Renfrewshire Council

To:	**Council**
On:	**14 December 2023**

Report by: **Director of Finance and Resources**

Heading: **Treasury Management and Prudential Indicators Mid-Year Review 2023/24**

1. Summary

1.1 This mid-year report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice on Treasury Management 2021. The report covers the following for 2023/24 to date:

- a review of the Treasury Management Strategy Statement 2023/24, incorporating the annual investment strategy;
- a review of the Council's borrowing and investments;
- a review of compliance with treasury management and prudential indicators;
- an economic update and interest rate forecast.

2. Recommendations

2.1 It is recommended that Members:

a) Note the treasury management activity for the period 1 April 2023 to 13 October 2023 (reporting period 7);

b) Approve the 'Probable' prudential indicators for capital expenditure as detailed in Section 7 of the report.

3. Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement for 2023/24 was approved by Council on 2 March 2023. It incorporates the Annual Investment Strategy, which sets out the Council's investment priorities as follows:

- the security of capital; and
- the liquidity of its investments.

3.2 The Council also aims to achieve the best return on its investments, along with the proper levels of security and liquidity.

3.3 Investments and borrowing between 1 April to 13 October 2023 have been in line with the approved strategy, and there have been no changes to the policies set out in the Treasury Management Strategy Statement 2023/24.

3.4 In the current economic climate, it is considered appropriate to keep investments short-term to cover cashflow needs, but also to seek improved returns in periods up to 12 months with high credit-rated financial institutions. The following sections in this report provide an update in light of the current economic position and any budgetary changes already approved.

4. Review of borrowing and investments over the period 1 April 2023 to 13 October 2023

4.1 The Council's net borrowing position is calculated as total borrowing minus total investments. At 13 October 2023, this figure was a net borrowing position of £67.2m (see Appendix 1).

4.2 During the period 1 April to 13 October 2023, the Council's total external borrowing increased from £277.3m to £281.2m, due to additional temporary borrowing on the local authority market of £10m, although this was partially offset by a £6.15m repayment of one of the Council's market loans. The additional borrowing was taken to support the Council's cashflow on a short-term basis.

4.3 In the same period, short-term investments have increased from £172.7m to £214.0m primarily due to the front-loading of revenue support grant and other sources of income, such as City Deal (this means that more cash is received in the earlier part of the year).

4.4 The Director of Finance and Resources confirms that, during the period 1 April to 13 October 2023, the approved limits set out within the annual investment strategy sections of the Treasury Management Strategy Statement 2023/24 were complied with, and the Council only invested with institutions listed in its approved lending list.

Similarly, only permitted investment vehicles were used, mainly fixed-term deposits with banks, other local authorities, the UK governments deposit facility (DMADF), call accounts and money market funds.

4.5 In accordance with CIPFA's Treasury Management in the Public Services Code of Practice, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return that is consistent with the Council's risk appetite.

4.6 As shown by the interest rate forecasts in Appendix 3, rates are expected to have peaked at the current rate of 5.25% before starting to ease back in 2024/25. However, the Council's average return rate still lags, as there are still a number of fixed-term deposits agreed at lower rates that are still to mature. As the older deals mature, the Council's average rate of return will increase.

4.7 The table below shows the average interest rate achieved by the Council on its investments during the period 1 April 2023 to 13 October 2023. The table also shows for comparison the benchmark comparator SONIA (the Sterling Overnight Index Average), which is administered by the Bank of England and reflects bank and building societies' actual overnight funding rates in Sterling. The actual rate of return is lower because a number of investments have been locked into a fixed rate, and rates of return have since increased.

Interest rates achieved	Average value of investments	Average rate of return	Benchmark return (SONIA)
Internally managed investments	£206.4m	3.75%	4.78%

4.8 Opportunities for debt rescheduling (where high rate loans are repaid and lower rate loans taken out instead) are limited in the current economic climate and this is not expected to change over the short term. However, officers continue to liaise with the Council's treasury advisors to monitor whether this situation may change.

5. Review of compliance with Treasury Management indicators for 2023/24

5.1. During the period 1 April 2023 to 13 October 2023, the Council complied with the approved treasury management indicators as set out in the Treasury Management Strategy Statement 2023/24. These indicators relate to:

- **interest rate exposure**: the upper limit on the proportion of investments held with fixed interest rates and the upper limit on the proportion of investments held with variable interest rates;

- **the maturity structure of borrowing**: the lower and upper limits on the proportion of investments that fall into each maturity band.

6. Foreign Exchange Cash Holding

As part of the contractual agreement for the Clyde Waterfront and Renfrew Riverside City Deal project, the Council is required to make a proportion of supplier payments in Euros over the duration of the project. The Council continues to mitigate exchange rate risk through approved tools, such as advance purchase; always providing that these tools are used for risk mitigation and not speculative purposes.

7. Review of Prudential Indicators for Capital Expenditure

7.1. The Local Government in Scotland Act 2003 and supporting regulations require local authorities to have regard to the Prudential Code for Capital Finance in Local Authorities ("the Prudential Code").

7.2. The Prudential Code 2021 introduced a change to reporting and monitoring and recommends that from 2023/24 a regular (at least quarterly) update is provided to members noting the current forecasts for prudential indicators compared to those approved at the start of the financial year.

7.3. The result of this change is that Prudential Indicator reporting now forms part of the Revenue and Capital Budget Monitoring – Council Overview, reported each cycle to the Finance, Resources and Customer Services Policy Board, with this mid-year update reporting to full Council.

7.4. The Council set its prudential indicators for 2023/24 on 2 March 2023. The purpose of this section is to consider the indicators as they stand at 13 October 2023, approximately halfway through the financial year, and revise them where appropriate. All indicators for the current year and the following two years are summarised in Appendix 2

Capital Expenditure Indicators

7.5. The Council is required to make estimates of the capital expenditure it plans to incur for the forthcoming financial year and at least the following two years. Separate estimates should be made for Housing and Non-Housing services.

The Capital Investment Programmes for Housing and Non-Housing Capital Investment Programme were approved by Council on 2 March 2023, and the resulting indicators were updated to reflect the approved programme, incorporating the decisions taken by the Council at the budget meeting.

7.6. Council approved the following as an indicator for **Capital Expenditure**. The limit is based on the resources available to fund the capital programmes, split between Housing and Non-Housing Services, excluding the Public Sector Housing Grant, as this is not considered to be capital spend for the Council.

Capital Expenditure	2023/24 Approved £m	2023/24 Actual spend 13 October 2023 £m	2023/24 Probable £m	2025/26 Movement £m
Non-Housing	145.926	45.888	117.828	-27.498
Housing	29.678	7.848	20.378	-9.300
Total	**175.604**	**53.736**	**138.206**	**-36.798**

The decrease of £27.498m in the planned Non-Housing capital expenditure during 2023/24 is mainly attributable to:

- changes in the cashflow profile of a number of capital investment programmes, particularly City Deal projects and Paisley Museum, resulting in a net adjustment of £34.268m from 2023/24 into 2024/25 and future years, as reported to relevant policy boards;
- carry forward of programmed expenditure from 2022/23 to 2023/24 totalling £3.425m; and
- the addition of £3.345m from grant funding and projects approved during 2023/24.

The decrease of £9.300m in the planned Housing capital expenditure during 2023/24 arises from changes in cashflow profile of a number of programmes, including external improvements and regeneration, resulting in a net adjustment of £9.300m from 2023/24 into 2024/25, as reported to the Communities and Housing Policy Board.

Capital Financing Requirement Indicator

7.7. The Council has available to it a number of ways of financing traditionally procured capital investment. The term ‘financing’ does not refer to the payment of cash, but the resources that are applied to ensure that any underlying amount arising from capital payments is dealt with absolutely, whether at the point of spend or over the longer term. A number of financing options involve resourcing the investment at the time that it is incurred. These are:

- the application of useable capital receipts
- a direct charge to revenue for capital expenditure
- the application of capital grants
- upfront contributions from project partners

Any capital expenditure not financed at the outset by one of these methods will increase the Capital Financing Requirement (CFR) of the Council.

The revised projected **Capital Financing Requirement** for 2023/24, based on the position at 13 October 2023 is noted in the table below.

Capital Financing Requirement 2023/24	Approved* £m	Probable £m	Movement £m
Non-Housing	431	407	-24
Housing	121	120	-1
Total	**552**	**527**	**-25**

* As reported to the Finance, Resources and Customer Services Policy Board on 14 September 2023, a formula error within the report approved by Council in March 2023 resulted in the Non-Housing figure being incorrectly stated. The approved figure was £337m.

The decrease of £24m in probable Capital Financing Requirement at 31 March 2024 for Non-Housing services arises from the reduced capital expenditure forecast to the end of 2023/24 described in 7.6.

The decrease of £1m in the probable Capital Financing Requirement at 31 March 2024 for Housing services arises from the reduced capital expenditure forecast to the end of 2023/24 described in 7.6 offset by capital expenditure accelerated into 2022/23, and the re-profiling of expected grant payments from the Scottish Government for Council House New Build into 2024/25.

External Debt Indicators

7.8. External debt indicators are set at two levels: an Operational Boundary and an Authorised Limit. Both of these need to be consistent with the Council's plans for capital expenditure and financing and with its Treasury Management policy statement and practices.

Operational Boundary: This is the focus of day-to-day treasury management activity within the Council and is an estimate of the most likely, but not worst case, scenario in terms of cashflow.

Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cashflow requirements for all purposes. It is possible that this boundary could be breached occasionally and this would not be regarded as significant. However, a sustained or regular trend of such would be significant, and require investigation and action. It is split between external borrowing and other long-term liabilities.

Operational Boundary for external debt 2023/24	Approved* £m	Probable £m	Movement £m
Borrowing	459	434	-25
Other long-term liabilities	94	94	0
Total	**553**	**528**	**-25**

* As noted above – the approved figure was £365m.

The decrease in the Operational Boundary of £25m is directly related to the decrease in the Capital Financing Requirement Indicator described in 7.7.

Authorised Limit: This is based on the same assumptions as the Operational Boundary, with additional headroom to allow for both planned and exceptional cashflow requirements, without breaching the limit. It is split between external borrowing and other long-term liabilities.

Authorised Limit for external debt 2023/24	Approved* £m	Probable £m	Movement £m
Borrowing	477	455	-22
Other long-term liabilities	94	94	0
Total	**571**	**549**	**-22**

* As noted above – the approved figure was £383m.

The decrease of £22m is related to the Operational Boundary reduction as outlined in 7.6.

7.9. In December 2018, the CIPFA/LASAAC Local Authority Accounting Board confirmed that from 1 April 2020 the CIPFA Code of Practice on Local Authority Accounting would be adopting the accounting standard *IFRS 16: Leases*. After consultation, in April 2022 the deadline for implementation of IFRS 16 was deferred until 1 April 2024 due to significant delays resulting from the pandemic.

The practical effect of adopting IFRS 16 will be to require any contract the Council has signed that provides the right to rent or lease exclusive use of an asset, such as property or vehicles, could potentially require to be recognised as an asset on the Council's balance sheet, with a corresponding debt liability recognised at the present value of the future lease payments. This liability will be treated as additional borrowing, therefore increasing the Capital Financing Requirement and other associated Prudential Indicators such as Operational Boundary, Authorised Limit and Revenue to Financing Cost ratios. A full review of all contracts that could be impacted by this is currently underway, and will be factored into future years' Prudential Indicators following the Council's adoption of IFRS 16 in 2024/25.

Implications of the Report

1. **Financial** – As described in the report; the Treasury Management Strategy Statement, treasury management and prudential indicators assist in providing assurance that the Council's treasury management activities and longer term spending plans are affordable, prudent and sustainable.

2. **HR & Organisational Development** – None arising directly from this report

3. **Community Planning** – None arising directly from this report

4. **Legal** – None arising directly from this report

5. **Property/Assets** – None arising directly from this report

6. **Information Technology** – None arising directly from this report

7. **Equality & Human Rights** – 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 arising directly from this report

9. **Procurement** – None arising directly from this report

10. **Risk** – The Treasury Management Strategy Statement, treasury management and prudential indicators provide a framework to take forward the Council's treasury activities in the context of the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. This mid-year review report demonstrates that the treasury management activities carried out during the period 1 April 2023 to 13 October 2023 have been consistent with the Treasury Management Strategy Statement 2023/24 and have complied with the treasury management indicators set out in the Strategy Statement.

11. **Privacy Impact** – None arising directly from this report

12. **COSLA Policy position** – None arising directly from this report

13. **Climate risk** - None arising directly from this report

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List of Background Papers: Prudential Framework and Treasury Management Strategy, Council, 2 March 2023.
Revenue and Capital Budget Monitoring – Council Overview , Finance, Resources and Customer Services Policy Board, 14 September 2023.

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Appendix 1: Borrowing Position as at 13 October 2023

	Balance at 1 April 2023	New Borrowing in 2023/24	Cash Movements	Balance at 13 October 2023
Long-term borrowing				
PWLB – fixed rate	224,427,336.22	0	(3,553.22)	224,423,783.00
Market loans	52,916,000.00	0	(6,150,000.00)	46,766,000.00
Short-term borrowing				
Temporary loans	0	10,000,000.00	0	10,000,000.00
Total borrowing	**277,343,336.22**	**10,000,000.00**	**(6,153,553.22)**	**281,189,783.00**
Investments				
Fixed term deposits	165,000,000.00	0	(22,000,000.00)	143,000,000.00
Call accounts	1,704,000.00	0	13,568,000.00	15,272,000.00
UK Government DMADF	0	0	23,070,000.00	23,070,000.00
Money market funds	6,037,000.00	0	26,620,000.00	32,657,000.00
Total investments	**172,741,000.00**	**0**	**41,258,000.00**	**213,999,000.00**
Net borrowing	**104,602,336.22**	**10,000,000.00**	**(47,411,553.22)**	**67,190,783.00**

Appendix 2: Prudential and Treasury Indicators as at 13 October 2023

	2023/24 Estimate	2023/24 Probable	2024/25 Estimate	2025/26 Estimate
Operational boundary for external debt	£553m	£527m	£553m	£641m
Authorised limit for external debt	£571m	£549m	£576m	£668m
External debt*	£429m	£346m	£494m	£575m
Upper limit for fixed interest rate exposure (borrowing) expressed as percentage of total net outstanding principal	100%	83%	100%	100%
Upper limit for variable interest rate exposure (borrowing) expressed as percentage of total net outstanding principal	25%	17%	25%	25%
Maturity structure of fixed rate borrowing	**New Borrowing in 2023/24**		**Total of all Borrowing**	
	Value	**Maturity structure**	**Upper limit**	**As at 13 October 2023**
Under 12 months	£10m	3.56%	15%	3.85%
More than 12 months and within 24 months	0	0%	15%	1.78%
More than 24 months and within 5 years	0	0%	45%	1.78%
More than 5 years and within 10 years	0	0%	50%	0.01%
10 years and above	0	0%	100%	92.58%

* The Probable figure here represents the actual level of debt at 13 October 2023 and includes finance lease and service concession liabilities, in line with the Authorised Limit and Operational Boundary values.

Appendix 3: Economic Update and Interest Rate Forecast

1. Economic update (Link Group)

1.1. The first half of 2023/24 saw:

- Interest rates rise further, taking Bank Rate from 4.25% to 5.25%.
- Short, medium, and long-dated gilts remain elevated as inflation remained high.
- A 0.5% month-on-month (m/m) decline in real GDP in July, mainly attributable to strike action.
- CPI inflation fell from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31-year high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth, as the 3month year-on-year (y/y) growth of average earnings rose to 7.8% in August, excluding bonuses.

2. Interest Rate Forecast (Link Group)

2.1. The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

2.2. The latest forecast on 25 September sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

2.3. Our PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60