

EAST RENFREWSHIRE COUNCILAUDIT & SCRUTINY COMMITTEE26 September 2023Report by Head of Accountancy (Chief Financial Officer)INTERIM (QUARTER 1) TREASURY MANAGEMENT REPORT FOR 2023/24**PURPOSE OF REPORT**

1. To advise the Audit & Scrutiny Committee on the Treasury Management activities for the Quarter ending 30 June 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 Interim Treasury Management Report for Quarter 1 2023/24; 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 remained the same from that reported in August. The Council continues to adopt a prudent approach to treasury management and in particular the percentage of loans held as at 30 June 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 Interim Treasury Management Report for Quarter 1 2023/24; and
 - b) recommend to the Council that the attached organisations for investment of surplus funds be approved.

REPORT AUTHOR

Head of Accountancy (Chief Financial Officer): Margaret McCrossan
Chief Accountant: Barbara Clark
Telephone Number: 0141 577 3068
E-mail: barbara.clark@eastrenfrewshire.gov.uk
Report Date: 14 September 2023

INTERIM TREASURY MANAGEMENT REPORT QUARTER 1 2023/24

Table 1

1. Actual External Debt

	Borrowing 01/04/23 £M	Average Interest %	Borrowing 30/06/23 £M	Average Interest %	Change in year £M
<u>Long Term Borrowing</u>					
Public Works Loan Board	112.85	3.30	112.85	3.30	0.00
Local Authority Bonds	14.40	4.60	14.40	4.60	0.00
PFI / PPP Finance Leases	73.50	7.18	73.50	7.18	0.00
Total Long Term	200.75	4.81	200.75	4.81	0.00
<u>Short Term Investments</u>					
Temporary Investments	(68.54)	3.95	(48.94)	4.75	(19.60)

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 1st March 2023, ratified external borrowing of £58m from the Public Works Loan Board to be undertaken. However at present no new borrowing has been undertaken due to a recommendation by the Head of Accountancy to defer long term borrowing, where possible, until the current high interest rates come down. During the quarter loans totalling £0.002 million matured.
- (iii) The average interest rate on long-term borrowing has not changed from that reported previously.
- (iv) The Council's net external borrowing position has decreased in total by £19.6 million during the quarter due to both revenue and capital cash flows.
- (v) The Council's activity in the temporary investments market is shown along with the corresponding interest rate movements in Appendices 2 – 5. 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 30 June 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 30 June 2023 is shown both below and in Graph format at Appendix 7.

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 30 June 2023 was within the agreed limits.

Long Term Debt Maturity Profile as at 30 June 2023

	PWLB	Local Authority Bond	Total	
	£M	£M	£M	%
23/24	0.36	0.00	0.36	0.28
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	3.94
27/28	2.01	0.00	2.01	1.58
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
32/33	0.00	0.00	0.00	0.00
After 2033/34	105.47	14.40	119.87	94.20
Total	112.85	14.40	127.25	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 1 March 2023 along with the actual figures recorded at 30 June 2023, demonstrating that the Council is operating well within the limits set.

Prudential Indicator	Approved indicator	Actual	COMMENT
1. Capital Expenditure	£81,167,000	£66,541,000	Movement is due to revised planning of capital projects within both the Housing and General Fund Capital Programmes.
2. Capital Financing Requirement	£304,873,000	£273,138,000	Movement is due to a reduction in net capital expenditure in both previous and current years.
3. Operational Boundary for External Debt	£309,855,000	£278,120,000	Movement is due to a reduction in permitted borrowing from that approved due to a reduction in capital spend in both the previous and current year.
4. Authorised Limit For External Debt	£345,308,000	£308,813,000	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.
5. Gross Debt	£253,770,000	£228,270,000	Movement is due to the re-profile of capital expenditure to future years and to deferral of borrowing, if possible, until rates come down.
6. Gross Borrowing to CFR (Under)/Over	(£51,103,000)	(£44,868,000)	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 HRA	6.7% 34.4%	6.7% 32.4%	HRA variation is in-line with a reduction in financing costs, along with increased rental income compared to the approved indicator
8. HRA - Ratio of Debt to Revenue	337.0%	305.8%	The variation is due to a combination of reduced debt and increased rental Income.

9. HRA – Debt Per Dwelling £	16,450	15,682	The variation is due to a combination of reduced debt and a reduction in the 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.

	Approved Indicator	Actual
Capital Financing Requirement	£304,873,000	£273,138,000
Gross Debt	£253,770,000	£228,270,000
Internal Borrowing Required	£51,103,000	£44,868,000

5. DEBT PERFORMANCE INDICATOR

The Treasury Strategy sets out the following two debt performance indicators

- i) Average "pool rate" compared to Scottish average:
This information is only available after the year end.
- 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%. Although this a decrease of 0.18%, the variance is likely to increase as new loans are taken due to the high interest rates currently available. The target set in the Treasury Strategy to maintain or reduce rates year on year may therefore be difficult to achieve.

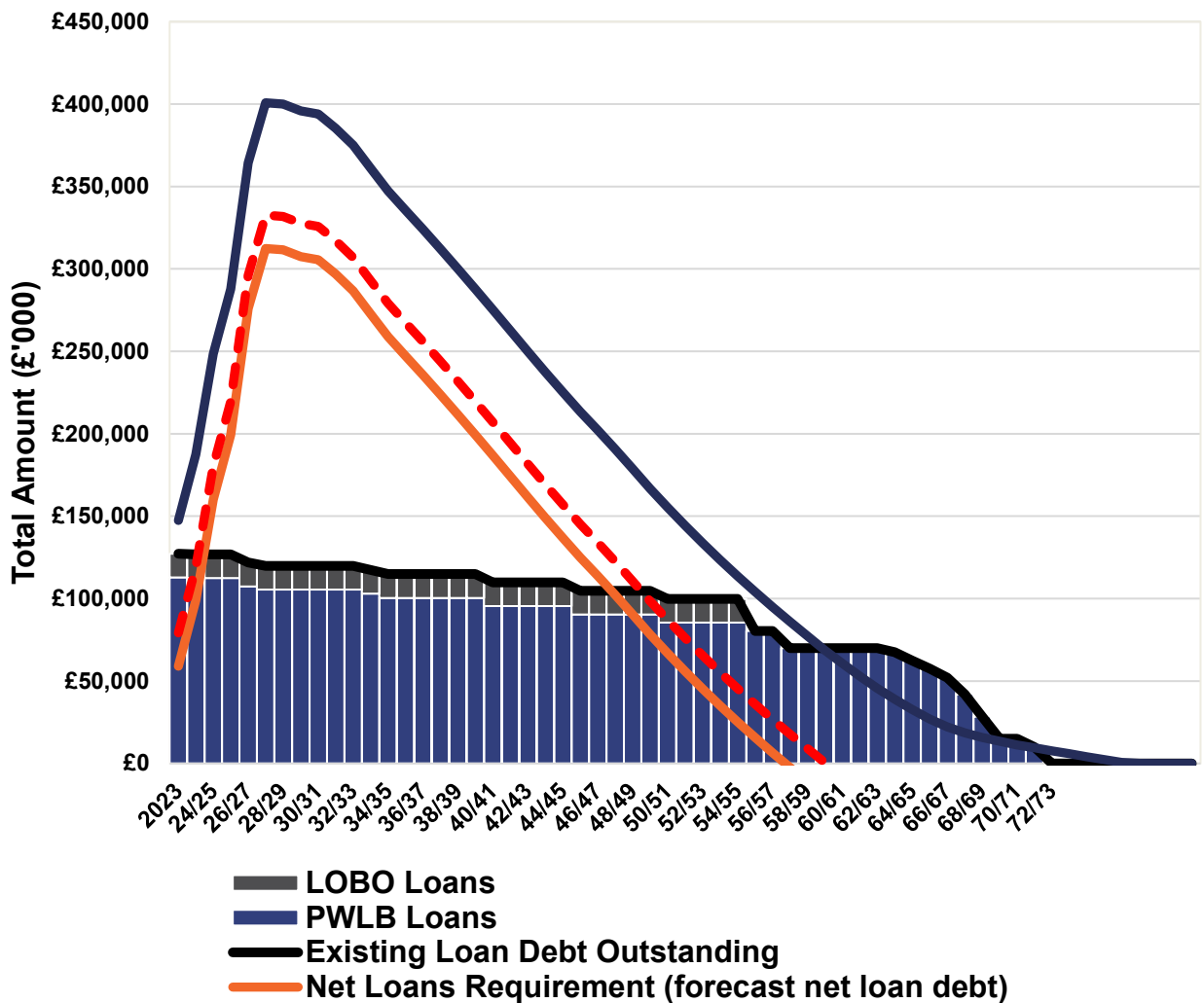
6. Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. It is a projection of the amount of loan debt outstanding that the Council needs to fund its existing debt liabilities, planned prudential borrowing and other cashflows.

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority’s existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Loans Fund principal repayments.
3. **Net loans requirement:** this will show the Authority’s gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Loans Fund principal repayments and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

Liability Benchmark @ 30/06/2023



7. APPROVED ORGANISATIONS FOR INVESTMENT

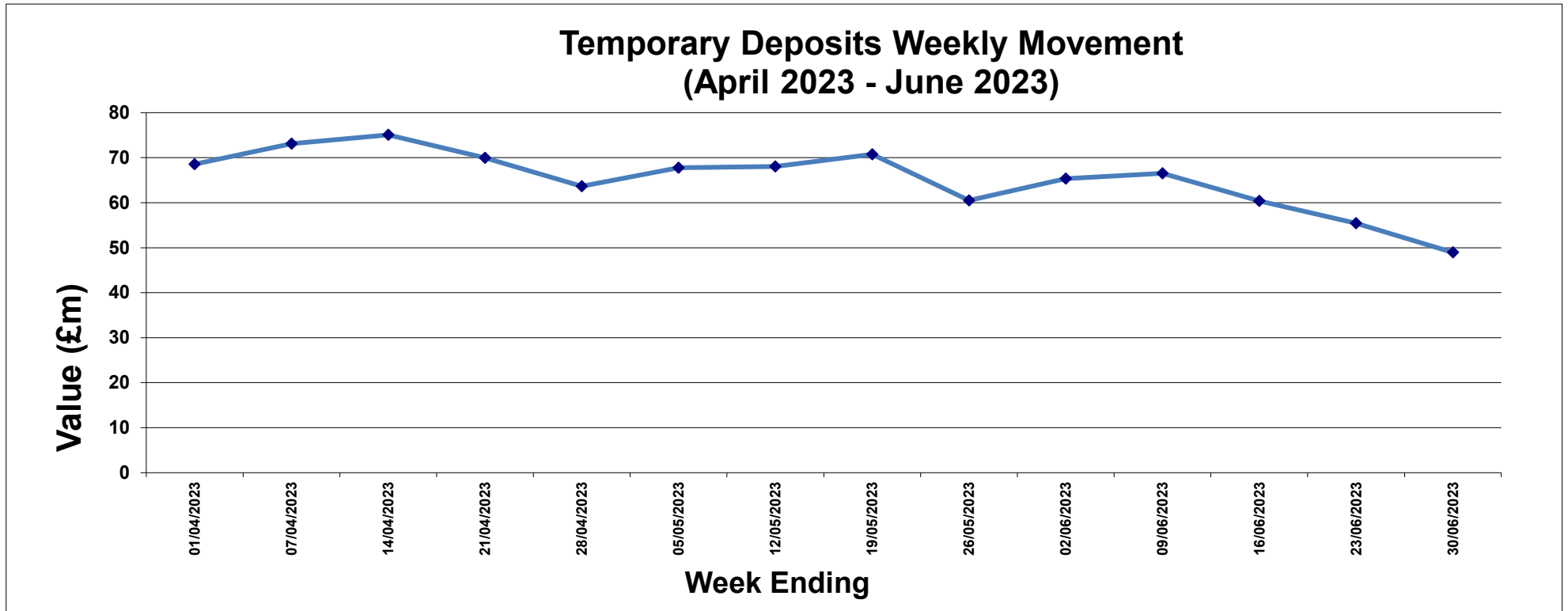
In line with normal practice the status of all Banks and Building Societies has been reviewed in order to amend the current list of approved organisations for investment (see appendix 8). No changes have been made to the list since last reported on 10 August 2023. All lending is in line with the permitted methods of investment which were approved by Council on 1 March 2023 as part of the Treasury Management Strategy report.

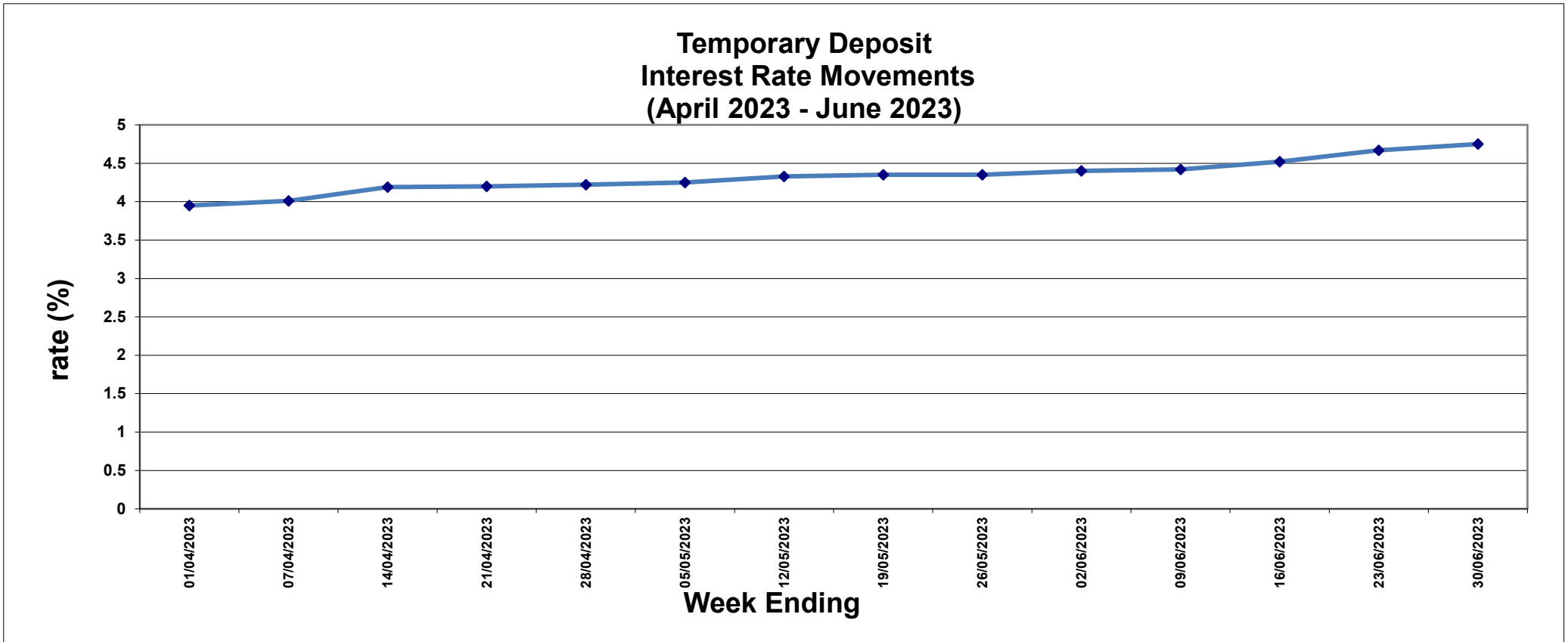
As a result of the banking crisis and in line with prudent financial management, investment has been restricted to UK organisations with high credit ratings. Also, the maximum period of investment was restricted to 6 months, in line with advice from our Treasury Advisers, Link Asset Services. These measures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

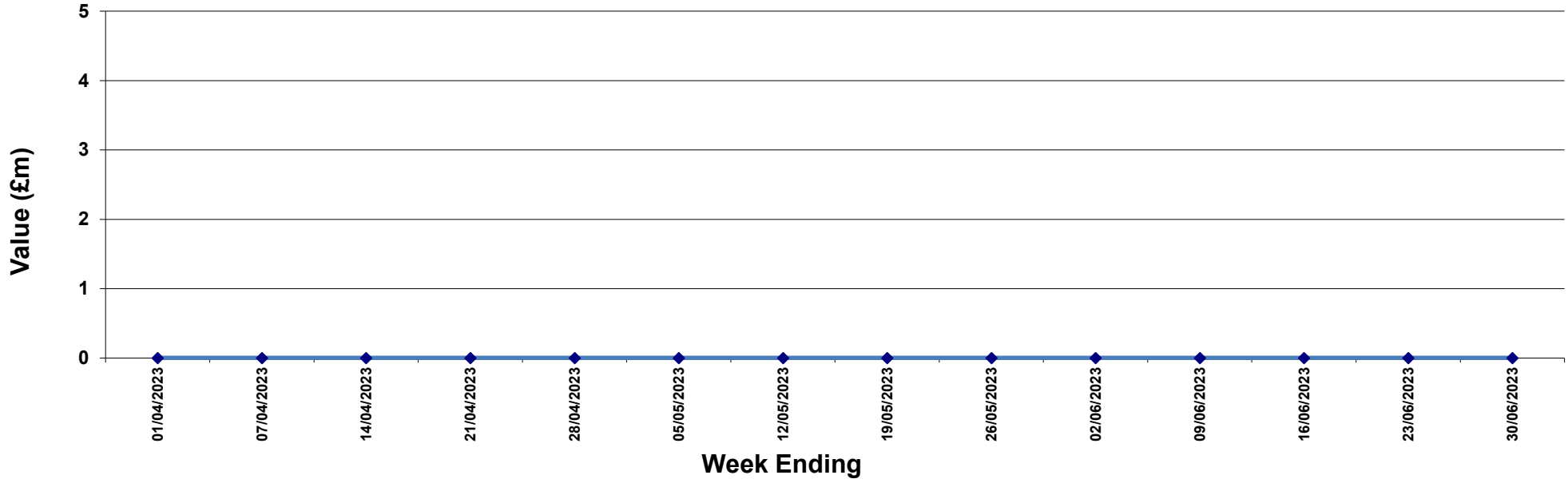
8. TREASURY MANAGEMENT RISK

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.

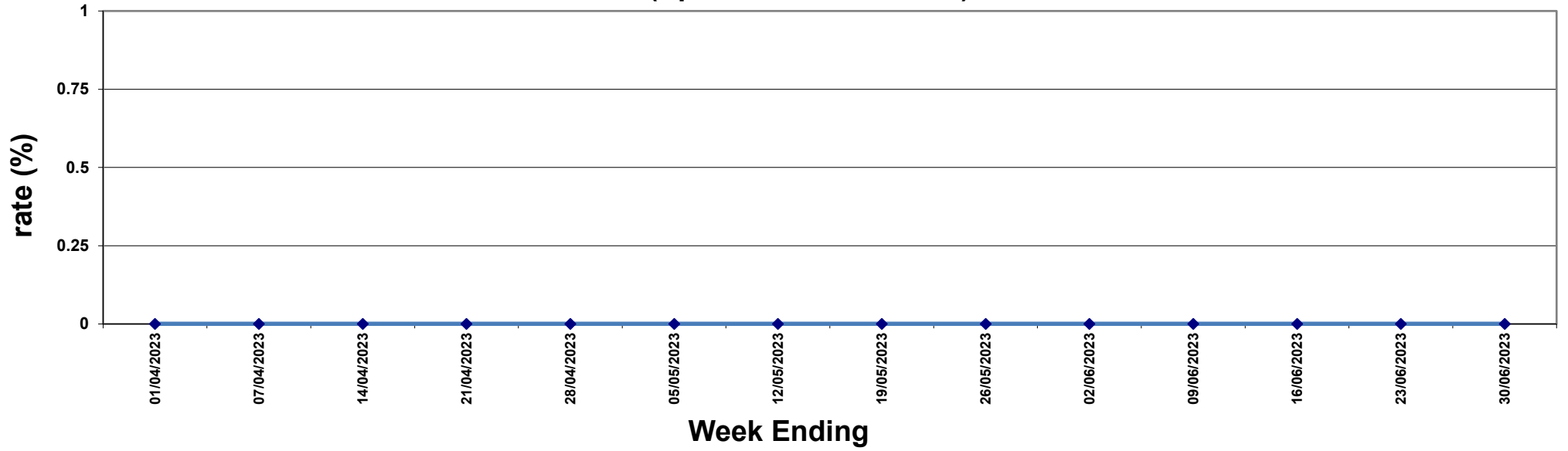




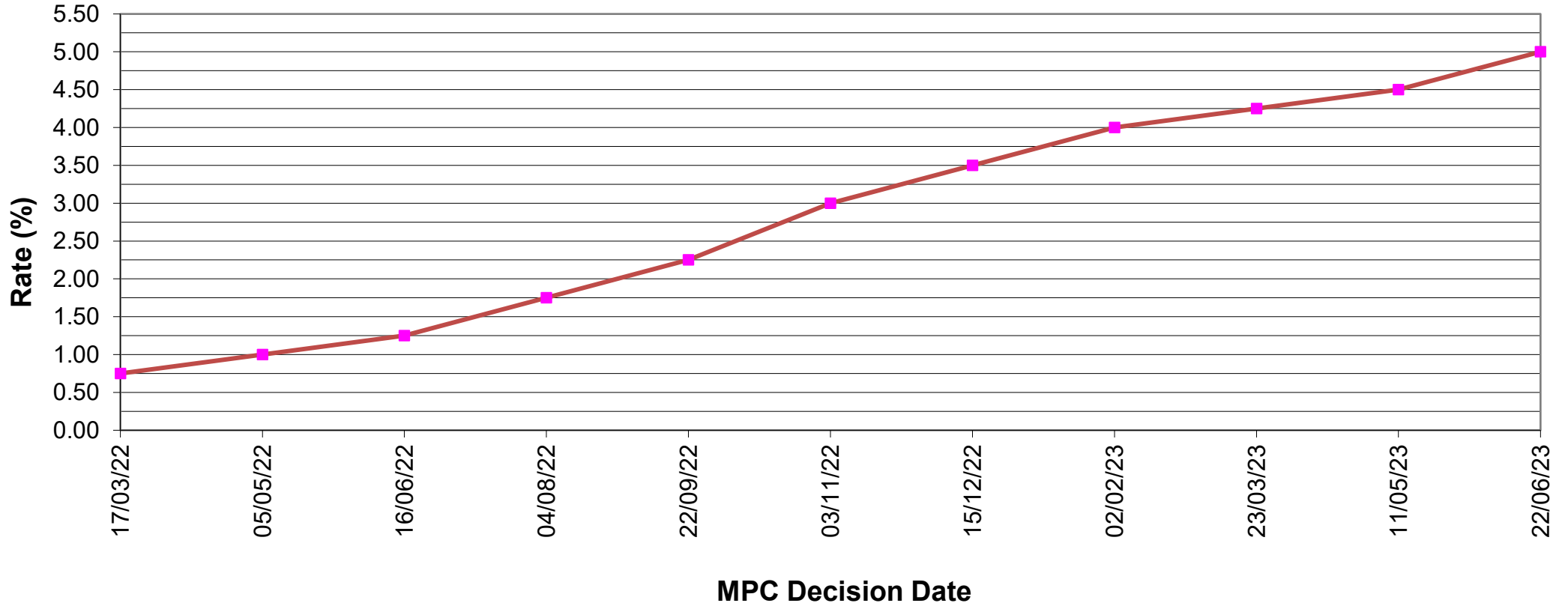
Temporary Borrowing Weekly Movement (April 2023 - June 2023)



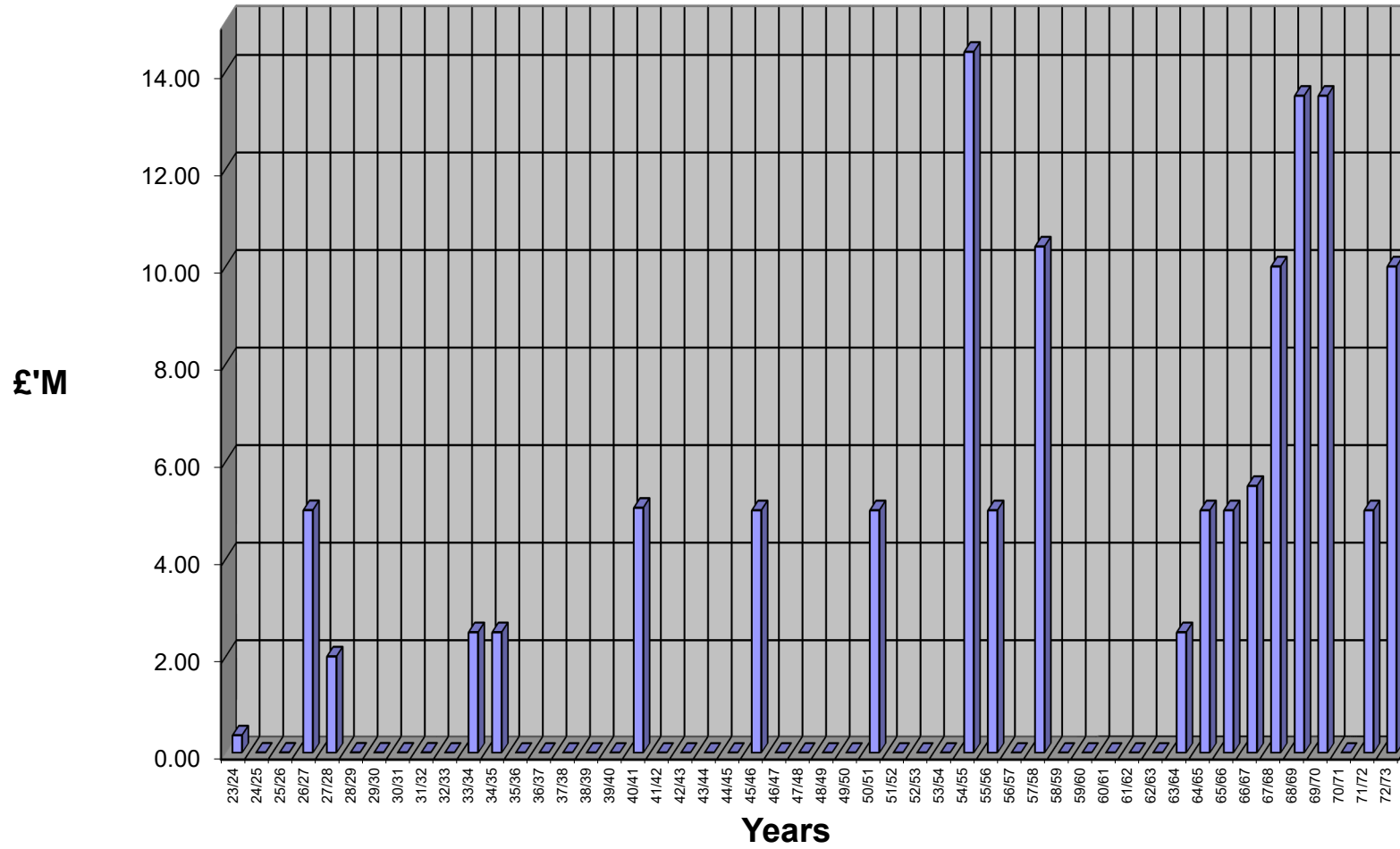
Temporary Borrowing Interest Rate Movements (April 2023 - June 2023)



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



Long Term Debt Maturity Profile as at 30/06/2023



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
Building Societies			
Nationwide		£10m	£10m
Local Authorities			
All Local Authorities including Police & Fire		£5m	£5m
Money Market Funds and Ultra-Short Dated Bond funds			
Maximum limit of £10m per fund		£60m	£10m
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 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.