

EAST RENFREWSHIRE COUNCIL

AUDIT & SCRUTINY COMMITTEE

21 November 2024

Report by Head of Finance (Chief Financial Officer)

INTERIM (QUARTER 2) TREASURY MANAGEMENT REPORT FOR 2024/25

PURPOSE OF REPORT

1. To advise the Audit & Scrutiny Committee on the Treasury Management activities for the Quarter ending 30 September 2024. The figures reported below may be subject to change during the current audit process.

RECOMMENDATION

2. It is recommended that the Committee:
 - note the Interim Treasury Management Report for Quarter 2 2024/25; and
 - 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 September. The Council continues to adopt a prudent approach to treasury management and, in particular, highlight the 7.20% of loans held as at 30 September 2024 that had variable interest rates, 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:
 - note the Interim Treasury Management Report for Quarter 2 2024/25; and
 - recommend to the Council that the attached organisations for investment of surplus funds be approved.

REPORT AUTHOR

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Report Date:

6 November 2024

INTERIM TREASURY MANAGEMENT REPORT QUARTER 2 2024/25

Table 1

1. Actual External Debt

	Borrowing 01/07/24 £M	Average Interest %	Borrowing 30/09/24 £M	Average Interest %	Change in year £M
<u>Long Term Borrowing</u>					
Public Works Loan Board	112.49	3.29	112.49	3.29	0.00
Local Authority Bonds	14.40	4.60	14.40	4.60	0.00
PFI / PPP Finance Leases	68.13	7.17	68.13	7.17	0.00
Total Long Term	195.02	4.74	195.02	4.74	0.00

Net Short Term Investments/Borrowing

Temporary Investments/Borrowing (27.01)	5.42	(25.63)	5.07	1.38
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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 £0.003 million come into this category.
- (ii) The Treasury Strategy approved by the Council on 28 February 2024, ratified external borrowing of £62m from the Public Works Loan Board (PWLB) to be undertaken. However at present no new borrowing has been undertaken due to a recommendation by the Head of Finance to defer long term borrowing, where possible, until the current high interest rates come down. During the quarter there were no loan repayments.
- (iii) There has been no change to the average interest rate on long-term borrowing from that reported previously.
- (iv) The Council's net external borrowing position has increased in total by £1.38 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, the maximum period of investment was restricted to 6 months.
- (vi) At 30 September 2024, the Council had 7.20% 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 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 September 2024 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 September 2024 was within the agreed limits.

Long Term Debt Maturity Profile as at 30 September 2024

	PWLB	Local Authority Bond	Total	
	£M	£M	£M	%
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	3.95
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
33/34	0.00			
After 2034/35	105.47	14.40	119.87	94.47
Total	112.49	14.40	126.89	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 28 February 2024 along with the projected outturn figures recorded at 30 June and 30 September 2024, demonstrating that the Council is operating well within the limits set.

Prudential Indicator	Approved indicator £'000s	Projected Outturn @ 30/06/24 £'000s	Projected Outturn @ 30/09/24 £'000s
Capital Expenditure	75,740	77,738	77,657
Comment	Movement from the projected outturn at 30 June is due to the revised planning of capital projects within both the Housing and General Fund Capital Programmes, moving capital spend from the current to the following financial year.		
Capital Financing Requirement (CFR)	312,313	296,331	294,569
Comment	Movement from the projected outturn at 30 June is due the revised planning of capital projects within both the Housing and General Fund Capital Programmes, moving capital spend from the current to the following financial year.		
Operational Boundary for External Debt	317,144	301,163	299,400
Comment	Movement from the projected outturn as 30 June is due to a reduction in permitted borrowing from that last reported due to a reduction in capital spend in the current year.		
Authorised Limit For External Debt	354,496	336,116	334,090
Comment	In addition to the variance explanation for the Operational Boundary for External Debt above, the Authorised limit for External Debt also includes a further allowance to cover any unexpected temporary movements.		
Gross Debt	262,188	237,688	237,688
Comment	There is no movement from the position as at 30 June.		
Gross Debt to CFR (Under) / Over	(50,125)	(58,643)	(56,881)
Comment	Movement from the projected outturn at 30 June is as a result of a reduction in net capital expenditure in the current year.		

Financing to Net Revenue Stream Non – HRA HRA	6.3% 35.1%	5.9% 35.0%	5.9% 35.3%
Comment	Movements from the projected outturn at 30 June relates to a review of the anticipated HRA income in the current year since that last reported.		
HRA - Ratio of Debt to Revenue	334.8%	324.0%	326.2%
Comment	Movement from the projected outturn at 30 June relates mainly to a review of the anticipated HRA income in the current year since that last reported.		
HRA – Debt Per Dwelling £	16,891	16,575	16,080
Comment	Movement from the projected outturn at 30 June relates to a review of the projected housing stock numbers for the current year since that last reported.		
Code of Practice For Treasury Management	<p>The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.</p> <p>All of the approved activities within the Council Treasury Management Policy Statement have been complied with.</p>		

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 Finance has requested that borrowing, where possible, is not undertaken until interest rates come down from their current level.

	Approved Indicator £'000s	Projected Outturn @ 30/06/24 £'000s	Projected Outturn @ 30/09/24 £'000s
Capital Financing Requirement	£312,313	£296,331	£294,569
Gross Debt	£262,188	£237,688	£237,688
Internal Borrowing Required	£50,125	£58,643	£56,881

5. DEBT PERFORMANCE INDICATOR

The Treasury Strategy sets out the following debt performance indicator:

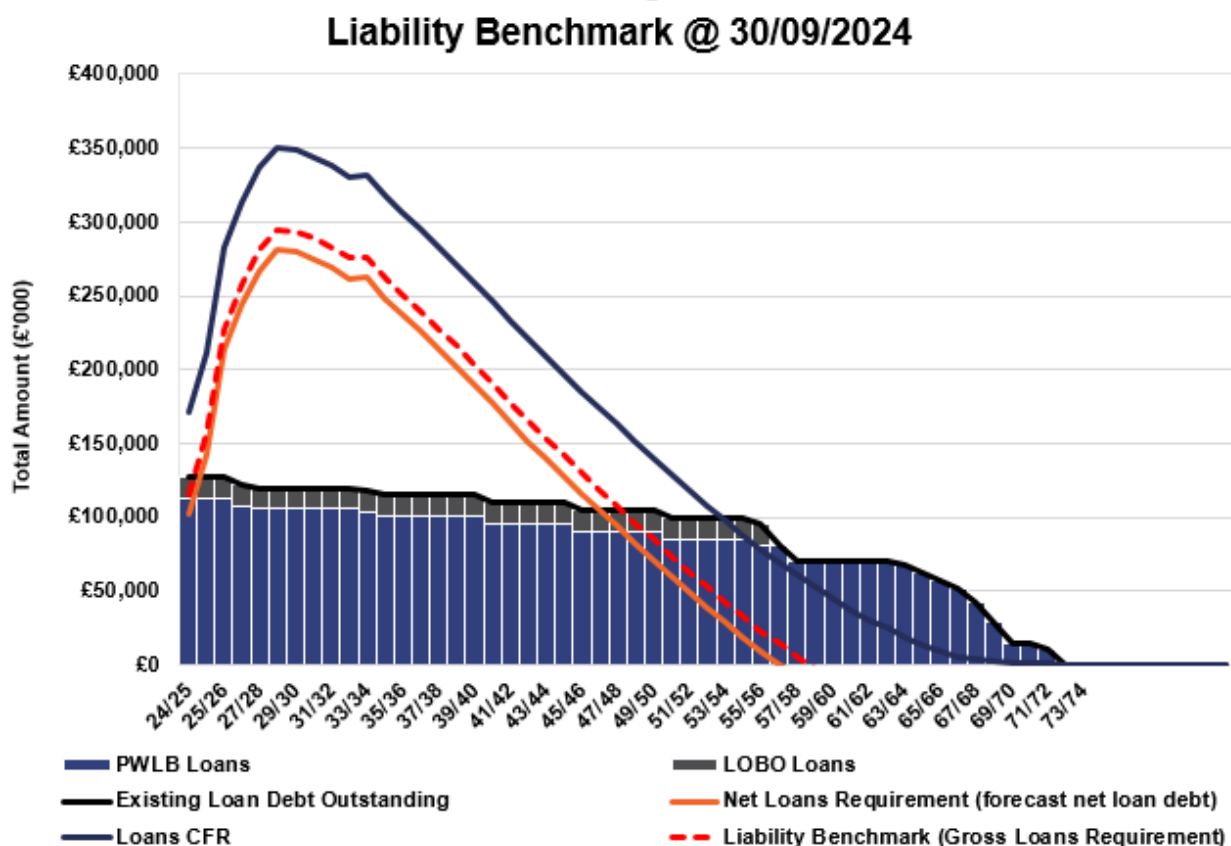
- i) Average “pool rate” compared to Scottish average:
This information is only available after the year end.

6. LIABILITY BENCHMARK

The Council is required to estimate and measure the Liability Benchmark (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 shows 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.



7. APPROVED ORGANISATIONS FOR INVESTMENT

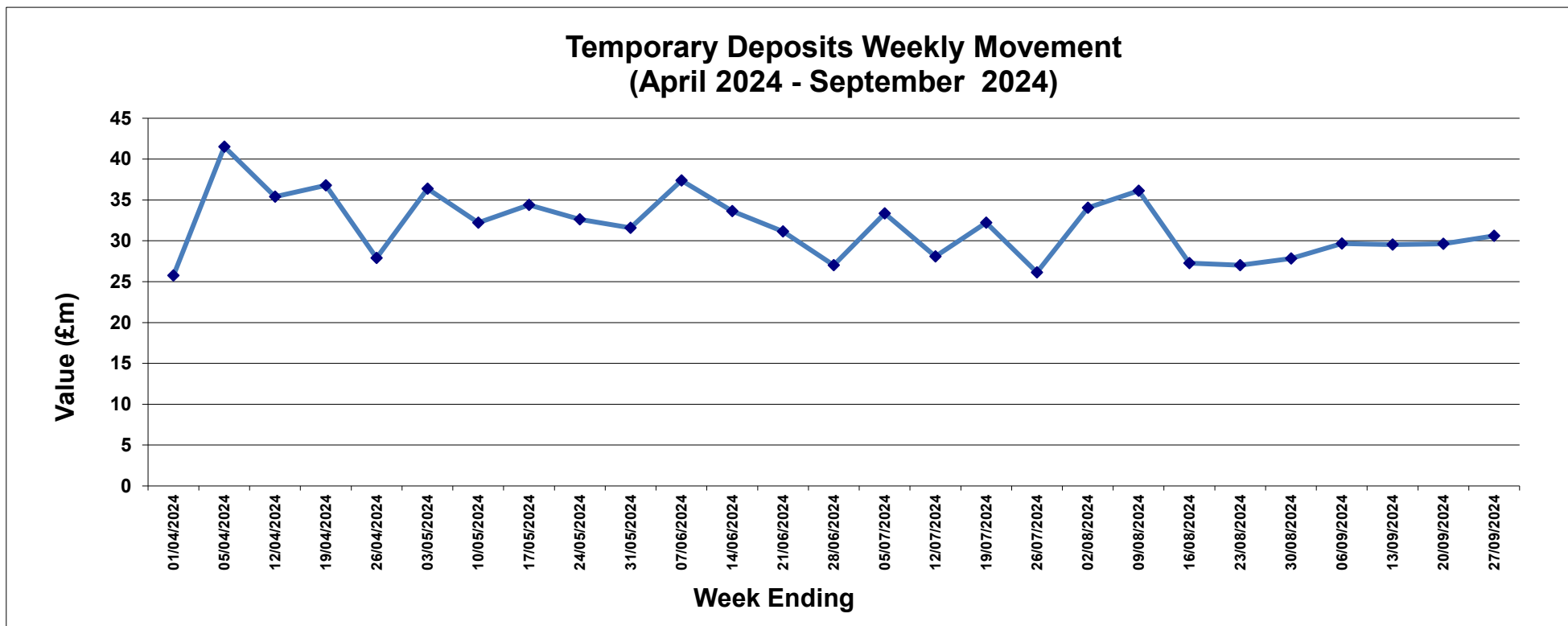
In line with normal practice, the status of all Banks and Building Societies has been reviewed in order to amend the current list of approved organisations for investment (see appendix 8). The only change made since that last reported on 26 September 2024 is to reflect the completion of the recent takeover of the Clydesdale/ Virgin Money bank by the Nationwide Group. All lending is in line with the permitted methods of investment, which were approved by Council on 28 February 2024 as part of the Treasury Management Strategy report.

As a result of the banking crisis and in line with prudent financial management, investments have 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.

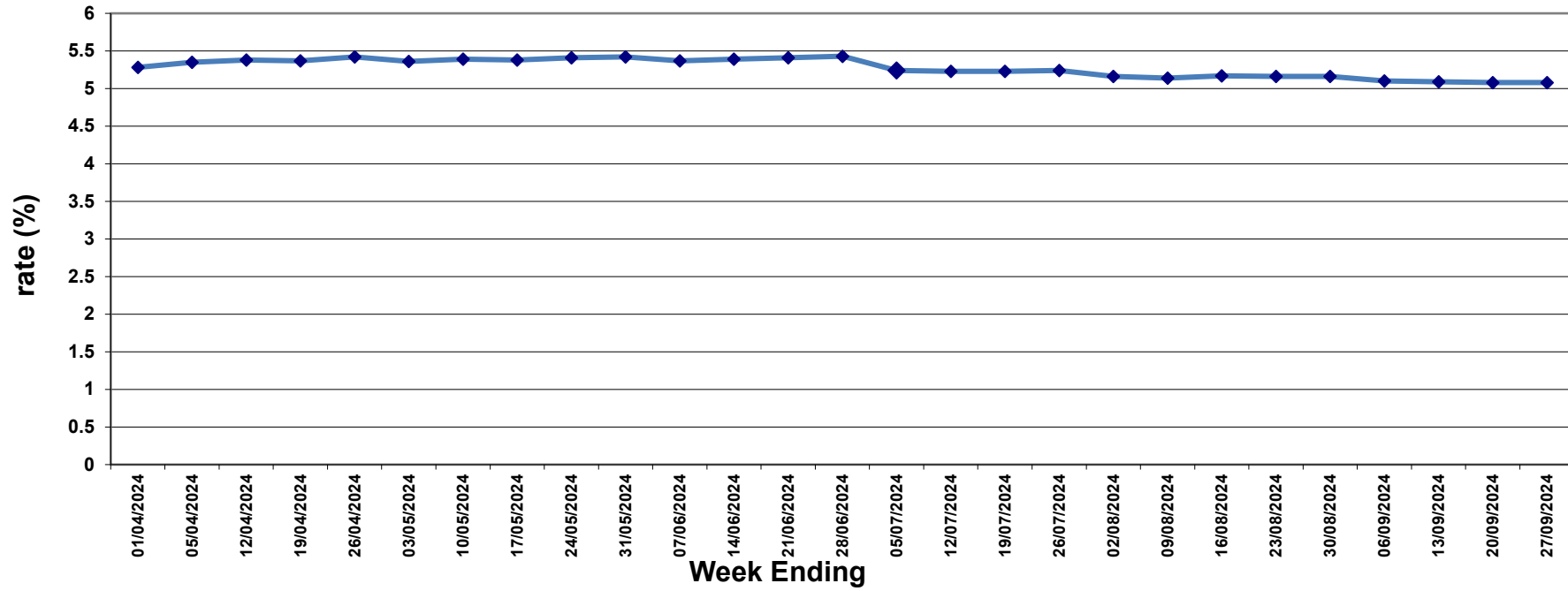
Credit ratings of organisations on the counter-party list are subject to continuous monitoring and review to ensure that subject to available professional advice, approved organisations remain sound for investment purposes.

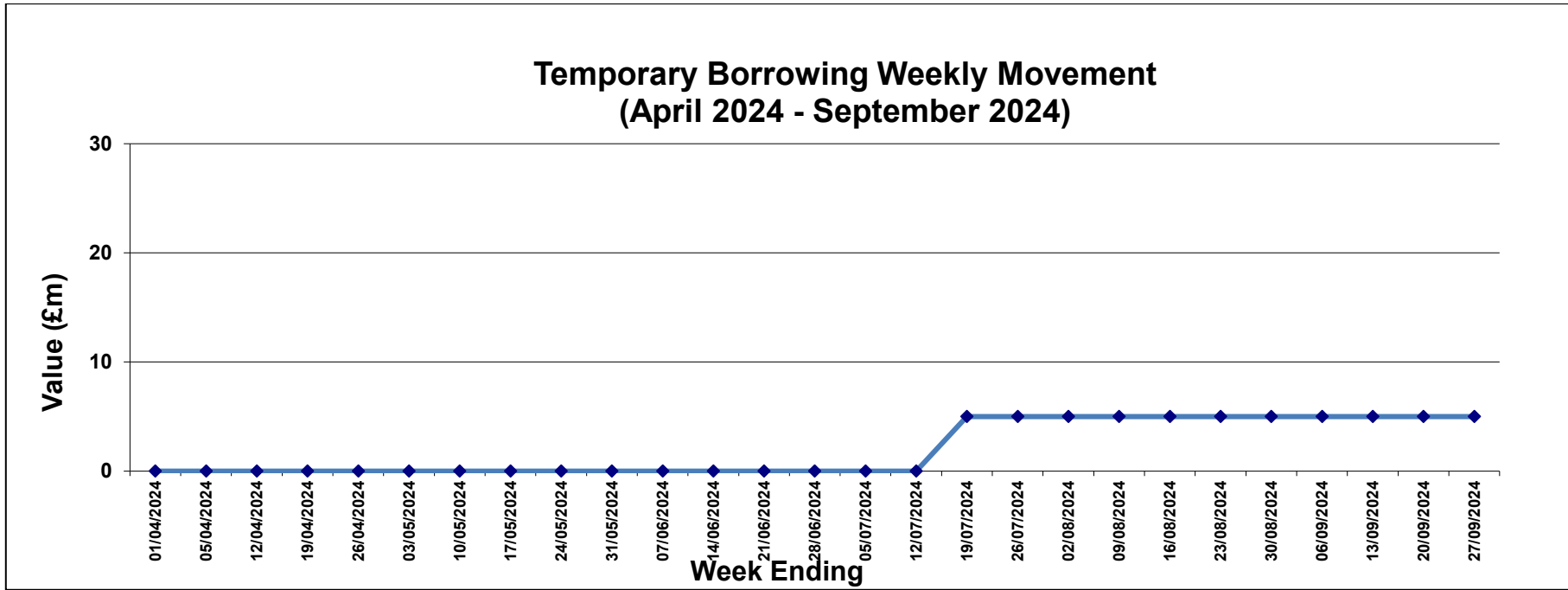
8. TREASURY MANAGEMENT RISK

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.

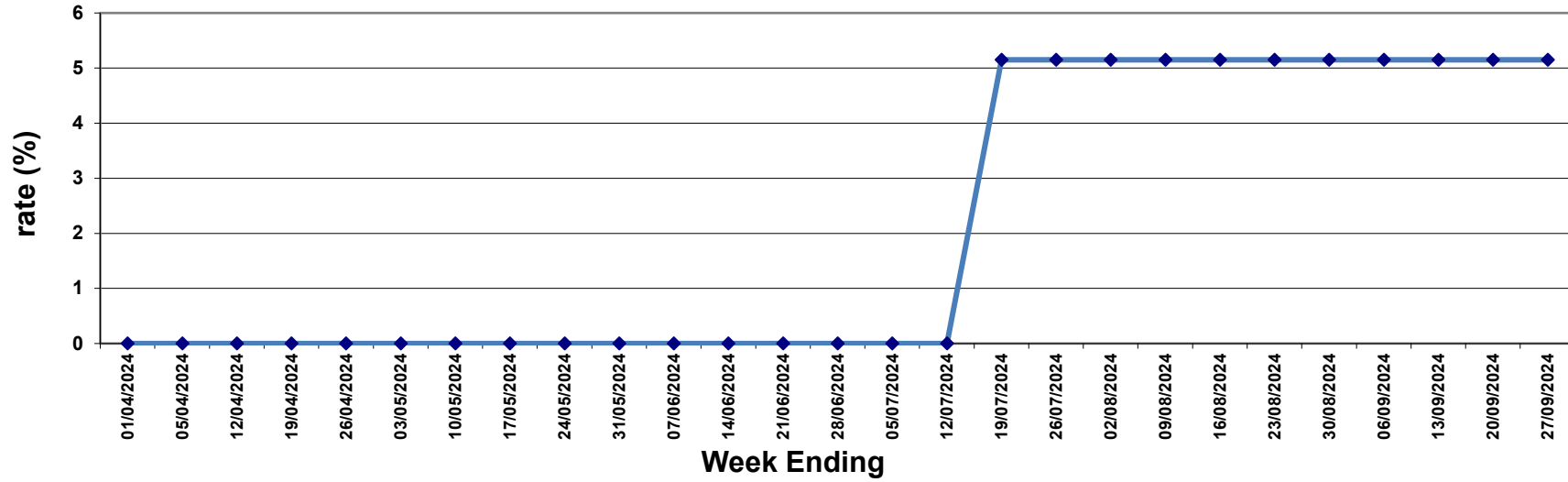


Temporary Deposit Interest Rate Movements (April 2024 - September 2024)

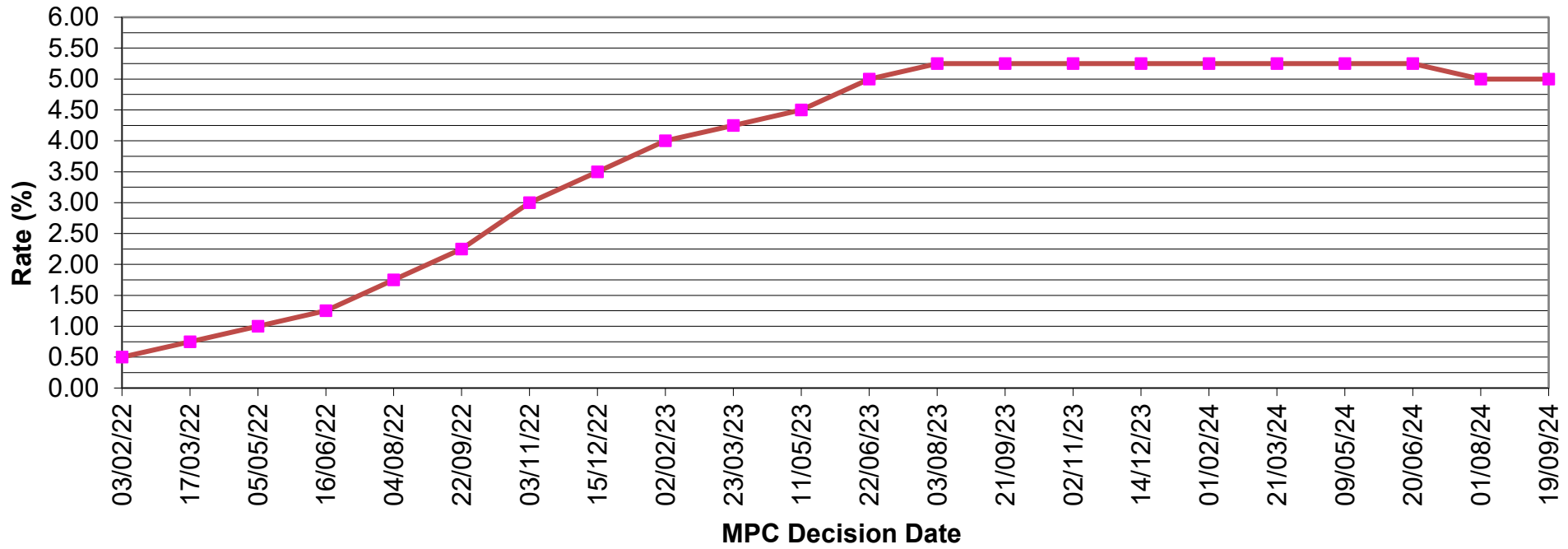




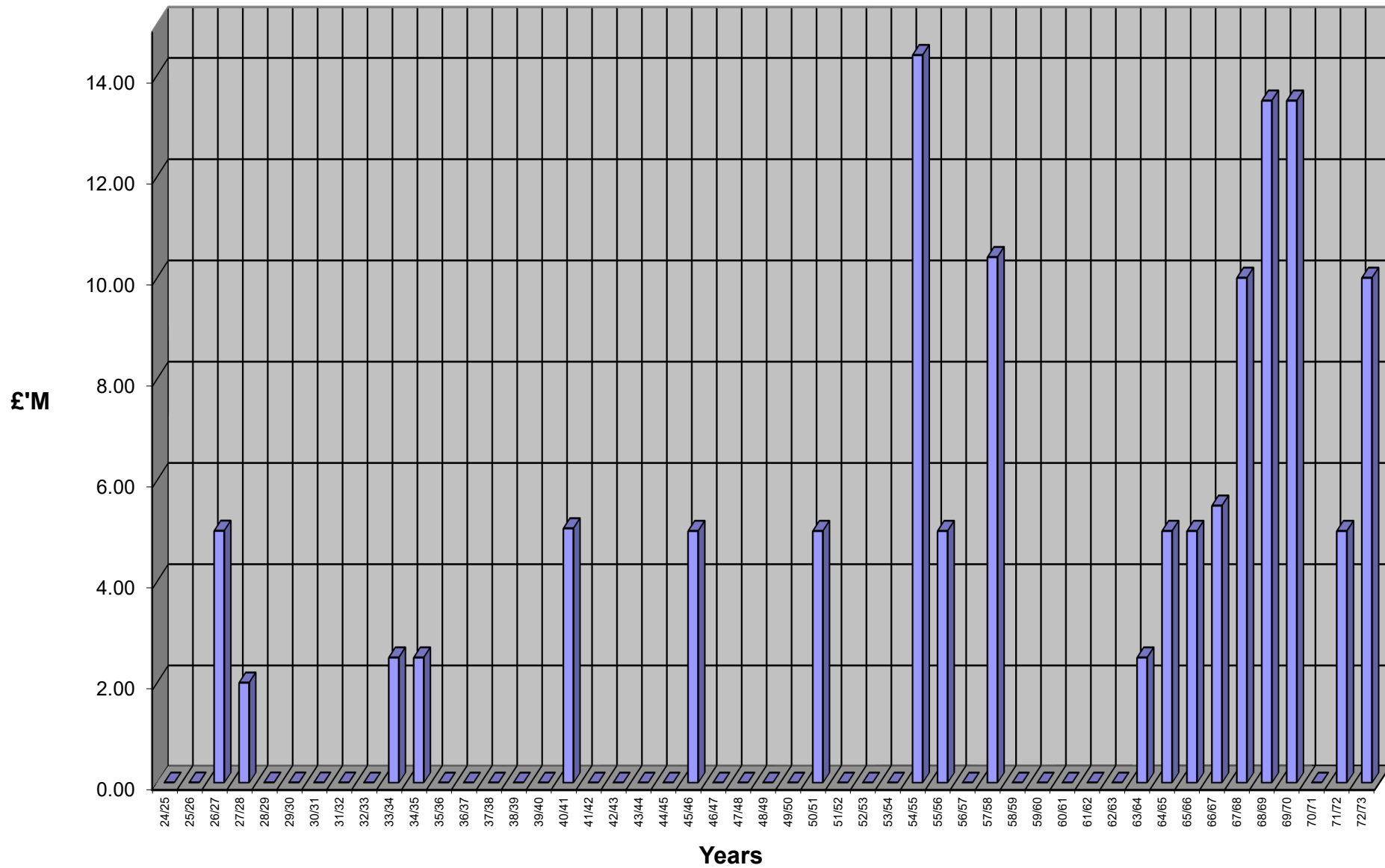
Temporary Borrowing Interest Rate Movements (April 2024 - September 2024)



Bank of England Base Rate Movements (April 2022 to September 2024)



Long Term Debt Maturity Profile as at 30/09/2024



**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
Building Societies			
Nationwide Group	Nationwide Building Society	£5m	£5m
	Virgin Money (Clydesdale)	£5m	£5m
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
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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.

