Renfrewshire Council

To:	**Council**
On:	**12 December 2024**

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

Heading: **Treasury Management and Prudential Indicators Mid-Year Review 2024/25**

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 2024/25 to date:

- a review of the Treasury Management Strategy Statement 2024/25, 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 2024 to 11 October 2024 (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 2024/25 was approved by Council on 29 February 2024. 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 11 October 2024 were in line with the approved strategy, and there have been no changes to the policies set out in the Treasury Management Strategy Statement 2024/25.

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 2024 to 11 October 2024

4.2 The Council's net borrowing position is calculated as total borrowing minus total investments. At 11 October 2024, this figure was a net borrowing position of £151.9m (see Appendix 1).

4.3 During the period 1 April to 11 October 2024, the Council's total external borrowing decreased only marginally, from £290.3m to £289.6m.

4.4 In the same period, short-term investments have increased from £99.2m to £137.7m, primarily due to the front-loading of revenue support grant and other sources of income, such as Council Tax payments.

4.5 The Director of Finance and Resources confirms that, during the period 1 April to 11 October 2024, the approved limits set out within the annual investment strategy sections of the Treasury Management Strategy Statement 2024/25 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.

4.6 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.

4.7 As shown by the interest rate forecasts in Appendix 3, rates peaked at 5.25% and dropped to 5.00% in August 2024 (then 4.75% in November) and may be subject to a further cut before the end of 2024/25.

4.8 The table below shows the average interest rate achieved by the Council on its investments during the period 1 April 2024 to 11 October 2024. 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 Council's average return currently exceeds the benchmark and the current bank rate, due to some fixed-term deposits that were agreed when rates were higher. As the older deals mature; however, the Council's average rate of return will decrease to be more in line with the bank rate.

Interest rates achieved	Average value of investments	Average rate of return	Benchmark return (SONIA)
Internally managed investments	£132.4m	5.26%	5.11%

4.9 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 this.

5. Review of compliance with Treasury Management indicators for 2024/25

5.1. During the period 1 April 2024 to 11 October 2024, the Council complied with the approved treasury management indicators as set out in the Treasury Management Strategy Statement 2024/25. 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 Deposits

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 recommended 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 2024/25 on 29 February 2024. The purpose of this section is to consider the indicators as they stand at 11 October 2024, 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 both Housing and Non-Housing were approved by Council on 29 February 2024, 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	2024/25 Approved £m	2024/25 Probable Outturn £m	2024/25 Movement £m	2024/25 Actual spend at 11 October £m
Non-Housing	147.179	107.209	-39.970	37.969
Housing	41.236	30.769	-10.467	12.790
Total	**188.415**	**134.978**	**-50.437**	**50.759**

The decrease of £39.970m in the planned Non-Housing capital expenditure during 2024/25 is mainly attributable to:

- changes in the cashflow profile of a number of capital investment programmes, resulting in a net adjustment of (£75.647m) from 2024/25 into 2025/26 and future years, as reported to relevant policy boards;
- carry forward of programmed expenditure from 2023/24 to 2024/25 totalling £26.151m; and
- the addition of £9.526m largely relating to increased budget for Paisley Grammar Community Campus approved by Council on 9 May 2024.

The decrease of £10.467m in the planned Housing capital expenditure during 2024/25 arises from changes in cashflow profile of a number of programmes, particularly within regeneration, resulting in a net adjustment of £10.467m from 2024/25 into 2025/26, 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 capital investment. The term ‘financing’ does not refer to the payment of cash, but the resources that are applied to ensure that any underlying capital spend is funded 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; or
- 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 2024/25, based on the position at 11 October 2024 is noted in the table below.

Capital Financing Requirement 2024/25	**Approved £m**	**Probable £m**	**Movement £m**
Non-Housing	458	462	4
Housing	137	130	-7
Total	**595**	**592**	**-3**

The increase of £4m in probable Capital Financing Requirement at 31 March 2025 for Non-Housing services arises from the reduced capital expenditure forecast to the end of 2024/25 described in 7.6 largely offset by related grant payments (City Deal) now expected to be received in 2025/26, and an increase in other long-term liabilities anticipated due to the adoption of IFRS 16, explained further in section 7.9.

The decrease of £7m in the probable Capital Financing Requirement at 31 March 2025 for Housing services arises from the reduced capital expenditure forecast to the end of 2024/25 described in 7.6, partly offset by the reprofiling of expected grant payments from the Scottish Government for Council House New Build into 2025/26.

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 is 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.

The Operational Boundary is split between external borrowing and other long-term liabilities.

Operational Boundary for external debt 2024/25	Approved £m	Probable £m	Movement £m
Borrowing	501	498	-3
Other long-term liabilities	94	94	0
Total	**595**	**592**	**-3**

The decrease in the Operational Boundary of £3m 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 2024/25	Approved £m	Probable £m	Movement £m
Borrowing	526	523	-3
Other long-term liabilities	94	94	0
Total	**620**	**617**	**-3**

The decrease of £3m is related to the Operational Boundary reduction as outlined in 7.7.

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 is that 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. An initial estimate of the impact of this change has been factored into the probable Prudential Indicators following the Council’s adoption of IFRS 16 in the current year.

Implications of the Report

1. **Financial**
As described in the report; the Treasury Management Strategy Statement, treasury management and prudential indicators all 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**
There are no direct implications arising from the recommendations in this report.

3. **Community/Council Planning**

<table>
<tr><th colspan="2">Community Plan</th></tr>
<tr><td>Our Renfrewshire is thriving</td><td rowspan="4">The Council's revenue and capital spend ensures that its facilities are fit for purpose and safe for the community, to maximise accessibility.</td></tr>
<tr><td>Our Renfrewshire is well</td></tr>
<tr><td>Our Renfrewshire is fair</td></tr>
<tr><td>Our Renfrewshire is safe</td></tr>
<tr><th colspan="2">Council Plan</th></tr>
<tr><td>Reshaping our place, our economy and our future</td><td rowspan="3">The Council's revenue and capital spend ensures that its facilities are fit for purpose and safe for the community, to maximise accessibility.</td></tr>
<tr><td>Building strong, safe and resilient communities</td></tr>
<tr><td>Tackling inequality, ensuring opportunities for all</td></tr>
<tr><td>Creating a sustainable Renfrewshire for all to enjoy</td><td rowspan="2">Ongoing revenue and capital budget monitoring is a tool to enable good financial management so that the Council has resources now and in the future for continued service delivery.</td></tr>
<tr><td>Working together to improve outcomes</td></tr>
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4. **Legal**
There are no direct implications arising from the recommendations in this report.

5. **Property/Assets**
The capital expenditure noted in this report will result in lifecycle maintenance improvements to existing properties and replacement of ICT, infrastructure, and plant and equipment.

6. Information Technology

There are no direct implications arising from the recommendations in this report.

7. Equality & Human Rights

While new areas of spend may impact on particular groups, any such impact would be assessed prior to the spend being incurred, therefore there are no direct implications arising from the recommendations in this report.

8. Health & Safety

There are no direct implications arising from the recommendations in this report.

9. Procurement

While Procurement is an important consideration prior to the Council incurring any revenue or capital spend, there are no direct implications arising from the recommendations in this report.

10. Risk

The Treasury Management Strategy Statement, treasury management and prudential indicators provide a framework for the Council's treasury activities, the effective control of risks associated with those activities, and the pursuit of optimum performance in line with those risks.

This report demonstrates that the treasury management activities carried out during the period 1 April 2024 to 11 October 2024 have been consistent with the Treasury Management Strategy Statement 2024/25, and have complied with the treasury management indicators set out in the approved Treasury Management Strategy Statement.

11. Privacy Impact

There are no direct implications arising from the recommendations in this report.

12. Children's Rights

There are no direct implications arising from the recommendations in this report.

13. Climate Change

The Council aims to reduce its carbon and other emissions to net zero by 2030, however there are no direct implications arising from the recommendations in this report.

14. Cosla Policy Position - N/A

List of Background Papers: Prudential Framework and Treasury Management Strategy, Council, 29 February 2024.

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Appendix 1: Borrowing Position as at 11 October 2024

	Balance at 1 April 2024	New Borrowing in 2024/25	Cash Movements	Balance at 11 October 2024
Long-term borrowing				
PWLB – fixed rate	243,592,325.83	0	(762,933.13)	242,829,392.70
Market loans	46,766,000.00	0	0	46,766,000.00
Total long-term borrowing	**290,358,325.83**	**0**	**(762,933.13)**	**289,595,392.70**
Investments				
Fixed term deposits	67,754,630.14	0	(47,754,630.14)	20,000,000.00
Call accounts	9,360,212.15	0	7,608,787.85	16,969,000.00
UK Government DMADF	0	0	47,610,000.00	47,610,000.00
Money market funds	20,100,762.43	0	33,028,237.57	53,129,000.00
Total investments	**97,215,604.72**	**0**	**40,492,395.28**	**137,708,000.00**
Net borrowing	**193,142,721.11**	**0**	**(41,255,328.41)**	**151,887,392.70**

Appendix 2: Prudential and Treasury Indicators as at 11 October 2024

	2024/25 Estimate	2024/25 Probable	2025/26 Estimate	2026/27 Estimate
Operational boundary for external debt	£595m	£592m	£728m	£782m
Authorised limit for external debt	£620m	£617m	£760m	£816m
External debt*	£475m	£355m	£603m	£657m
Upper limit for fixed interest rate exposure (borrowing) expressed as percentage of total net outstanding principal	100%	84%	100%	100%
Upper limit for variable interest rate exposure (borrowing) expressed as percentage of total net outstanding principal	25%	16%	25%	25%
Maturity structure of fixed rate borrowing	**New Borrowing in 2024/25**		**Total of all Borrowing**	
	Value	**Maturity structure**	**Upper limit**	**As at 11 October 2024**
Under 12 months	0	0%	15%	0.00%
More than 12 months and within 24 months	0	0%	15%	1.73%
More than 24 months and within 5 years	0	0%	45%	1.73%
More than 5 years and within 10 years	0	0%	50%	0.01%
10 years and above	0	0%	100%	96.53%

* The Probable figure here represents the actual level of debt at 11 October 2024 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 2024/25 saw:

- GDP growth remaining broadly constant in July following downwardly revised Q2 figures (0.5% quarter over quarter);
- A further easing in wage growth as the headline 3-month year on year average rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August (cutting again in November to 4.75%);
- 10-year gilt yields falling to 4.0% in September.

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 11 November sets out a view that short, medium and long-dated interest rates remain elevated but will begin to drop slightly over the next two years.

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	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30