CLACKMANNANSHIRE COUNCIL	THIS PAPER RELATES TO ITEM 7 ON THE AGENDA

Report to: **Clackmannanshire Council**

Date: **16 December 2021**

Subject: **Treasury Management Update at 30th September 2021**

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 2021.

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 2021/22 and the Prudential Indicators for 2021/22 to 2023/24 were approved by the Council on 24 March 2021**.** 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 2021/22;
- Borrowing Requirement and Debt;
- Borrowing Outturn for 2021/22, 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 10 March 2020 and then further reduced it to 0.1% on the 19 March 2020. The rate remained unchanged since then during 2020/21 and the first 6 months of 2021/22 standing at 0.1% as at 30 September 2021.

3.4 The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, with the aim of sustaining growth and employment. The MPC recent forecast is that inflation will rise above the 2% target. This is due to the impact of the pandemic and BREXIT which have been disruptive of extended worldwide supply chains. A rise in oil and gas prices and businesses struggling to meet extra demand due to shortages of materials and workers are also contributing to this increase in inflation. The MPCs forecast is that inflation will peak at around 5% in spring 2022 and as such are considering interest rate rises over the coming months.

Interest Rate Forecast

3.7 The Council's treasury advisors, Link Group, have provided the following interest rate forecast on 29 September 2021, 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 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23	Jun 23	Sep 23	Dec 23	Mar 24
Bank Rate View	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
5yr PWLB Rate	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10yr PWLB Rate	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25yr PWLB Rate	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50yr PWLB Rate	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

3.8 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 30 September 2021 is 0.1%. The forecast is for three increases within the forecast period ending March 2024: June 2022 0.25%, June 2023 0.5% and March 2024 0.75%. There is a high level of uncertainty as the economy recovers from the pandemic which could lead to the forecast being changed within a short timeframe.

3.9 As shown in the interest forecast table above for PWLB certainty rates, there is likely to be a steady increase in PWLB certainty rates over the next two years.

Investment Outturn for 2021/22

3.10 The Treasury Management Strategy Statement (TMSS) for 2021/22 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 2021.

3.11 As at 30 September 2021, the Council held cash balances of £33.7m, of which £7.7m was immediately available in the Council's bank accounts and a further £21.0m immediately available from holdings in money market funds (MMF) and short duration bond funds (SDBF). £5m was held in short term deposit accounts with banks. The average level of funds available for investment during the period to 30 September 2021 was £11.1m. 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, money market funds (MMF) and short duration bond funds (SDBF). Current accounts generally have low interest rates, therefore cash has been 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.

A deposit of £3m that was invested for a fixed term of one year matured on 30 September 2021.

3.12 The benchmark investment returns over the 12 months ended 30th September 2021 are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2021/22

Benchmark	Benchmark Return
7 day	(0.08%)
1 month	(0.07%)

3 month	(0.05%)
6 month	(0.02%)
12 month	0.07%

3.13 The Council's budgeted cash investment return for 2021/22 is 0.10%. 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 0.10% for 2021/22.

For the period ended 30 September 2021 the Council achieved an actual investment return of 0.11% (£11k) which is marginally higher than budgeted. Individual investments performed in line with the benchmarks. Investments in MMF and SDBF achieved rates of between 0.00% and 0.11% against the negative benchmarks of (0.08%). One 6 month investment of £2.5m achieved a return of 0.06% against the negative benchmark of (0.02%) and two investments over one year achieved returns of 0.20% and 0.05% against the benchmark of 0.07%. A return of 0.01% was achieved on everyday cash balances, which outperformed the benchmark for 7 day investments which was negative for the period.

The bank rate has remained at 0.1% since March 2020 but is expected to rise to 0.75% over the next 3 years. Investment rates generally follow the bank rate, however it is expected to continue to be a very difficult investment market in terms of earning interest. Opportunities to meet the budgeted investment return for the remainder of the 2021/22 financial year are therefore limited but are hoped to be achieved.

Borrowing Requirement and Debt

3.14 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 2020/21 being less than anticipated;
- the forecast General Fund capital expenditure for 2021/22 being less than anticipated (with proposed re-phasing of spend into future years), and
- the realisation of the investment in Coalsnaughton NHT 2012 LLP in March 2021.

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

Table 3: Borrowing Requirement (CFR) 2021/22

	31 March 2021 Actual £000	31 March 2022 Budget Estimate £000	31 March 2022 Projected as at 30th September 2021 £000
CFR General Fund	120,666	131,547	125,182
CFR HRA	22,451	21,855	22,147
Total CFR	**143,117**	**153,402**	**147,329**

Borrowing Outturn for 2021/22

3.15 During the period to 30 September 2021, the Council reduced its external borrowing by £617k. This included repayment of £31k of towards the Salix interest free loan and repayments of £586k towards the Council's PFI and finance lease.

3.17 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. At this time there is no additional external borrowing forecasted to be undertaken by 31 March 2022 but this will be subject to progress on the capital programme and the level of cash balances held.

3.18 The Council's external borrowing position as at 30 September 2021 and expected year end position is illustrated in the undernoted table:

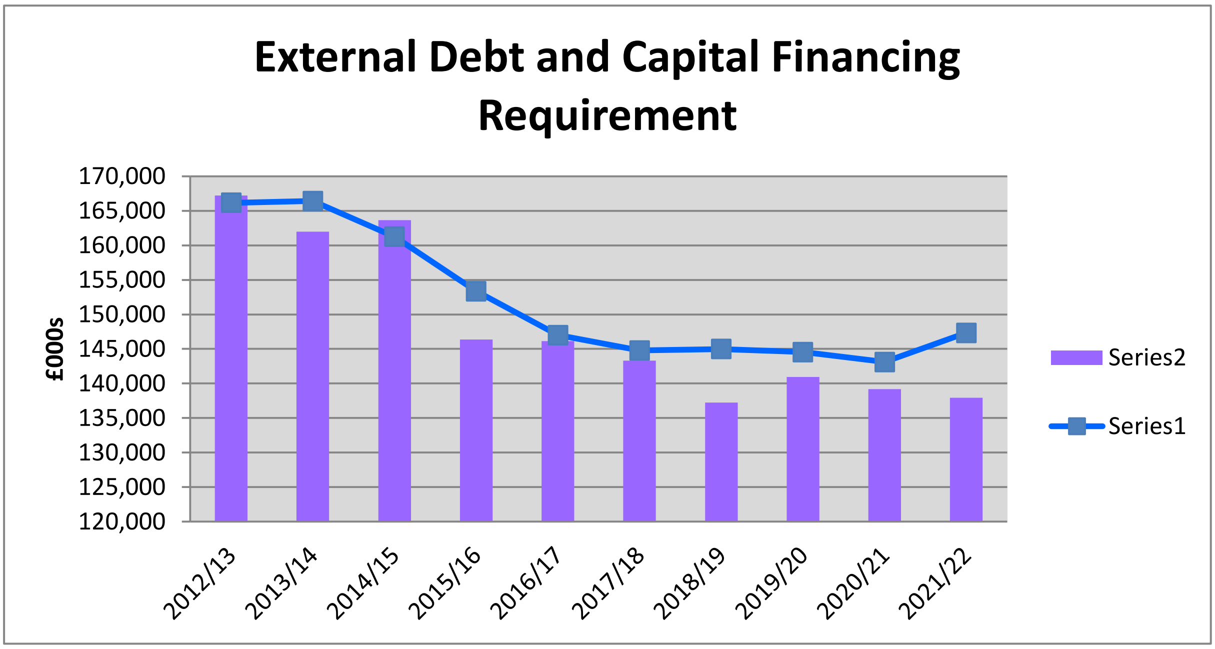
Table 4: External borrowing at 2021/22

	Actual March 2021 £000	Actual September 2021 £000	Projected March 2022 £000
Public Works Loan Board	77,098	77,098	77,096
Market Loans	18,500	18,500	18,500
LOBO Loans	5,000	5,000	5,000
Other long term liabilities	250	219	188
Long term Liabilities under Finance Lease	37,845	37,259	36,672
Total	**138,693**	**138,076**	**137,456**

3.19 The level of borrowing forecast to marginally reduce by the end of 2021/22. This is on the basis that no new external borrowing is undertaken during the remaining 6 months of the year.

The following chart shows the actual and forecast level of debt up to the end of 2021/22. 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)



3.20 Overall there is a forecasted reduction in cumulative external debt of £34m (21%) since 2012, showing that over the longer term the Council has not increased its level of debt to finance its capital programme. However the capital programme for 2021/22 to 2040/41, approved at Council on 24 March 2021, included a significant increase in expenditure on previous budgets and it is anticipated that new external borrowing will need to be undertaken to ensure sufficient cash is available to meet the capital investment. As a result external debt is forecast to increase in the medium term, falling again towards the end of the 20year programme. Repayments towards PFI and finance leases also continue to reduce the Council's overall level of external debt on an annual basis.

In line with 2021/22 TMSS and the Prudential Indicators, total external debt of £137m forecast at end of the year remains below the Operational Boundary for External Debt (£152m) and the Authorised Limit for External Debt (£164m).

Borrowing in advance of need

3.21 The Council has not borrowed in advance of need in the six months ended 30 September and has no intention to borrow in advance during the remainder of 2021/22.

Debt Rescheduling

3.22 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

3.23 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.

3.24 All treasury and prudential indicators set out in the Council's TMSS have been complied with in the financial period to 30 September 2021. These prudential and treasury Indicators are shown in Appendix 2.

4.0 Conclusions

4.1 Cash balances as at 30 September were at a level of £33.7m which contributes to supporting the Council's capital financing requirement internally.

4.2 The Councils return on investments was higher than the benchmark rates for the first six months of the financial year and is marginally higher than the budgeted return.

4.3 The Council has repaid £0.586m towards PFI and Finance leases and £0.031m 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 decreased by £2.172m over the first six months of the year and £21m is held in two money market funds and two short duration bond funds. 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 (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 2021

Appendix 2 - Prudential and Treasury Indicators as at 30th September 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 2021/22 - report to Council March 2021

Author

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

Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	[redacted]
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APPENDIX 1: Investment Portfolio as at 30 September 2021

Borrower	Principal (£000)	Interest Rate	Start Date	Maturity Date
Bank of Scotland plc	2,500	0.05% Fixed	367 day call account	
Bank of Scotland plc	2,500	0.06% Variable	175 day call account	
Aberdeen Standard Money Market Fund	6,000	Variable	Instant access	
Aberdeen Standard Ultra Short Dated Bond Fund	10,000	Variable	Instant access	
Blackrock Ultra Short Dated Bond Fund	5,000	Variable	Instant access	
Royal Bank of Scotland plc	8,171	0.01% (balances above £1m)		
Bank of Scotland plc	3,018	0.0%		
Other Accounts	32	-		
Total Cash and Cash Equivalents	**37,221**			

Short Term Investments	Principal (£000)
CSBP Clackmannanshire Investments Ltd	1
Total Short Term Investments	**1**

TOTAL INVESTMENTS	**37,222**

APPENDIX 2: Prudential and Treasury Indicators as at 30 September 2021

Treasury Indicators	2021/22 Budgeted Estimate £'000	Actual as at 30 September 2021 £'000	Projected 31 March 2022 £'000
Authorised limit for external debt	164,000	164,000	164,000
Operational boundary for external debt	152,000	152,000	152,000
Gross external debt	145,125	138,543	137,919
Investments	35,951*	37,222	37,222
Net borrowing	109,174	101,321	100,697
	*Actual as at 31 March 2021		

Maturity structure of fixed rate borrowing - upper and lower limits (excluding PFI and Finance Leases)	Upper and Lower Limits	Fixed Rate Borrowing as at 30 September 2021 £'000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	3,040	3.02%
12 months to 2 years	25% - 0%	0	0.00%
2 years to 5 years	50% - 0%	3,670	3.64%
5 years to 10 years	75% - 0%	5,630	5.58%
10 years and above	100% - 0%	88,478	87.76%
		100,849	100.00%

APPENDIX 2: Prudential and Treasury Indicators

Prudential Indicators	2021/22 Budgeted Estimate £'000	2021/22 Projected Outturn as at 30 September 2021 £'000	Variance £'000
Capital expenditure - General Fund Services	15,320	14,597	(723)
Capital expenditure - Housing Revenue Account	8,901	8,992	94
Capital Financing Requirement (CFR) - General Fund	131,547	125,182	(6,360)
Capital Financing Requirement (CFR) - HRA	21,885	22,147	(262)
In year borrowing requirement	8,277	9,410	1,133
Ratio of financing costs to net revenue stream - General Fund	3.78%	3.78%	0.00%
Ratio of financing costs to net revenue stream - HRA	7.57%	7.48%	(0.09%)