

EAST RENFREWSHIRE COUNCILAUDIT & SCRUTINY COMMITTEE11 August 2022Report by Head of Accountancy (Chief Financial Officer)ANNUAL TREASURY MANAGEMENT REPORT FOR 2021/22**PURPOSE OF REPORT**

1. To advise the Audit & Scrutiny Committee on the Treasury Management activities for the year ending 31 March 2022.

RECOMMENDATION

2. It is recommended that the Committee: -
 - a) note the Treasury Management Annual Report for 2021/22; 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, 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 higher interest rates along with borrowing at historically low interest rates. The Council continues to adopt a prudent approach to treasury management and in particular the percentage of loans held as at 31 March 2022 that had variable interest rates was 7.32% which 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.

5. The detail in this report is subject to change during the audit process which is expected to be completed in October 2022.

RECOMMENDATION

6. It is recommended that the Committee: -
 - a) note the Treasury Management Annual Report for 2021/22; and
 - b) recommend to the Council that the attached organisations for investment of surplus funds be approved.

REPORT AUTHOR

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Report Date: July 2022

ANNUAL TREASURY MANAGEMENT REPORT 2021/22

1. Actual External Debt

	Borrowing 01/04/21 £M	Average Interest %	Borrowing 31/03/22 £M	Average Interest %	Change in year £M
<u>Long Term Borrowing</u>					
Public Works Loan Board	99.03	3.49	103.67	3.39	4.64
Local Authority Bonds	14.40	4.60	14.40	4.60	-
PFI / PPP Finance Leases	83.80	7.16	78.71	7.17	(5.09)
SALIX Energy Efficiency Loan	0.01	-	0.00	-	(0.01)
Total Long Term	197.24	5.13	196.78	4.99	(0.46)
<u>Short Term Investments</u>					
Temporary Investments	(71.93)	0.11	(78.43)	0.47	(6.50)

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 £0.817million come into this category.
- (ii) The Treasury Strategy approved by the Council on 15th March 2021, ratified external borrowing of £30m from the Public Works Loan Board to be undertaken during the year, however due to the deferral of capital expenditure to future years new borrowing from Public Works Loan Board during the year was £5m. In addition loans totalling £0.36m matured.
- (iii) The average interest rate on long-term borrowing has decreased by 0.14%.
- (iv) The Council's net external borrowing position has decreased in total by £6.96 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 are set at maximum of 1 year.
- (vi) At 31 March 2022, the Council had 7.32% 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 2022 is shown both below and in Graph format at Appendix 6.

It is 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, at the time of borrowing.

The Council's debt Maturity Profile as at 31 March 2022 was within the agreed limits.

Long Term Debt Maturity Profile as at 31 March 2022

	PWLB £M	Local Authority Bond £M	Total £M	%
22/23	0.82	0.00	0.82	0.69
23/24	0.36	0.00	0.36	0.30
24/25	0.00	0.00	0.00	0.00
25/26	0.00	0.00	0.00	0.00
26/27	5.01	0.00	5.01	4.24
27/28	2.01	0.00	2.01	1.70
28/29	0.00	0.00	0.00	0.00
29/30	0.00	0.00	0.00	0.00
30/31	0.00	0.00	0.00	0.00
31/32	0.00	0.00	0.00	0.00
After 2032/33	95.47	14.40	109.87	93.07
Total	103.67	14.40	118.07	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 15 March 2021 along with the actual figures recorded at 31 March 2022, demonstrating that the Council is operating well within the limits set.

Prudential Indicator	Approved indicator	Actual	COMMENT
1. Capital Expenditure	£59,785,000	£36,786,000	Movement is due to revised planning of capital projects to future years, resulting in a commensurate movement of capital expenditure.

2. Capital Financing Requirement	£243,099,000	£207,856,000	Movement is due to a reduction in net capital expenditure in both the previous and current years.
3. Operational Boundary for External Debt	£247,783,000	£207,082,000	Movement is due to a reduction in borrowing from that approved due to a reduction in capital spend in both the previous and the current years and the in-year repayment of existing debt during the year.
4. Authorised Limit For External Debt	£272,375,000	£207,082,000	In addition to the variance explanation for the Operational Boundary for External Debt above, the Authorised Limit for External Debt also includes a further 15% allowance to cover any unexpected temporary movements of £24,592m which was not required.
5. Gross Debt	£222,594,000	£197,554,000	Movement is because only £5m of the approved £30m new long term borrowing was undertaken. There was also a small change to the financial model of the Clyde Valley Waste Plant by North Lanarkshire Council.
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.	

The movement between the Capital Financing Requirement and the Gross Debt indicates the amount of internal borrowing required. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded by external loan debt as the cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains both prudent and cost effective as investment returns are low and counterparty risk is relatively high. The average interest rate on internal borrowing incurred during the year was 0.12%.

	Approved Indicator	Actual
Capital Financing Requirement	£243,099,000	£207,856,000
Gross Debt	£222,594,000	£197,554,000
Internal Borrowing Required	£20,505,000	£10,302,000

5. DEBT PERFORMANCE INDICATOR

The Treasury Strategy sets out the following two debt performance indicators

- **Average “pool rate” compared to Scottish average:**
 - Average “Pool Rate” charged by the Loans Fund in 2020/21 was 3.67%
 - Average Scottish Local Authority “Pool Rate” in 2020/21 was 3.55%
 - Average “Pool Rate” charged by the Loans Fund in 2021/22 was 3.52%

The average “pool rate” charged by the Loans Fund in 2020/21 is slightly higher than Scottish Local Authority average and there are several factors that contribute to this. The increased rate is due to the Council not taking full advantage of new borrowing at historically low interest rates, due to slippage in the capital plan, only a small amount of loan debt with high interest rates maturing and having a very low appetite for risk when investing surplus funds.

The average Scottish Local Authority “Pool Rate” for 2021/22 is not currently available.

- **Average borrowing rate movement year on year:**
 - Average borrowing rate in 2020/21 was 5.13%
 - Average borrowing rate in 2021/22 was 4.99%

This is a decrease of 0.14% which is an improvement on the target set in the Treasury Strategy to maintain or reduce rates year on year.

6. 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 15 March 2021 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 which were restricted to 1 year, in line with advice from our Treasury Advisers, Link Asset Services. These measures have been taken as part of a risk managed process designed to protect the principal of the sums invested.

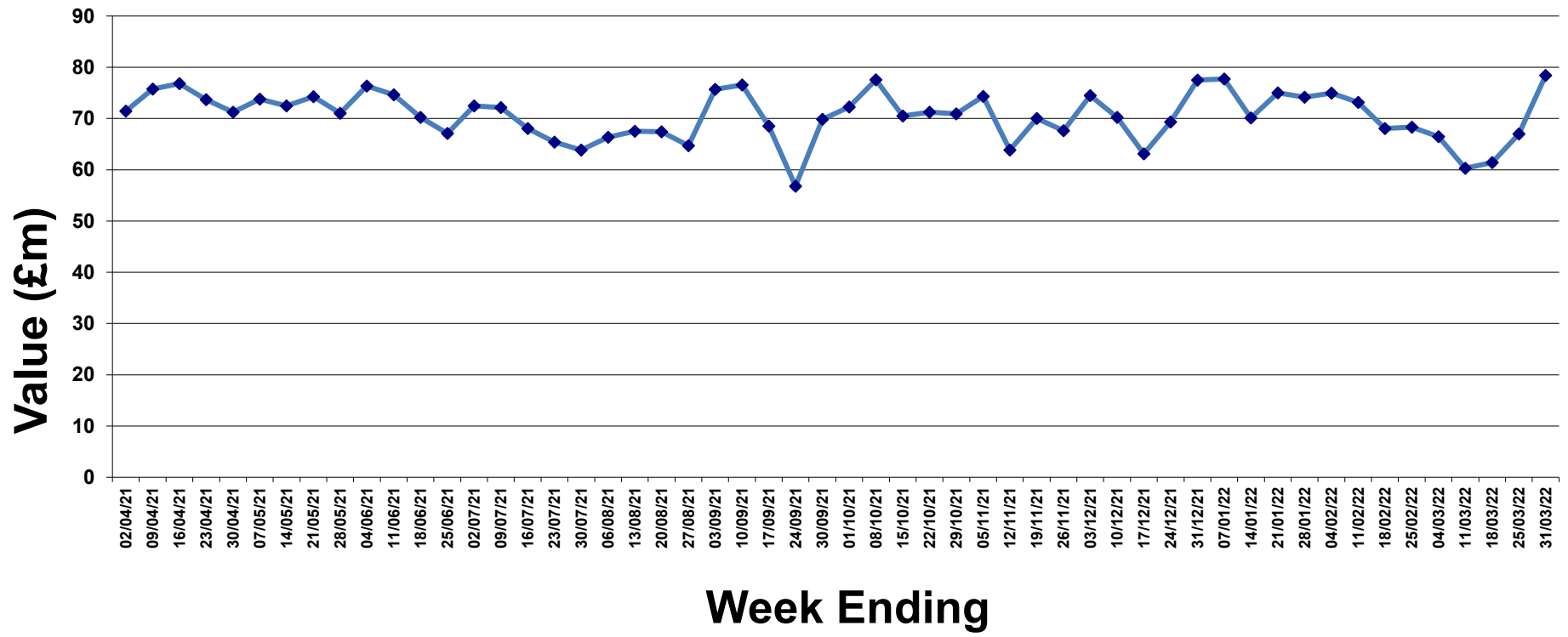
Credit ratings of organisations on the counter-party list are subject to continuous monitoring and review to ensure that subject to available professional advice, approved organisations remain sound for investment purposes.

7. 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.

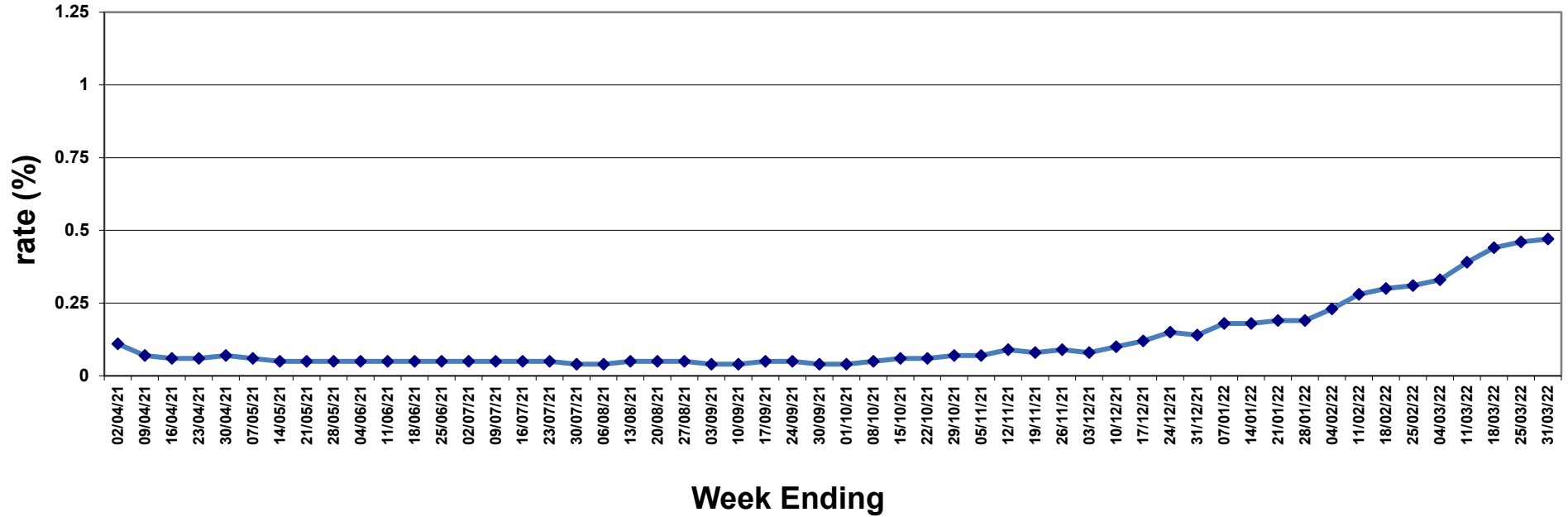
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Temporary Deposits Weekly Movement (April 2021 - March 2022)



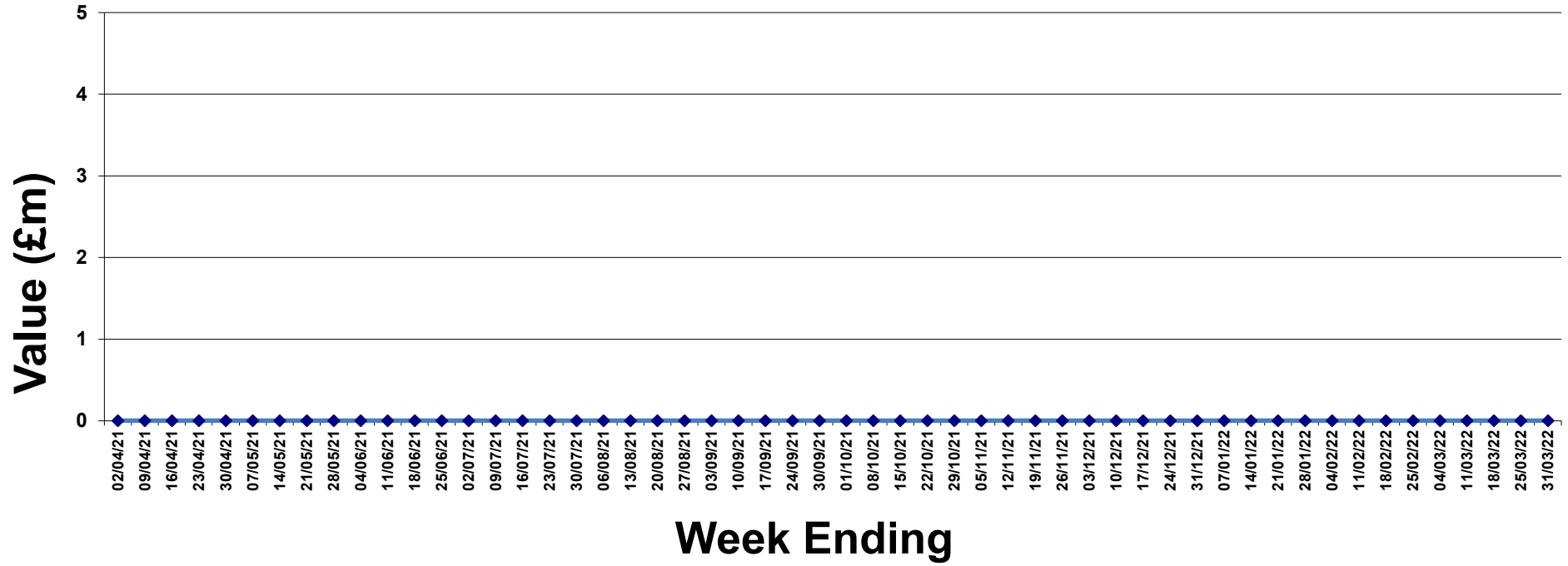
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Temporary Deposit Interest Rate Movements (April 2021 - March 2022)



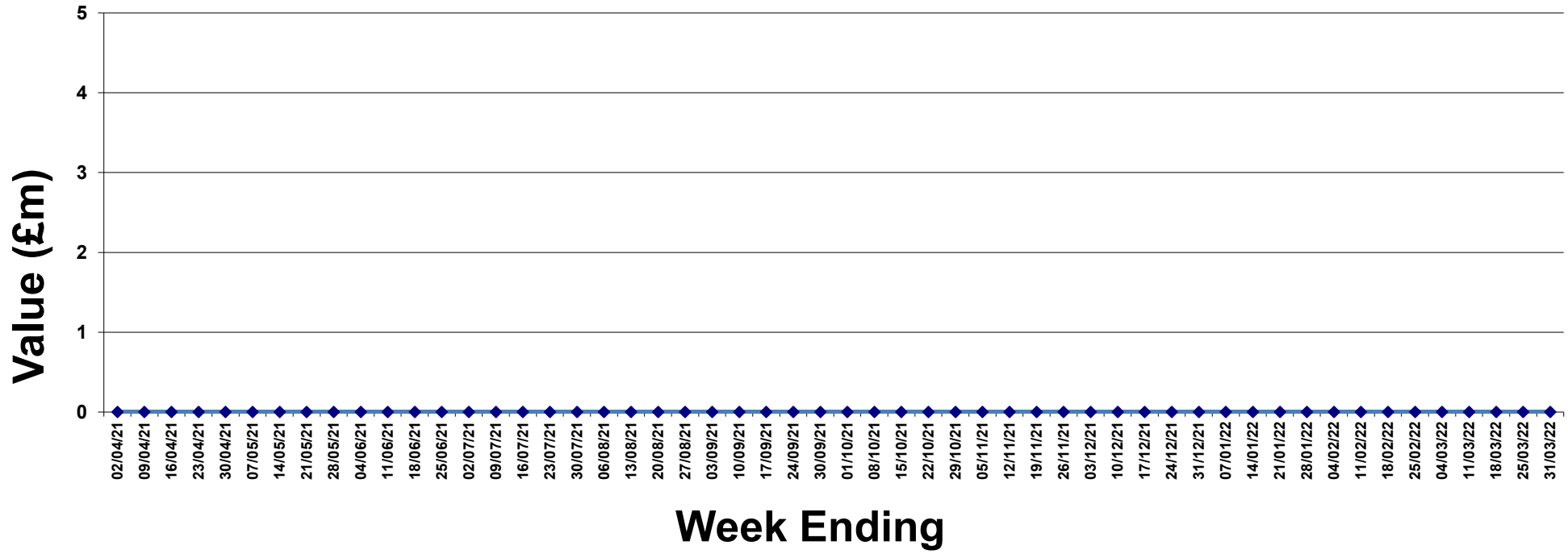
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Temporary Borrowing Weekly Movement (April 2021 - March 2022)



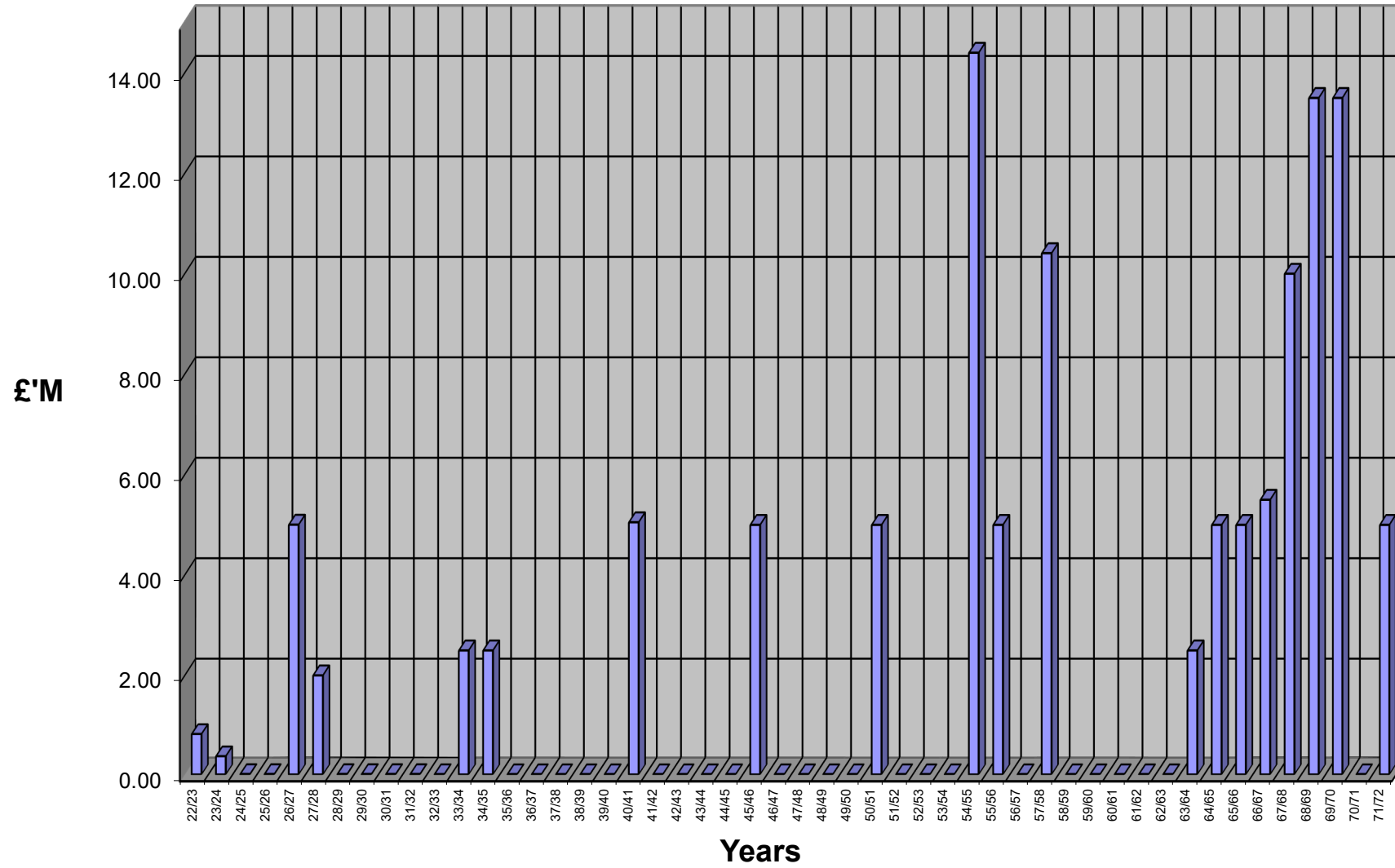
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Temporary Borrowing Weekly Movement (April 2021 - March 2022)



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Long Term Debt Maturity Profile as at 31/03/22



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EAST RENFREWSHIRE COUNCIL

ORGANISATIONS APPROVED FOR THE INVESTMENT OF SURPLUS FUNDS
Limits

Banking Group	Individual Counterparty	Deposit	Transaction
Bank of England	Debt Management Office	£30m	£10m
	UK Treasury Bills	£5m	£5m
Barclays Banking Group	Barclays Bank plc	£5m	£5m
Goldman Sachs International Bank		£10m	£10m
Lloyds Banking Group:	Bank of Scotland plc	£12.5m	£10m
Royal Bank of Scotland Group:	Royal Bank of Scotland plc	} £5m	£5m
	National Westminster Bank		
Standard Chartered Bank		£5m	£5m
Santander Group	Santander UK plc	£10m	£10m
Clydesdale Bank		£5m	£5m
Building Societies			
Nationwide		£10m	£10m
Local Authorities			
All Local Authorities including Police & Fire		£5m	£5m
Money Market Funds			
Maximum limit of £10m per fund,		£10m	£10m

Credit Ratings

	Fitch		Moody's		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 or another organisation approved with written permission of the Chief Financial Officer.

Deposit Periods

The maximum period for any deposit is based on the Link Asset Services suggested Duration matrix with a maximum of 6 months. The exception to this is deposits with the Bank of Scotland which is set at 1 year. 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.