

EAST RENFREWSHIRE COUNCILAUDIT & SCRUTINY COMMITTEE21 November 2019Report by Head of Accountancy (Chief Financial Officer)INTERIM TREASURY MANAGEMENT REPORT FOR 2019/20**PURPOSE OF REPORT**

1. To advise the Audit and Scrutiny Committee on the treasury management activities for the first 6 months of 2019/20.

RECOMMENDATIONS

2. It is recommended that Members:-

- a) Note the interim Treasury Management Report 2019/20;
- b) Recommend to the Council that the attached organisations for investment of surplus funds be approved (see Appendix II); and
- c) Note the unexpected increase in the cost of borrowing from the PWLB.

BACKGROUND

3. The treasury management policy statement requires the Chief Financial Officer to report every 6 months on the activities of the Treasury Management operation and on the exercise of the powers delegated to her.

4. In addition, in line with the CIPFA Code of Practice on Treasury Management 2017, the Audit & Scrutiny Committee is responsible for ensuring the effective inspection of treasury management activities.

5. The attached Interim Treasury Management Report for the financial year 2019/20 is submitted in accordance with these requirements.

TREASURY MANAGEMENT ACTIVITIES IN 2019/20

6. The interim report for period 1 April 2019 to 30 September 2019 is attached as Appendix I.

RECOMMENDATIONS

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 - c) Note the unexpected increase in the cost of borrowing from the PWLB.

Report Author

Further information is available from Barbara Clark, Chief Accountant, 577 3068

Key Words

Treasury Management, Interest Rates, Prudential Indicators, investment.

EAST RENFREWSHIRE**INTERIM TREASURY MANAGEMENT REPORT 2019/20**

Table 1

1. Actual External Debt

| | Borrowing 01/04/19 £m | Average Interest % | Borrowing 30/09/19 £m | Average Interest % | Change in Year £m |
|---|--------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|----------------------------------|
| <u>Long Term Borrowing</u> | | | | | |
| Public Works Loan Board | 74.71 | 4.22 | 93.89 | 3.70 | 19.18 |
| LOBO (Lender Option Borrower Option) | 14.40 | 4.60 | 14.40 | 4.60 | 0.00 |
| PFI / PPP Finance Lease | 90.48 | 7.19 | 90.48 | 7.19 | 0.00 |
| SALIX Energy Efficiency Loan | 0.04 | 0.00 | 0.03 | 0.00 | (0.01) |
| Total borrowing | 179.63 | 5.74 | 198.80 | 5.35 | 19.17 |
| <u>Short Term Lending</u> | | | | | |
| Temporary Investments | (67.14) | 0.97 | (72.29) | 0.86 | (5.15) |

2. During the period new borrowing of £20 million was undertaken from the Public Works Loan Board and loans totalling £0.82 million matured.

3. The opening cash surplus of £ 67.14 million has increased to £72.29 million due to both revenue and capital cash flows.

4. At 30 September 2019 the Council had 7.24% of its total borrowing outstanding in variable rate loans. During the period 01/04/19 to 30/09/19 the total borrowing outstanding in variable rate loans peaked at 8.02%. For the Council to gain a high level of stability in overall borrowing costs the Council's Treasury Policy Statement requires the exposure to variable rate loans to be less than 30% of the total borrowing outstanding.

5. The attached tables chart the following:

Table 2 The Council's debt maturity profile – which is in line with the Council's Treasury Policy Statement

Table 3 Bank base rate movements

Table 4a and 4b The Council's activity in the temporary market

Table 5 Interest rate movements in the temporary market

6. Prudential Indicators

In line with the agreed monitoring arrangements for the Prudential Indicators, listed below there is a table showing prudential indicators comparing the approved indicator, as reported to the Council on 28 February 2019 along with the projected outturn figures for the year end, demonstrating that the Council is operating well within the limits set.

| Prudential Indicator | Approved indicator | Projected Outturn for the year end | COMMENT |
|---------------------------------|-------------------------------|---|----------------|
| | | | |

| | | | |
|---|--|---|--|
| 1. Capital Expenditure | £58,986,000 | £58,644,000 | Projected Capital Expenditure is less than planned expenditure, reflecting the revised work schedule particularly within the Housing Capital Programme. |
| 2. Capital Financing Requirement | £216,633,000 | £211,070,000 | Overall CFR is lower than the approved position due to reduced capital expenditure from that planned in the previous year, resulting in a lower opening balance. |
| 3. Operational Boundary for External Debt | £229,626,000 | £222,740,000 | Movement is due to the projected in year net debt repayment of £6.9m being made |
| 4. Authorised Limit For External Debt | £250,498,000 | £222,740,000 | Approved indicator included an allowance to cover any unusual temporary movements, it is anticipated that this will not be required during the year. The projected outturn figure also includes the projected net debt repayments of £6.9m |
| 5. Gross Debt | £222,740,000 | £222,740,000 | There is no movement in year as there is no reduction in planned borrowing anticipated. |
| 6. Code of Practice For Treasury Management | The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes | All of the approved activities within the Council Treasury Management Policy Statement have been complied with. | |

7. Approved Organisations for Investment

In line with normal practice the status of all Banks & Building Societies approved on the 15 August 2019 has been reviewed and the HSBC Bank has now been added to the current list of organisations for investment, in line with advice from our Treasury Advisers, LINK Asset Services (see Appendix II). In addition, the deposit limits have been increased with Lloyds Banking Group, Santander Group as well as the overall total of permitted investments with the Money Market Funds, this is to accommodate the new borrowing. All lending is in line with the permitted methods of investment which were approved by Council on 28 February 2019 as part of the Treasury Management Strategy report.

As a result of the banking crisis and in line with prudent financial management, investment has been restricted to UK organisations with high credit ratings. Also, the maximum period of investment was restricted to 6 months, with the exception of loans to the Bank of Scotland, in line with advice from our Treasury Advisers. These measures have been taken as a part of a risk managed process designed to protect the principal of the sums invested.

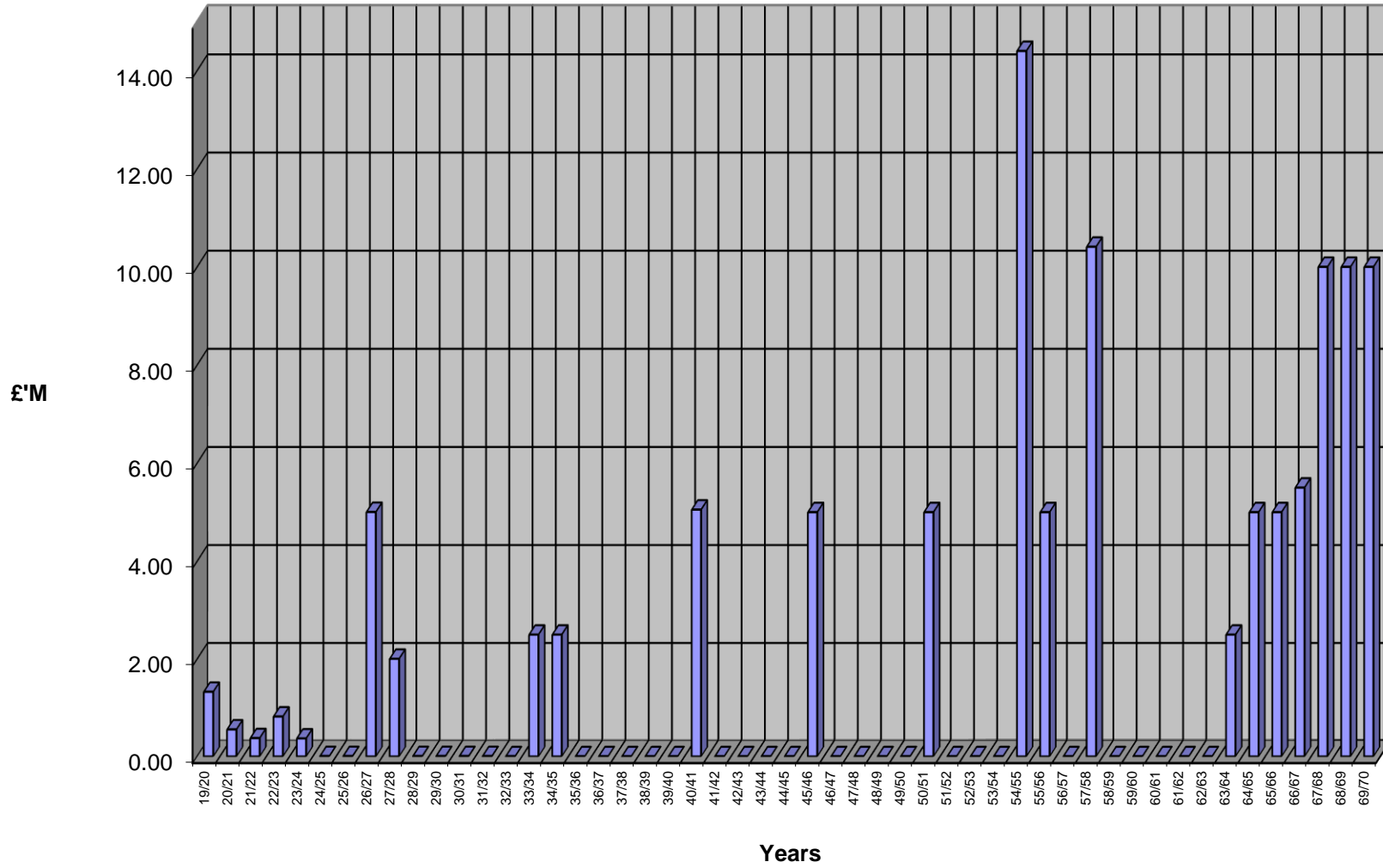
Credit ratings of organisations on the counter-party list are subject to continuous monitoring and review to ensure that subject to available professional advice, approved organisations remain sound for investment purposes.

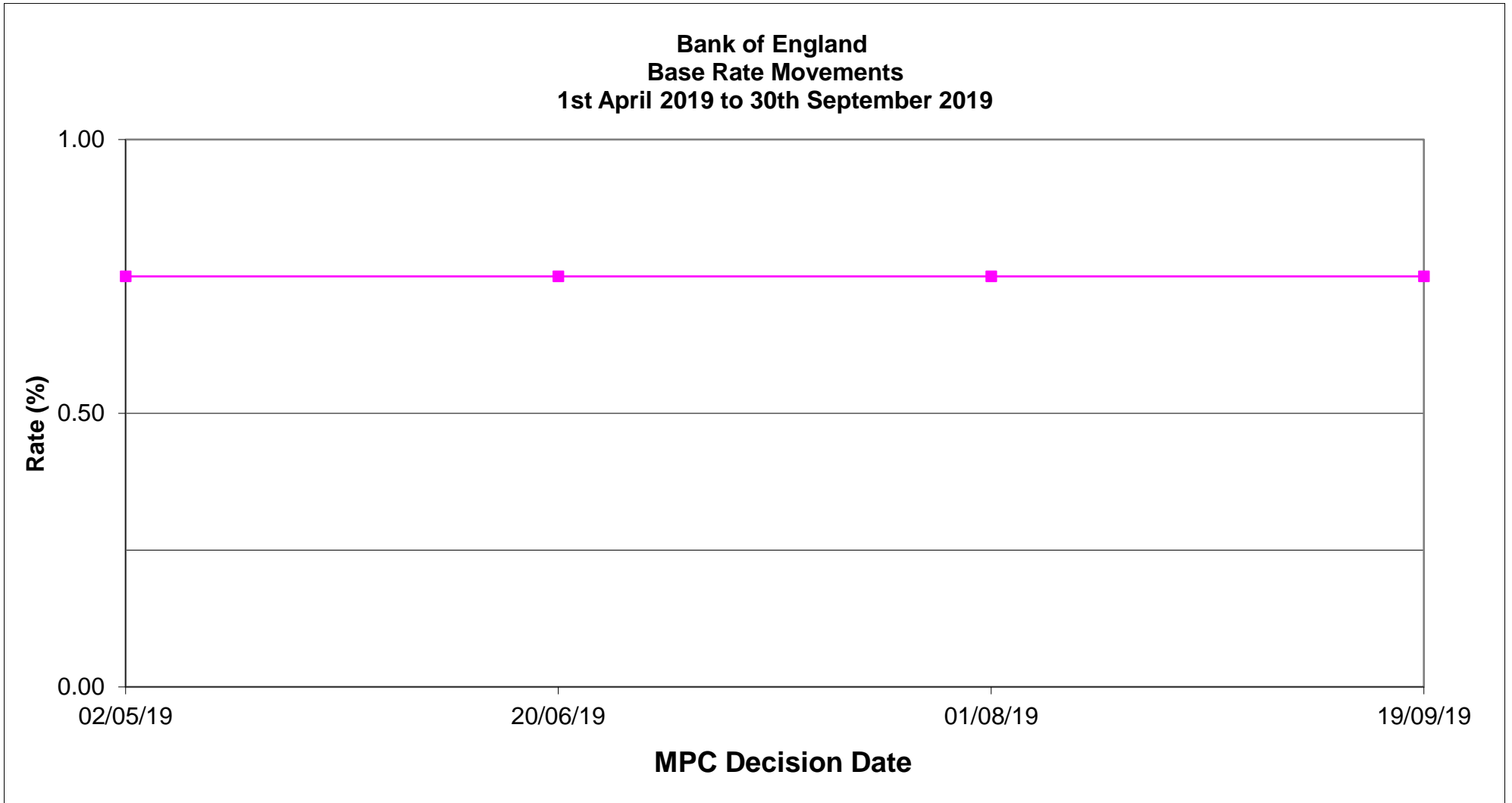
8. Increase in the cost of borrowing from the PWLB

On 9 October 2019 the Treasury and PWLB announced an unexpected immediate increase in the PWLB rates of 1%. Fortunately the Council had already secured £20 million of planned borrowing at the lower rates, however like all other local authorities we must now reassess our longer term borrowing and capital investment plans to recognise this change.

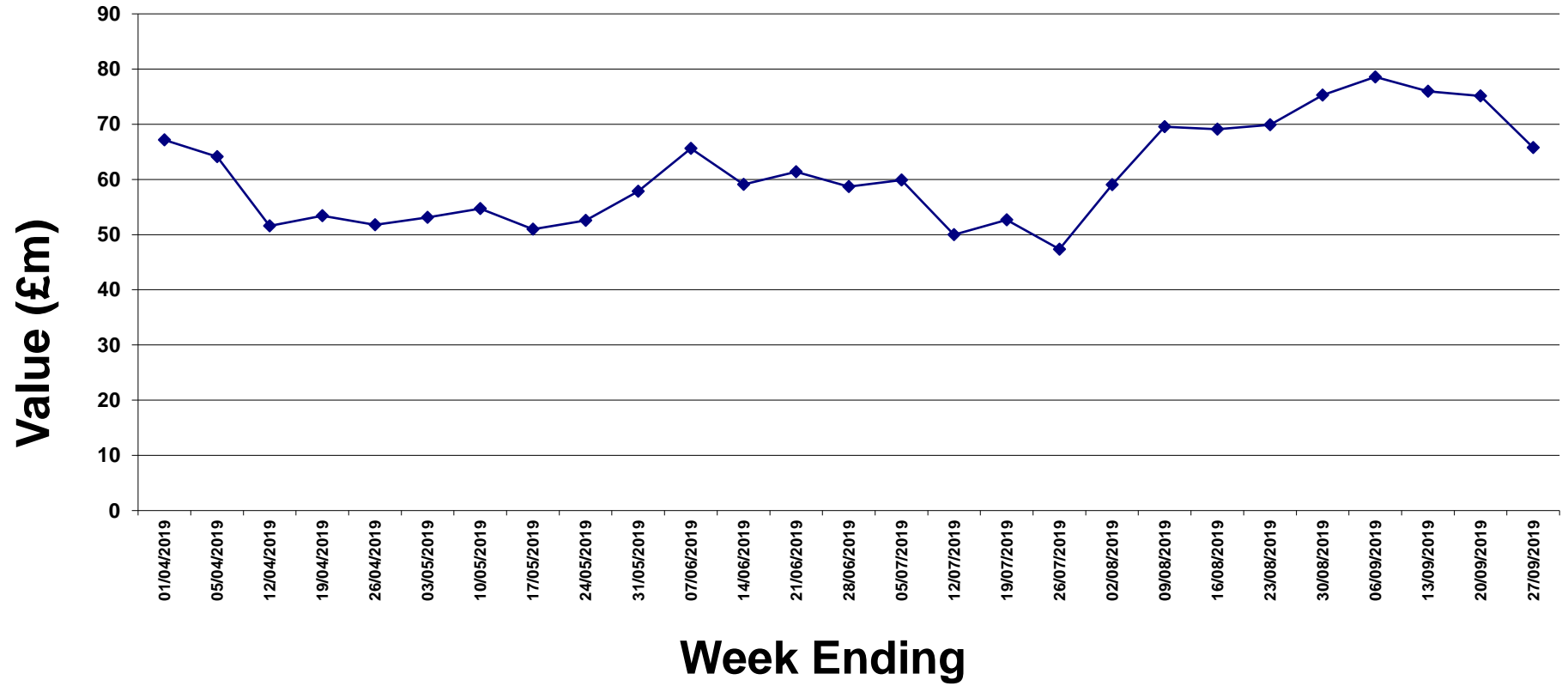
COSLA are making representation to HM Treasury on the potential impact of this increase and the Council will also take advice from our Treasury Advisers on any alternative cheaper sources of borrowing. Members will be updated as this area evolves.

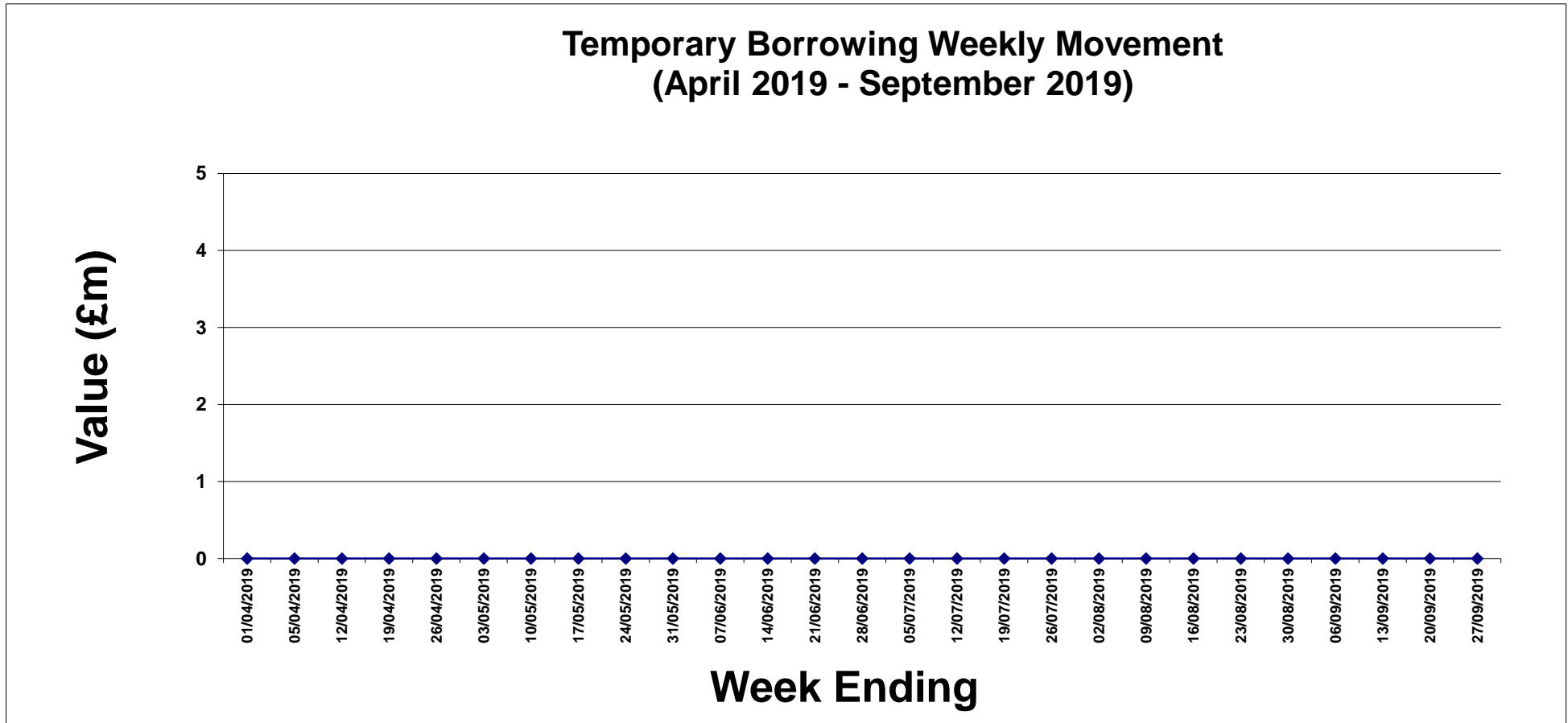
Long Term Debt Maturity Profile as at 30/09/19



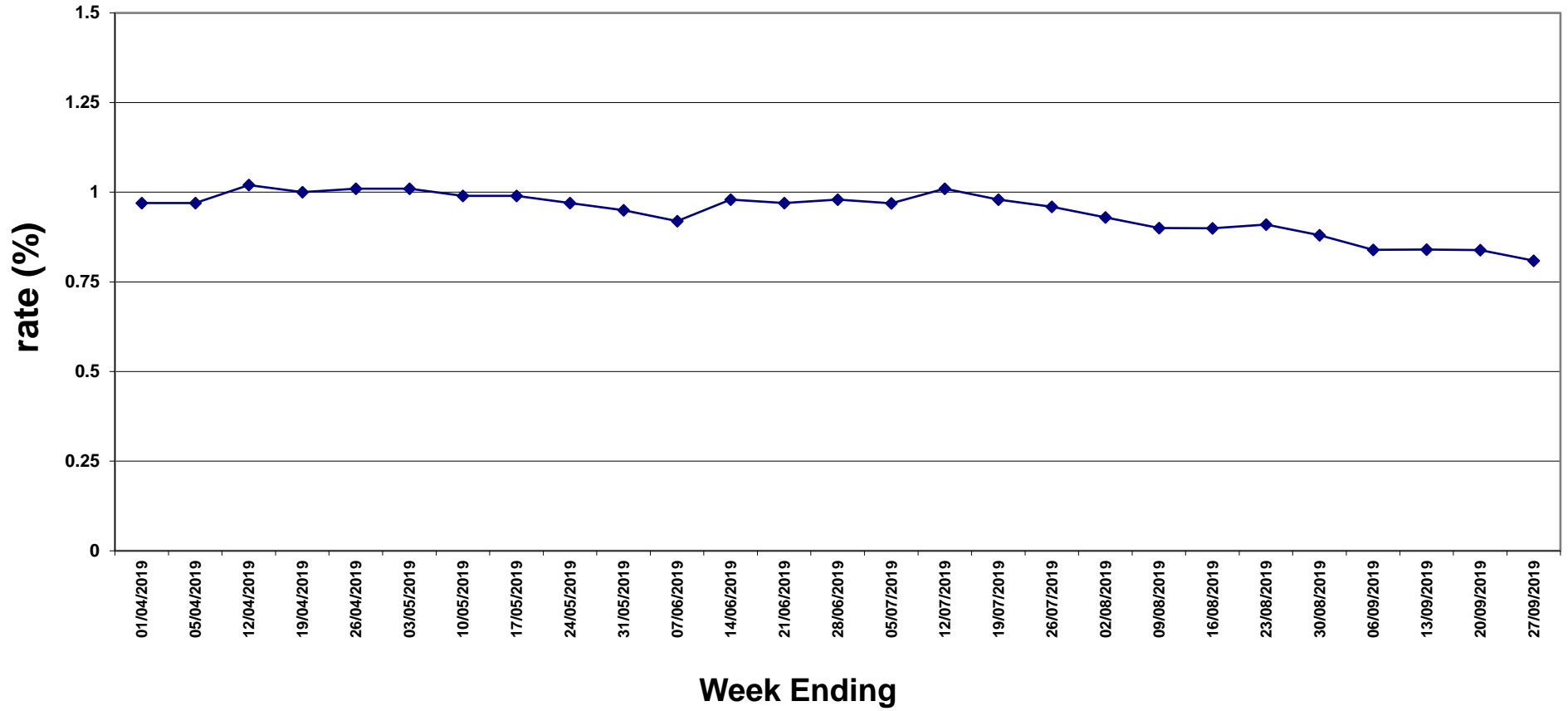


Temporary Deposits Weekly Movement (April 2019 - September 2019)





Temporary Deposit Interest Rate Movements (April 2019 - September 2019)



ORGANISATIONS APPROVED FOR THE INVESTMENT OF SURPLUS FUNDS

| Banking Group | Individual Counterparty | Limits | |
|--|-------------------------------|----------------|----------------|
| | | Deposit | Transaction |
| Bank of England | Debt Management Office | £5m | £5m |
| | UK Treasury Bills | £5m | £5m |
| Barclays Banking Group | Barclays Bank | £5m | £5m |
| Goldman Sachs International Bank | | £5m | £5m |
| HSBC | | £5m | £5m |
| Lloyds Banking Group: | Bank of Scotland | £12.5m | £12.5m |
| Royal Bank of Scotland Group: | Royal Bank of Scotland | £5m | £5m |
| | National Westminster Bank PLC | | |
| Santander Group | Santander UK PLC | £7.5m | £7.5m |
| Standard Chartered Bank | | £5m | £5m |
| Clydesdale Bank | | £0m | £0m |
| Building Societies | | | |
| Nationwide | | £5m | £5m |
| Local Authorities | | | |
| All Local Authorities including Police & Fire | | £5m | £5m |
| Money Market Funds | | | |
| Maximum limit of £5m per fund, with the exception of Federated which has a maximum of £10m | | £40m | £5m |
| Credit Ratings | | | |
| | Fitch | Moody's | S&P |
| | LT ST | LT ST | LT ST |
| Minimum Criteria (Unless Government backed) | A- F1 | A3 P-1/P-2 | A A-1/A-2 |

(please note credit ratings are not the sole method of selecting counterparty)

Limit

Investment of surplus funds is permitted in each of the above organisations, limits can only be exceeded or another organisation approved with the written permission of the Chief Financial Officer.

Deposit Periods

The maximum period for any deposit is based on the LINK Suggested Duration matrix with a maximum of 6 months. The exception to this is deposits with the Bank of Scotland which is set at 365 days. These limits can only be exceeded with the written permission of the Chief Financial Officer.

Hub scheme deposit periods are dependent on the lifetime of the associated scheme.

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