Renfrewshire Council

To: Council

On: 24 June 2021

Report by: Director of Finance and Resources

Heading: Treasury Management Annual Report for 2020-21

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 (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 2020-21.

2. **Recommendations**

2.1 It is recommended Council approves the Treasury Management Annual Report for 2020-21.

3. Review of 2020-21 Treasury Activities

3.1 Treasury Portfolio Position at 31.03.21

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 20		Borrowing Position as at 31 March 21		Change
	£ m (b)	Average Interest Rate	£ m (b)	Average Interest Rate	(b) - (a)
Long Term Borrowings					
Public Work Loans Board - (PWLB) Fixed Interest	168.36	4.58%	202.13	3.99%	33.77
Market Loans	52.92	4.69%	52.92	4.69%	-
Total Long Term	**221.28**	**4.61%**	**255.05**	**4.13%**	**33.77**
Short Term Borrowings					
Common Good Funds	5.03	0.86%	5.43	0.38%	0.40
Agencies, Joint Boards	10.01	0.86%	27.27	0.38%	17.26
Total Short Term	**15.04**	**0.86%**	**32.70**	**0.38%**	**17.66**
Total Borrowings	**236.32**	**4.78%**	**287.75**	**4.78%**	**51.43**
Temporary Investments	**115.80**	**0.88%**	**187.72**	**0.18%**	**71.92**

4. Review of Borrowing and Investment Outturn for 2020-21

4.1 Overall, the Council's total external borrowings increased by £51.43 million. This was due to the decision taken to borrow £35 million from the Public Works Loans Board predominantly to finance the planned capital expenditure on the Clyde Waterfront and Renfrew Riverside City Deal project when rates were at a historic low. Borrowing also increased as a result of a higher inter-company balance between the Council and Renfrewshire HSCP which reflects their approved medium term financial plan and reserves strategy.

4.2 Temporary investments held by the Council increased by £71.92 million. The increase in investments is attributable to a number of issues including: the decision to borrow £35 million as outlined above; significant in year funding from the Scottish Government in relation to support for the Council and communities relating to COVID19 (a proportion of which was funding related to 2021/22 but which the Scottish Government elected to issue in 2020/21); the re-profiling of substantial elements of the capital programme (where capital expenditure was delayed due to COVID19 lockdowns and social distancing measures); and a number of cash-backed provisions and reserves that the Council has made for specific purposes in closing the 2020/21 accounts.

5. Review of Borrowing Strategy and New Borrowing during 2020-21

5.1 The agreed strategy for 2020-21 was approved by Council on 9 March 2020. 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 in the first instance to finance the Capital Investment Programme. However, in view of the overall forecast for long-term borrowing rates to increase gradually over the coming years and in order to achieve certainty on future borrowing costs and reduce exposure to future interest rate risk, the decision was taken to borrow from the PWLB. Rates were at historically low levels and three loans were taken out:

- £11,000,000 at 1.33% maturing 14 December 2069
- £12,000,000 at 1.32% maturing 14 June 2070
- £12,000,000 at 1.32% maturing 14 December 2070.

6. Review of Investment Strategy and Investment Outturn for 2020-21

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 2020-21 which was approved by Council on 9 March 2020. 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 In the Investment Strategy for 2020-21 the expectation was that the Bank Rate would continue at the start of the year at 0.75 % before rising to end 2022/23 at 1.25%. This forecast was invalidated by the arrival of the Covid-19 pandemic in March 2020 which caused the Monetary Policy Committee to cut Bank Rate in March, first to 0.25% and then to 0.10%, in order to counter the hugely negative impact of the national lockdown on large parts of the economy.

6.3 The Bank of England and the Government also introduced new programmes to supply the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the lockdown. The UK and Scottish Governments also supplied significant amounts of funding to local authorities to pass on to businesses through a number of business support grant and loan schemes. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates plummeted.

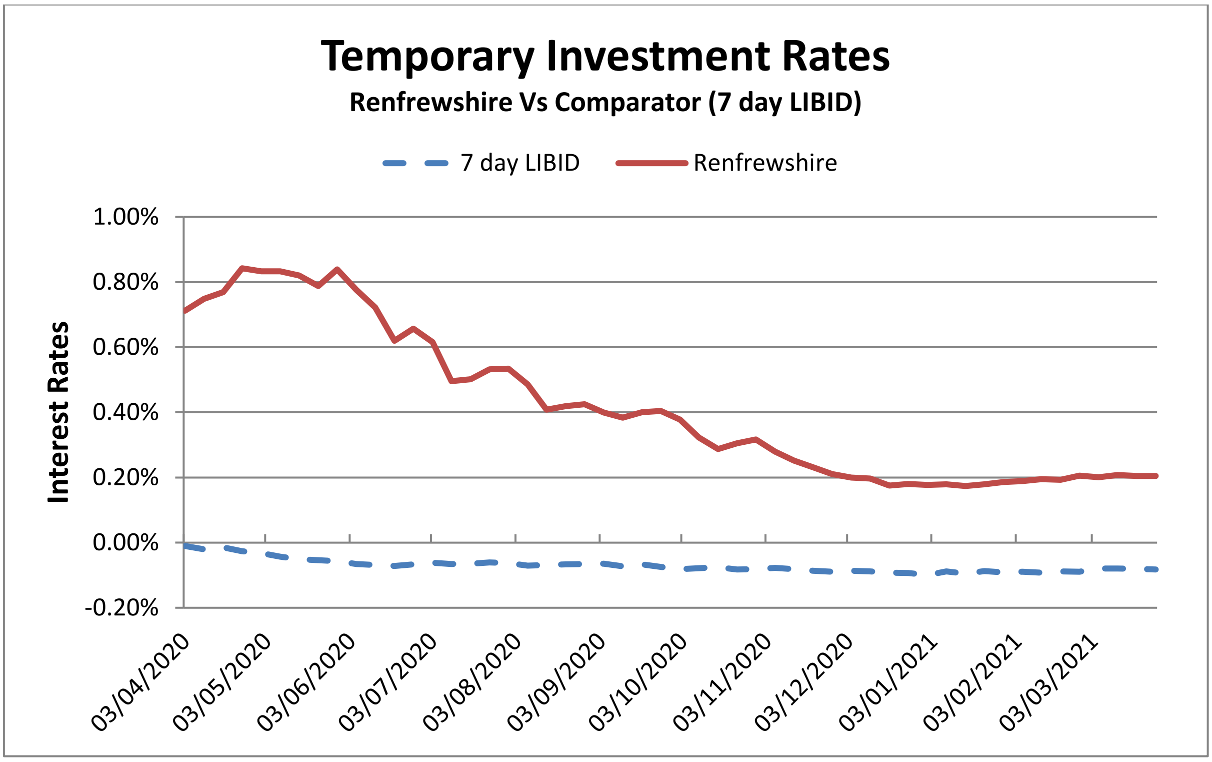
6.4 During 2020-21, the Council only invested with institutions listed in the Council's approved Counterparty list and in the permitted investment categories. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

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	**2019/20**	**2020/21**
Average Investment	£159.33m	£160.39m
Actual rate of return	0.86%	0.38%
Benchmark return	0.53%	-0.07%

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 appropriate counterparties up to one year when better rates were available. These rates offered some value over the year however, deposit rates remained depressed during the year due to the reasons outlined in 6.3.

6.7 The current treasury strategy remains appropriate to the Council's ongoing financial, investment and treasury requirements, but is continually reviewed to ensure it remains supportive to the Council's overall financial position, investment priorities and medium-term financial forecasts. While the strategy was recently approved in March 2021, 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 No rescheduling was undertaken during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling uneconomic.

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 2020/21 indicators were approved by Council on 9 March 2020, and subsequently revised on 17 December 2020.

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

3. 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 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). HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates. The standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had the purchase of assets for yield in its three year capital programme.

8.5 Following the changes on 25 November 2020 in margins over gilt yields, the current situation for borrowing is 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)

8.6 There is likely to be only a gentle rise in gilt yields and PWLB rates over the next three years as Bank Rate is not forecast to rise from 0.10% by March 2024 as the Bank of England has clearly stated that it will not raise rates until inflation is sustainably above its target of 2%.

8.7 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:

2019/20 Outturn £m		2020/21 Borrowing Limits £m	2020/21 Outturn £m
292.71	Aggregate external debt of the Council at 31 March		323.94
377	Operational Boundary	393	
392	Authorised Limit	409	

8.8 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.

2019/20 Outturn %		2020/21 Estimated Ratio %	2020/21 Outturn %
46.51	Housing	39.85	51.4
3.97	Non-Housing	3.99	4.7

The higher than forecast outturn on the housing revenue account and the non-housing positions reflects adjustments made to planned debt repayments linked to the housing investment plan and associated debt management arrangements.

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

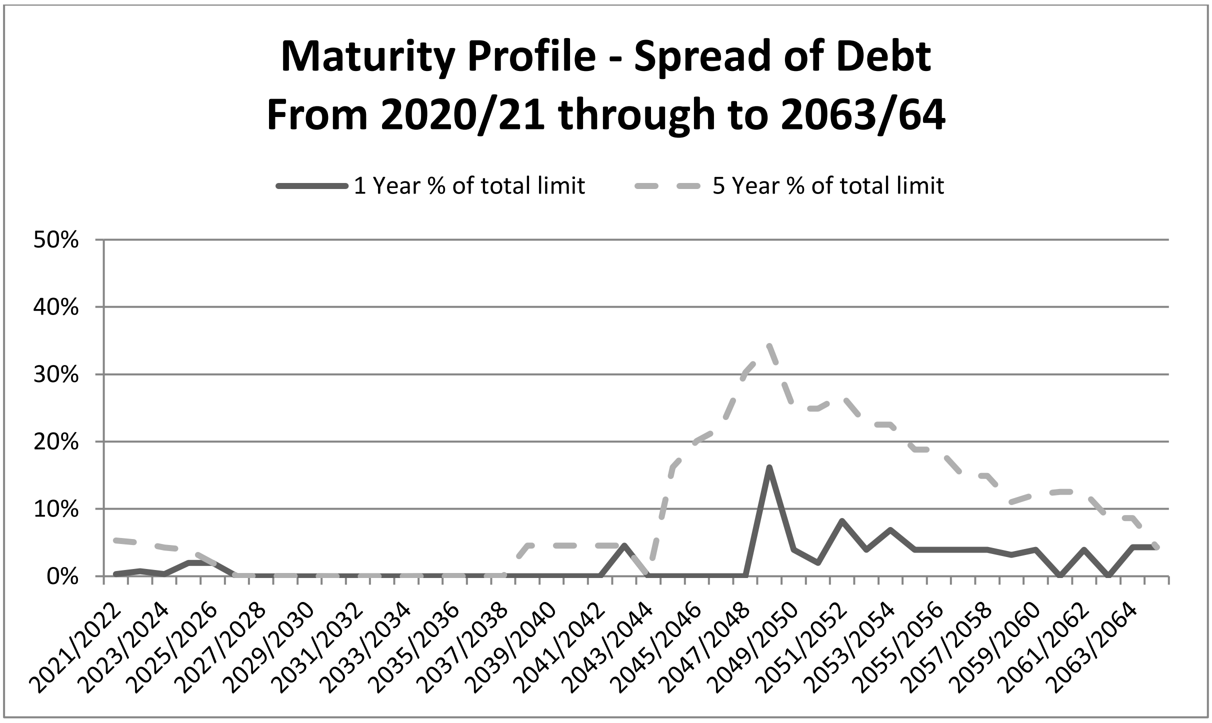
This indicator is expressed as a proportion of the total debt of the Council. The maturity profile of the Council's external debt is well within the approved limits. The outturn compared to the estimate is as follows:

2019/20 Outturn %		2020/21 Approved Upper Limits %	2020/21 Outturn %
	Short term		
1.48	Under 12 months	15	0.33
	Medium term		
0.55	12 months and within 24 months	15	0.73
1.57	24 months and within 5 years	15	4.26
4.47	5 years and within 10 years	50	0.01
	Long term		
91.93	10 years and above	100	94.67

8.10 <u>Long Term Borrowing Maturity Profile</u>

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 2021 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 16.18% 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 2020/21 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
13. **Climate risk -** None

List of Background Papers

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