

EAST RENFREWSHIRE COUNCILAUDIT & SCRUTINY COMMITTEE9 November 2017Report by Head of Accountancy (Chief Financial Officer)INTERIM TREASURY MANAGEMENT REPORT FOR 2017/18**PURPOSE OF REPORT**

1. To advise the Audit and Scrutiny Committee on the treasury management activities for the first 6 months of 2017/18.

RECOMMENDATIONS

2. It is recommended that Members:-
- a) Note the interim Treasury Management Report 2017/18; and
 - b) Recommend to the Council that the attached organisations for investment of surplus funds be approved (see Appendix II).

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 2011, 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 2017/18 is submitted in accordance with these requirements.

TREASURY MANAGEMENT ACTIVITIES IN 2017/18

6. The interim report for period 1 April 2017 to 30 September 2017 is attached as Appendix I.

RECOMMENDATIONS

7. It is recommended that Members:-
- a) Note the interim Treasury Management Report 2017/18; and
 - b) Recommend to the Council that the attached organisations for investment of surplus funds be approved (see appendix II).

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 2017/18**

Table 1

1. Actual External Debt

	Borrowing 01/04/17 £m	Average Interest %	Borrowing 30/09/17 £m	Average Interest %	Change in Year £m
<u>Long Term Borrowing</u>					
Public Works Loan Board	49.02	5.95	62.75	4.96	13.73
LOBO (Lender Option Borrower Option)	14.40	4.60	14.40	4.60	0.00
PFI / PPP Finance Lease	75.95	7.24	74.46	7.24	-1.49
SALIX Energy Efficiency Loan	0.09	0.00	0.08	0.00	-0.01
Total borrowing	139.46	6.51	151.69	6.04	12.23
<u>Short Term Lending</u>					
Temporary Investments	-42.70	0.42	-50.31	0.33	-7.61

2. The Council borrowed £15 million additional funds from the Public Works Loan Board during this period to support the Council's capital investment plans. Repayments amounting to £1.27 million have been made to them.

3. The opening cash surplus of £ 42.70 million has increased to £50.31 million due to both revenue and capital cash flows.

4. At 30 September 2017 the Council had 18.64% of its total borrowing outstanding in variable rate loans. During the period 01/04/17 to 30/09/17 the total borrowing outstanding in variable rate loans peaked at 22.97%. 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 9 February 2017 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	£66,461,000	£64,461,000	Projected Capital Expenditure is slightly less than planned expenditure.
2. Ratio of Financing Costs to net Revenue Stream	General 9.4% HRA 38.2%	Not available until the year end	
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	£0.1	£0.1	Rents, set at the start of the year includes the cost of capital investment.
5. Capital Financing Requirement	£215,121,000	£199,099,000	Overall CFR is lower than the approved position due to reduced capital expenditure in prior year from planned, resulting in a lower opening balance. In addition there is an anticipated reduction in borrowing in the current year due to unused reserve balances in 2016/17 being utilised.
6. Operational Boundary for External Debt	£207,270,000	£202,048,000	Movement is due to the projected in year debt repayments of 5.2m being made.
7. Authorised Limit For External Debt	£223,547,000	£202,048,000	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 debt repayments of £5.2m.

8. Gross Debt	£202,048,000	£202,048,000	There is no movement in year as there is no reduction in planned borrowing anticipated.
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.	

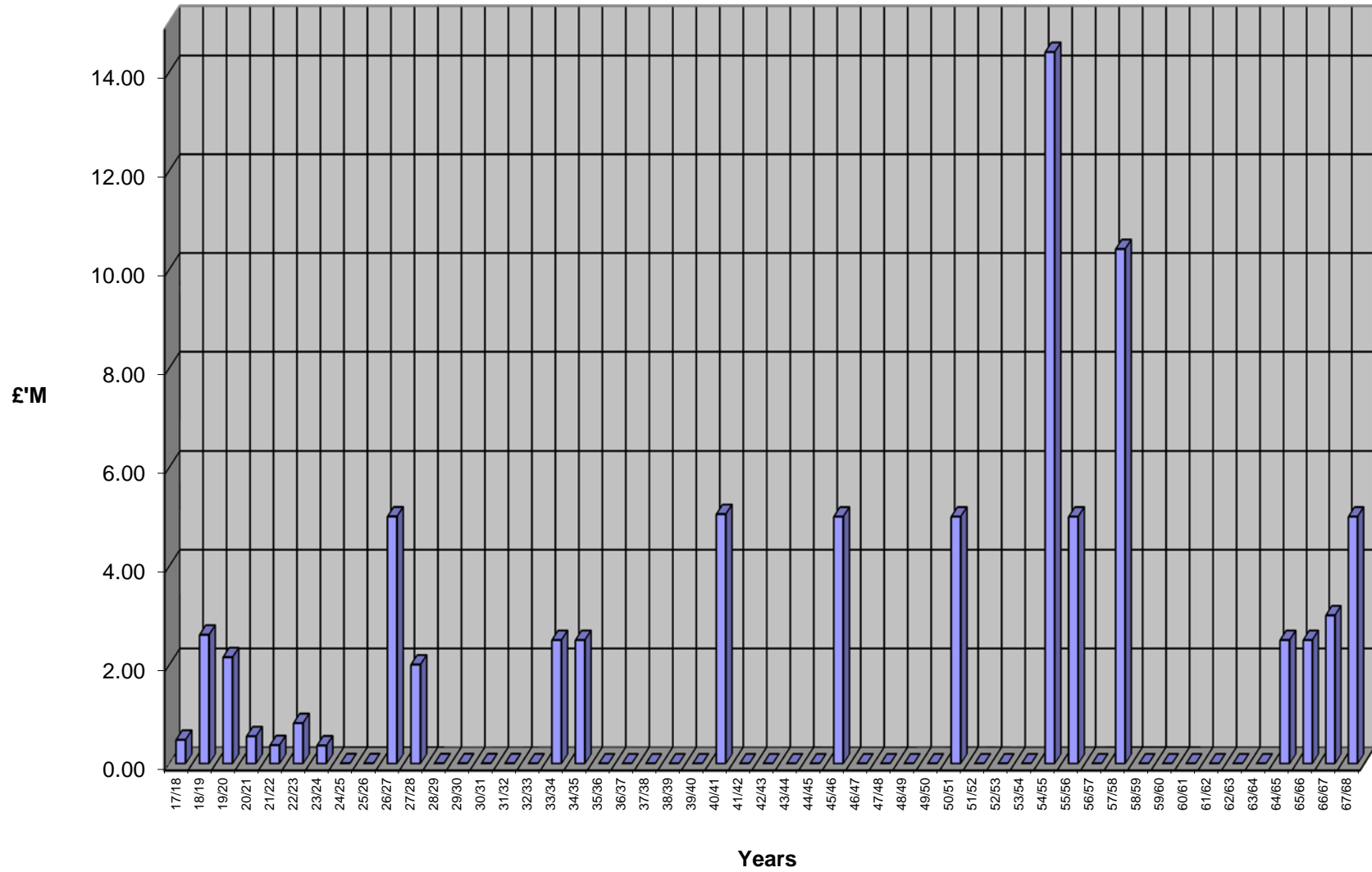
7. Approved Organisations for Investment

In line with normal practice the status of all Banks & Building Societies approved on the 28 September 2017 has been reviewed and no changes have been made to the current list of organisations for investment (see Appendix II). All lending is in line with the permitted methods of investment which were approved by Council on 9th February 2017 as part of the Treasury Management Strategy report.

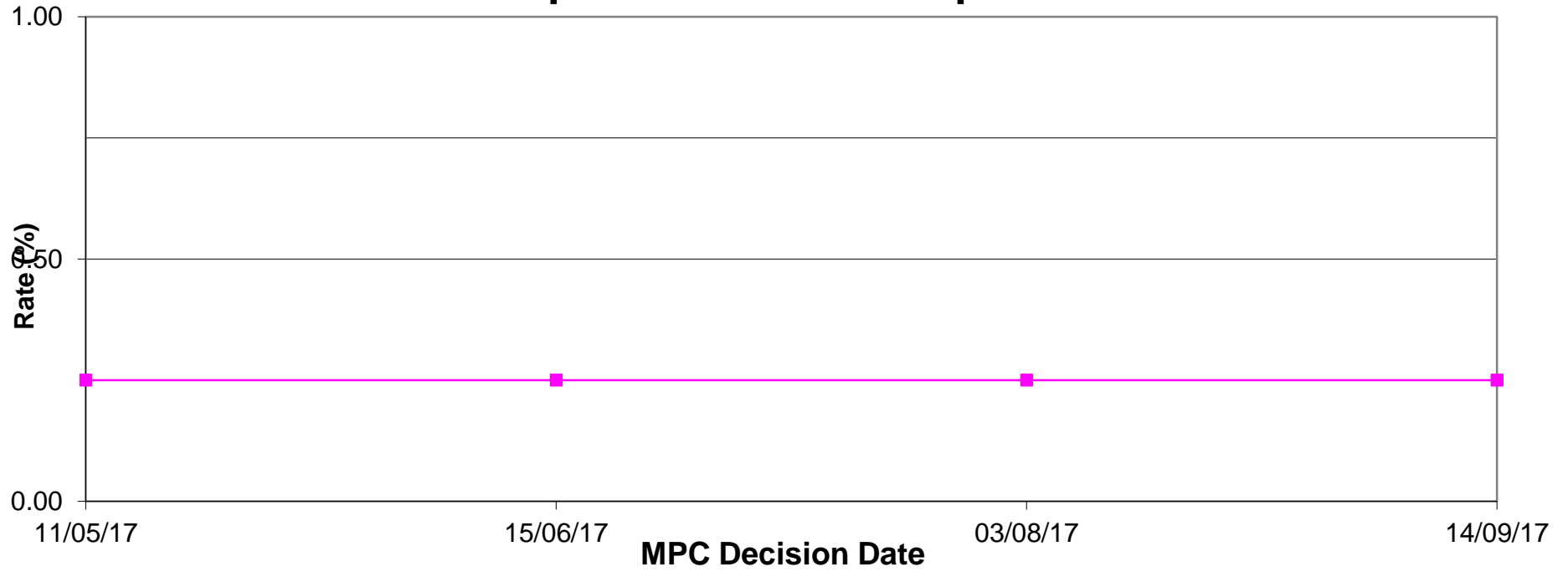
As a result of the banking crisis and in line with prudent financial management, investment has been restricted to UK organisations with high credit ratings. Also, the maximum period of investment was restricted to 6 months, with the exception of loans to the Bank of Scotland, in line with advice from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

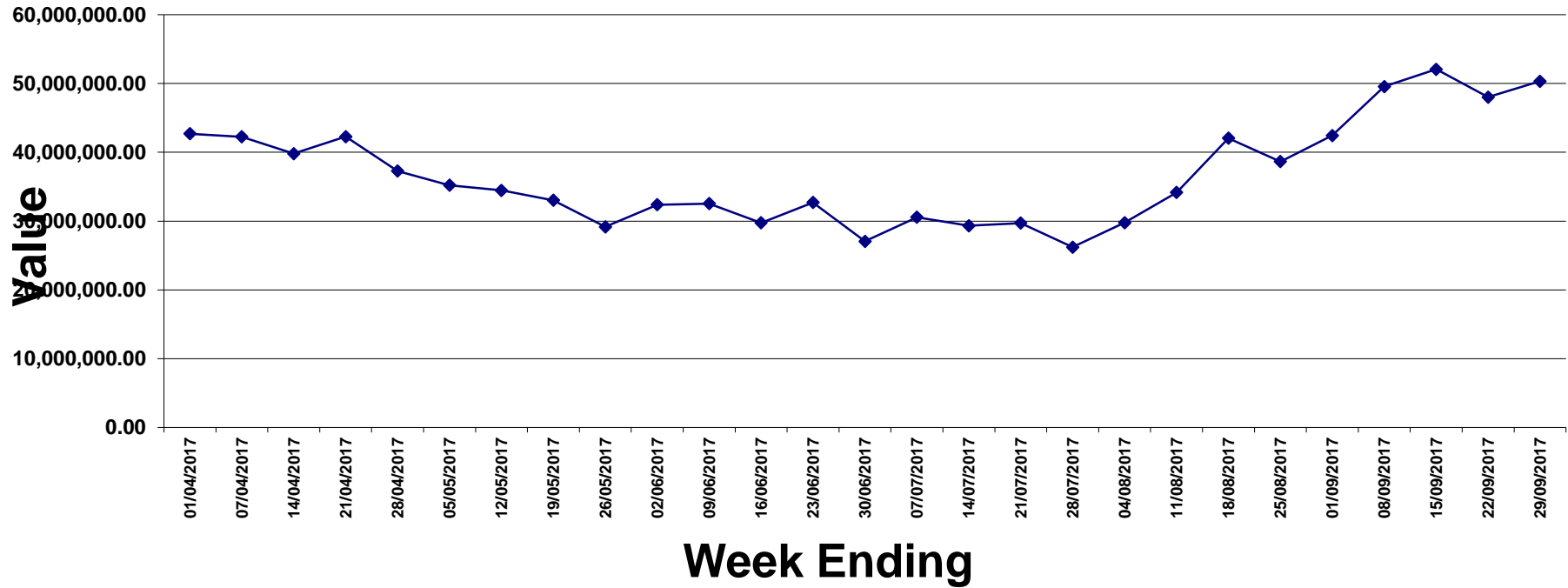
Long Term Debt Maturity Profile as at 30/09/17



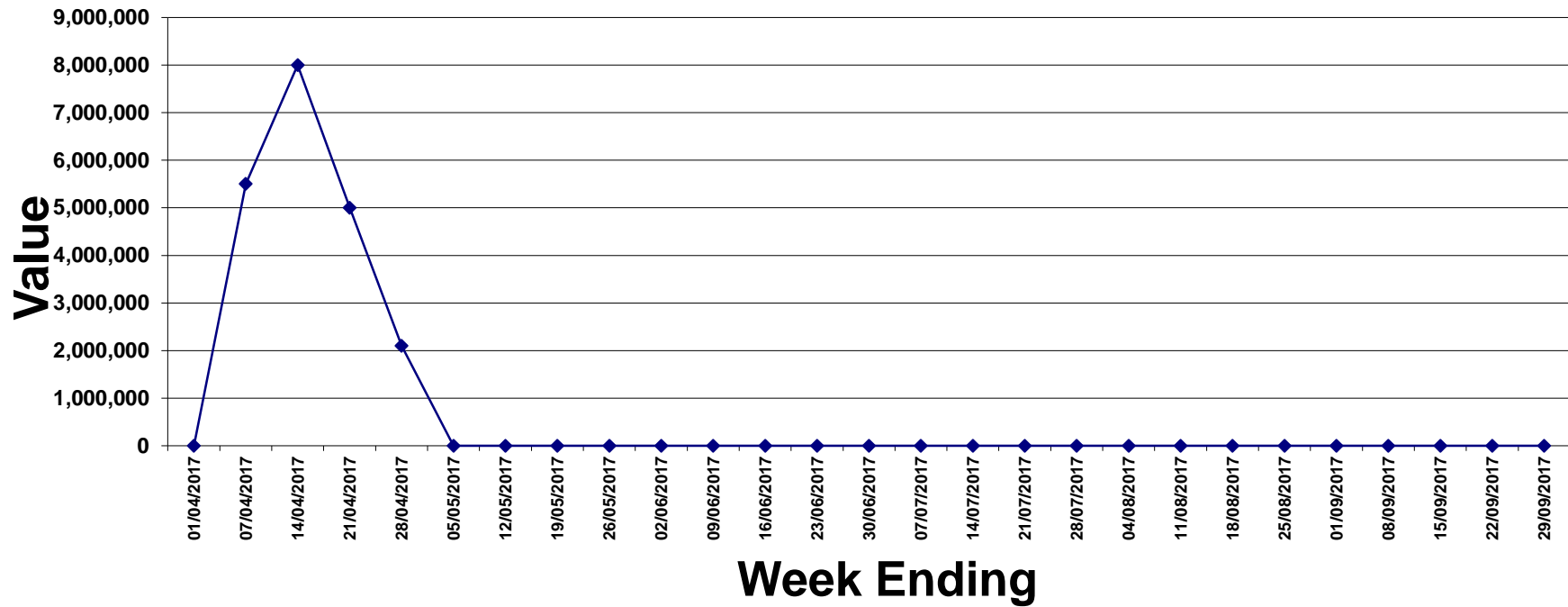
**Bank of England
Base Rate Movements
1st April 2017 to 30th September 2017**



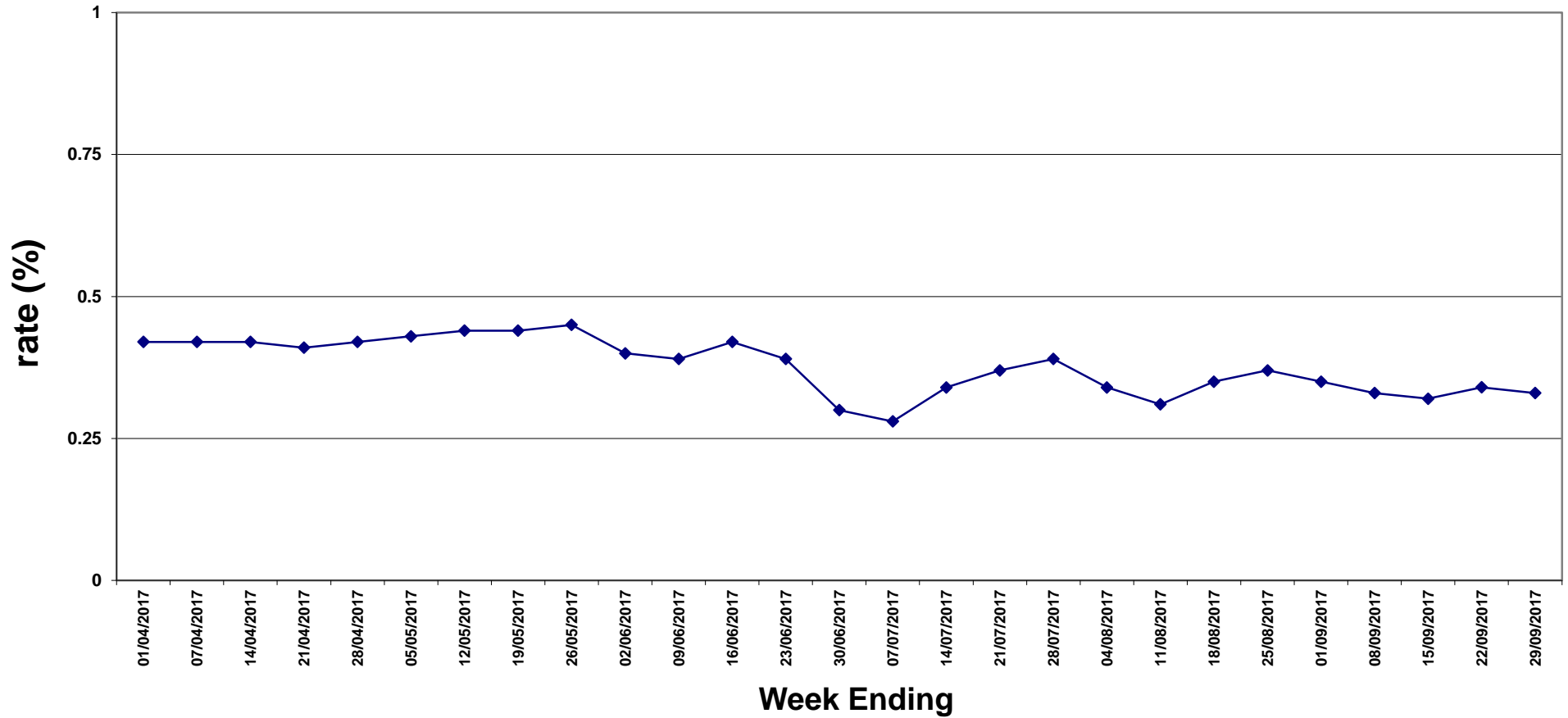
Temporary Deposits Weekly Movement (April 2017 - September 2017)



Temporary Borrowing Weekly Movement (April 2017 - September 2017)



Temporary Deposit Interest Rate Movements (April 2017 - September 2017)



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
Lloyds Banking Group:	Bank of Scotland	£10m	£10m
Royal Bank of Scotland Group:	Royal Bank of Scotland	£5m	£5m
Santander Group	Santander UK PLC	£5m	£5m
Standard Chartered Bank		£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, exception being Federated with a maximum of £10m		£35m	£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 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.

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