

EAST RENFREWSHIRE COUNCILAUDIT & SCRUTINY COMMITTEE10 August 2023Report by Head of Accountancy (Chief Financial Officer)ANNUAL TREASURY MANAGEMENT REPORT FOR 2022/23**PURPOSE OF REPORT**

1. To advise the Audit & Scrutiny Committee on the Treasury Management activities for the year ending 31 March 2023. The figures reported below are subject to change during the current audit process.

**RECOMMENDATION**

2. It is recommended that the Committee: -
- a) note the Treasury Management Annual Report for 2022/23; 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. The Council continues to adopt a prudent approach to treasury management and in particular the percentage of loans held as at 31 March 2023 that had variable interest rates was 7.17% which is well below the Council's approved upper limit of 15%. 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 2022/23; 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:

4 July 2023

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## ANNUAL TREASURY MANAGEMENT REPORT 2022/23

Table 1

## 1. Actual External Debt

	<b>Borrowing 01/04/22 £M</b>	<b>Average Interest %</b>	<b>Borrowing 31/03/23 £M</b>	<b>Average Interest %</b>	<b>Change in year £M</b>
<b><u>Long Term Borrowing</u></b>					
Public Works Loan Board	103.67	3.39	112.85	3.30	9.18
Local Authority Bonds	14.40	4.60	14.40	4.60	-
PFI / PPP Finance Leases	78.71	7.17	73.50	7.18	(5.21)
<b>Total Long Term</b>	<b>196.78</b>	<b>4.99</b>	<b>200.75</b>	<b>4.81</b>	<b>3.97</b>
<b><u>Short Term Investments</u></b>					
Temporary Investments	<b>(78.43)</b>	<b>0.47</b>	<b>(68.54)</b>	<b>3.95</b>	<b>(9.89)</b>

## NOTES

- (i) For the 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 £0.365 million come into this category.
- (ii) The Treasury Strategy approved by the Council on 3rd March 2022, ratified external borrowing of £55m from the Public Works Loan Board to be undertaken during the year in addition to the £10m carried forward approved borrowing relating to 2021/22. However due to the rescheduling of capital expenditure to future years, and a recommendation by the Head of Accountancy to defer long term borrowing, where possible, until the current high interest rates come down, only £10m of new borrowing from the Public Works Loan Board during the year was undertaken and loans totalling £0.82m matured.
- (iii) The average interest rate on long-term borrowing has decreased by 0.18%.
- (iv) The Council's net external borrowing position has decreased in total by £5.92 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.
- (vi) At 31 March 2023, the Council had 7.17% 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 15% of the total debt outstanding.

- (vii) Appendix 6 shows the Bank of England MPC base rate covering the period April 2022 to the date of this report.

## 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 2023 is shown both below and in Graph format at Appendix 7.

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, at the time of borrowing.

The Council's debt Maturity Profile as at 31 March 2023 was within the agreed limits.

### Long Term Debt Maturity Profile as at 31 March 2023

	<b>PWLB</b>	<b>Local Authority Bond</b>	<b>Total</b>	
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>%</b>
<b>23/24</b>	0.36	0.00	0.36	0.28
<b>24/25</b>	0.00	0.00	0.00	0.00
<b>25/26</b>	0.00	0.00	0.00	0.00
<b>26/27</b>	5.01	0.00	5.01	3.94
<b>27/28</b>	2.01	0.00	2.01	1.58
<b>28/29</b>	0.00	0.00	0.00	0.00
<b>29/30</b>	0.00	0.00	0.00	0.00
<b>30/31</b>	0.00	0.00	0.00	0.00
<b>31/32</b>	0.00	0.00	0.00	0.00
<b>32/33</b>	0.00	0.00	0.00	0.00
<b>After 2033/34</b>	105.47	14.40	119.87	94.20
<b>Total</b>	<b>112.85</b>	<b>14.40</b>	<b>127.25</b>	<b>100.00</b>

## 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 3 March 2022 along with the actual figures recorded at 31 March 2023, demonstrating that the Council is operating well within the limits set.

<b>Prudential Indicator</b>	<b>Approved indicator</b>	<b>Actual</b>	<b>COMMENT</b>
1. Capital Expenditure	£83,202,000	£44,022,000	Movement is due to revised planning of capital projects within both the Housing and General Fund Capital Programmes.
2. Capital Financing Requirement	£281,723,000	£220,874,000	Movement is due to a reduction in net capital expenditure in both previous and current years.
3. Operational Boundary for External Debt	£286,988,000	£220,111,000	Movement is due to a reduction in borrowing from that approved due to a reduction in capital spend in both the previous and current year.
4. Authorised Limit For External Debt	£318,229,000	£220,111,000	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 £31,241m which was not required.
5. Gross Debt	£256,515,000	£201,515,000	Movement is because only the £10m approved borrowing carried forward from 2021/22 was undertaken and none of the £55m approved borrowing for 2022/23. This was partly due to the high interest rates and a recommendation to defer borrowing, if possible, until rates come down.
6. Gross Borrowing to CFR (Under)/Over	(£25,208,000)	(£19,359,000)	Movement is due to a reduced net borrowing requirement as a result of a reduction in capital expenditure in both previous and current years.
7. Financing to Net Revenue Stream Non – HRA	7.2%	7.2%	HRA variation is in-line with a reduction in financing costs, along with increased income

HRA	34.0%	31.5%	compared to the approved indicator
8. HRA - Ratio of Debt to Revenue	380.4%	328.3%	The variation is due to a combination of reduced debt and increased Income.
9. HRA – Debt Per Dwelling £	17,165	14,731	The variation is due to a combination of reduced debt and an increased number of dwellings.
10. 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 borrowing costs are currently relatively high and the Head of Accountancy has requested that borrowing, where possible, is not undertaken until interest rates come down from their current level.

	<b>Approved Indicator</b>	<b>Actual</b>
Capital Financing Requirement	£281,723,000	£220,874,000
Gross Debt	£256,515,000	£201,515,000
Internal Borrowing Required	£25,208,000	£19,359,000

## 5. DEBT PERFORMANCE INDICATOR

The Treasury Strategy sets out the following two debt performance indicators

- i) Average "pool rate" compared to Scottish average:
  - Average "Pool Rate" charged by the Loans Fund in 2021/22 was 3.52%
  - Average Scottish Local Authority "Pool Rate" in 2021/22 was 3.49%
  - Average "Pool Rate" charged by the Loans Fund in 2022/23 was 3.34%

The average "pool rate" charged by the Loans Fund in 2021/22 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 in 2021/22 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 2022/23 is not currently available.

- ii) Average borrowing rate movement year on year:
  - Average borrowing rate in 2021/22 was 4.99%
  - Average borrowing rate in 2022/23 was 4.81%

This is a decrease of 0.18% 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 8). All lending is in line with the permitted methods of investment which were approved by Council on 3 March 2022 as part of the Treasury Management Strategy report.

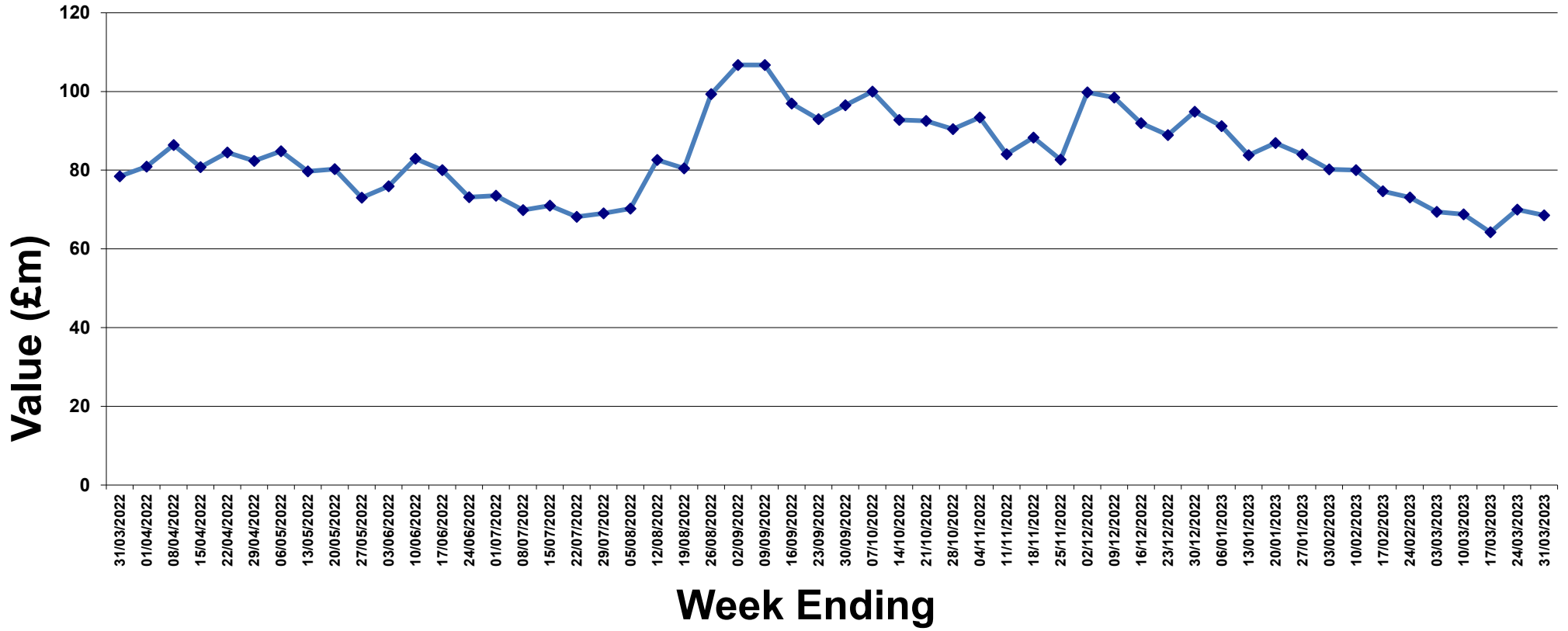
As a result of the banking crisis and in line with prudent financial management, investment has been restricted to UK organisations with high credit ratings. Also, the maximum period of investment was restricted to 6 months, in line with advice from our Treasury Advisers, Link Asset Services. These measures 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**

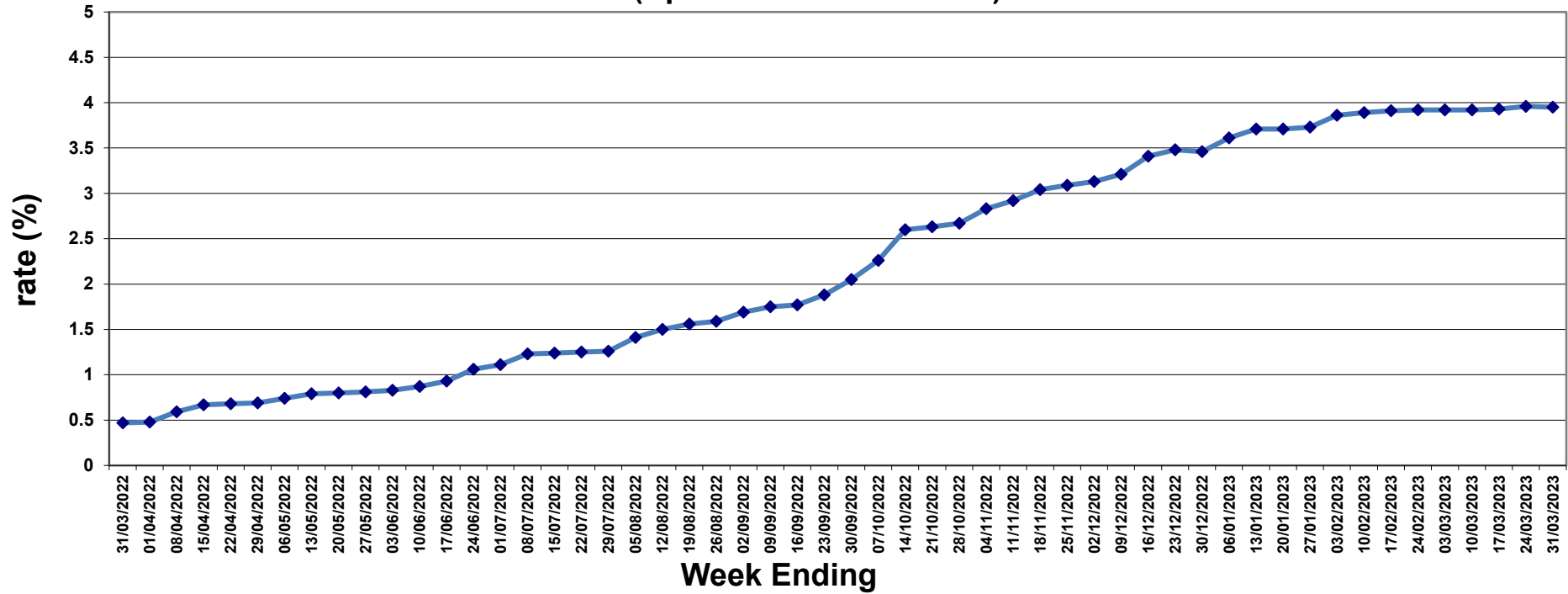
Within the Operational Risk Register for Accountancy Services there is a risk listed that highlights the difficulty in obtaining sufficient institutions, that meet the Council's criteria, to invest surplus funds with. To minimise this risk the Council has six Money Market Funds which provide highly diversified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

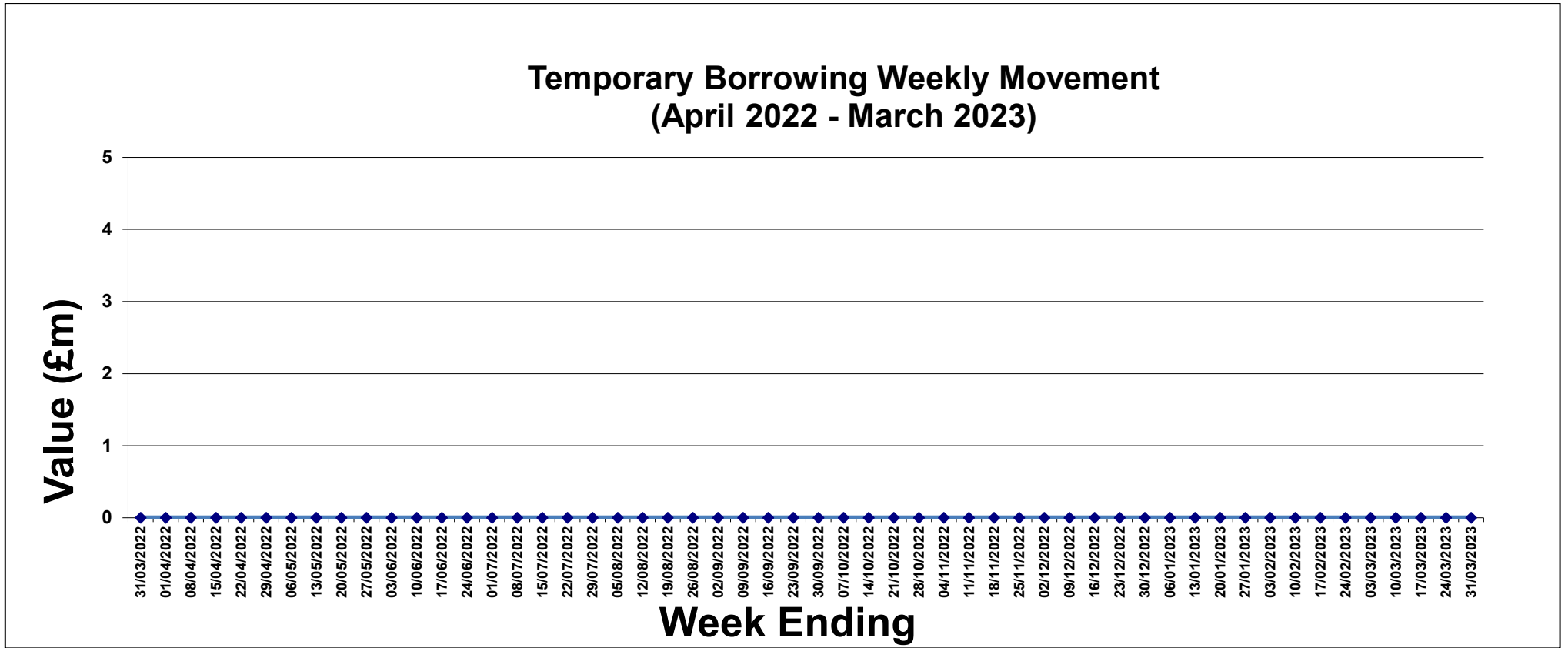
### Temporary Deposits Weekly Movement (April 2022 - March 2023)



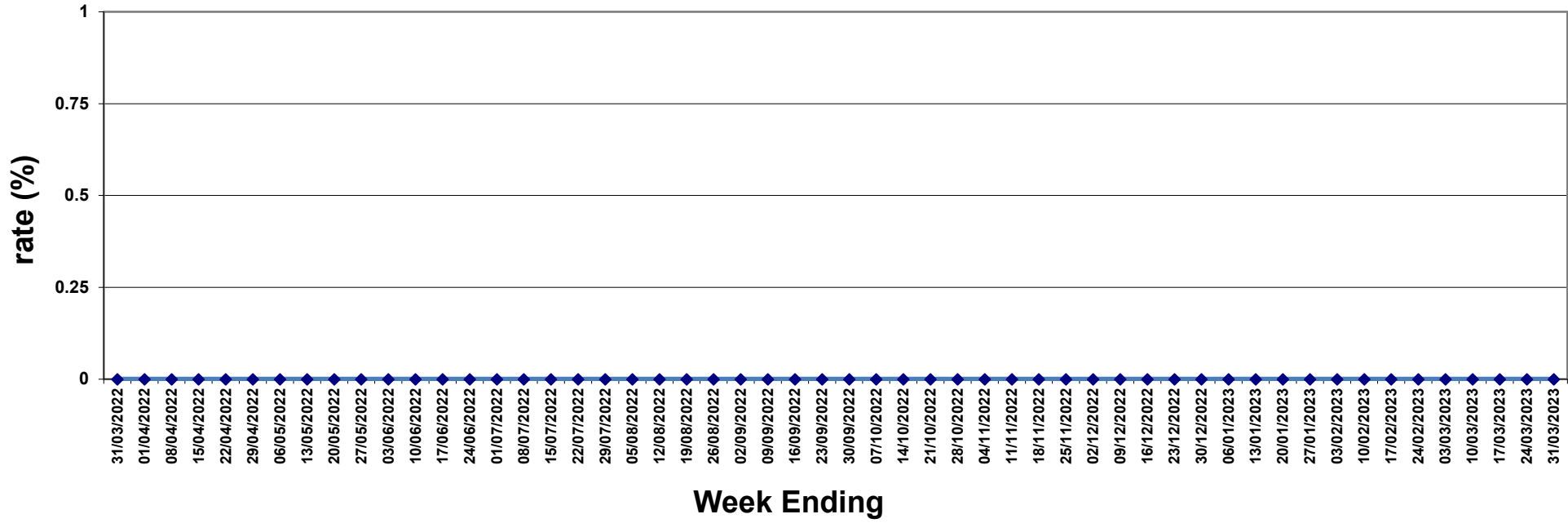


**Temporary Deposit  
Interest Rate Movements  
(April 2022 - March 2023)**

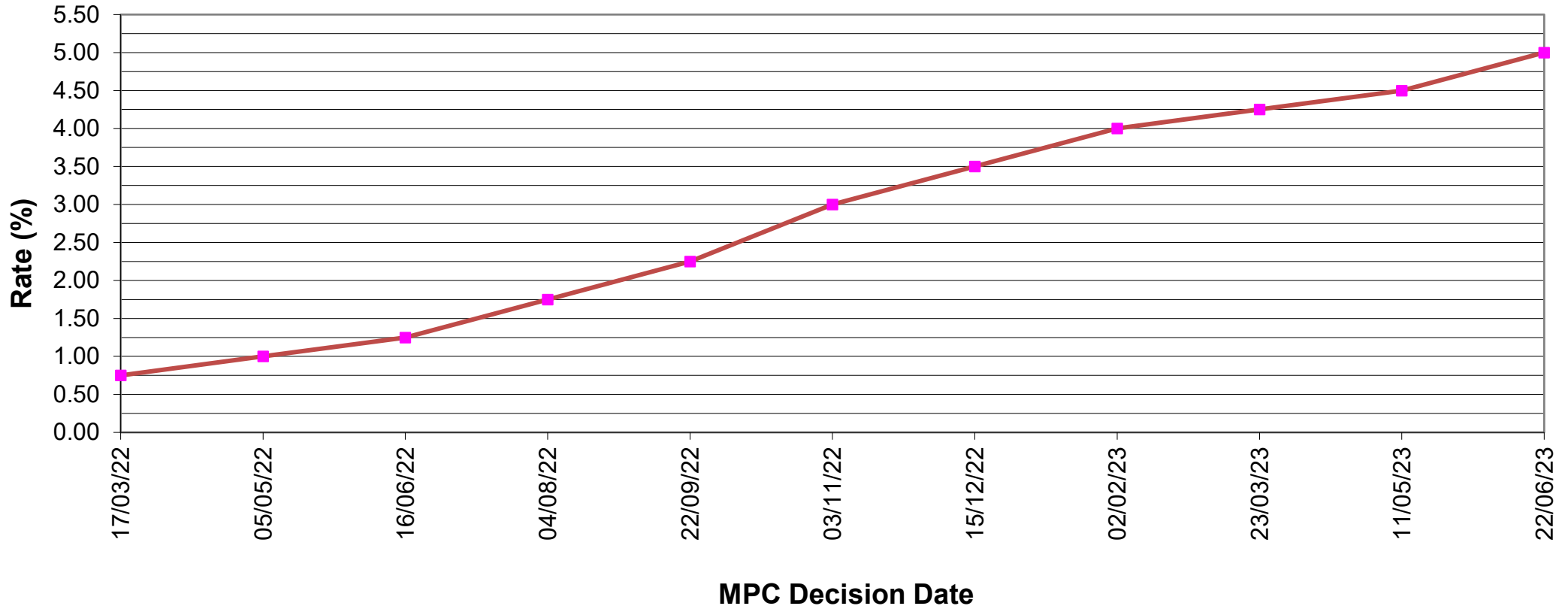




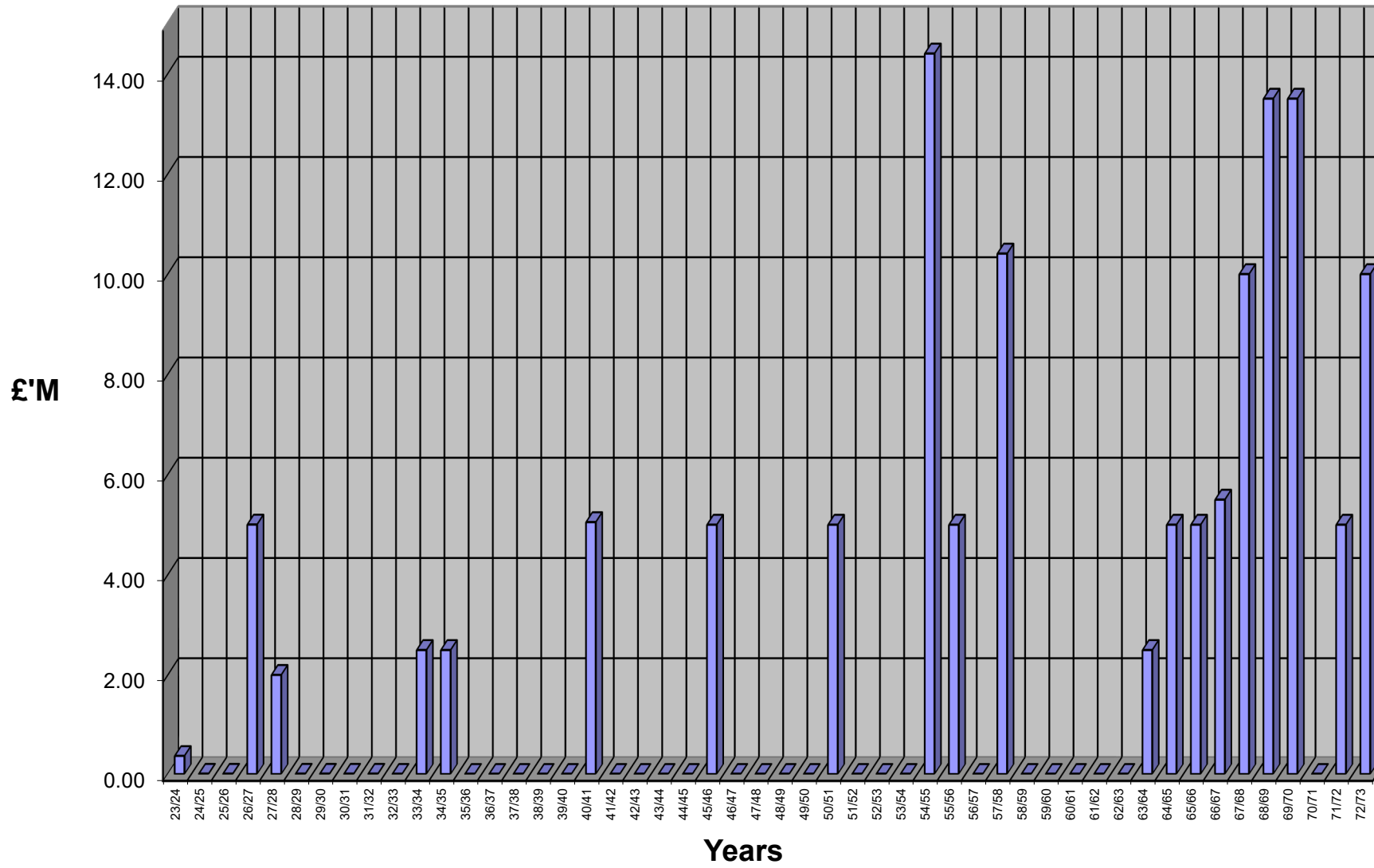
### Temporary Borrowing Interest Rate Movements (April 2022 - March 2023)



### Bank of England Base Rate Movements April 2022 to June 2023



Long Term Debt Maturity Profile as at 31/03/23



## 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	£5m	£5m
	Lloyds Bank Corporate Mkt (NRF)	£5m	£5m
Royal Bank of Scotland Group:	Royal Bank of Scotland plc	} £5m	£5m
	National Westminster Bank		
Santander Group	Santander UK plc	£10m	£10m
Standard Chartered Bank		£10m	£10m
Clydesdale Bank		£5m	£5m
<b>Building Societies</b>			
Nationwide		£10m	£10m
<b>Local Authorities</b>			
All Local Authorities including Police & Fire		£5m	£5m
<b>Money Market Funds and Ultra-Short Dated Bond funds</b>			
Maximum limit of £10m per fund		£60m	£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. 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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