Renfrewshire Council

To: Council

On: 28 June 2018

Report by: Director of Finance and Resources

Heading: Treasury Management Annual Report for 2017-18

1. Summary

1.1 An annual report to Council outlining the treasury management activity undertaken during the year is a requirement of the Local Government Investments (Scotland) Regulations 2010.

1.2 This report meets the requirements of these regulations, and both the CIPFA Code of Practice on Treasury Management 2009 (as amended 2017) (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.3 All aspects of the Treasury Policy Statement were complied with in 2017-18.

2. Recommendations

2.1 It is recommended Council approves the Treasury Management Annual Report for 2017-18.

3. Review of 2017-18 Treasury Activities

3.1 Treasury Portfolio Position at 31.03.18

The Council's external borrowing position at the beginning and end of the last financial year was as follows:-

	Borrowing Position as at 31 March 17		Borrowing Position as at 31 March 18		Change
	£ m (a)	Average Interest Rate	£ m (b)	Average Interest Rate	(b) - (a)
Long Term Borrowings					
Public Work Loans Board - (PWLB) Fixed Interest	186.41	4.80%	175.20	4.79%	(11.21)
Market Loans	52.91	4.69%	52.91	4.69%	-
Total Long Term	**239.32**	**4.78%**	**228.11**	**4.78%**	**(11.21)**
Short Term Borrowings					
Common Good Funds	4.23	0.54%	3.44	0.46%	(0.79)
Agencies, Joint Boards	2.90	0.54%	1.91	0.46%	(0.99)
Renfrewshire Leisure Ltd	0.18	0.54%	-	0.46%	(0.18)
Total Short Term	**7.31**	**5.40%**	**5.35**	**0.46%**	**(1.96)**
Total Borrowings	**246.63**	**4.78%**	**233.46**	**4.78%**	**(13.17)**
Temporary Investments	**133.45**	**0.49%**	**112.01**	**0.54%**	**(21.44)**

4. Review of Borrowing and Investment Outturn for 2017-18

4.1 Overall, the Council's total external borrowings decreased by £13.17 million. This was mainly due to the scheduled repayment of £11.21m of maturing loans to Public Works Loan Board (PWLB).

4.2 Temporary investments held by the Council decreased by £21.44 million. The main reason for this was due to the repayment of the £11.21m of maturing loans to the PWLB. In line with the Council's Treasury Management Strategy no new borrowing was undertaken and investment balances were also used to fund capital investment requirements for the year. The level of cash balances held are required to fund the agreed capital programme, scheduled PWLB repayments and a number of cash-backed provisions and reserves that the Council has made for specific purposes in closing the 2017-18 accounts.

5. Review of Borrowing Strategy and New Borrowing during 2017-18

5.1 The agreed strategy for 2017-18 was approved by Council on 16 February 2017. Based on the Council's planned programme of investments and interest rate forecasts for the year, the Council's borrowing strategy was to use internal cash balances to finance the Capital Investment Programme, acknowledging that this principle did not include the short and longer term financing impact of City Deal projects. As outlined above and in line with this strategy, no new borrowing was undertaken in 2017-18.

6. Review of Investment Strategy and Investment Outturn for 2017-18

6.1 In carrying out investment activities, the Council will have regard to The Local Government Investment (Scotland) Regulations 2010, the accompanying Scottish Government Finance Circular 5/2010 and the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes ("the Treasury Management Code").

The Council's investment priorities are the :

- security of capital and
- liquidity of its investments

The Council's investment policy was outlined in the Council's Annual Investment Strategy Report 2017-18 which was approved by Council on 16 February 2017. This policy set out the Council's approach for choosing investment categories and counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

6.2 The Investment Strategy for 2017-18 anticipated the Bank Rate staying low for throughout the year, with marginal increases commencing over the medium term. The strategy agreed was therefore to continue to avoid locking into longer term deals while investment rates remained at historically low levels. However, if attractive rates became available with counterparties of particularly high creditworthiness making longer-term deals worthwhile then these investments would be considered.

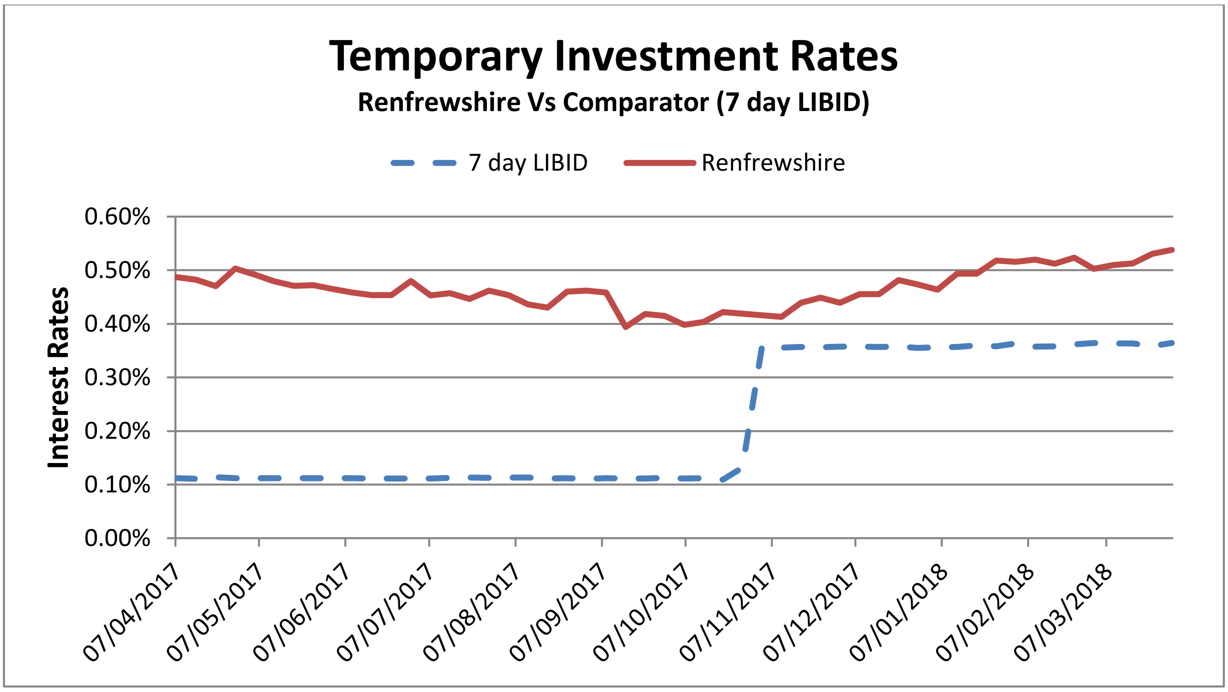
6.3 Deposit rates remained low at the start of 2017/18 and continued to fall in the first two quarters. However, the Bank of England Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% in November 2017. This was the first rate rise in ten years and rates increased gradually from then until the year end on the expectation of a further increase in Bank Rate. Rates have since fallen away again in the new financial year as the prospect of further significant rate rises diminishes. The low rates and ongoing uncertainty has highlighted the need for caution to be maintained in the Council's treasury investment activity.

6.4 During 2017-18, the Council only invested with institutions listed in the Council's approved Counterparty list and in the permitted investment categories. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

6.5 The table below shows interest rates achieved by the Council on its temporary investments during the year and for comparison the benchmark comparator, the average 7 day LIBID rate (uncompounded).

Temporary investments - internally managed	**2016/17**	**2017/18**
Average Investment	£142.36m	£145.53m
Actual rate of return	0.54%	0.46%
Benchmark return	0.20%	0.21%

6.6 The graph below shows the trend of interest rates on our investments over the course of the year. The Council out-performed the average benchmark for the year. Throughout the year the Council made use of opportunities where appropriate to invest for longer periods with high quality counterparties up to one year when better rates were available. These special tranche rates offered some value over the year however, deposit rates remained depressed during the whole year, primarily due to the increased availability of cheap funding from alternative sources, such as the Bank of England's Funding for Lending Scheme and due to continuing weak expectations as to when the Bank Rate would start rising.



7. Debt Rescheduling

7.1 No rescheduling was undertaken during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling uneconomic and the Council continued to use internal cash balances to finance ongoing capital investment in the short term.

8. Compliance with Treasury Limits

8.1 The Prudential Code for Capital Finance in Local Authorities came into force on 1 April 2004 and replaced the previous system of “Section 94” Government controls over capital investment and borrowing. The Prudential Code allows greater local flexibility for investment decisions that are informed and supported by a “basket” of performance indicators. The 2017/18 indicators were approved by Council on 16 February 2017, and subsequently revised on 21 December 2017.

8.2 The Council’s overall performance against the basket of these indicators provides a firm basis for the monitoring and control of capital investment and borrowing and for determining that it is affordable. Certain headline indicators are sub-divided per recommended best practice into two programmes – housing and non-housing.

8.3 The key performance indicators for Treasury are:

1. An “operational boundary” for the Council’s external borrowing (the upper limit for the aggregate external borrowing needed) plus an “authorised limit” for the Council’s external borrowing (the upper limit of aggregate external borrowing that is affordable and prudent).

2. An upper limit for “exposure to fixed interest and variable rate debt” (to manage the risk of over-exposure to fluctuations in interest rates over time)

3. A ratio of financing costs to net revenue stream (an affordability measure for debt repayments).

4. An upper limit for fixed rate borrowing maturing within the short, medium and long term (to ensure that the Council is not exposed to a significant re-financing requirement in the short to medium term).

In addition, it is a requirement of the Council's Treasury Policy Statement that the maximum amount of long term borrowings maturing in any one year will be no more than 15% and the maximum amount of long term borrowings maturing in any five year period will be no more than 50%. The objective of these limits is to ensure that the Council is not exposed to a significant re-financing requirement over a short period when interest rates could be relatively high.

8.4 External Borrowing at the Year-end

The Council's aggregate external debt was contained within both the operational boundary and the authorised limit. The outturn compared to the prudential limits is as follows:

2016/17 Outturn £m		2017/18 Borrowing Limits £m	2017/18 Outturn £m
319.38	Aggregate external debt of the Council at 31 March		305.29
382	Operational Boundary	413	
397	Authorised Limit	430	

8.5 Exposure to Fixed Interest and Variable Rate Debt

This indicator is expressed as a proportion of the total external debt of the Council. The Council's exposure was within the limits set for both fixed and variable debt. The outturn compared to the prudential limits is as follows:

2016/17 Outturn %		2017/18 Approved Upper Limits %	2017/18 Outturn %
77.89	Fixed interest rate exposure	100.00	76.80
22.11	Variable interest rate exposure	25.00	23.20

8.6 Ratio of Financing Costs to Net Revenue Stream

This indicator is expressed as a proportion. Both the Housing and Non-housing programme were within estimate.

2016/17 Outturn %		2017/18 Estimated Ratio %	2017/18 Outturn %
53.4	Housing	43.84	59.94
4.5	Non-Housing	4.79	5.72

The higher than forecast outturn position reflects adjustments made to planned debt repayments linked to the Council's ongoing medium term debt smoothing strategy.

8.7 Fixed Rate Borrowing Maturing within the Short, Medium and Long Term

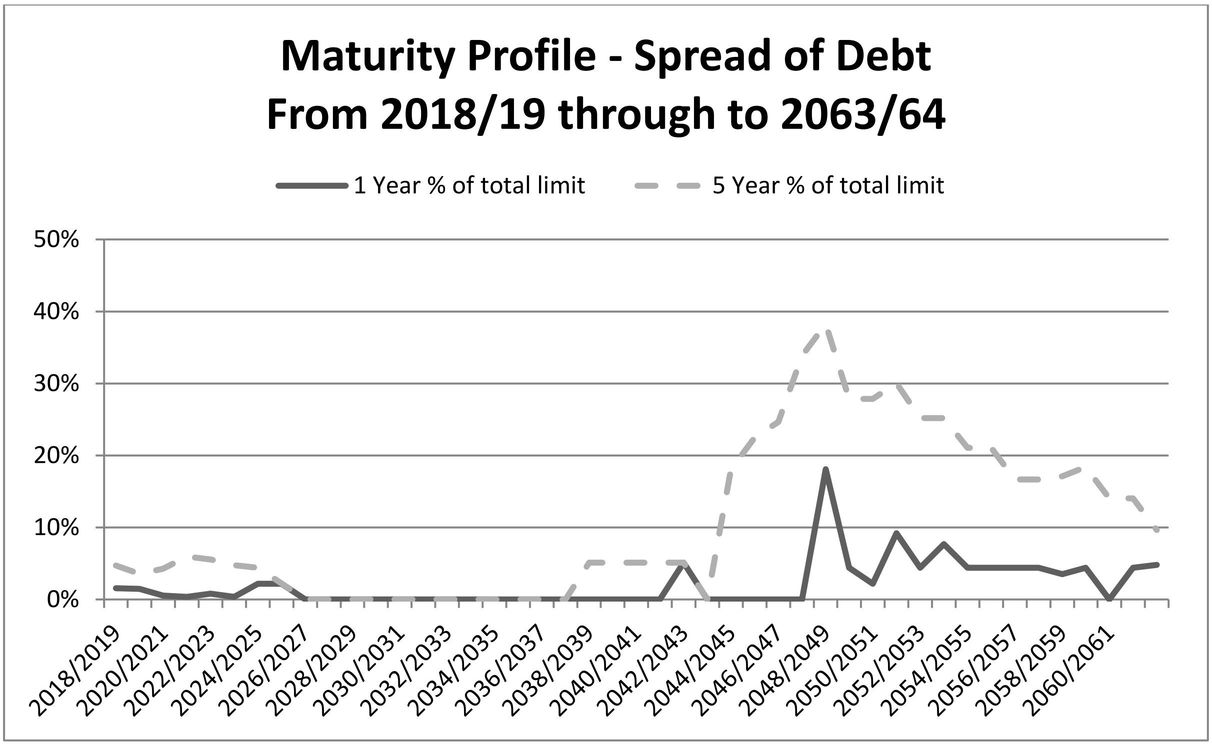
This indicator is expressed as a proportion of the total debt of the Council. The maturity profile of the Council's external debt is well within the approved limits. The outturn compared to the estimate is as follows:

2016/17 Outturn		2017/18 Approved Upper Limits	2017/18 Outturn
%		%	%
	Short term		
4.69	Under 12 months	15	1.55
	Medium term		
1.47	12 months and within 24 months	15	1.46
2.25	24 months and within 5 years	15	1.72
5.32	5 years and within 10 years	50	4.76
	Long term		
86.28	10 years and above	100	90.51

8.8 Long Term Borrowing Maturity Profile

During the financial year, the Council operated within the treasury limits set out in the Council's Treasury Policy Statement and Treasury Strategy Statement. The Council's debt maturity profile at 31 March 2018 was within these limits with the exception of the debt maturing in the year 2048/49. The debt maturing in the year 2048/49 is 18.12% of the portfolio as compared to a target of 15%. This marginal breach on the 15% target emerged as a consequence of a change implemented in 2007/08, in the way Lender Option/Borrower Option (LOBO) loans are treated in calculating the Council's maturity profile. Previously the next option date was used as a "potential" maturity date for each loan and this has been changed to the actual maturity end date for each loan. This better reflects the maturity risk in relation to these loans and although it does marginally breach our 15% target in 2048/49, it is expected that the debt will be subject to re-profiling well in advance of the 2048/49 maturity date.

The table below shows the "maturity profile" of the Council's long term borrowing. The heavy black line shows the debt maturing - and therefore requiring to be replaced - during each year up to 2064. The lighter broken line shows the debt maturing in the five year period for each year up to 2064. All years are below 40% and well within our policy limit of 50%.



Implications of the Report

1. **Financial** - As described in this report
2. **HR & Organisational Development** - None
3. **Community Planning** – None
4. **Legal** - None
5. **Property/Assets** None
6. **Information Technology** – None
7. **Equality & Human Rights** – The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report because it is for noting only. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** None
9. **Procurement** – None

10. **Risk** – the report outlines a range of measures taken during the course of 2017/18 to manage treasury risks and the risk issues associated with the investment regulations in respect to borrowing and investment activity of the Council and the proposals for managing these risks.

11. **Privacy Impact** – None

12. **COSLA implications -** None

List of Background Papers

Author: Alastair MacArthur, Head of Finance, Ext 7363