Renfrewshire Council

To: Council

On: 22 June 2023

Report by: Director of Finance and Resources

Heading: Treasury Management Annual Report for 2022/23

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1. Summary

1.1 It is a requirement of the Local Government Investments (Scotland) Regulations 2010 that a report outlining the treasury management activity undertaken during the year is presented to Council at the end of each financial year.

1.2 This report meets the requirements of these regulations, as well as the CIPFA Code of Practice on Treasury Management (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 2022/23.

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2. Recommendations

2.1 It is recommended that the Council approves the Treasury Management Annual Report for 2022/23.

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3. Review of 2022/23 Treasury Activities

3.1 Treasury Portfolio Position at 31 March 2023

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 2022 £ m (a)	Average Interest Rate	Borrowing Position as at 31 March 2023 £ m (b)	Average Interest Rate	Change (a) - (b)
Long-term Borrowings					
Public Work Loans Board (PWLB) Fixed Interest	201.30	3.97%	224.43	3.80%	23.13
Market Loans	52.92	4.70%	52.92	4.70%	-
Total Long-term	**254.22**	**4.13%**	**254.22**	**4.12%**	**23.13**
Short-term Borrowings					
Common Good Funds	2.35	0.11%	2.71	1.53%	0.36
Other Partner Bodies	50.82	0.11%	35.42	1.53%	(15.40)
Total Short-term	**53.17**	**0.11%**	**38.13**	**1.53%**	**(15.04)**
Total Borrowings	**307.39**	**3.43%**	**315.48**	**3.81%**	**8.09**
Temporary Investments	**215.36**	**0.18%**	**172.74**	**3.05%**	**(42.62)**

4. Review of Borrowing and Investment Outturn for 2022/23

4.1 Overall, the Council's total external borrowings increased by £8.09m. There was an increase in borrowing through the PWLB by £25m although this was partially offset by a reduction in inter-company balances for Renfrewshire HSCP.

4.2 Temporary investments held by the Council decreased by £42.62 million. The decrease in investments is attributable to several factors, including spending through the capital programme, pay awards and HSCP COVID-19 funding returned to the Scottish Government.

5. Review of Borrowing Strategy during 2022/23

5.1 The strategy for 2022/23 was approved by Council on 3 March 2022. Based on the Council's planned programme of investments and interest rate forecasts for the year, the Council's borrowing strategy was to firstly use internal cash balances to finance the Capital Investment Programme.

5.2 This strategy was prudent, as borrowing rates were increasing. It also avoided a cost of carry on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost, being the difference between (higher) borrowing costs and (lower) investment returns.

5.3 Given that PWLB rates were low earlier in the year, the decision was taken to borrow £25m (at 2.79%) before interest rates increased further, as was expected. This has proven to be prudent, as the Bank of England base rate has since increased, with the current equivalent PWLB rate being 5.60% at the time of writing.

5.4 Given the changing climate and the risks inherent in economic forecasts, a cautious approach was taken during the year regarding treasury operations. The Director of Finance and Resources monitored interest rates and adopted a pragmatic strategy based upon the following principles to manage interest rate risks*:*

- if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long-term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short-term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central bank rates, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Fixed rate funding would have been considered whilst interest rates were lower than they were projected to be in the next few years.

6. Review of Investment Strategy and Investment Outturn for 2022/23

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 2022/23 which was approved by Council on 3 March 2022. 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 expectation for interest rates within the treasury management strategy for 2022/23 was that the Bank Rate would rise gradually throughout the year and fall back to around 1.25% by March 2025. However, due to unforeseen events surrounding the cost of living crisis and the mini budget announced in September 2022, the Bank Rate increased faster than expected, ending the year at 4.25%. The Council has seen an increase in investment returns during the year due to increased rates on short-term deposits.

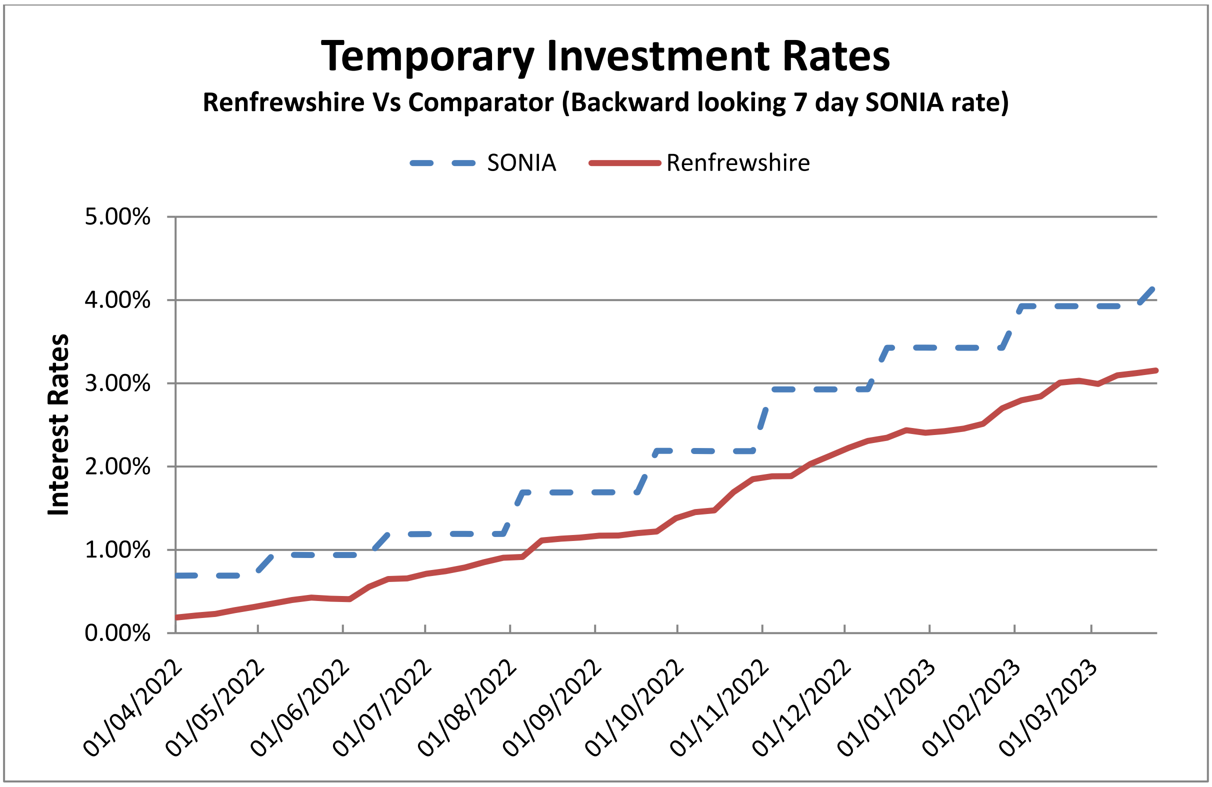
6.3 During 2022/23, the Council only invested with institutions listed in the Council's approved Counterparty list and in the permitted investment categories. The investment activity during the year conformed to the approved strategy and the Council had no liquidity issues.

6.4 The table below shows interest rates achieved by the Council on its temporary investments during the year and, for comparison, the benchmark rate.

Temporary investments - internally managed	2021/22	2022/23
Average Investment	£236.30m	£254.90m
Actual rate of return	0.11%	1.53%
Benchmark return	0.13%	2.26%

6.5 The benchmark figure was higher than the actual rate of return because the Council had agreed to several fixed-term deposits before the interest rate increase was forecast. These decisions were made based on the best information available at the time. The graph below shows the trend of interest rates on investments over the course of the year.

6.6 The current treasury strategy remains appropriate to the Council's ongoing financial, investment and treasury requirements, and supports the Council's overall financial position, investment priorities and medium-term financial forecasts. While the refreshed strategy was recently approved in March 2023, it is continually being reviewed to ensure, as the economic and political landscape changes, and as the Council's financial strategy develops, that borrowing and investments are managed to accommodate both short to medium-term treasury requirements, and also to ensure that best value is secured from longer term investment in instruments appropriate for this purpose and consistent with the Council's risk profile.



7. Debt Rescheduling

7.1 While it was considered, no debt rescheduling was undertaken during the year, as the differential between PWLB new borrowing rates and premature repayment rates meant that this would have been uneconomical.

8. Compliance with Treasury Limits

8.1 The Prudential Code for Capital Finance in Local Authorities, which came into force on 1 April 2004, allows greater local flexibility for investment decisions that are informed and supported by a suite of performance indicators. The 2022/23 indicators were approved by Council on 3 March 2022 and an update reported to the Finance Resources and Customer Services Policy Board on 17 November 2022.

8.2 The Council's overall performance on 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:

- An **Operational Boundary** for the Council's external borrowing (the upper limit for the aggregate external borrowing needed), and an **Authorised Limit** for the Council's external borrowing, being the upper limit of aggregate external borrowing that is affordable and prudent;
- A **ratio of financing costs to net revenue stream** (an affordability measure for debt repayments); and
- 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 borrowing maturing in any one year will be no more than 15%, and the maximum amount of long-term borrowing 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 The main source of the Council's borrowing is from the Public Works Loan Board (PWLB). The borrowing rates are based on, and are determined by, the yield on UK Government bonds (gilts). The main influences on gilt yields are Bank Rate, inflation expectations, and movements in US treasury yields.

8.5 Gilt yields continued to rise in 2022/23, peaking towards the end of September 2022 and again during October 2022 following the mini budget. At 31 March 2023, all gilt yields (1-5 years) ranged between 3.41% and 4.10%, while the 10-year and 25-year yields were 3.56% and 3.92% respectively.

8.6 For PWLB rates, the various margins for borrowing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

8.7 There is likely to be a gradual fall in short-dated gilt yields and PWLB rates over the next three years as the Bank Rate is forecast to fall from its expected peak this year to around 2.50% in September 2024 and remain stable until March 2025. Should inflation remain higher than expected in the short-term; however, this could delay rate reductions.

8.8 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 forecast at 15 December 2022 is as follows:

2021/22 Outturn £m		2022/23 Borrowing Limits £m	2022/23 Outturn £m
320.51	Aggregate external debt of the Council at 31 March 2022		345.16
375	Operational Boundary	462	
390	Authorised Limit	480	

8.9 Ratio of Financing Costs to Net Revenue Stream

This indicator is expressed as a proportion. Both the Housing and Non-housing programme were within the forecasts at 15 December 2022.

2021/22 Outturn %		2022/23 Estimated Ratio %	2022/23 Outturn %
43.13	Housing	33.44	32.53
3.11	Non-Housing	3.22	3.02

8.10 Fixed Rate Borrowing Maturing within the Short, Medium and Long-term

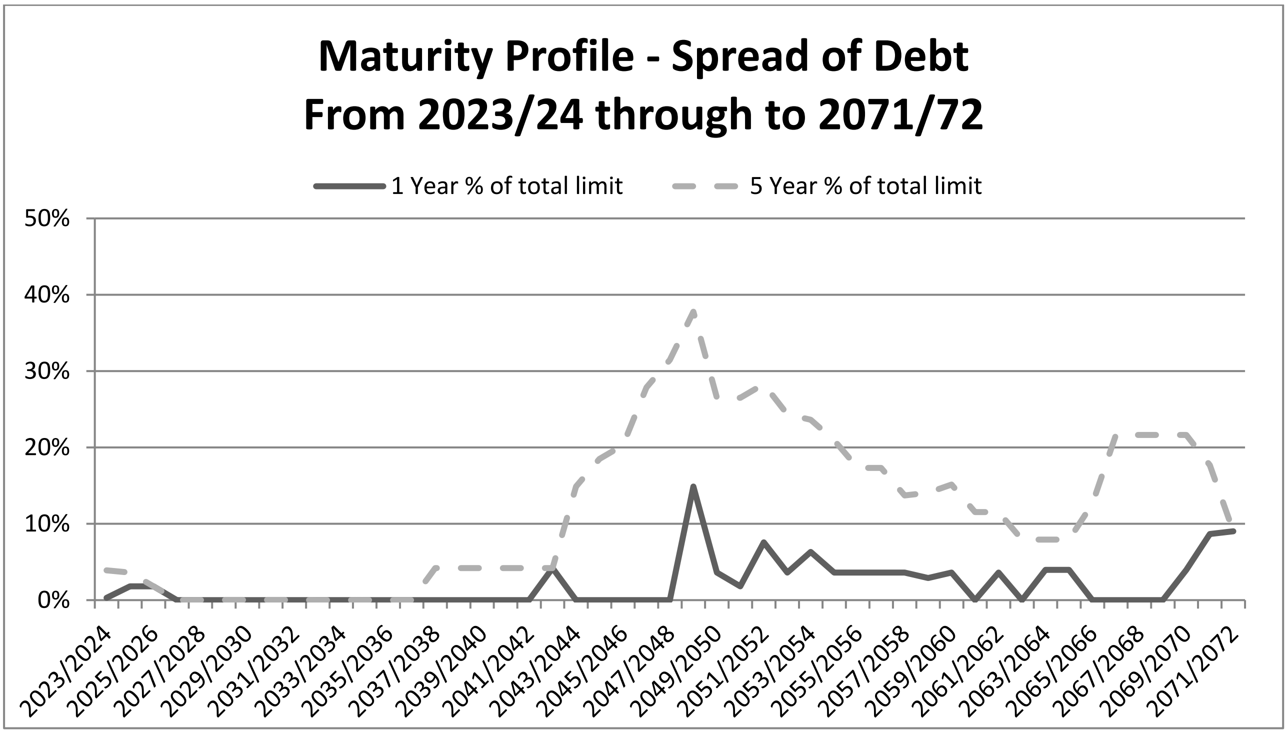
This indicator is expressed as a proportion of the total debt of the Council. The maturity profile of the Council's external debt is well within the approved limits. The outturn compared to the mid-year estimate is as follows:

2021/22 Outturn %		2022/23 Approved Upper Limits %	2022/23 Outturn %
	Short-term		
0.73	Under 12 months	15	0.30
	Medium term		
0.33	12 months and within 24 months	15	1.80
3.95	24 months and within 5 years	45	1.81
0.01	5 years and within 10 years	50	0.02
	Long-term		
94.98	10 years and above	100	96.07

8.11 **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 Management Strategy Statement. The Council's debt maturity profile at 31 March 2023 was within these limits.

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 2072. 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 limits.



Implications of the Report

1. **Financial** – As outlined in the report.
2. **HR & Organisational Development** – None arising from this report.
3. **Community Planning** – None arising from this report.
4. **Legal** – None arising from this report.
5. **Property/Assets** – None arising from this report.
6. **Information Technology** – None arising from this report.
7. **Equality & Human Rights** – None arising from this report.
8. **Health & Safety** – None arising from this report.
9. **Procurement** – None arising from this report.
10. **Risk** – The report outlines a range of measures taken during the course of 2022/23 to manage treasury risks and the risk issues associated with investment regulations in respect of the borrowing and investment activity of the Council along with measures to manage these risks.
11. **Privacy Impact** – None arising from this report.
12. **COSLA implications** – None arising from this report.
13. **Climate risk** – None arising from this report.

List of Background Papers: Non-Housing Capital Investment Programme, Prudential Framework and Treasury Management Strategy, and Capital Strategy 2022/23 – 2025/26, Council, 3 March 2022.

Treasury Management Mid-Year review 2022/23, Finance Resources and Customer Services Policy Board, 17 November 2022.

A Prudential Framework for Capital Finance – Progress Report, Council, 15 December 2022.

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