CLACKMANNANSHIRE COUNCIL	**THIS PAPER RELATES TO ITEM 6** **ON THE AGENDA**

Report to: **Council**

Date: **20 August 2026**

Subject: **Annual Treasury Management Report 2025/26**

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 2026 and how this compares to the 2025/26 Treasury Management Strategy Statement set in February 2025.

2.0 Recommendations

2.1 It is recommended that the Council note and consider this Annual Report for 2025/26 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 2025/26 the following reports were required to be reported to Council:

- annual treasury management and investment strategy (The Treasury Management Strategy Statement (TMSS) for 2025/26, which included the Annual Investment Strategy was approved by Council on 27th February 2025);
- a treasury update report for the first three quarters, 1st April to 31st December 2025 (Treasury Management Quarterly Update to 30th September 2025 presented to Audit & Scrutiny Committee on 5th Feb 2026 and Treasury Management Quarterly Update at 31st December 2025 presented to Audit & Scrutiny Committee on 23rd April 2026), and
- 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 2025/26
- Borrowing Requirement and Debt
- Borrowing Outturn for 2025/26
- Compliance with Treasury and Prudential Limits

The Economy and Interest Rates

3.4 During 2025/26, financial markets continued to be impacted by the continuation of the geopolitical events from previous years such as the war in Ukraine and US tariff policies. The conflict involving the United States and Iran has increased economic pressures on the UK primarily through higher energy costs and greater uncertainty in global markets. Disruptions to oil and gas supplies in the Middle East, particularly around the Strait of Hormuz, pushed up international energy prices, increasing UK fuel costs and adding to inflationary pressures.

3.5 The forecast for interest rates within the 2025/26 TMSS was that the Bank of England (BoE) Base Rate would fall steadily from 4.50% in March 2025 to 3.75% in March 2026 and then reduce to 3.50% in December 2026. From 1st April 2025, there were three cuts to the Bank rate in the year, with the base rate reducing to 3.75% by February 2026 where it has remained to date. This was broadly in line with the forecast in the TMSS.

3.6 The Bank of England Monetary Policy Committee (MPC) sets monetary policy to meet a 2% inflation target and varies the BoE Base rate to achieve this target. UK inflation remained above the BoE target throughout 2025/26. Having started the financial year at 3.5% in April 2025, CPI peaked at 3.8% from July to September, before reducing to 3.3% in March 2026. CPI has fallen further in 2026/27 to 2.6% as at June 2026.

Interest Rate Forecast

3.7 The Council's treasury advisors, MUFG Corporate Markets, provided the following interest rate forecast and actual rates as at 25th March 2026 which is in line with their current assessments of the economic outlook for the coming financial year.

Table1: Investment Forecast provided by MUFG Corporate Markets

Quarter Ended	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Jun 2026 (actual)	3.75	5.00	6.00	5.80
Sep 2026	3.75	5.00	6.00	5.80
Dec 2026	3.75	4.90	5.90	5.70
Mar 2027	3.75	4.80	5.80	5.50
Jun 2027	3.75	4.60	5.60	5.40

3.8 The table shows the Bank Rate is forecast to remain at 3.75% and PWLB borrowing rates are expected to reduce slowly over the coming year to June 2027. Whilst reductions in rates reduces borrowing costs, it also reduces the interest income on short term investments.

Investment Outturn for 2025/26

3.9 As at 31 March 2026, the Council held investments of £13.3m 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. Appendix 1 shows the analysis of the investment portfolio as at 31 March 2026.

3.10 The Council's investment treasury indicators for 2025/26 are:

- A limit of £12m on the maximum principal sum that may be invested for periods greater than 365 days;
- Up to 75% of investments may have fixed interest rates, and
- Up to 100% of investments may have variable interest rates.

These limits were not breached during 2025/26.

3.11 As at 31 March 2026 the Council held immediately available cash balances of £13.3m (£15.3m 2024/25), of which £400k was held in the Council's bank accounts and a further £12.9m was held in a treasury call account, two Money Market Funds (MMF) and two Ultra Short Dated Bond Funds (USDBF).

3.12 During the year, there were no investments in fixed term deposits. All funds available for investment were held in the Treasury Call Account, MMFs and USDBFs. The Treasury Call Account is held with the Bank of Scotland and offers daily interest rates close to money market rates. Extensive use was also made of HM Treasury's Debt Management Office deposit facility, principally for very short-term deposits, often overnight, to secure a better rate than was available from the main bank account with the Royal Bank of Scotland.

3.13 The benchmark investment returns over the 12 months ending 31 March 2026, provided by MUFG Corporate Markets, are illustrated in the undernoted table:

Table 2: Benchmark Investment Returns 2025/26

Benchmark	Benchmark Return
30 days	4.13%
90 days	4.22%
180 days	4.34%
365 days	5.02%

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

3.14 The Council's budgeted cash investment return for returns on investments placed for periods up to three months for 2025/26 was 2.25%, which was based on an expected bank rate of 3.75% for 2025/26.

3.15 Investment interest rates fell throughout 2025/26 in line with decreases in the Bank rate. The Treasury Team actively invested the Council's cash balances throughout the year to maximise returns in a falling interest rate environment. As a result, the Council achieved an actual investment return of 4.58% (£0.703m) on all investments for the year ended 31 March 2026 which is in line with the benchmark shown in table 2 above and over double the budgeted return. Average interest rates between 3.86% and 4.21% were achieved on the MMF, USDBF, DMO and the Treasury Call Account. An average return of 2.18% was achieved on everyday cash investments.

3.16 The Treasury Team continues to identify opportunities during 2026/27 to optimise the Council's investment income in line with interest rate and cashflow forecasts. These activities are being undertaken in line with the Council's investment priorities of security first, liquidity second and then return.

Capital Outturn for 2025/26

3.17 The Council's capital expenditure plans are a key driver of treasury management activity. The TMSS for 2025/26 provided estimates of the total capital expenditure that would be incurred in 2025/26, split between General Fund Services (GF) and Housing Revenue Account (HRA). The outturn for 2025/26 against budget is shown below:

Table 3: Capital Outturn 2025/26

	Revised Budget at 31 March 2026 £000	Actual Spend to 31 March 2026 £000	(Under)/Over Spend £000
General Fund Services	36,524	26,868	(9,656)
Housing Revenue Account	24,560	17,253	(7,307)
Total	**61,084**	**44,121**	**(16,963)**

3.18 For 2025/26, the approved General Fund Capital programme set out significant gross investment in Clackmannanshire amounting to £29.266m. A further £3.926m was added as a result of carry forwards from 2024/25 and £3.332m has been added to reflect additional grant income for various projects and initiatives. These additional amounts have increased the approved gross budget for 2025/26 to £36.524m.

3.19 The total spend on the General Fund capital programme for the year was £26.686m resulting in an underspend of £9.656m. Whilst work on capital projects was progressed, delays were still incurred due to internal and external factors and as such £9.224m was carried forward to 2026/27.

3.20 The HRA Capital Programme for 2025/26 has a gross budget of £24.560m. This is made up of the approved budget including carry forwards and an in year additional £1.000m for work on RAAC affected properties under the Roof and Render project as approved by Council in June 2025. A further £3.100m (also included) was brought forward from 2026/27 for Off the Shelf Purchases as approved by Council in October 2025.

3.21 The total gross expenditure on the HRA capital programme for the year was £17.253m resulting in an underspend of £7.307m of which £6.574m was carried forward to 2026/27. The main underspends related to Lochies Road – New Development and Off the Shelf Purchases. The budget for both projects was carried forward into 2026/27.

Borrowing Requirement 2025/26

3.22 Capital expenditure can be financed by using capital receipts, capital grants, developer contributions or directly from revenue. For any additional requirement out with these means, the Council will undertake borrowing. This 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 to repay 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 2025/26

	31 March 2025 Actual £000	31 March 2026 Estimate £000	31 March 2026 Actual £000
General Fund	141,805	172,410	166,517
HRA	27,161	39,198	43,737
Total	**168,966**	**211,608**	**210,254**

3.23 Overall the CFR has increased by £41.3m as at March 2026 from the previous year. The General Fund CFR has increased by £24.7m due to in year capital expenditure of £26.9m funded by internal borrowing, partly offset by Loans Fund principal repayments and lease and other repayments totalling £2.2m.

3.24 The increase in the GF CFR reflects the delivery of the Council's approved capital investment programme and should therefore be viewed within the context of the Council's long-term financial strategy. Since approving the 20 year capital investment programme in March 2021, the Council has adopted a borrowing strategy that supports investment in priority infrastructure, digital and data and regeneration projects rather than solely focusing on debt reduction. The increase in the borrowing requirement during 2025/26 is therefore a planned consequence of delivering approved capital investment and is consistent with the Treasury Management Strategy approved by Council.

3.25 The HRA CFR has increased by £16.6m as at 31 March 2026 from the previous year. This was due to planned in-year capital expenditure of £17.3m funded by internal borrowing offset by Loans Fund principal repayments of £0.7m.

3.26 In summary, the total CFR for both GF and HRA is less than estimated due to underspends in the previous financial year offset with higher than anticipated expenditure in 2025/26 both of which were not known at the time the TMSS for 2025/26 was approved.

3.27 Loans Fund repayments are set in line with the Loans Fund Policy which was previously amended by the Council in 2019/20. The policy smooths the repayment profile of debt over the average life of the Council's assets. 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

3.28 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.

3.29 For the GF 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.

3.30 The outturn for 2025/26 against the estimate is shown in the following table.

Table 5: Ratio of financing costs to net revenue stream 2025/26

	2025/26 Estimate	2025/26 Actual
General Fund	4.35%	3.94%
Housing Revenue Account	8.95%	8.60%

3.31 The ratio of financing costs to the net revenue stream remains relatively low and below the level forecast within the approved Treasury Management Strategy for both GF and HRA. This demonstrates that, despite significant capital investment and planned increased borrowing requirements, the cost of servicing debt remains affordable within the Council's overall revenue budgets. The Council's strategy of prudently increasing borrowing to support investment within the GF has therefore been achieved without placing undue pressure on revenue budgets.

Borrowing Outturn for 2025/26

3.32 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 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.

3.33 In line with the Prudential Code, the Council was in an under-borrowed position as at 31 March 2026.

3.34 The Council's external borrowing position as at 31 March 2026 has increased by £24.564m and is illustrated in the undernoted table:

Table 6: External borrowing at 2025/26

	Actual March 2025 £000	Actual March 2026 £000	Movement Increase /(Decrease) £000
Public Works Loan Board (PWLB)	88,297	133,489	45,192
Market Loans	18,937	0	(18,937)
LOBO Loans*	5,000	5,000	-
Other long term liabilities	32,358	30,667	(1,691)
Total	**144,592**	**169,156**	**24,564**
CFR	**168,966**	**210,254**	**41,288**
(Under)/Over borrowing	**(24,374)**	**(41,098)**	**(16,724)**

*LOBO = Lender Option Borrower Option – long term loan with a fixed interest rate but allows the option to vary the interest rate at periodic intervals throughout the term of the loan.

3.35 Whilst external borrowing increased during the year, the Council remains in an under-borrowed position, with gross debt remaining £41.1m below the underlying borrowing requirement represented by the CFR. This demonstrates that the Council has continued to take a prudent approach to borrowing and has not borrowed beyond its long-term capital financing need.

3.36 New PWLB loans of £53m were undertaken of which £18m was to finance the redemption of four Barclays loans (Market Loans) totalling £18.5m at a substantial discount. Repayments of £7.803m were made on PWLB loans.

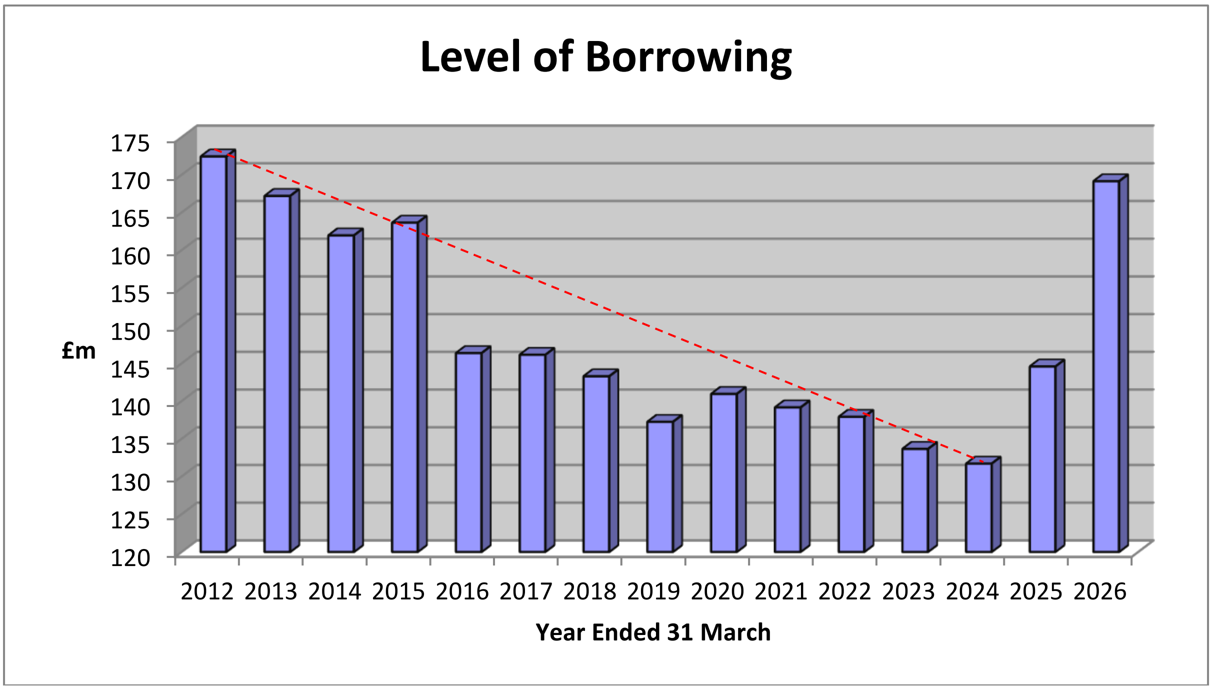
3.37 The maturity structure of the PWLB loans and LOBO loans are set out in Appendix 2. This also details the upper and lower limits for each category of loan as set out in the 2025/26 TMSS and shows that the Council has not breached these limits.

3.38 Under Other long-term liabilities, repayments of £1.691m were also made in the year toward the Council's PFI lease.

3.39 In 2012 the Council put in place a policy to minimise long term debt. To ensure debt is minimised, the capital programme was set so that the level of borrowing did not increase over the longer term. The Capital Investment Programme approved by Council in March 2021 recognised that continuing to minimise external debt would constrain the Council's ability to invest in infrastructure, digital and data and place-based improvements. The revised treasury strategy therefore supports prudent borrowing where it is affordable and sustainable to do so. The borrowing undertaken during 2025/26 reflects this strategic approach and has enabled significant investment across the General Fund while maintaining compliance with all prudential and treasury indicators.

3.40 The following chart illustrates the actual level of debt at the end of each year up to 31 March 2026.

Chart 1: External debt (actual)



3.41 The chart shows that overall, there has been a reduction in cumulative external debt of 23.6% between March 2012 and March 2024, showing that over that period the Council did not increase its level of debt, in line with the policy approved in 2012. During 2025/26, the Council undertook net new borrowing of £34.5m from the PWLB to support the capital investment programme, which was in line with the TMSS for 2025/26 and the revised strategy to support investment and growth. Repayments towards PFI and finance leases contribute to a reduction of the Council's overall level of external debt on an annual basis.

Limits for External Debt

3.42 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 2025/26

	2025/26 £000
Authorised Limit for External Debt	220,000
Operational Boundary for External Debt	204,000
Gross External Debt as at 31 March 2026	169,156

3.43 The Council did not exceed either the authorised limit or the operational boundary during 2025/26 and was £34.8m below the operational boundary as at 31 March 2026.

Borrowing in advance of need

3.44 The Council did not borrow in advance of need in the year ended 31 March 2026 and has no intention to borrow in advance in 2026/27.

Debt Rescheduling

3.45 Debt rescheduling opportunities have been very limited in the current economic climate. However, an opportunity arose in April 2025 to repay £18.5m of market loans with Barclays Bank at a discount of £1.9m. This was financed with £18m of new borrowing from the PWLB at lower interest rates than the market loans they replaced.

Compliance with Treasury and Prudential Limits

3.46 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.

3.47 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. Some of the key Prudential and Treasury Indicators are shown at Appendix 2.

4.0 Conclusions

4.1 Throughout 2025/26 the Council has complied with its legislative and policy requirements including its Treasury Management Strategy and Prudential Indicators

4.2 The Council achieved a higher than budgeted actual return on investment of 4.58% generating income of £0.703m from short term cash investments.

4.3 During the year net borrowing increased by £24.564m representing £53m of new advances, offset by repayments of £26.745m towards long-term debt and £1.691m towards PFI leases, reducing other long-term liabilities. This increase in borrowing during 2025/26 reflects the Council's planned investment in approved capital projects across General Fund and Housing services. Borrowing decisions were undertaken in accordance with the approved Treasury Management Strategy and Prudential Code requirements. Despite significant capital investment, the Council remains in an under-borrowed position, all prudential limits were achieved, and the ratio of financing costs to the net revenue stream remained below forecast levels, demonstrating that the investment programme continues to be affordable and financially sustainable.

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 – there are no staffing implications arising from this report.*

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

Complies with relevant Council Policies ☐

9.0 Impact Assessments

9.1 Have you attached the combined equalities impact assessment to ensure compliance with the public sector equality duty and fairer Scotland duty? (All EFSIAs also require to be published on the Council's website)

No ☒

9.2 If an impact assessment has not been undertaken you should explain why:

This report is for noting and there are no direct impacts resulting from the content of this report.

10.0 Legality

10.1 It has been confirmed that 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 31 March 2026

Appendix 2 - Prudential and Treasury Indicators as at 31 March 2026

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) 2025/26 - report to Council February 2025

Treasury Management Quarterly Update at 30 September 2025 – report to Audit & Scrutiny Committee Feb 2026

Treasury Management Quarterly Update at 31 December 2025 – report to Audit & Scrutiny Committee April 2026

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Approved by

NAME	DESIGNATION	SIGNATURE
Chris Alliston	Head of Corporate Services	[redacted]

APPENDIX 1: Investment Portfolio as at 31 March 2026

Counterparty	Principal £000	Interest Rate	Type
Royal Bank of Scotland plc	336	Variable Annual Return 2.18%	Instant Access
Other Accounts	64	N/A	Petty Cash
Total Cash and Cash Equivalents	**400**		

Short Term Investments	Principal £000	Interest Rate	Type
Bank of Scotland	82	Variable Annual Return 3.84%	Treasury Call Account
Aberdeen Standard Money Market Fund	4,100	Variable Annual Return 4.16%	Instant Access
Aberdeen Standard Ultra Short Duration Fund	2,514	Variable Annual Return 4.21%	4 working days
BlackRock Money Market Fund	4,100	Variable Annual Return 4.04%	Instant Access
BlackRock Ultra Short Duration Fund	2,131	Variable Annual Return 4.07%	2 working days
CSBP Clackmannanshire Investments Ltd	1		
Total Short Term Investments	**12,928**		

TOTAL INVESTMENTS	**13,328**

APPENDIX 2: Prudential and Treasury Indicators as at 31 March 2026

Treasury Indicators	2025/26 Approved Budget £000	2025/26 Outturn at 31 March 2026 £000
Authorised limit for external debt	220,000	220,000
Operational boundary for external debt	204,000	204,000
Gross external debt*	178,268	169,156
Investments	15,330**	13,328
Net borrowing	162,938	155,828

*As at 31 March 2026, Gross external debt consisted of £138.489m fixed rate borrowing and £30.667m liabilities in relation to PFI and finance leases
**Actual as at 31 March 2025

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 2026 £000	% of Total Fixed Rate Borrowing
Under 12 months	25% - 0%	14,773	10.67%
12 months to 2 years	25% - 0%	15,461	11.16%
2 years to 5 years	50% - 0%	34,778	25.11%
5 years to 10 years	75% - 0%	3,499	2.53%
10 years and above	100% - 0%	69,978	50.53%
Total Fixed Rate Borrowing		**138,489**	**100.00%**

APPENDIX 2: Prudential and Treasury Indicators as at 31 March 2026

Prudential Indicators	2025/26 Revised Budget £000	2025/26 Outturn at 31 March 2026 £000	Variance/ Movement £000
Capital expenditure - General Fund Services	36,524	26,868	(9,656)
Capital expenditure - Housing Revenue Account	24,560	17,253	(7,307)
Capital Financing Requirement (CFR) - General Fund	172,410	166,517	(5,893)
Capital Financing Requirement (CFR) - HRA	39,198	43,737	4,539
Annual change in CFR - General Fund	19,969*	24,712**	
Annual change in CFR - HRA	4,241*	16,576**	
In year borrowing requirement (includes Service Concession Adjustment)	33,341	41,098	7,757
Ratio of financing costs to net revenue stream - General Fund	4.35%	3.94%	(0.41%)
Ratio of financing costs to net revenue stream - HRA	8.95%	8.60%	(0.35%)

*This is the movement between the CFR reported in the TMSS 2024/25 and TMSS 2025/26
**This is the movement between the actual CFR as at 31st March 2025 and 31st March 2026