Renfrewshire Council

To: Council

On: 25 June 2020

Report by: Director of Finance and Resources

Heading: Treasury Management Annual Report for 2019-20

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 2019-20.

2. Recommendations

2.1 It is recommended Council approves the Treasury Management Annual Report for 2019-20.

3. Review of 2019-20 Treasury Activities

3.1 Treasury Portfolio Position at 31.03.20

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 19		Borrowing Position as at 31 March 20		Change
	£ m (b)	Average Interest Rate	£ m (b)	Average Interest Rate	(b) - (a)
Long Term Borrowings					
Public Work Loans Board - (PWLB) Fixed Interest	171.67	4.70%	168.36	4.58%	(3.32)
Market Loans	52.92	4.69%	52.92	4.69%	-
Total Long Term	**224.59**	**4.70%**	**221.27**	**4.61%**	**(3.32)**
Short Term Borrowings					
Common Good Funds	3.79	0.71%	5.03	0.86%	1.24
Agencies, Joint Boards	2.75	0.71%	10.01	0.86%	7.26
Total Short Term	**6.54**	**0.71%**	**15.04**	**0.86%**	**8.50**
Total Borrowings	**231.13**	**4.78%**	**236.31**	**4.78%**	**5.18**
Temporary Investments	**153.68**	**0.88%**	**115.80**	**0.88%**	**(37.88)**

4. Review of Borrowing and Investment Outturn for 2019-20

4.1 Overall, the Council's total external borrowings increased by £5.18 million, predominantly due to increased funds held on behalf of Renfrewshire HSCP in line with their approved medium term financial plan and reserves strategy; less the scheduled repayment of maturing loans to Public Works Loan Board (PWLB).

4.2 Temporary investments held by the Council decreased by £37.88 million. The decrease in investments is attributable to a number of issues: the impact of the ongoing medium term debt smoothing strategy, the delay in settling the 2018/19 pay award, and significant approved capital expenditure. 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 2019-20 accounts.

5. Review of Borrowing Strategy and New Borrowing during 2019-20

5.1 The agreed strategy for 2019-20 was approved by Council on 28 February 2019. 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 2019-20.

6. Review of Investment Strategy and Investment Outturn for 2019-20

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 2019-20 which was approved by Council on 28 February 2019. 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 2019-20 anticipated the Bank Rate staying low for the bulk of the year, with marginal increases commencing in the final quarter of the year. 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 appropriate counterparties making longer-term deals worthwhile then these investments would be considered.

6.3 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled but would only rise to 1.0% during 2020. Shorter term investment interest rates were fairly flat during most of the year until the two cuts in Bank Rate in March 2020 in response to the Coronavirus pandemic caused investment rates to fall sharply. Rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets.

6.4 The Council followed the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. This approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

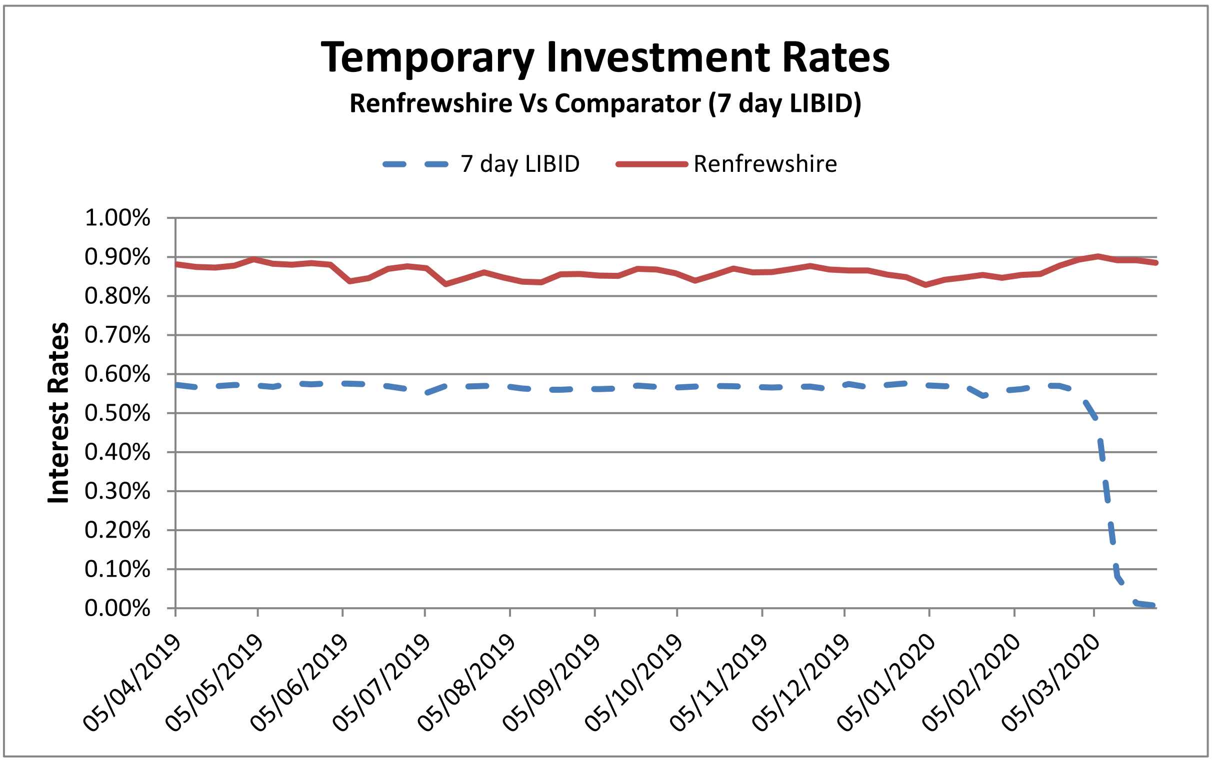
6.5 During 2019-20, the Council only invested with institutions listed in the Council's approved Counterparty list and in the permitted investment categories. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

6.6 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	2018/19	2019/20
Average Investment	£153.93m	£159.33m
Actual rate of return	0.71%	0.86%
Benchmark return	0.51%	0.53%

6.7 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 potential impact of Brexit on the UK economy and continuing weak expectations for the global economy.

6.8 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 2020, 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 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 2019/20 indicators were approved by Council on 28 February 2019, and subsequently revised on 5 December 2019.

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 determine a specified margin to add to gilt yields to determine borrowing rates. During the year HM Treasury imposed two changes in the margins over gilt yields for PWLB rates in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. The increase was then partially reversed for some forms of borrowing on 11 March 2020.

8.5 Following the changes on 11 March 2020 in margins over gilt yields, the current situation for borrowing is as follows: -

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **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 little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover the momentum lost in the sharp recession that will be caused during the Coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

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:

2018/19 Outturn £m		2019/20 Borrowing Limits £m	2019/20 Outturn £m
298.86	Aggregate external debt of the Council at 31 March 2019		£292.71
370	Operational Boundary	377	
385	Authorised Limit	392	

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.

2018/19 Outturn %		2019/20 Estimated Ratio %	2019/20 Outturn %
51.72	Housing	42.17	46.51
5.42	Non-Housing	4.04	3.97

The higher than forecast outturn position on the housing revenue account 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

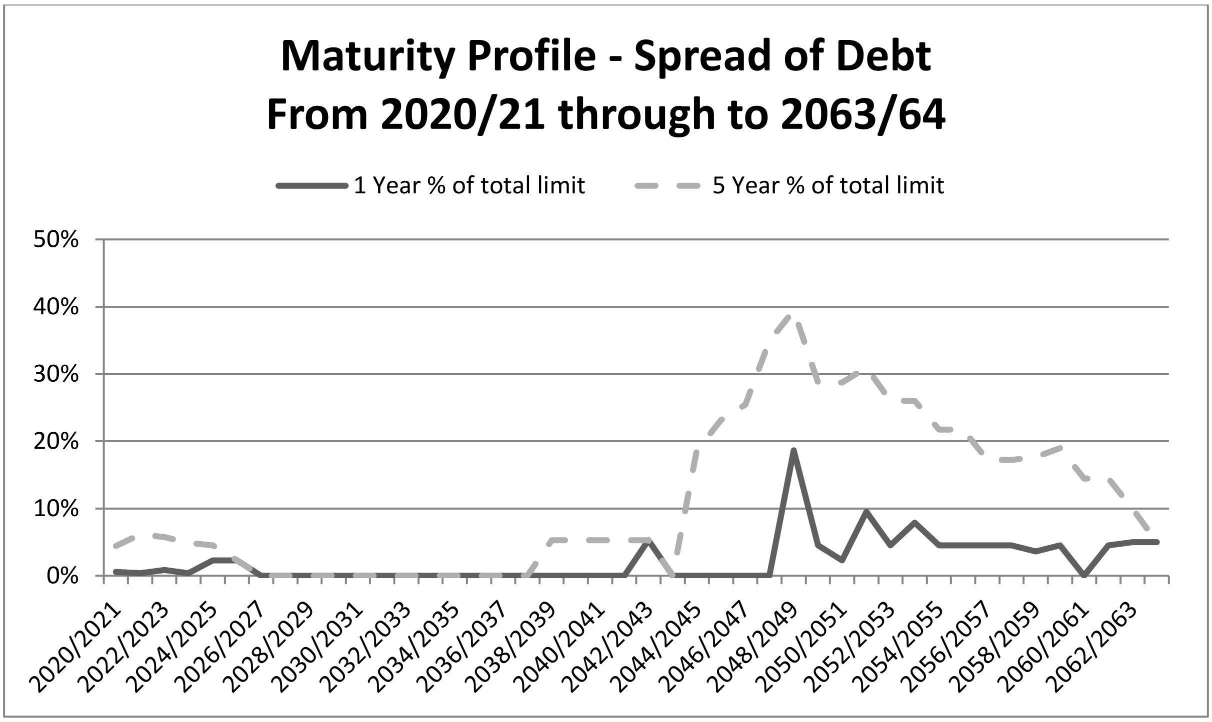
This indicator is expressed as a proportion of the total debt of the Council. The maturity profile of the Council's external debt is well within the approved limits. The outturn compared to the estimate is as follows:

2018/19 Outturn		2019/20 Approved Upper Limits	2019/20 Outturn
%		%	%
	Short term		
1.48	Under 12 months	15	0.55
	Medium term		
0.55	12 months and within 24 months	15	0.38
1.57	24 months and within 5 years	15	3.49
4.47	5 years and within 10 years	50	2.28
	Long term		
91.93	10 years and above	100	93.30

8.10 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 2020 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 18.65% 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 2019/20 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

Author: Alastair MacArthur, Head of Finance, Ext 7363