THIS PAPER RELATES TO ITEM 4

ON THE AGENDA

CLACKMANNANSHIRE COUNCIL

Report to: **Council**

Date: **2 February 2023**

Subject: **Treasury Management Mid-Year Update at 30th September 2022**

Report by: **Chief Finance Officer**

1.0 Purpose

1.1 The purpose of this report is to present a mid-year update of Treasury Management activity for the period to 30 September 2022.

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.

Considerations

3.0 The Treasury Management Strategy Statement (TMSS) for 2022/23 and the Prudential Indicators for 2022/23 to 2024/25 were approved by the Council on 4th March 2022**.** No changes to the TMSS are proposed in this report.

3.1 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 mid-year 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 2022/23;
- Borrowing Requirement and Debt;
- Borrowing Outturn for 2022/23, and
- Compliance with Treasury and Prudential Limits.

The Economy and Interest Rates

3.3 The invasion of Ukraine by Russia on 24th February 2022 had a major effect on the world economy, disrupting supply of oil and gas and pushing up energy prices for businesses and individuals to levels unprecedented in recent years. In the UK, this, together with an exceptionally tight labour market, and the continuing impact of Brexit and the pandemic on global supply chains, has caused inflation to rise to levels which have not been seen in decades.

3.4 The Bank of England's Monetary Policy Committee (MPC) sets its monetary policy in line with its inflation target, currently 2%, with the aim of sustaining growth and employment. During 2022/23 CPI inflation reached highs of 10.1% in July 2022, falling back slightly in August to 9.9% and rising again to 10.7% by November. As a result, the MPC has continually raised the base rate from its previous low of 0.1% since March 2020 to 0.25% in December 2021 and then again in every one of its meetings throughout 2022. By December the base rate had increased to 3.5% and is forecast to rise further, reaching 4.50% by June 2023.

Interest Rate Forecast

3.5 The Council's treasury advisors, Link Group, provided the following interest rate forecast as at December 2022 for Bank Rates and Public Works Loan Board (PWLB) borrowing rates.

Table1: Investment Forecast provided by Link Asset Management

	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sep 2024
Bank Rate	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50
5yr PWLB Rate	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60
10yr PWLB Rate	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80
25yr PWLB Rate	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.10
50yr PWLB Rate	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70

3.6 As outlined in paragraphs 3.3 and 3.4 above, the UK is experiencing high rises in inflation and as a result the UK Base Rate has risen over the past year from a historic low of 0.1% to 3.5% as at 15th December 2022. The table above shows that two further increases are forecast: March 2023 – 4.25%, and June 2023 – 4.50% before slowly falling back to 3.50% by September 2024. However, there remains a high level of uncertainty as the economy continues to recover from the effects of the pandemic and the war in Ukraine, which could lead to the forecast being changed within a short timeframe.

3.7 Similar to bank rates, there is also likely to be a steady increase in PWLB borrowing rates over the next six months before falling back, as shown in the interest forecast table above.

Investment Outturn for 2022/23

3.8 The Treasury Management Strategy Statement (TMSS) for 2022/23 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 30 September 2022.

3.9 In order to maintain the availability of cash to meet daily cash flow payments, cash is held in easily accessible current accounts, Money Market Funds (MMFs) and Short Duration Bond Funds (SDBFs). 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.

3.10 As at 30 September 2022, the Council held cash balances of £45.5m, of which £18.5m was immediately available in the Council's bank accounts and a further £24m immediately available from holdings in MMFs and SDBFs. £3m was also held in short term deposit accounts with banks.

3.11 The average level of funds available for investment during the period to 30 September 2023 was £14.3m. 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.

3.12 The benchmark investment returns over the 6 months ended 30 September 2022 are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2022/23

Benchmark	Benchmark Return
7 day	1.19%
1 month	1.11%
3 month	0.91%
6 month	0.67%
12 month	0.37%

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

3.13 The Council's budgeted cash investment return for 2022/23 is 0.75%. 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 1.25% for 2022/23.

3.14 For the period ended 30 September 2022 the Council achieved an actual investment return of 1.15% (£164k) which is higher than budgeted due to the increases in interest rates above the budgeted level and higher than all of the backward-looking benchmarks except for the 7-day SONIA compounded rate (shown above). Investments in MMF and USDBF achieved rates of between 0.27% (0.54% annualised) and 0.61% (1.22% annualised) against the benchmarks of 1.19%. Returns on the MMF and USDBF have increased to December and are currently producing returns above 3% which is now well above the 7-day rate.

3.15 An average return of 0.48% was achieved on everyday cash balances held with the Royal Bank of Scotland (RBS) and Bank of Scotland which under performed against the benchmark for 7 day rate. The cash balances in RBS accounts achieve a minimal return of 0.01% and are held as working balances. Balances in the Bank of Scotland account are held pending future investments and achieved a return of 0.78% over the six month period.

3.16 The bank rate has steadily increased during 2022, reaching 3.50% in December 2022. It is expected to rise further before falling progressively over the next two years as shown in Table 1 above. Investment rates generally follow the bank rate and as the bank rate is forecast to be higher than expected for the remainder of 2022/23, it is anticipated that actual investment returns will be higher than budgeted.

Borrowing Requirement and Debt

3.17 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 2021/22 being less than anticipated;
- the forecast General Fund capital expenditure for 2022/23 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 3: Borrowing Requirement (CFR) 2022/23

	31 March 2022 Actual £000	31 March 2023 Budget Estimate £000	31 March 2023 Projected as at 30 September 2022 £000
CFR General Fund	122,650	132,868	131,156
CFR HRA	22,147	26,506	21,746
Total CFR	**144,797**	**159,374**	**152,902**

Borrowing Outturn for 2022/23

3.18 During the period to 30 September 2022, the Council reduced its external borrowing by £3.597m. This included repayments of £2.947m towards PWLB Debt, repayments of £0.032m towards the Salix interest free loan and repayments of £0.618m towards the Council's PFI arrangement.

3.19 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 2023 but this will be subject to progress on the capital programme and the level of cash balances held.

3.20 The Council's external borrowing position as at 30 September 2022 and expected year end position is illustrated in the undernoted table:

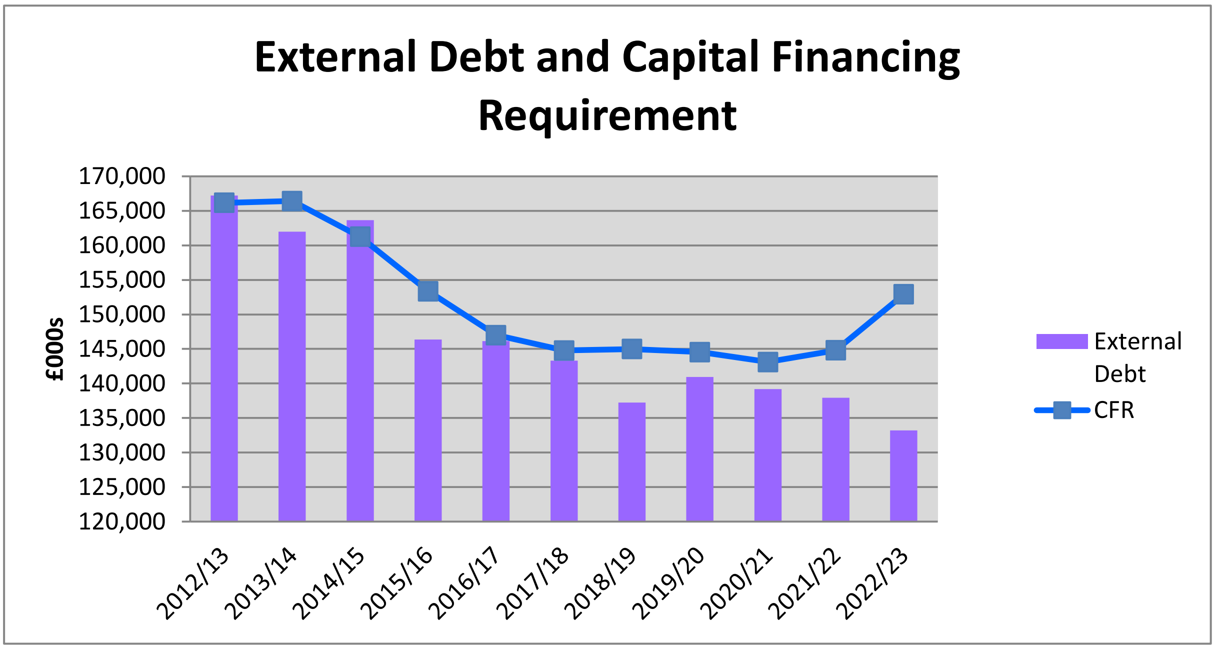
Table 4: External borrowing at 2022/23

	Actual March 2022 £000	Actual September 2022 £000	Projected March 2023 £000
Public Works Loan Board	77,096	74,149	74,149
Market Loans	18,500	18,500	18,500
LOBO Loans	5,000	5,000	5,000
Other long term liabilities	188	156	125
Long term Liabilities - PFI	36,672	36,054	35,437
Total	**137,456**	**133,859**	**133,211**

3.21 The level of borrowing is forecast to marginally reduce by the end of 2022/23. This is on the basis that no new external borrowing is undertaken during the remaining 6 months of the year.

3.22 The following chart shows the actual and forecast level of debt up to the end of 2022/23. 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)



3.23 Overall there is a forecasted reduction in cumulative external debt of £39m (23%) 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 2022/23 to 2041/42, approved by Council at its meeting on 4th March 2022, included a significant increase in expenditure on previous budgets with the expectation that new external borrowing will need to be undertaken over this period 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 20 year programme. Repayments towards PFI also continue to reduce the Council's overall level of external debt on an annual basis.

3.24 In line with the 2022/23 TMSS and Prudential Indicators, total external debt of £133m is forecast at end of the year which remains below the Operational Boundary for External Debt (£146m) and the Authorised Limit for External Debt (£157m).

Borrowing in advance of need

3.25 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 2022/23.

Debt Rescheduling

3.26 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

3.27 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.

3.28 All treasury and prudential indicators set out in the Council's TMSS have been complied with in the financial period to 30 September 2022. 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 £45.5m which contributes to supporting the Council's capital financing requirement internally.

4.2 The Councils return on investments was higher than most of 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 £0.618m towards PFI arrangements and £2.979m 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 £4.3m over the first six months of the year and £24m 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 (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 2022

Appendix 2 - Prudential and Treasury Indicators as at 30th September 2022

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 2022/23 - report to Council March 2022

Author

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

Approved by

NAME	**DESIGNATION**	**SIGNATURE**
Lindsay Sim	Chief Finance Officer	[redacted]
Stuart Crickmar	Director of Partnership & Performance	[redacted]

APPENDIX 1: Investment Portfolio as at 30 September 2022

Short Term Investments – Counterparty	Principal (£000)	Interest Rate	Type
Bank of Scotland plc	3,000	0.03% Fixed	32 day call account
Aberdeen Standard Money Market Fund	6,000	3.16% Net Average Monthly Yield for December	Instant access
Aberdeen Standard Ultra Short Dated Bond Fund	13,000	3.47% Net yield on an annual basis	Instant access
Blackrock Ultra Short Dated Bond Fund	5,000	3.16% Net Average Monthly Yield for December	Instant access
CSBP Clackmannanshire Investments Ltd	1		
Total Short Term Investments	**27,001**		

Cash and Cash Equivalents – Counterparty	Principal (£000)	Interest Rate
Royal Bank of Scotland plc	8,433	0.01% (balances above £1m)
Bank of Scotland plc	10,031	1.65% as at 30th Sept 2022
Other Accounts	32	-
Total Cash and Cash Equivalents	**18,496**	

TOTAL INVESTMENTS	**45,497**

APPENDIX 2: Prudential and Treasury Indicators as at 30 September 2022

Treasury Indicators	2022/23 Budgeted Estimate £'000	Actual as at 30 September 2022 £'000	Projected 31 March 2023 £'000
Authorised limit for external debt	157,000	157,000	157,000
Operational boundary for external debt	146,000	146,000	146,000
Gross external debt	133,663	133,860*	133,209
Investments	41,235**	45,497	45,497
Net borrowing	92,428	88,363	87,712

*As at 30 September 2022, Gross external debt consisted of £97.805m fixed rate borrowing and £36.055m liabilities in relation to PFI
**Actual as at 31 March 2022

Maturity structure of fixed rate borrowing - upper and lower limits (excluding PFI)	Upper and Lower Limits	Fixed Rate Borrowing as at 30 September 2022 £'000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	506	0.52%
12 months to 2 years	25% - 0%	0	0.00%
2 years to 5 years	50% - 0%	5,295	5.41%
5 years to 10 years	75% - 0%	3,527	3.61%
10 years and above	100% - 0%	88,477	90.46%
		97,805	100.00%

APPENDIX 2: Prudential and Treasury Indicators

Prudential Indicators	2022/23 Budgeted Estimate (as at September 2022) £'000	2022/23 Projected Outturn as at 30 September 2022 £'000	Variance £'000
Capital expenditure - General Fund Services	19,551	15,453	(4,098)
Capital expenditure - Housing Revenue Account	12,582	10,282	(2,300)
Capital Financing Requirement (CFR) - General Fund	132,868	131,156	(1,712)
Capital Financing Requirement (CFR) - HRA	26,506	21,746	(4,760)
In year borrowing requirement	25,711	18,584	(7,127)
Ratio of financing costs to net revenue stream - General Fund	3.13%	3.13%	0.00%
Ratio of financing costs to net revenue stream - HRA	6.18%	8.06%	1.88%