

EAST RENFREWSHIRE COUNCIL

AUDIT & SCRUTINY COMMITTEE

12 November 2015

Report by Chief Executive

INTERIM TREASURY MANAGEMENT REPORT FOR 2015/16

**PURPOSE OF REPORT**

1. To advise the Audit and Scrutiny Committee on the treasury management activities for the first 6 months of 2015/16.

**RECOMMENDATIONS**

2. It is recommended that Members:-
- a) Note the interim Treasury Management Report 2015/16; 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 2015/16 is submitted in accordance with these requirements.

**TREASURY MANAGEMENT ACTIVITIES IN 2015/16**

6. The interim report for period 1 April 2015 to 30 September 2015 is attached as Appendix I.

**RECOMMENDATIONS**

7. It is recommended that Members:-
- a) Note the interim Treasury Management Report 2015/16; and
  - b) Recommend to the Council that the attached organisations for investment of surplus funds be approved (see appendix II).

## Report Author

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Report Date - 26 October 2015

## Key Words

Treasury Management, Interest Rates, Prudential Indicators, investment.

**EAST RENFREWSHIRE****INTERIM TREASURY MANAGEMENT REPORT 2015/16**

Table 1

**1. Actual External Debt**

	<b>Borrowing 01/04/15 £m</b>	<b>Average Interest %</b>	<b>Borrowing 30/09/15 £m</b>	<b>Average Interest %</b>	<b>Change in Year £m</b>
<u>Long Term Borrowing</u>					
Public Works Loan Board	53.54	6.48	50.55	6.48	-2.99
LOBO (Lender Option Borrower Option)	14.40	4.60	14.40	4.60	0.00
PFI / PPP Finance Lease	81.66	7.24	80.19	7.24	-1.47
SALIX Energy Efficiency Loan	0.14	0.00	0.13	0.00	-0.01
<b>Total borrowing</b>	<b>149.74</b>	<b>6.71</b>	<b>145.27</b>	<b>6.71</b>	<b>-4.47</b>
<u>Short Term Lending</u>					
Temporary Investments	-28.30	0.65	-42.19	0.58	-13.89

2. The Council has not borrowed any additional funds from the Public Works Loan Board during this period. Repayments amounting to £2.99 million have been made to them.

3. The opening cash surplus of £ 28.30 million has increased to £42.19 million due to both revenue and capital cash flows.

4. At 30 September 2015 the Council had 22.13% of its total borrowing outstanding in variable rate loans. During the period 01/04/15 to 30/09/15 the total borrowing outstanding in variable rate loans peaked at 22.13%. 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 12 February 2015 along with the projected outturn figures for the year end, demonstrating that the Council is operating well within the limits set.

<b>Prudential Indicator</b>	<b>Approved indicator</b>	<b>Projected Outturn for the year end</b>	<b>COMMENT</b>
1. Capital Expenditure	£31,640,000	£35,210,000	Movement is due to the revised planning of capital projects from the previous year, resulting in an anticipated commensurate movement of capital expenditure.
2. Ratio of Financing Costs to net Revenue Stream	General 9.0% HRA 38.1%	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	£2.12	£2.12	Rents, set at the start of the year includes the cost of capital investment.
5. Capital Financing Requirement	£182,167,000	£182,315,000	Movement is due to an anticipated increase in net capital expenditure between the current and previous year i.e. slippage in the 2014/15 programme occurred after the 2015/16 Performance Indicators were set.
6. Operational Boundary for External Debt	£179,747,000	£139,457,000	Movement is due to the anticipated in year borrowing of £30m from PWLB not being undertaken due to sufficient internal balances, and projected debt repayments of 10.29m being repaid.
7. Authorised Limit For External Debt	£194,459,000	£139,457,000	Approved indicator included an allowance of £30m for new debt and a further allowance to cover any unusual temporary movements, it is anticipated that neither will be required during the year. The projected outturn figure includes the projected debt repayments of £10.29m.

8. Gross Debt	£169,459,000	£139,457,000	Movement is due to the anticipated in year borrowing of £30m not being undertaken due to sufficient internal balances.
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.	

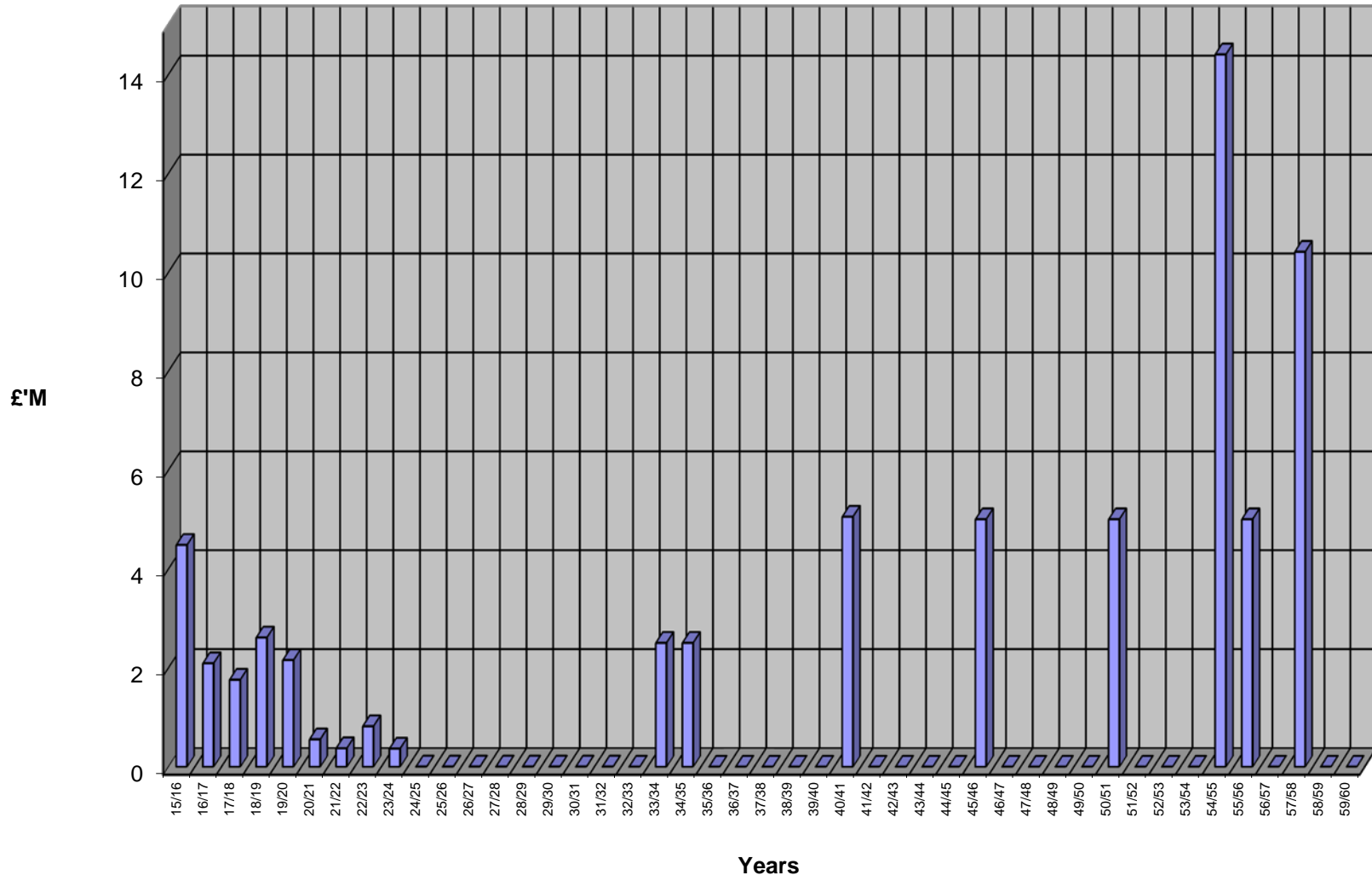
## 7. Approved Organisations for Investment

In line with normal practice the status of all Banks & Building Societies approved on the 24 September 2015 has been reviewed and no changes have been made to the current list of organisations for investment (see Appendix II). Lending is in the form of short term Sterling Deposits and Long Term investments (investment in HUB schemes), no other method of investment is currently being used although further approved techniques are currently being investigated in order to spread the risk in this area. All permitted methods of investment were approved by Council on 12<sup>th</sup> February 2015 as part of the Treasury Management Strategy Report.

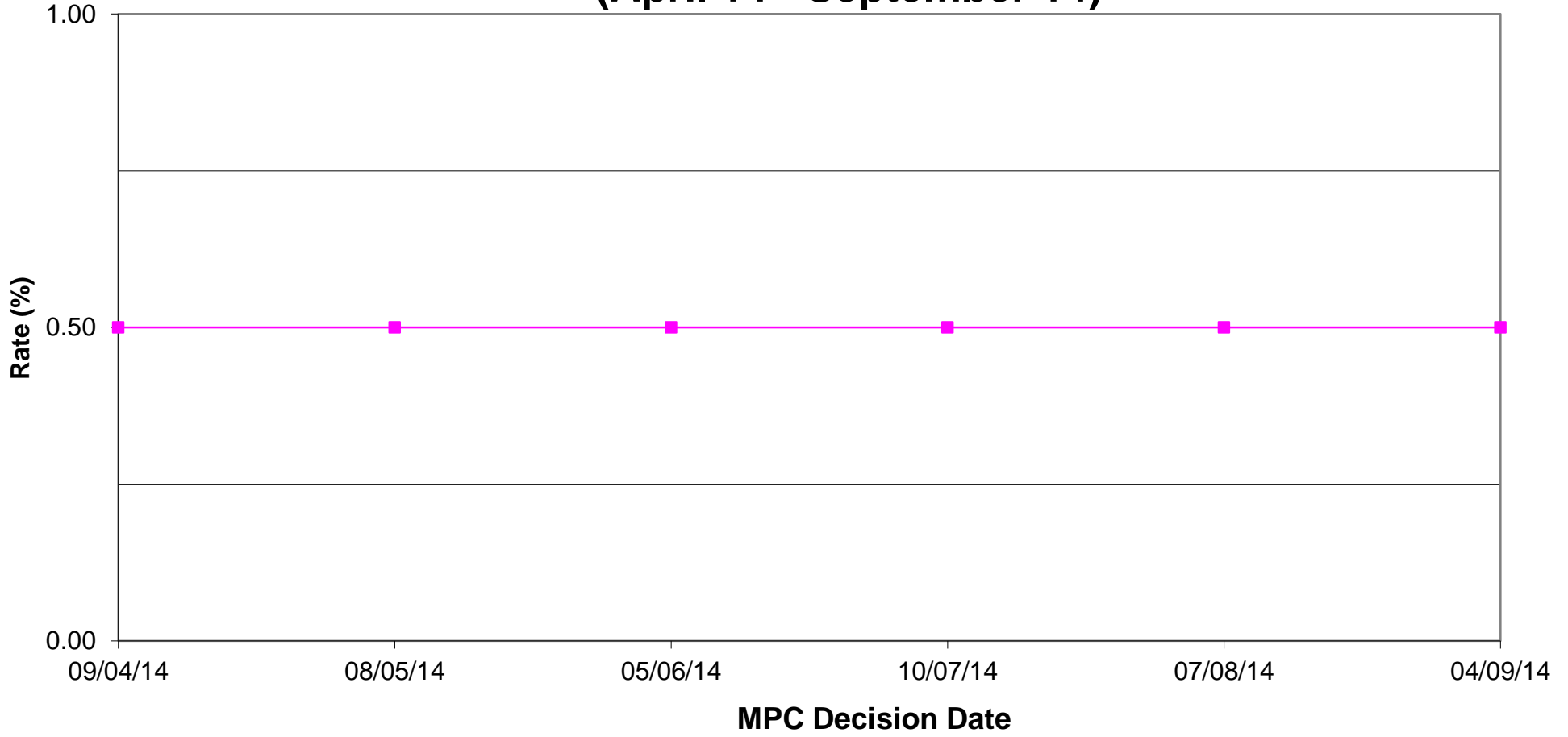
As a result of the banking crisis and in line with prudent financial management, investment has been restricted to UK organisations with high credit ratings. Also, the maximum period of investment is set at 364 days for the Bank of Scotland and 3 months for all other bodies. These measures have been 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.

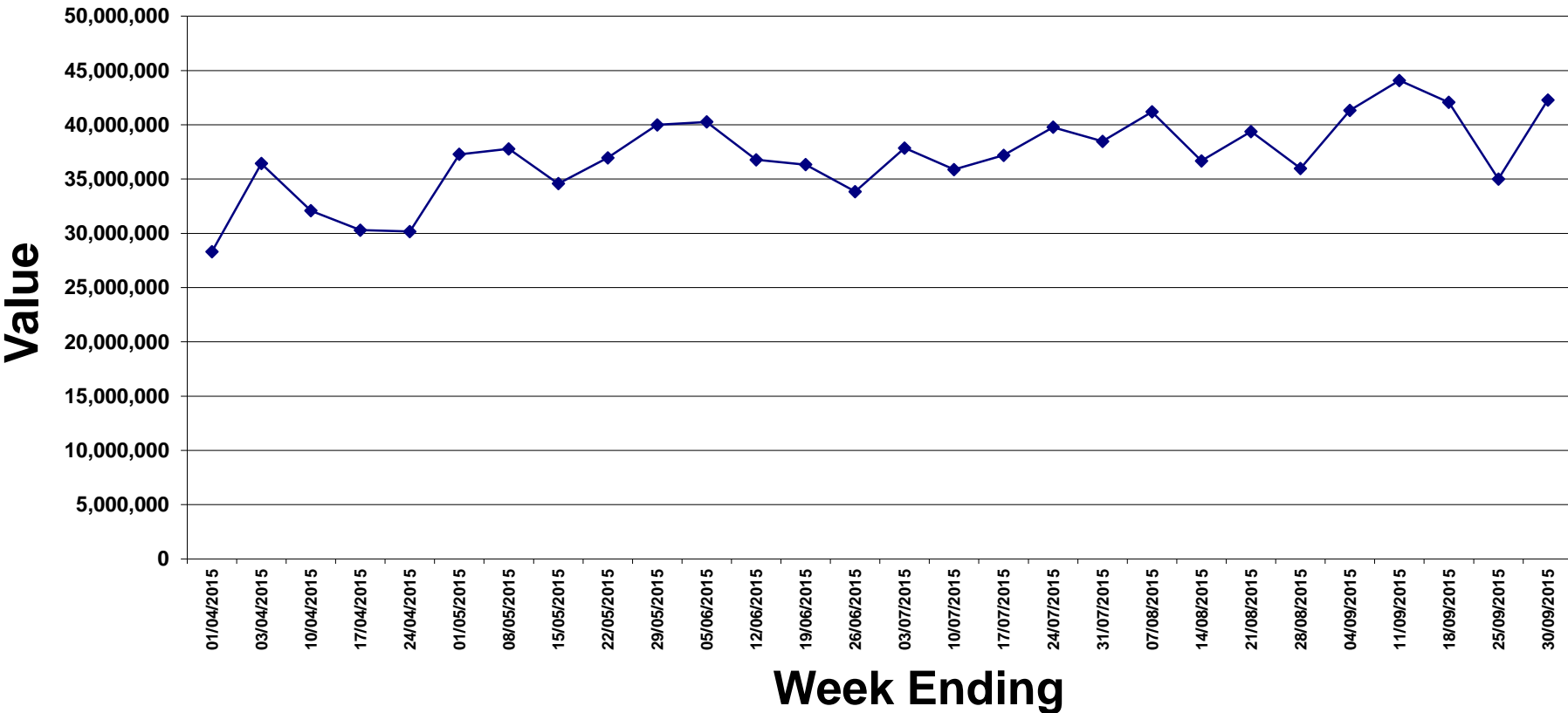
### Long Term Debt Maturity Profile as at 30/09/15



### Bank of England Base Rate Movements (April 14 - September 14)

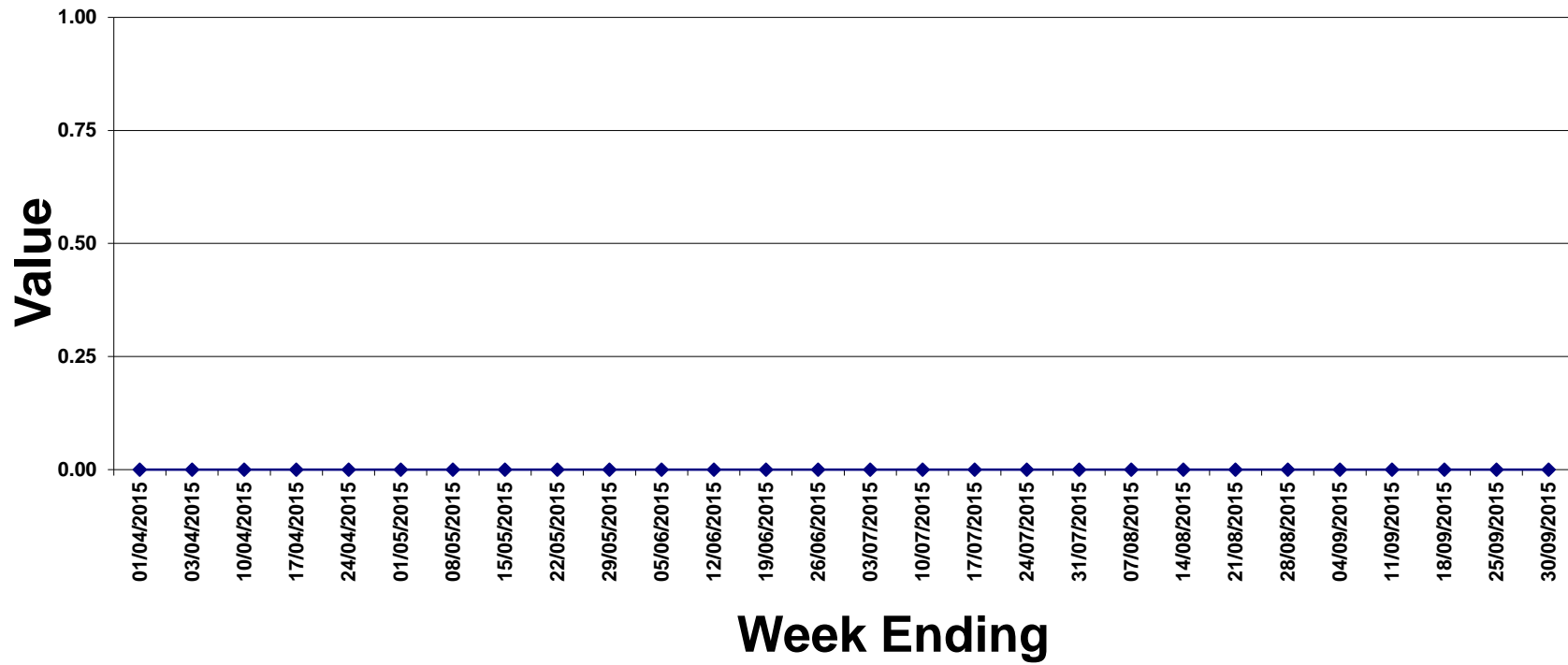


### Temporary Deposits Weekly Movement (April 2015 - September 2015)

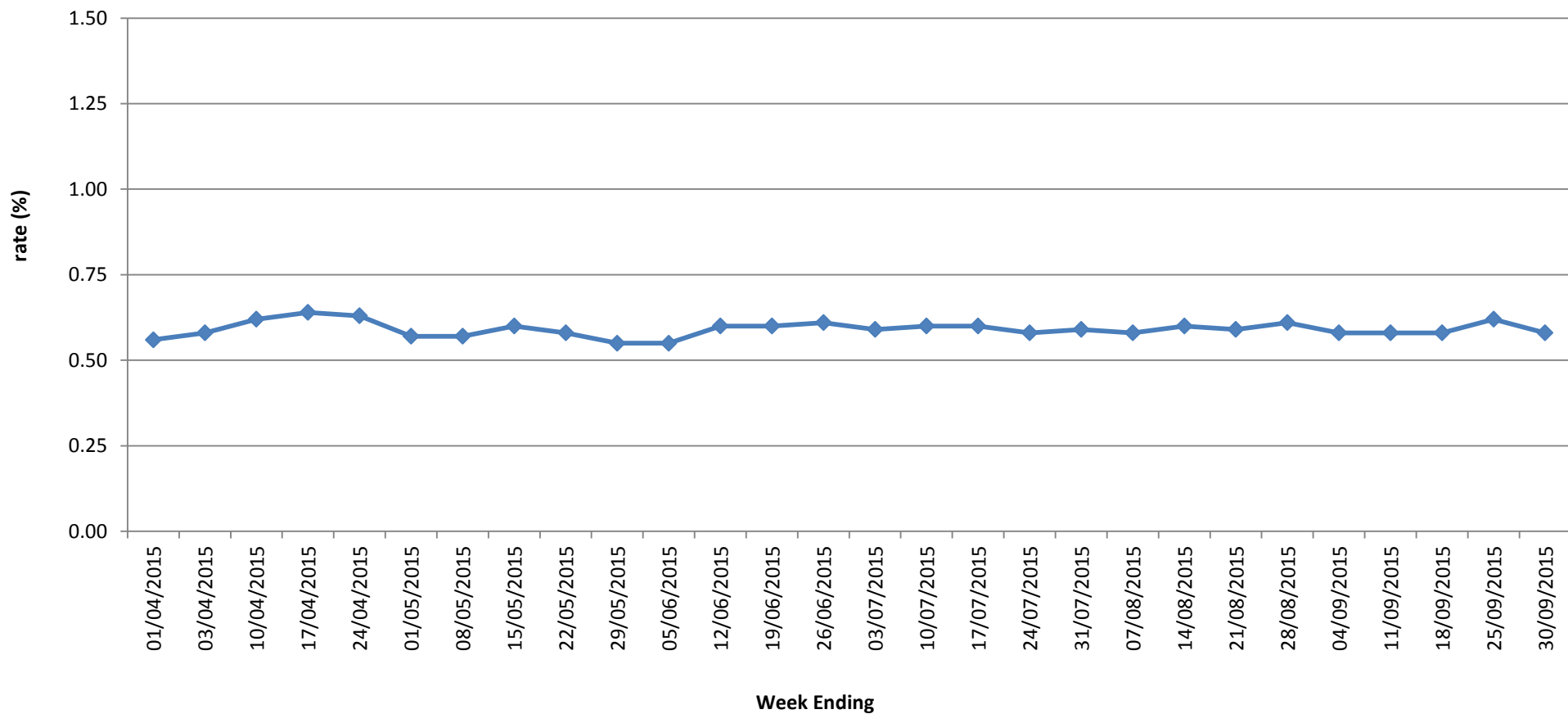




### Temporary Borrowing Weekly Movement (April 2015 - September 2015)



### Temporary Deposits Interest Rate Movements (April 2015 - September 2015)



## ORGANISATIONS APPROVED FOR THE INVESTMENT OF SURPLUS FUNDS

<b>Banking Group</b>	<b>Individual Counterparty</b>	<b>Limits</b>	
		<b>Deposit</b>	<b>Transaction</b>
Bank of England	Debt Management Office	£5m	£5m
HSBC Bank plc		£2m	£2m
Lloyds Banking Group:	Bank of Scotland	£10m	£10m
Royal Bank of Scotland Group:	Royal Bank of Scotland	£5m	£5m
Barclays Banking Group	Barclays Bank	£2m	£2m
Standard Chartered Bank		£2m	£2m
National Australia Bank Group	Clydesdale Bank	£0	£0
<b>Building Societies</b>			
Nationwide		£2m	£2m
<b>Local Authorities</b>			
All Local Authorities including Police & Fire		£2m	£2m
<b>Money Market Funds</b>			
Maximum limit of £5m per fund		£30m	£5m

**Credit Ratings**

	<b>Fitch</b>				<b>Moody's</b>		<b>S&amp;P</b>	
	LT	ST	Viability	Supp	LT	ST	LT	ST
Minimum Criteria (Unless Government backed)	A	F1	bbb-	3	A3	P-1	A	A-1

(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, with the limits set on an individual basis by the Chief Financial Officer.

The limit may 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 currently set at 3 months with the exception of 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.