

EAST RENFREWSHIRE COUNCIL

AUDIT & SCRUTINY COMMITTEE

12 August 2021

Report by Head of Accountancy (Chief Financial Officer)

ANNUAL TREASURY MANAGEMENT REPORT FOR 2020/21

PURPOSE OF REPORT

1. To advise the Audit & Scrutiny Committee on the Treasury Management activities for the year ending 31 March 2021.

RECOMMENDATION

2. It is recommended that the Committee: -
- a) note the Treasury Management Annual Report for 2020/21; 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 2021 that had variable interest rates was 7.30% 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 report is based on information available, however it is subject to change during the audit process which is yet to be completed.

RECOMMENDATION

6. It is recommended that the Committee: -
- a) note the Treasury Management Annual Report for 2020/21; 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 2021

ANNUAL TREASURY MANAGEMENT REPORT 2020/21

1. Actual External Debt

| | Borrowing 01/04/20 £M | Average Interest % | Borrowing 31/03/21 £M | Average Interest % | Change in year £M |
|--------------------------------------|--------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|----------------------------------|
| <u>Long Term Borrowing</u> | | | | | |
| Public Works Loan Board | 99.57 | 3.52 | 99.03 | 3.49 | (0.54) |
| Local Authority Bonds | 14.40 | 4.60 | 14.40 | 4.60 | - |
| PFI / PPP Finance Leases | 88.66 | 7.16 | 83.80 | 7.16 | (4.86) |
| SALIX Energy Efficiency Loan | 0.02 | - | 0.01 | - | (0.01) |
| Total Long Term | 202.65 | 5.19 | 197.24 | 5.13 | (5.41) |
| <u>Short Term Investments</u> | | | | | |
| Temporary Investments | (73.82) | 1.01 | (71.93) | 0.11 | 1.89 |

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 £0.37million come into this category.
- (ii) The Treasury Strategy approved by Council on 27 February 2020, ratified external borrowing of £28m from the Public Works Loan Board to be undertaken during the year, however no external borrowing was made due to the deferral of capital expenditure to future years. In addition loans totalling £0.54 million matured.
- (iii) The average interest rate on long-term borrowing has decreased by 0.06%.
- (iv) The Council's net external borrowing position has decreased in total by £3.52 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 2021, the Council had 7.30% 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 2021 is shown both below and in Graph format at Appendix 6.

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 2021 was within the agreed limits.

Long Term Debt Maturity Profile as at 31 March 2021

| | PWLB | Local Authority Bond | SALIX | Total | |
|----------------------|--------------|-----------------------------|--------------|---------------|---------------|
| | £M | £M | £M | £M | % |
| 21/22 | 0.36 | 0.00 | 0.01 | 0.37 | 0.33 |
| 22/23 | 0.82 | 0.00 | 0.00 | 0.82 | 0.72 |
| 23/24 | 0.36 | 0.00 | 0.00 | 0.36 | 0.32 |
| 24/25 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 25/26 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 26/27 | 5.01 | 0.00 | 0.00 | 5.01 | 4.42 |
| 27/28 | 2.01 | 0.00 | 0.00 | 2.01 | 1.77 |
| 28/29 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 29/30 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 30/31 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| After 2031/32 | 90.47 | 14.40 | - | 104.87 | 92.44 |
| Total | 99.03 | 14.40 | 0.01 | 113.44 | 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 27 February 2020 along with the actual figures recorded at 31 March 2021, demonstrating that the Council is operating well within the limits set.

| Prudential Indicator | Approved indicator | Actual | COMMENT |
|-----------------------------|---------------------------|---------------|---|
| 1. Capital Expenditure | £60,682,000 | £35,084,000 | Movement is due to revised planning of capital projects to future years due to covid, resulting in a commensurate |

| | | | |
|---|--------------|--------------|--|
| | | | movement of capital expenditure. |
| 2. Capital Financing Requirement | £235,072,000 | £203,455,000 | Movement is due to a reduction in net capital expenditure in both previous and current years, also the re-phasing of the debt repayment profile for infrastructure assets. |
| 3. Operational Boundary for External Debt | £239,625,000 | £202,670,000 | Movement is due the anticipated £28m of new borrowing from PWLB not being undertaken or internal borrowing of £6.5m being utilised and existing in year debt being repaid. In addition Clyde Valley Waste was not part of Approved Indicator calculation as the financial model was not available at the time of calculation. |
| 4. Authorised Limit For External Debt | £262,707,000 | £202,670,000 | Approved indicator included an allowance for new debt of £28m as well as internal borrowing of £6.5m above what was utilised and a further allowance to cover any unexpected temporary movements of £23.08m none of which were required in year and existing in year debt was repaid. In addition Clyde Valley Waste was not part of Approved Indicator calculation as the financial model was not available at the time of calculation. |
| 5. Gross Debt | £223,187,000 | £198,022,000 | Movement is due to no new long term borrowing undertaken and Clyde Valley Waste not part of Approved Indicator calculation. |

| | | | |
|---|--|---|--|
| 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 0.46%.

| | Approved Indicator | Actual |
|-------------------------------|--------------------|--------------|
| Capital Financing Requirement | £235,072,000 | £203,455,000 |
| Gross Debt | £223,187,000 | £198,022,000 |
| Internal Borrowing Required | £11,885,000 | £5,433,000 |

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 2019/20 was 3.70%
 - Average Scottish Local Authority "Pool Rate" in 2019/20 was 3.82%
 - Average " Pool rate" charged by the Loans Fund in 2020/21 was 3.67%

The average "pool rate" charged by the Loans fund in 2019/20 is less than the Scottish Local Authority average rate which is in line with the target set in the Treasury Strategy. The average Scottish Local Authority "Pool Rate" for 2020/21 is not currently available.

- Average borrowing rate movement year on year:
 - Average borrowing rate in 2019/20 was 5.19%
 - Average borrowing rate in 2020/21 was 5.13%

This is a decrease of 0.06% which is an improvement on the target set in the Treasury Strategy of 0%

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 where appropriate (see appendix 7). All lending is in line with the permitted methods of investment which were approved by Council on 27 February 2020 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, this is 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.

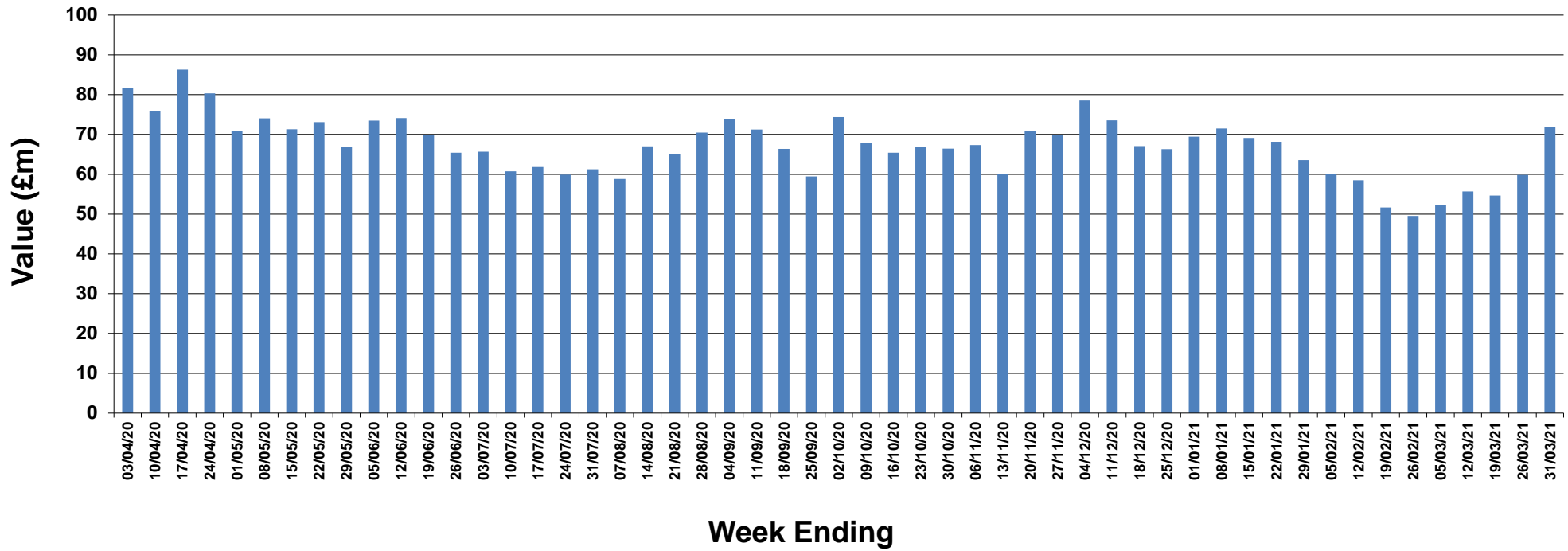
Credit ratings of organisations on the counter-party list are subject to continuous monitoring and review to ensure that subject to available professional advice, approved organisations remain sound for investment purposes.

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.

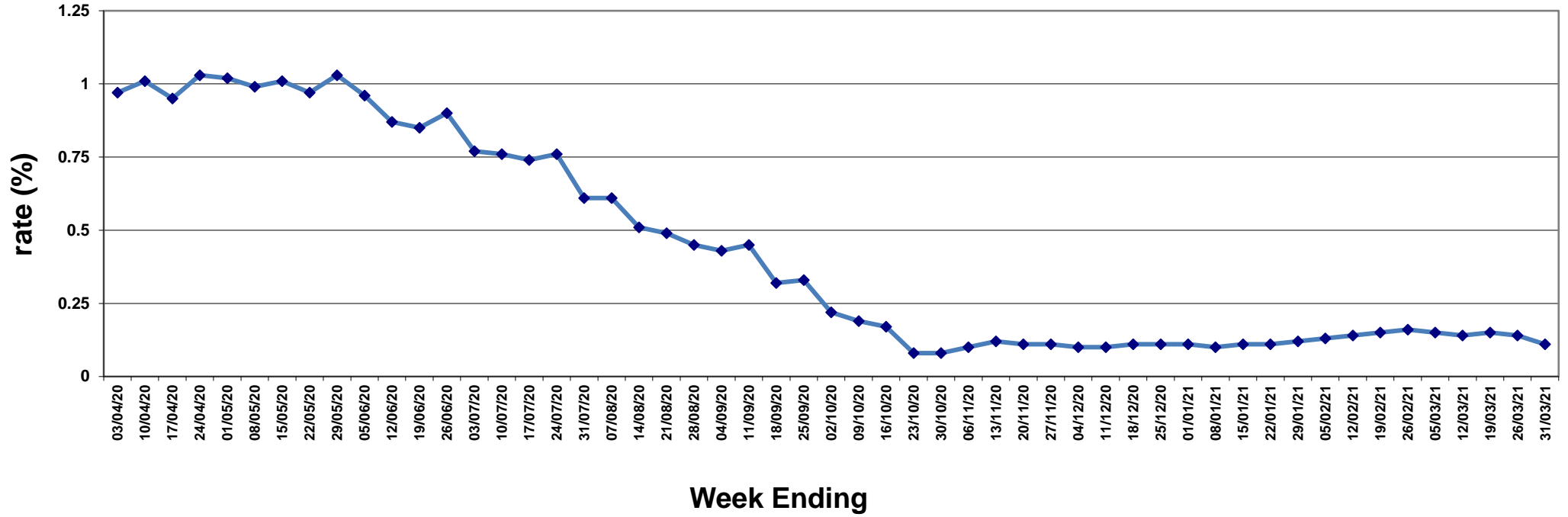
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Temporary Deposits Weekly Movement (April 2020 - March 2021)



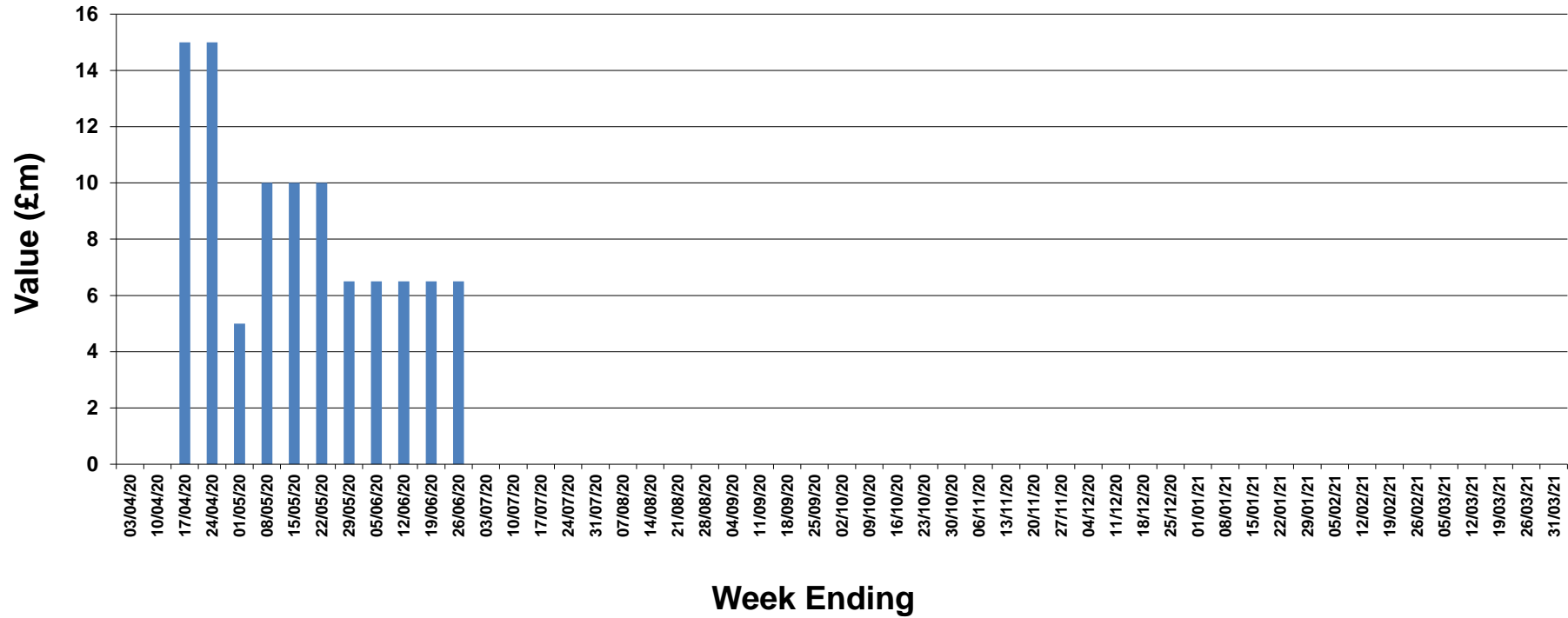
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**Temporary Deposit
Interest Rate Movements
(April 2020 - March 2021)**



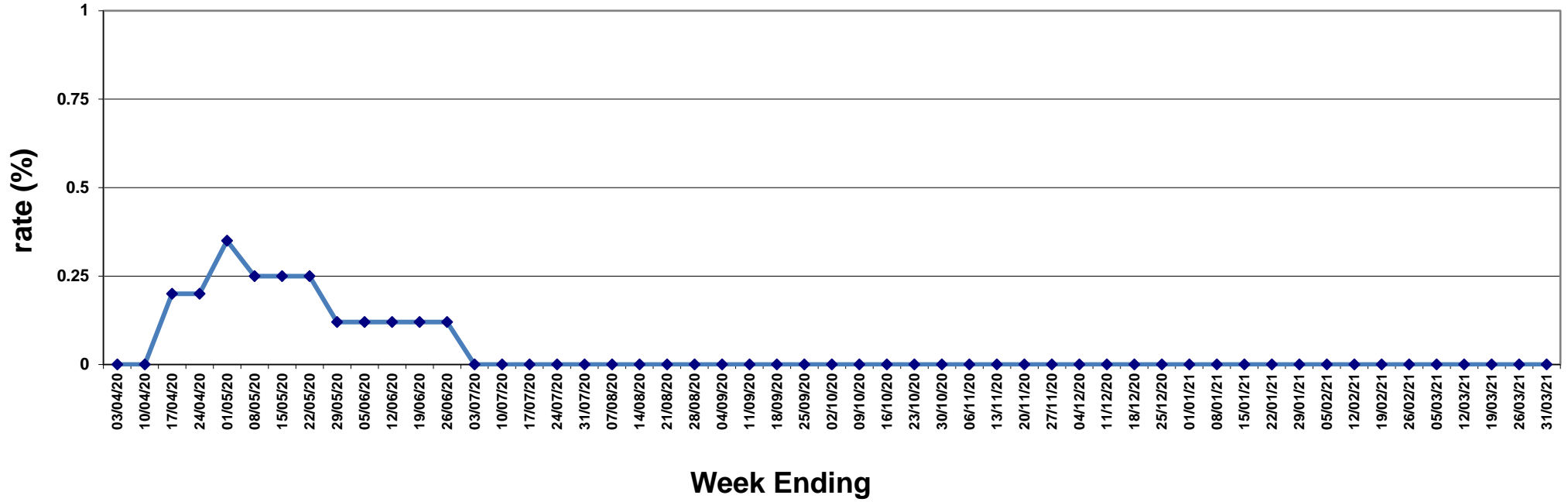
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Temporary Borrowing Weekly Movement (April 2020 - March 2021)



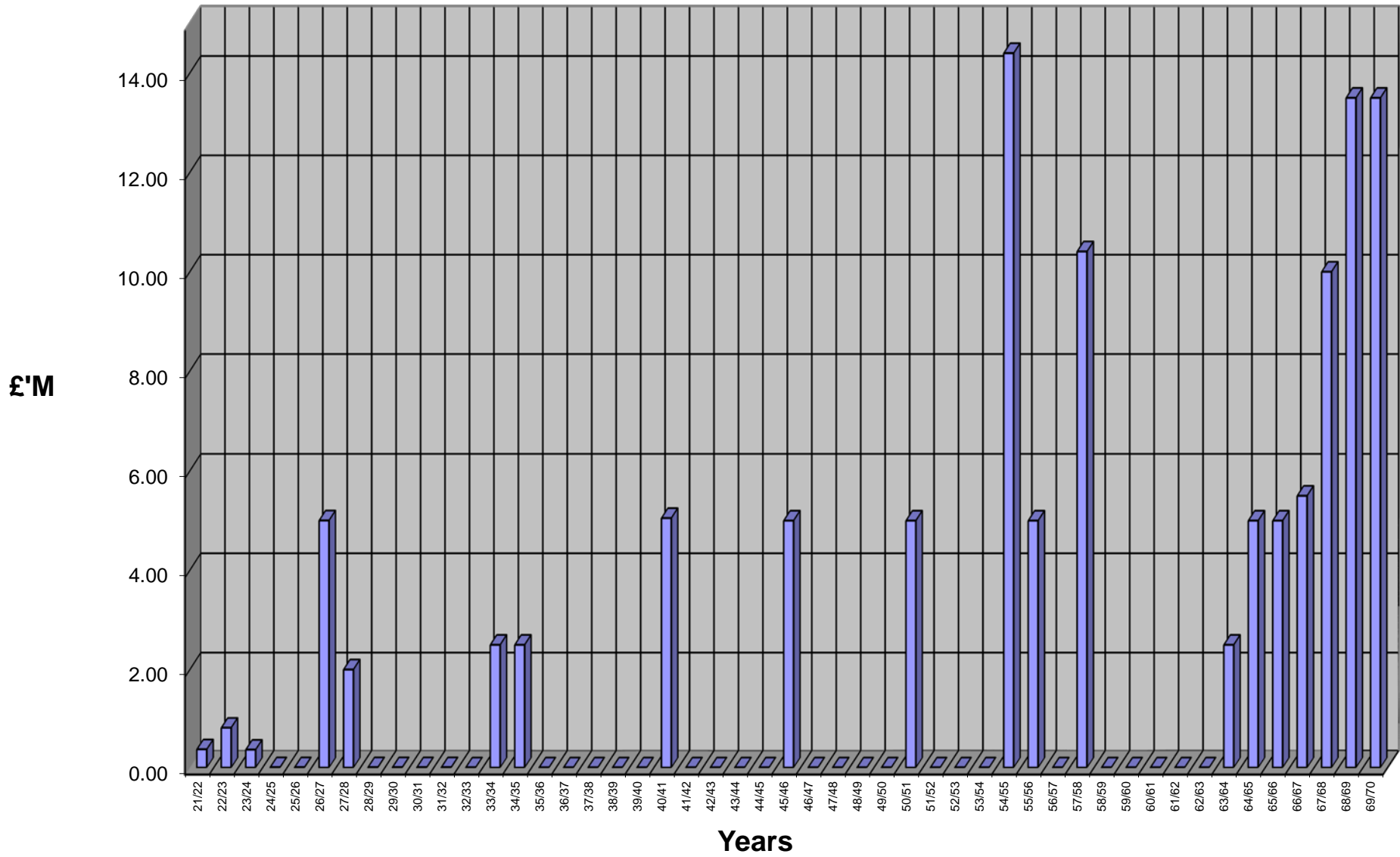
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Temporary Borrowing Interest Rate Movements (April 2020 - March 2021)



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Long Term Debt Maturity Profile as at 31/03/21



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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 | £25m | £10m |
| | UK Treasury Bills | £5m | £5m |
| Barclays Banking Group | Barclays Bank plc | £5m | £5m |
| Goldman Sachs International Bank | | £5m | £5m |
| HSBC | | £5m | £5m |
| 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 | £7.5m | £7.5m |
| Clydesdale Bank | | £0m | £0m |
| Building Societies | | | |
| Nationwide | | £5m | £5m |
| Local Authorities | | | |
| All Local Authorities including Police & Fire | | £5m | £5m |
| Money Market Funds | | | |
| Maximum limit of £10m per fund, up to a total maximum of £60m | | £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 | A | 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.