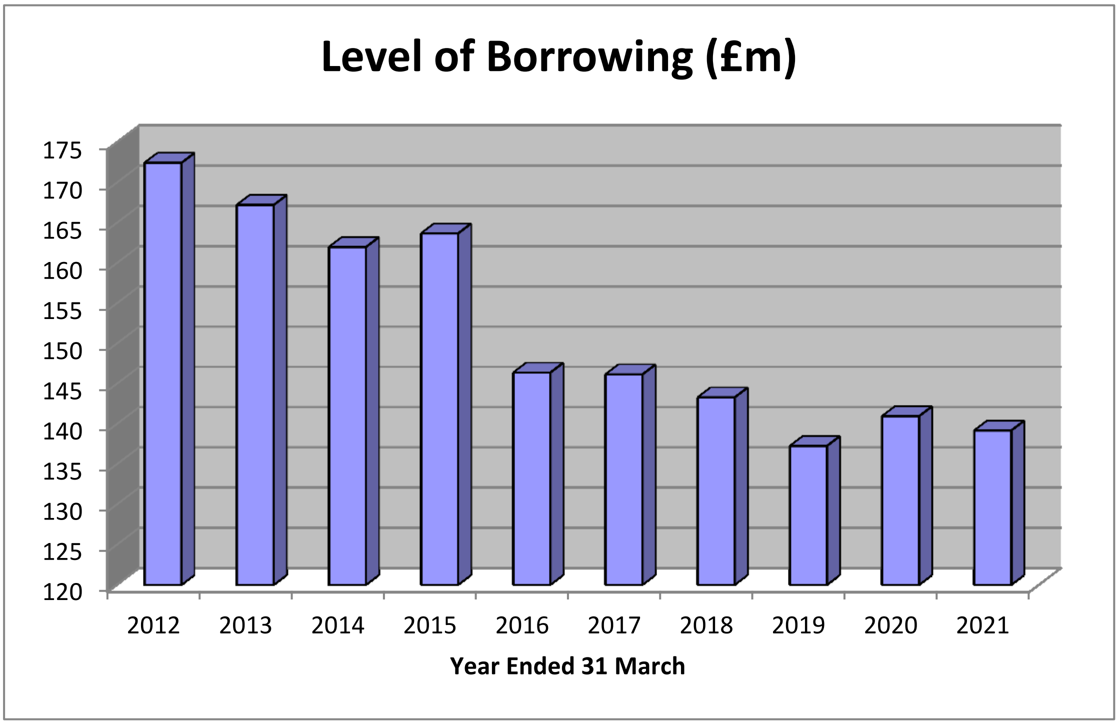
3.30 During the year, loan repayments of £0.414m were made on PWLB loans and £0.062m was repaid towards a SALIX Loan shown within Market Loans above.

3.31 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 2020/21 TMSS and shows that the Council has not breached these limits.

3.32 Under Other long term liabilities, repayments of £1.302m were also made in the year toward the Council's PFI and finance leases.

3.33 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 2021.

Chart 1: External debt (actual)



3.34 The chart shows that overall there has been a reduction in cumulative external debt of 19.3% between March 2012 and March 2021, 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.

3.35 For 2021/22 a new General Services Capital Programme has been developed covering the next 20 years, from 2021/22 to 2040/41. This programme sets out planned significant capital investment areas across the Councils Be The Future priorities. In order to support this 20 year capital programme, the previous borrowing strategy to minimise external debt has been revised to one that supports growth and investment but also looks to reduce external debt over the longer term.

Limits for External Debt

3.36 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 sets 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 2020/21

	2020/21 £000
Authorised Limit for External Debt	171,000
Operational Boundary for External Debt	161,000
Gross External Debt as at 31 March 2021	**138,693**

3.37 The Council did not exceed either the authorised limit or the operational boundary during 2020/21 and was £22.3m below the operational boundary as at 31 March 2021.

Borrowing in advance of need

3.38 The Council did not borrow in advance of need in the year ended 31 March 2021 and has no intention to borrow in advance in 2021/22.

Debt Rescheduling

3.39 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 2020/21.

Compliance with Treasury and Prudential Limits

3.40 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 annually approved TMSS.

3.41 During the year the Council has operated within the treasury and prudential indicators set out in the Council's 2020/21 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 2020/21 the Council has complied with its legislative and policy requirements.

4.2 The Council achieved an actual return on investment of 0.31% generating income of £26.5k from short term cash investments.

4.3 During the year external borrowing has reduced through repayments of £0.475m towards long term debt and £1.302m 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 (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 2021

Appendix 2 - Prudential and Treasury Indicators as at 31st March 2021

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) 2020/21 - report to Council February 2020

Treasury Management Mid-Year Report – report to Council February 2021

Author

NAME	DESIGNATION	TEL NO / EXTENSION
Helen Coleman	Team Leader – Corporate Accountancy	2256
Lindsay Sim	Chief Finance Officer	2022

Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	
Stuart Crickmar	Strategic Director Partnership and Performance	

APPENDIX 1: Investment Portfolio as at 31 March 2021

Borrower	Principal £000	Interest Rate	Type of Account
Bank of Scotland	13	0.00%	Instant Access
Aberdeen Standard plc (MMF)	11,003	Variable (0.01-0.03%)	Instant Access
BlackRock (MMF)	5,000	Variable (0.01-0.03%)	Instant Access
Royal Bank of Scotland plc	16,902	0.01% (balances above £1m)	Instant Access
Other Accounts	32	-	Petty Cash
Total Cash and Cash Equivalents	**32,950**		

Short Term Investments	Principal £000	Interest Rate	Start Date	Maturity Date
Bank of Scotland plc	3,000	0.20%	30/06/2020	30/09/2021
CSBP Clackmannanshire Investments Ltd	1			
Total Short Term Investments	**3,001**			

TOTAL INVESTMENTS	**35,951**

APPENDIX 2: Prudential and Treasury Indicators as at 31 March 2021

Treasury Indicators	2020/21 Approved Budget £000	2020/21 Outturn at 31 March 2021 £000
Authorised limit for external debt	171,000	171,000
Operational boundary for external debt	161,000	161,000
Gross external debt*	139,166	138,693
Investments	28,079	35,951
Net borrowing	111,087	102,742

***As at 31 March 2021, Gross external debt consisted of £100.848m fixed rate borrowing and £37.845m 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 31 March 2020 £000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	63	0.1%
12 months to 2 years	25% - 0%	3,008	3.0%
2 years to 5 years	50% - 0%	3,257	3.2%
5 years to 10 years	75% - 0%	3,013	3.0%
10 years and above	100% - 0%	91,507	90.7%
Total Fixed Rate Borrowing		100,848	100.0%

APPENDIX 2: Prudential and Treasury Indicators as at 31 March 2021

Prudential Indicators	2020/21 Approved Budget £000	2020/21 Outturn at 31 March 2021 £000	Variance/ Movement £000
Capital expenditure - General Fund Services	23,064	13,647	(9,417)
Capital expenditure - Housing Revenue Account	8,665	4,292	(4,373)
Capital Financing Requirement (CFR) - General Fund	132,977	120,666	(12,311)
Capital Financing Requirement (CFR) - HRA	24,573	22,451	(2,122)
Annual change in CFR - General Fund	9,522	843	(8,679)
Annual change in CFR - HRA	755	595	(160)
In year borrowing requirement	17,489	3,952	(13,537)
Ratio of financing costs to net revenue stream - General Fund	4.62%	4.68%	0.06%
Ratio of financing costs to net revenue stream - HRA	9.07%	8.80%	(0.27%)