

EAST RENFREWSHIRE COUNCILAUDIT & SCRUTINY COMMITTEE22 November 2018Report by Head of Accountancy (Chief Financial Officer)INTERIM TREASURY MANAGEMENT REPORT FOR 2018/19**PURPOSE OF REPORT**

1. To advise the Audit and Scrutiny Committee on the treasury management activities for the first 6 months of 2018/19.

**RECOMMENDATIONS**

2. It is recommended that Members:-
  - a) Note the interim Treasury Management Report 2018/19; and
  - b) Recommend to the Council that the attached organisations for investment of surplus funds be approved (see Appendix II)
  - c) Recommend to the Council the continuing use of Money Market Funds in light of the new regulations coming into effect from early next year.

**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 2018/19 is submitted in accordance with these requirements.

**TREASURY MANAGEMENT ACTIVITIES IN 2018/19**

6. The interim report for period 1 April 2018 to 30 September 2018 is attached as Appendix I.

**RECOMMENDATIONS**

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  - c) Recommend to the Council the continuing use of Money Market Funds in light of the new regulations coming into effect from early next year.

**Report Author****8**

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 2018/19**

Table 1

**1. Actual External Debt**

	<b>Borrowing 01/04/18 £m</b>	<b>Average Interest %</b>	<b>Borrowing 30/09/18 £m</b>	<b>Average Interest %</b>	<b>Change in Year £m</b>
<u>Long Term Borrowing</u>					
Public Works Loan Board	67.29	4.72	66.01	4.62	-1.28
LOBO (Lender Option Borrower Option)	14.40	4.60	14.40	4.60	0.00
PFI / PPP Finance Lease	94.79	6.58	94.79	6.58	0.00
SALIX Energy Efficiency Loan	0.07	0.00	0.05	0.00	-0.02
<b>Total borrowing</b>	<b>176.55</b>	<b>5.71</b>	<b>175.25</b>	<b>5.68</b>	<b>-1.30</b>
<u>Short Term Lending</u>					
Temporary Investments	-60.21	0.63	-62.55	0.81	-2.34

2. During the period amounts totalling £1.28 million matured with the Public Works Loan Board.

3. The opening cash surplus of £ 60.21 million has increased to £62.55 million due to both revenue and capital cash flows.

4. At 30 September 2018 the Council had 8.22% of its total borrowing outstanding in variable rate loans. During the period 01/04/18 to 30/09/18 the total borrowing outstanding in variable rate loans peaked at 8.22%. 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 2 March 2018 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	£65,139,000	£48,109,000	Projected Capital Expenditure is less than planned expenditure, reflecting the revised work schedule particularly within the Housing Capital Programme.
2. Ratio of Financing Costs to net Revenue Stream	General 9.32% HRA 38.8%	Not available until the year end	
3. Capital Financing Requirement	£215,890,000	£201,107,000	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 the current year's capital expenditure.
4. Operational Boundary for External Debt	£221,545,000	£214,628,000	Movement is due to the projected in year net debt repayments of £6.9m being made.
5. Authorised Limit For External Debt	£240,558,000	£214,628,000	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 net debt repayments of £6.9m.
6. Gross Debt	£214,628,000	£214,628,000	There is no movement in year as there is no reduction in planned borrowing anticipated.
7. 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 16 August 2018 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 2 March 2018 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, LINK Asset Services. 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.

## 8. **Money Market Fund Regulatory Change**

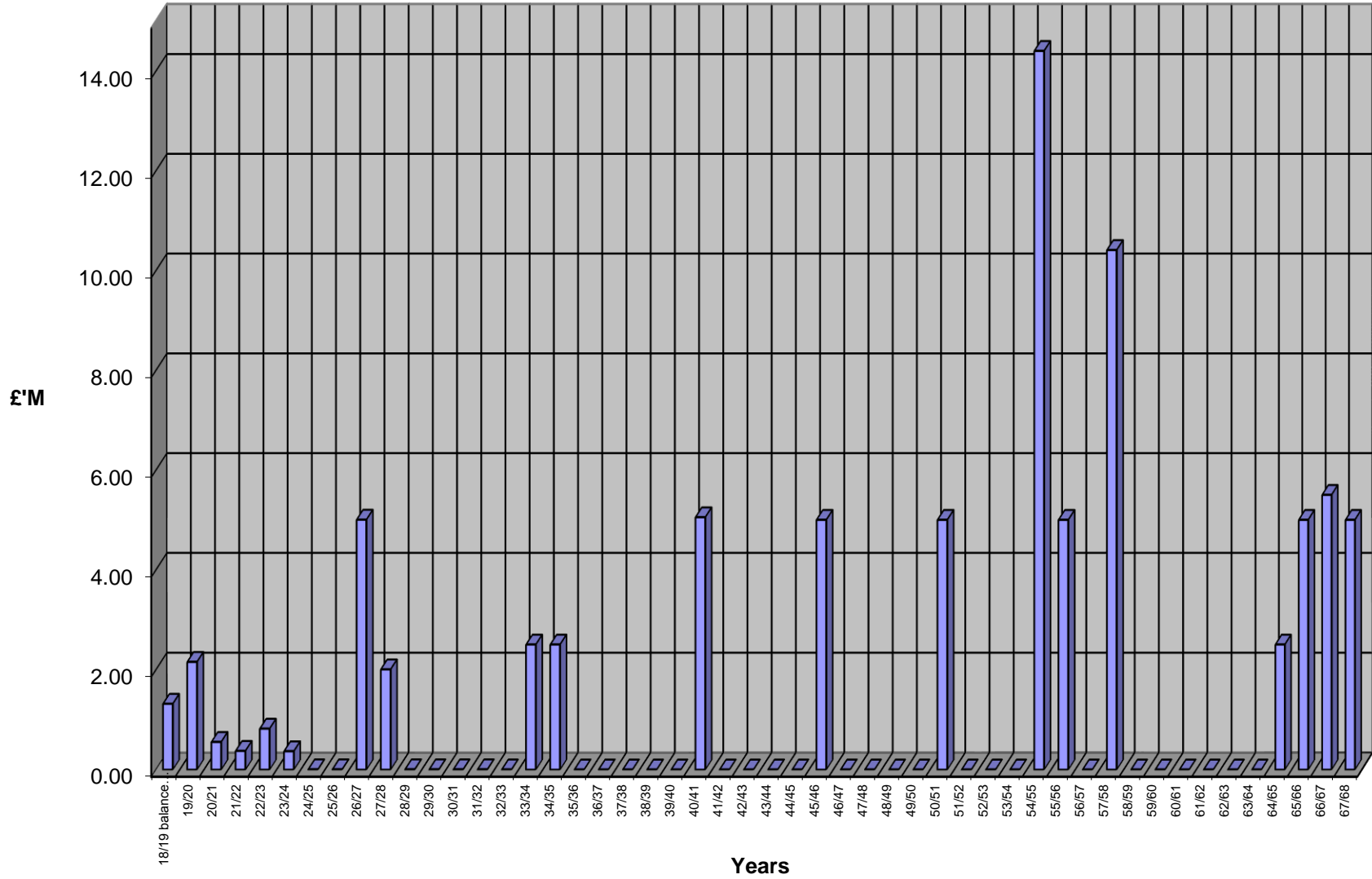
The Money Market Fund (MMF) sector will be introducing new regulations with effect from the beginning of 2019.

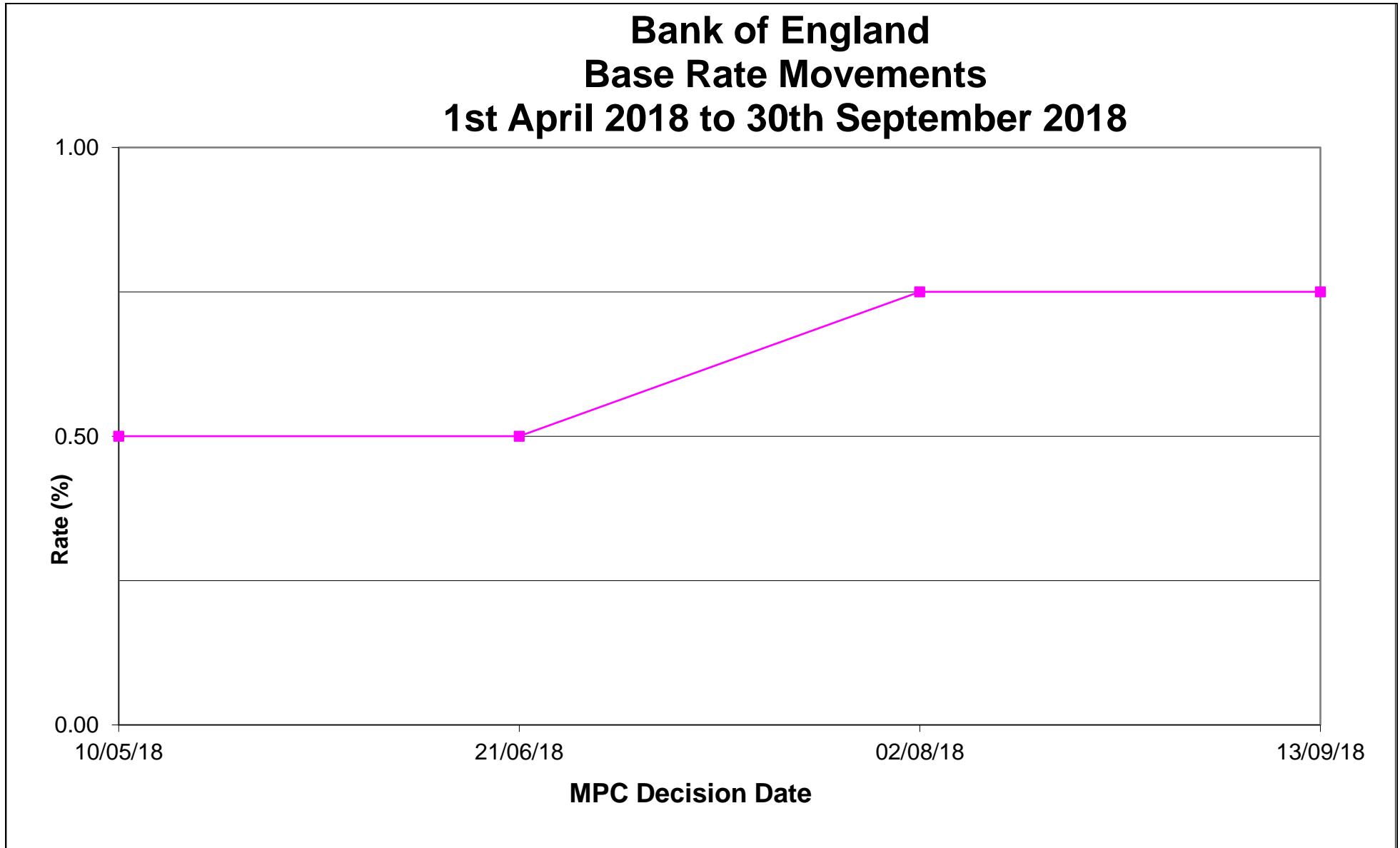
Money Market Funds are defined using the following categories under EU regulation:-

Constant Net Asset Value ( CNAV) Public Debt Funds  
Low Volatility Net Asset Value ( LVNAV) Prime Funds  
Variable Net Asset Value ( VNAV) Prime Funds

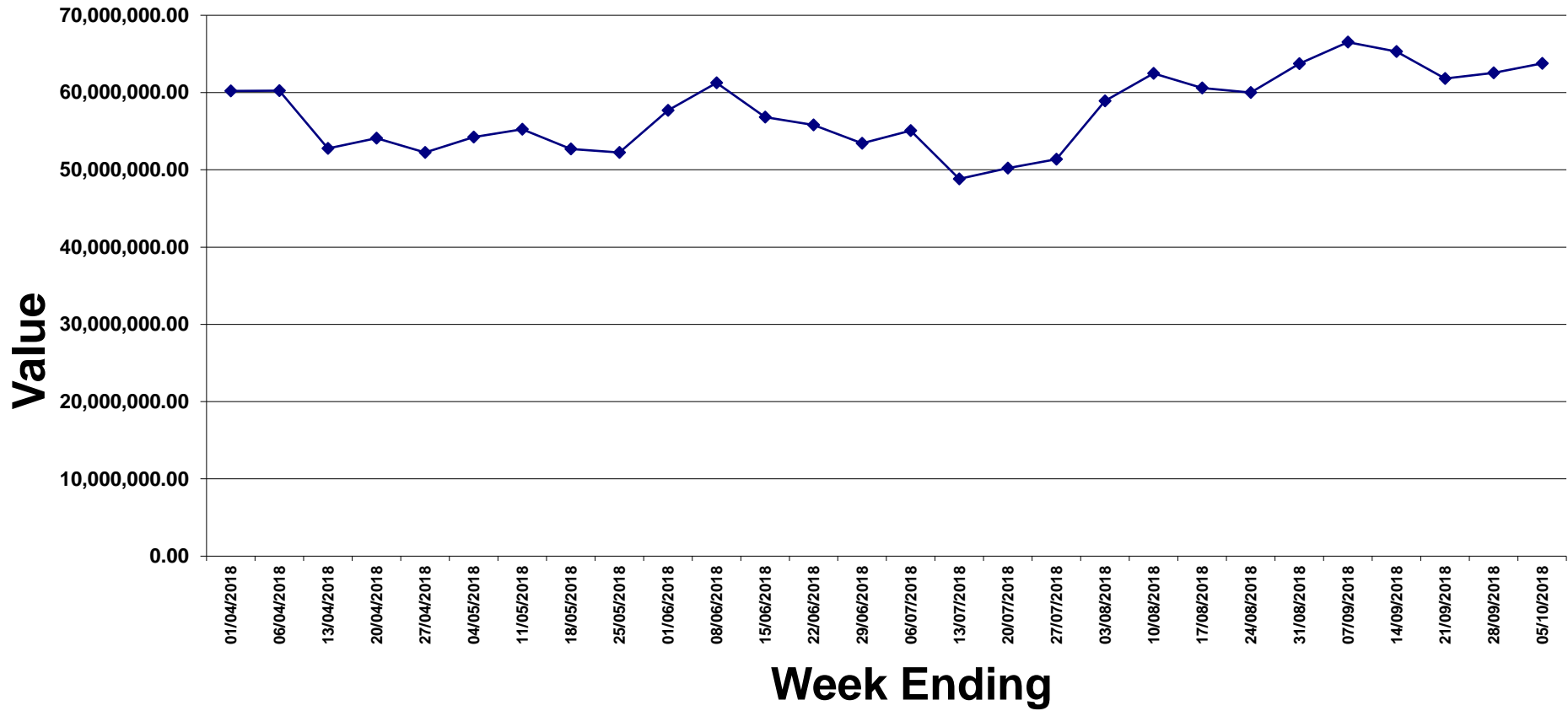
The Council's MMFs are held as LVNAV which currently maintain a constant price but Regulations now state that an LVNAV fund must be accounted for as an asset with a variable net value if the underlying value deviates from its constant price by 20 basis points. The Council will continue to invest in MMFs that have a credit rating above our minimum criteria. These funds are widely diversified, utilising a varied selection of the money market securities including instruments which the authority does not have the expertise or capabilities to hold directly. The Council will continue to benefit from both the high level of expertise and scrutiny applied by fund managers in maintaining such funds and the large investments contained within them. Short term MMFs can also help an authority to diversify its own portfolio and is an effective way of minimising risk exposure while still getting better rates of return.

Long Term Debt Maturity Profile as at 30/09/18



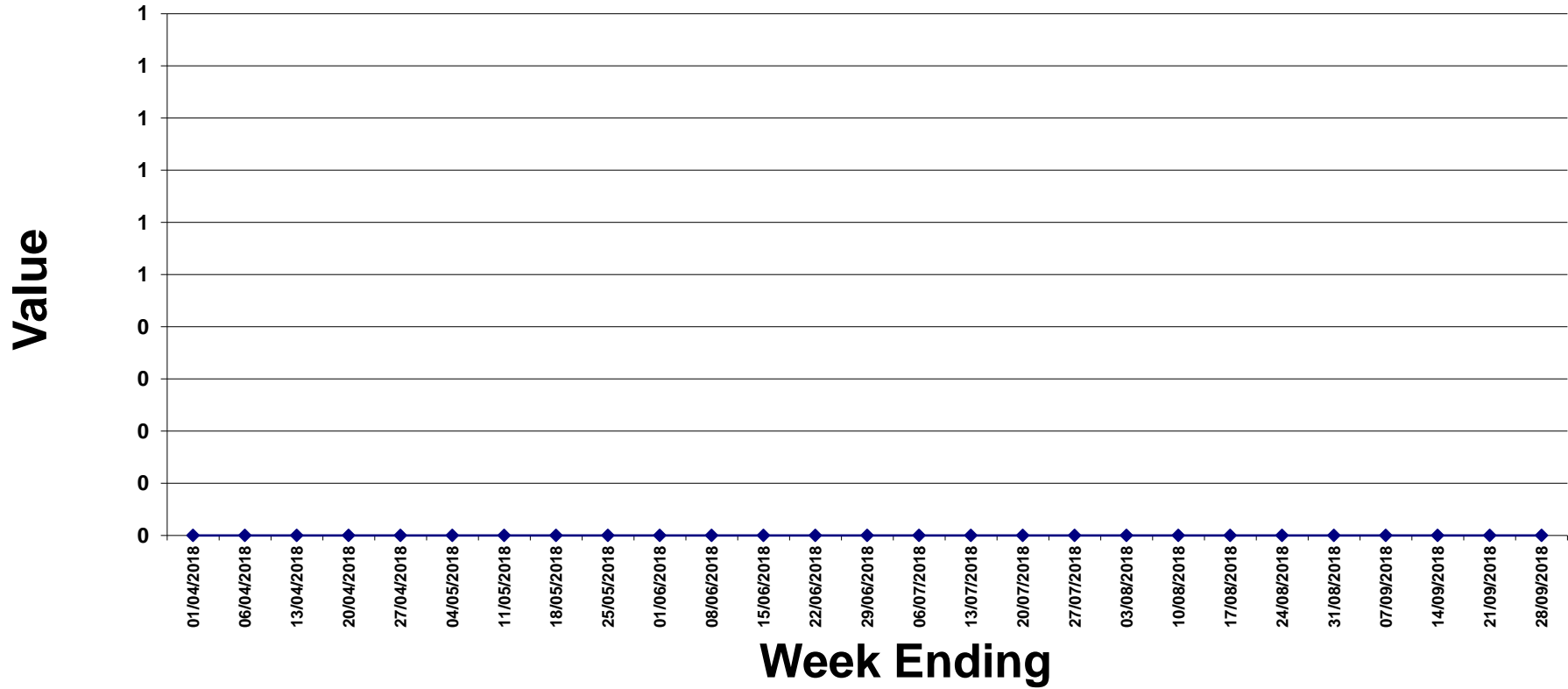


### Temporary Deposits Weekly Movement (April 2018 - September 2018)

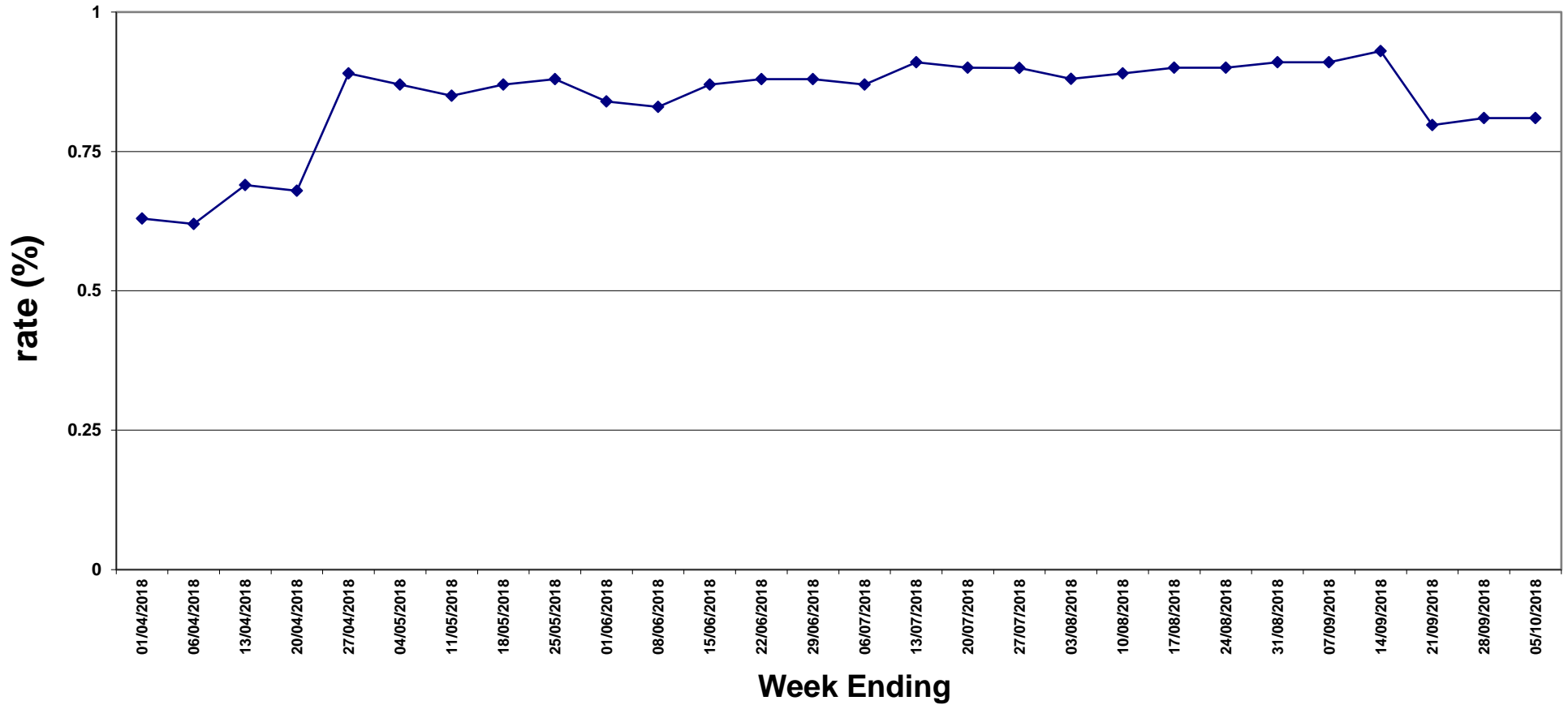




### Temporary Borrowing Weekly Movement (April 2018 - September 2018)



### Temporary Deposit Interest Rate Movements (April 2018 - September 2018)



## 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 National Westminster Bank PLC	£5m	£5m
Santander Group	Santander UK PLC	£5m	£5m
Standard Chartered Bank		£5m	£5m
Clydesdale Bank		£0m	£0m
<b>Building Societies</b>			
Nationwide		£5m	£5m
<b>Local Authorities</b>			
All Local Authorities including Police & Fire		£5m	£5m
<b>Money Market Funds</b>			
Maximum limit of £5m per fund, with the exception of Federated which has a maximum of £10m		£35m	£5m
<b>Credit Ratings</b>			
	<b>Fitch</b>	<b>Moody's</b>	<b>S&amp;P</b>
	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 LINK 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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