

EAST RENFREWSHIRE COUNCILAUDIT & SCRUTINY COMMITTEE28 September 2017Report by Head of Accountancy (Chief Financial Officer)ANNUAL TREASURY MANAGEMENT REPORT FOR 2016/17**PURPOSE OF REPORT**

1. To advise the Audit & Scrutiny Committee on the Treasury Management activities for the year ending 31 March 2017.

RECOMMENDATION

2. It is recommended that the Committee: -

- a) note the Treasury Management Annual Report for 2016/17; and
- b) recommend to the Council that the attached organisations for investment of surplus funds be approved.

BACKGROUND

3. In line with the CIPFA Code of Practice on Treasury Management 2011, the Audit & Scrutiny Committee is responsible for ensuring effective inspection of treasury management activities and this report is submitted in accordance with this requirement.

SUMMARY

4. Overall the report demonstrates a well-managed treasury function within the Council. The average interest rate on long-term borrowing has decreased slightly over the previous year, reflecting the scheduled maturity of existing borrowing with lower interest rates. The Council continues to adopt a prudent approach to treasury management and in particular the percentage of variable rate loans at 10.33% is well below the Council's approved upper limit of 30%. The resulting stability in borrowing assists the Council in responding to the current national economic pressures.

RECOMMENDATION

5. It is recommended that the Committee: -

- a) note the Treasury Management Annual Report for 2016/17; and
- b) recommend to the Council that the attached organisations for investment of surplus funds be approved.

REPORT AUTHOR

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

KEY WORDS

Treasury, borrowing , investments

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Head of Accountancy (Chief Financial Officer)
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ANNUAL TREASURY MANAGEMENT REPORT 2016/17

1. Actual External Debt

	Borrowing 01/04/16 £M	Average Interest %	Borrowing 31/03/17 £M	Average Interest %	Change in year £M
<u>Long Term Borrowing</u>					
Public Works Loan Board	46.08	6.54	49.02	5.95	2.94
Local Authority Bonds	14.40	4.60	14.40	4.60	-
PFI / PPP Finance Leases	78.86	7.24	75.95	7.24	-2.91
SALIX Energy Efficiency Loan	0.12	-	0.09	-	-0.03
Total Long Term	139.46	6.73	139.46	6.51	0
<u>Short Term Investments</u>					
Temporary Investments	-44.83	0.60	-42.70	0.42	2.13

NOTES

- (i) For purposes of this report long-term borrowing means loans taken on a long-term basis. This differs from the Annual Accounts, which have to categorise long-term loans with less than a year until repayment as short-term loans. Loans above totalling £1.76 million come into this category.
- (ii) The average interest rate on long-term borrowing has decreased by 0.22%.
- (iii) During the year additional borrowing of £5 million was made with the Public Works Loan Board and loans totalling £2.06 million matured.
- (iv) The Council's net external borrowing position has increased in total by £2.13 million during the year.
- (v) The Council's activity in the temporary investments market is shown along with the corresponding interest rate movements in Appendices 2 - 5. All sums invested were for periods of less than 1 year. In response to difficulties in the financial markets and as part of a risk managed process designed to protect the principal of the sums invested, during the course of the year the maximum period of investment was restricted to 6 months, with the exception of those investments with the Bank of Scotland which were set at 364 days.
- (vi) At 31 March 2017, the Council had 10.33% of its total debt outstanding in variable rate loans. 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 debt outstanding.

2. PWLB

The primary source of medium/long term borrowing is from the UK Government through the Public Works Loan Board (PWLB). The PWLB provides loans to local authorities at rates, which are in general more attractive than loans available from other sources.

3. DEBT MATURITY PROFILE

The Council's debt maturity profile at 31 March 2017 is shown both below and in Graph format at Appendix 6.

It was a requirement of the Council's Treasury Policy Statement that the maximum amount of long-term debt maturing in any one year should be no more than 15% of the Council's long-term debt outstanding.

The Council's debt Maturity Profile as at 31 March 2017 was within the agreed limits.

Long Term Debt Maturity Profile as at 31 March 2017

	PWLB	Local Authority Bond	SALIX	Total	
	£M	£M	£M	£M	%
17/18	1.73		0.03	1.76	2.77
18/19	2.58		0.02	2.60	4.09
19/20	2.13		0.02	2.15	3.39
20/21	0.54		0.01	0.55	0.87
21/22	0.36		0.01	0.37	0.58
22/23	0.82		0.00	0.82	1.29
23/24	0.36		0.00	0.36	0.57
24/25	0.01		0.00	0.01	0.01
25/26	0.01		0.00	0.01	0.01
26/27	0.01		0.00	0.01	0.01
After 2026/27	40.47	14.40	-	54.87	86.41
Total	49.02	14.40	0.09	63.51	100.00

4. PRUDENTIAL INDICATORS

In line with the agreed monitoring arrangements for the Prudential Indicators, listed below there is a table showing all the prudential indicators comparing the approved indicator, as reported to the Council on 9 March 2016 along with the actual figures recorded at 31 March 2017, demonstrating that the Council is operating well within the limits set.

Prudential Indicator	Approved indicator	Actual	COMMENT
1. Capital Expenditure	£52,558,000	£38,417,000	Movement is due to revised planning of capital projects to future years, resulting in a commensurate movement of capital expenditure.

2. Ratio of Financing Costs to net Revenue Stream	General 8.4% HRA 39.2%	General 8.3% HRA 37.1%	Resulting from minor variances in both loan charges and net revenue streams.
3. Incremental Impact on Council Tax	Nil	Nil	Council tax, set at the start of the year, includes the cost of capital investment.
4. Incremental Impacts on Rents	£1.74	£1.74	Rents, set at the start of the year, includes the cost of capital investment.
5. Capital Financing Requirement	£193,687,000	£179,181,000	Movement is due to a reduction in net capital expenditure and a planned remodelling of the loans fund charged to the current year .
6. Operational Boundary for External Debt	£194,710,000	£139,458,000	Movement is due mainly to the anticipated in year borrowing of £50m from PWLB not being undertaken, and existing debt of £2.1m being repaid.
7. Authorised Limit For External Debt	£212,050,000	£139,458,000	Approved indicator included an allowance of £55m for new debt and a further allowance to cover any unusual temporary movements, only £5m was required during the year. In addition existing debt of £2.1m was repaid
8. Gross Debt	£189,709,000	£139,458,000	Movement is mainly due to the anticipated in year borrowing of £50m from the PWLB not being undertaken.
9. 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.	

5. APPROVED ORGANISATIONS FOR INVESTMENT

In line with normal practice the status of all Banks and Building Societies has been reviewed in order to amend the current list of approved organisations for investment (see appendix 7). All lending is in line with the permitted methods of investment which were approved by Council on 9th March 2016 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, CAPITA. These measures have been taken as 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.

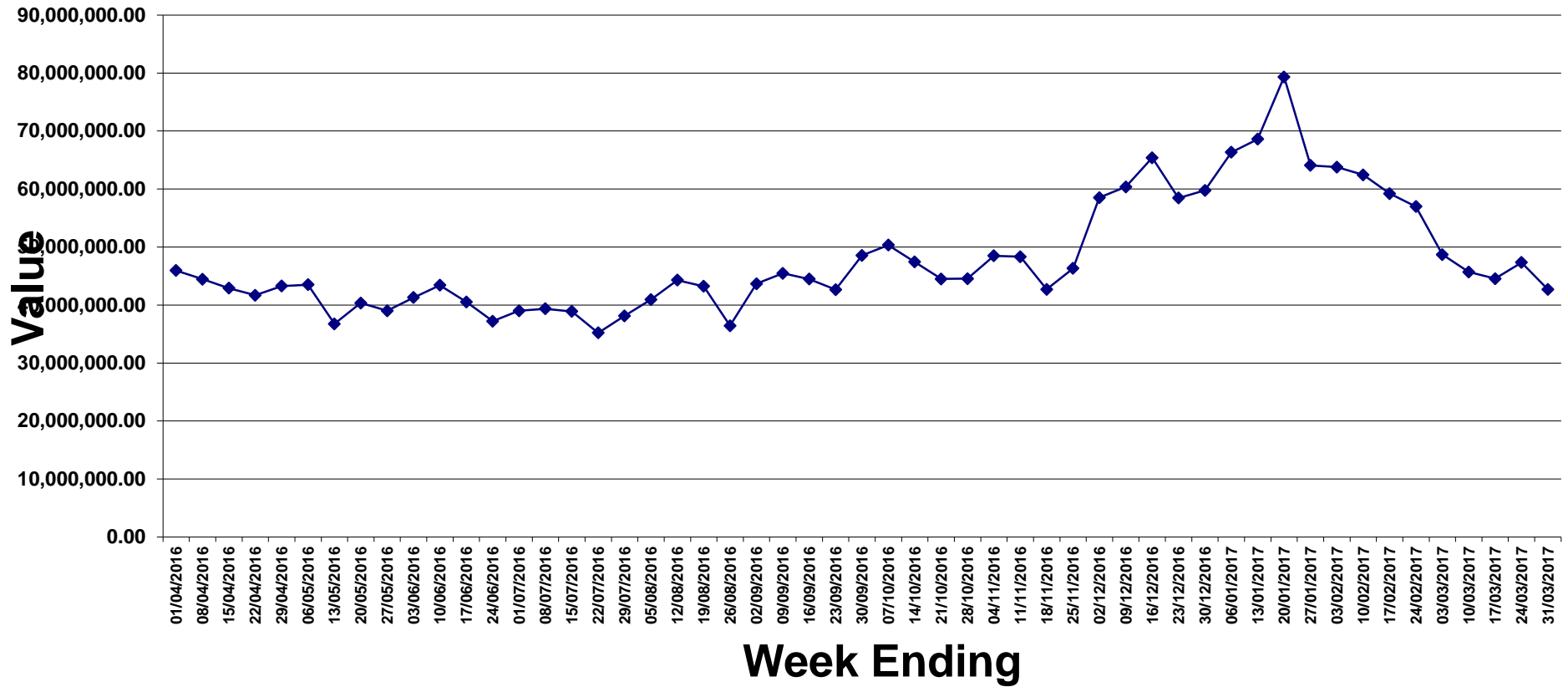
6. TREASURY MANAGEMENT RISK

Within the Operational Risk Register for Accountancy Services there is a risk listed that highlights the difficulty in obtaining sufficient institutions, that meet the Council's criteria, to invest surplus funds with. To minimise this risk the Council has seven Money Market Funds which provide highly diversified investments.

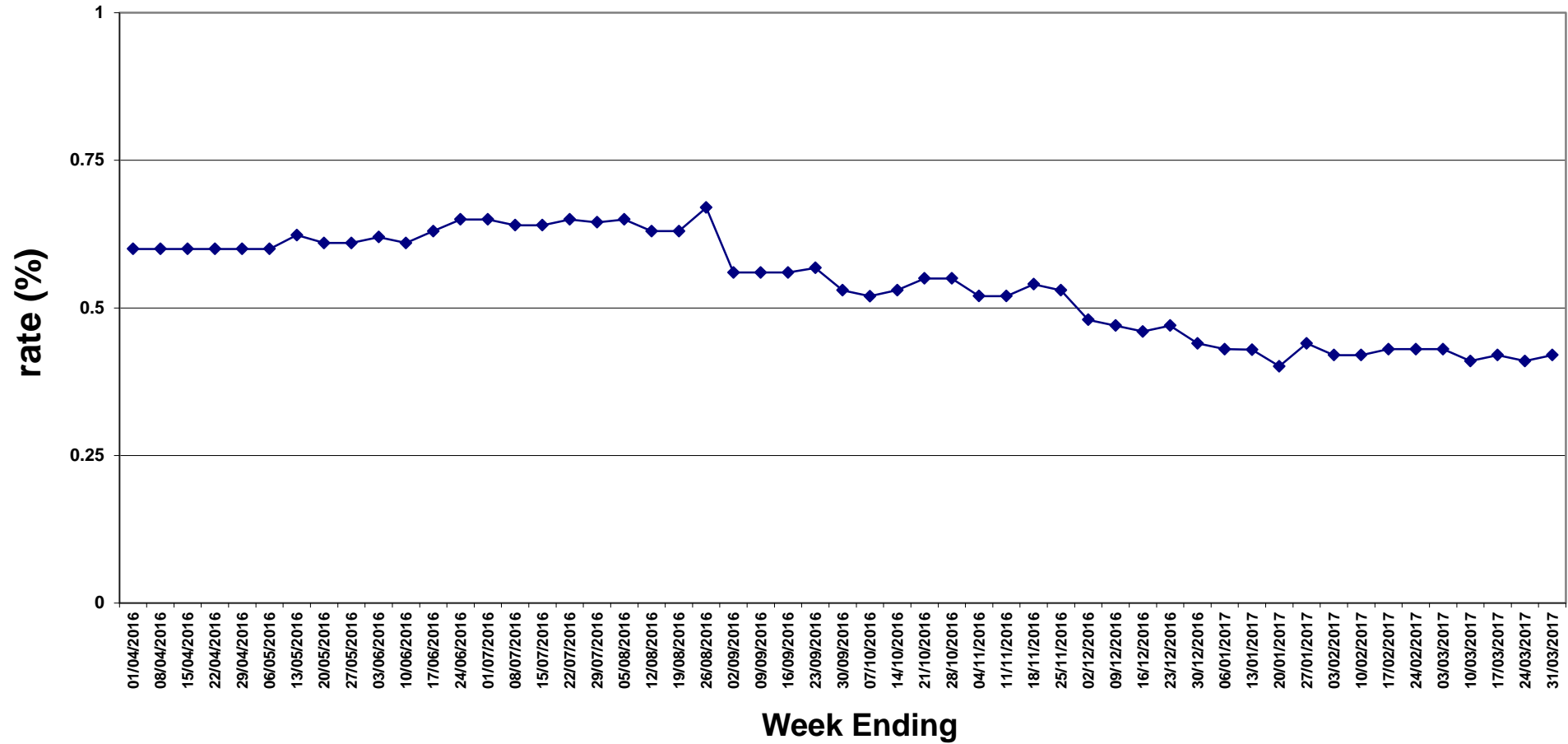
7. SCRUTINY

In line with the recommendations made by external audit, in their National Report on Borrowing and Treasury Management in Councils presented to the Audit & Scrutiny Committee on 4th June 2015, it was approved that all treasury reports throughout the year would be presented to the Audit & Scrutiny Committee for inspection before being reported to full Council for approval.

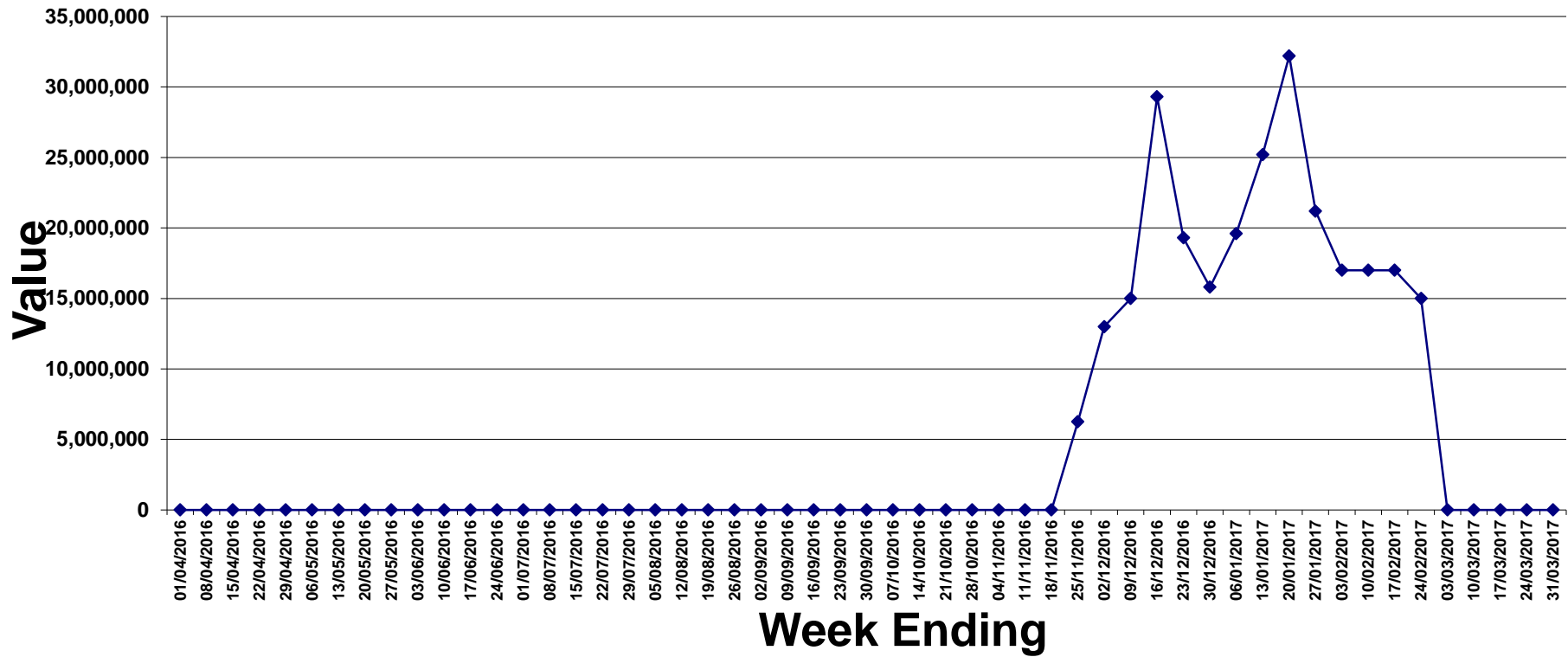
Temporary Deposits Weekly Movement (April 2016 - March 2017)



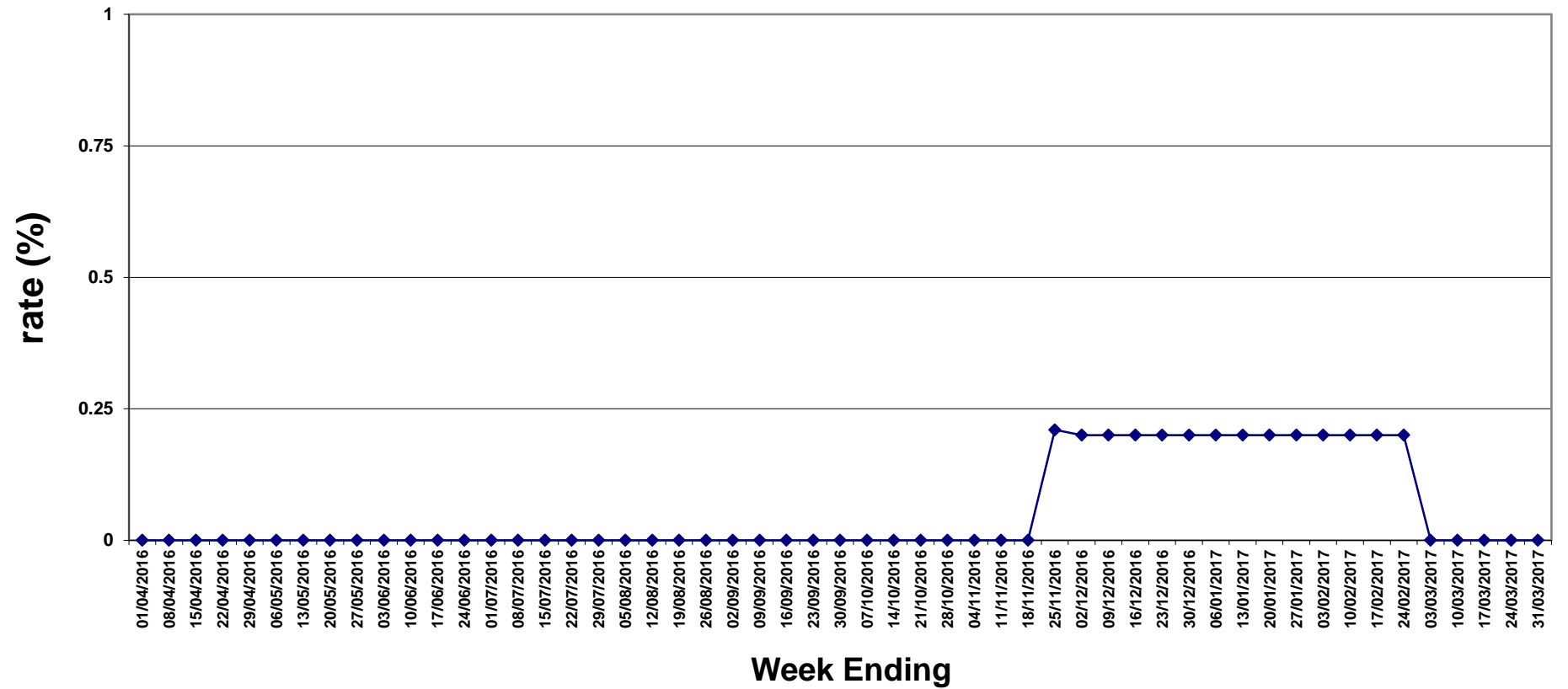
Temporary Deposit Interest Rate Movements (April 2016 - March 2017)



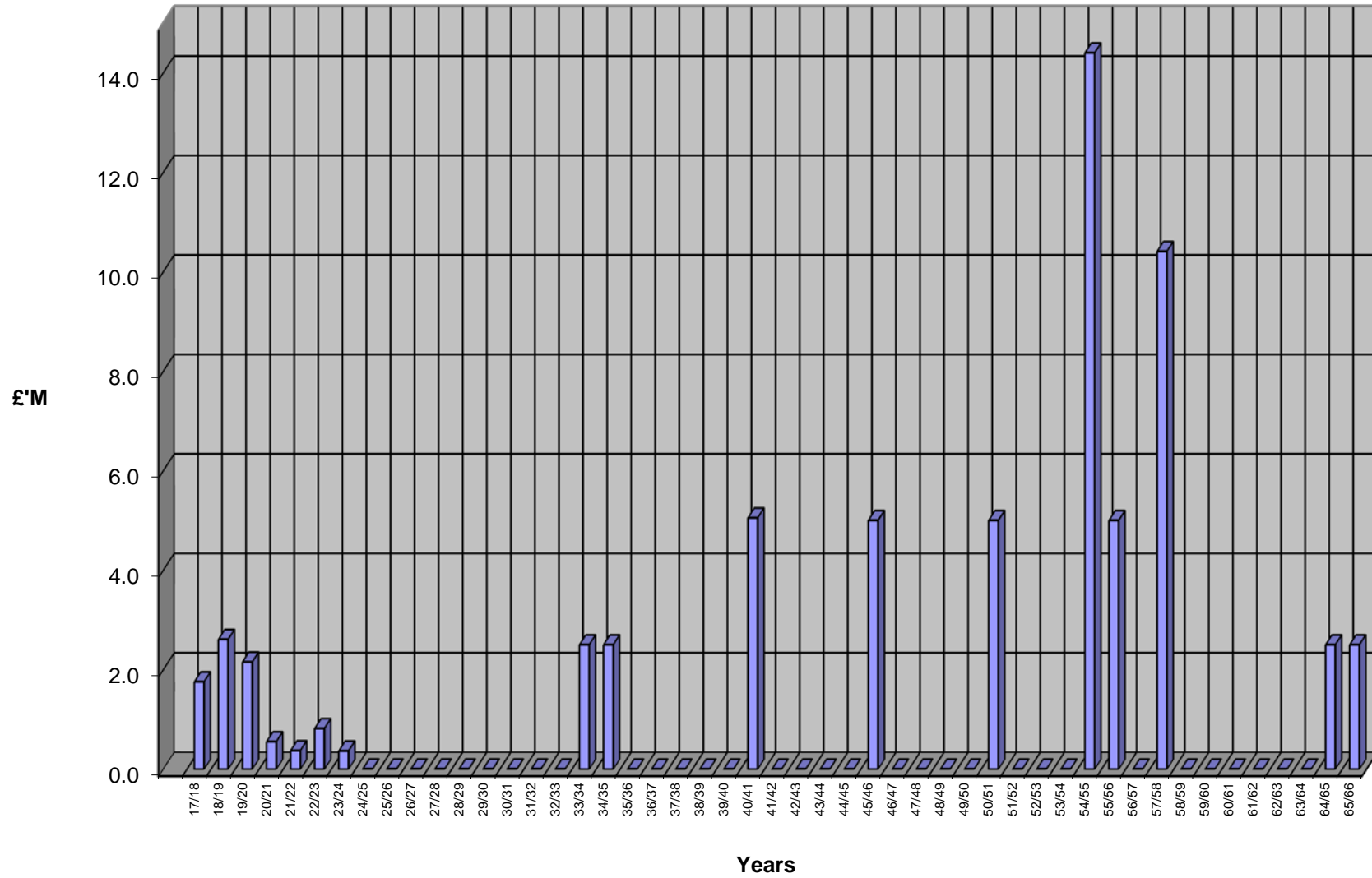
Temporary Borrowing Weekly Movement (April 2016 - March 2017)



Temporary Borrowing Interest Rate Movements (April 2016 - March 2017)



Long Term Debt Maturity Profile as at 31/03/17



EAST RENFREWSHIRE COUNCIL

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
Goldman Sachs International Bank		£5m	£5m
Lloyds Banking Group:	Bank of Scotland	£10m	£10m
Royal Bank of Scotland Group:	Royal Bank of Scotland	£5m	£5m
Barclays Banking Group	Barclays Bank	£5m	£5m
Standard Chartered Bank		£5m	£5m
Santander Group	Santander UK PLC	£5m	£5m
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 limit of £10m		£35m	£5m
Credit Ratings			
	Fitch	Moodys	S&P
	LT ST	LT ST	LT ST
Minimum Criteria (unless Government backed) (please note credit ratings are not the sole method of selecting counterparty)	A- F1	A3 P-1/P-2	A A-1/A-2

Limit

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

Deposit Periods

The maximum period for any deposit is based on the CAPITA Suggested Duration matrix with a maximum of 6 months. The exception to this is deposits with the Bank of Scotland which is set at 364 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.