AGENDA ITEM NO 13

REPORT NO 384/18

ANGUS COUNCIL

6 DECEMBER 2018

TREASURY MANAGEMENT 2018/19 MID-YEAR REVIEW

REPORT BY HEAD OF FINANCE & LEGAL

ABSTRACT

Members are asked to scrutinise Angus Council's mid-year review of treasury management activities for the period 1 April 2018 to 30 September 2018.

1 RECOMMENDATION

1.1 It is recommended that the Council scrutinise the Angus Council mid-year review of treasury management activities for the period 1 April 2018 to 30 September 2018, as attached at **Appendix 1**.

2 ALIGNMENT TO THE LOCAL OUTCOMES IMPROVEMENT PLAN / CORPORATE PLAN

2.1 Effective Treasury Management maximises the resources available to the Council to provide services. The activities undertaken through the Council's treasury management processes (as reflected in **Appendix 1** to this report) therefore contribute as a whole to the local outcomes contained within the Council Plan and Local Outcome Improvement Plan.

3 BACKGROUND

3.1 The need to prepare a treasury management mid-year review report is a minimum requirement of the Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy, the latest version of which was issued in 2017.

3.2 Members should note Report 244/10 to Angus Council dated 25 March 2010 at which the Code of Practice was adopted for implementation on 1 April 2010 within the Council. The Code requires that Members be kept informed of treasury management activities at least twice a year, in the form of an annual report after each financial year and a mid-year review report halfway through each financial year. This report therefore ensures compliance with the Code of Practice.

4 TREASURY MANAGEMENT 2018/19 MID-YEAR REVIEW REPORT

4.1 The treasury management mid-year review details Angus Council's treasury management activities for the period 1 April 2018 to 30 September 2018 and is attached at **Appendix 1** for consideration by Members.

5 RISK IMPLICATIONS

5.1 This report does not require any specific risk issues to be addressed, however members will be aware that the management of risk is an integral part of the Council's treasury management activities.

6 FINANCIAL IMPLICATIONS

6.1 There are no direct financial implications arising from the recommendations in this report. An effective treasury management service does however form a significant part of the Council's financial arrangements and its financial wellbeing.

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NOTE

No background papers as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing this Report.

List of Appendices

Appendix 1: Angus Council - treasury management mid-year review for the period 1 April 2018 to 30 September 2018

Appendix 1

Treasury Management Mid-Year Review for the Period 1 April 2018 to 30 September 2018

This mid-year review report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management Code of Practice and covers the following:

1. borrowing position at 30 September 2018
2. capital financing requirement
3. long term borrowing undertaken in the first six months of 2018/19
4. long term borrowing repaid in the first six months of 2018/19
5. PWLB interest rates forecast
6. investment position at 30 September 2018
7. debt rescheduling
8. variations from agreed policies and practices
9. compliance with treasury and prudential limits.

1. Borrowing position at 30 September 2018
   The Council's gross and net external debt positions as at 30 September 2018 are shown in Table 1 below. The gross and net external debt positions as at 1 April 2018 are also shown for comparative purposes.

Table 1

External Debt	Total Principal as at 30 September 2018	Total Principal as at 1 April 2018
Fixed Rate Borrowing – PWLB *	£119.256 million	£123.998 million
Fixed Rate Borrowing – LOBO **	£16.000 million	£16.000 million
Fixed Rate Borrowing – Market ***	£14.000 million	£14.000 million
Total External Debt	**£149.256 million**	**£153.998 million**
Investments	(£63.877 million)	(£50.733 million)
Total Net External Debt	£85.379 million	£103.265 million

Notes

* PWLB = Public Works Loans Board
** LOBO borrowing is from banks and similar financial institutions – these loans allow the lender to vary the rate of interest at specific points in time (referred to as call dates) but the Council is not legally obliged to accept such changes hence both the lender and borrower have options on whether to continue the loan or not.
*** Market borrowing is from banks and similar institutions in traditional fixed rate and fixed term form.

2. Capital Financing Requirement
   The Council calculates a rolling 12 month forecast of its Capital Financing Requirement (CFR). The CFR represents the level of borrowing for capital purposes which it is projected that the Council requires to have in place, including the gross external debt already in place, at the end of the rolling 12 month period. The forecast CFR at any point in time therefore essentially takes the existing gross external debt and adjusts for projected net capital expenditure over the forthcoming 12 month period. The CFR therefore denotes a snapshot of the underlying need to borrow for capital purposes and this makes it a crucial part of our borrowing arrangements in compliance with relevant Codes of Practice. At 30 September 2018 the CFR was projected to be £173.918 million (that is to say the projected value of our external debt requirements at 30 September 2018).

   Where there is headroom between existing gross external debt levels and the CFR, the Council may, at any time over the 12 month period, borrow from the Public Works Loan Board (PWLB) or the money market (external borrowing). Alternatively the Council may on a temporary basis borrow from internal balances (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. When the gross external debt and CFR information shown above is taken into account, it can be seen that there is borrowing headroom at 30 September 2018 of £24.662 million (CFR of £173.918 million less gross debt of £149.256 million). This is however a snapshot position and members are asked to note that the headroom is projected to rise over the remainder of the financial year.

3. Long term borrowing undertaken in the first six months of 2018/19

Members are asked to note that no new borrowing has been undertaken during the period 1 April 2018 to 30 September 2018. Whilst there is an underlying need to borrow for capital purposes, as the council currently holds significant levels of temporary cash in balances new long term borrowing has been deferred over the first half of the year, with the intention of reducing underlying cash balances. This deferment strategy benefits the council by reducing the total interest payable on debt.

The latest interest rate forecast provided by the Council's treasury management advisers (detailed in Table 4 below) indicates that PWLB interest rates for new borrowing are projected to rise steadily over the next 2 years.

In respect of potential borrowing from the PWLB, the Council has access to a 20 basis point (0.20%) discount (otherwise known as the certainty rate) on all borrowing undertaken from PWLB in return for providing information on potential long term borrowing and associated capital spending plans. Angus Council will continue to annually submit the information necessary to ensure ongoing access to the reduced borrowing rates.

Having taken account of:

- the interest rate forecast (Table 4 below);
- the certainty rate discount on new borrowing detailed above;
- external advice from the Council's treasury advisers;
- the current and projected headroom between the Council's current external debt and the CFR; and
- the current and projected levels of cash balances

it is the view of the Head of Finance & Legal that significant amounts of new borrowing are unlikely to be undertaken over the remainder of the financial year.

Although the Council has a significant capital programme it is currently more appropriate to use surplus cash balances held to finance that capital expenditure before considering taking out new loans. This approach makes sense both in terms of managing counterparty risk and also allows the Council to postpone the cost of new borrowing.

Further borrowing could still however be undertaken should prevailing economic and market conditions over the remainder of the financial year move to the advantage of the Council. It is also possible that non-PWLB borrowing may become more competitive compared with PWLB rates and the Head of Finance & Legal will closely monitor the situation to ensure that any appropriate borrowing opportunities are fully considered and actioned where this is of benefit to the Council.

As previously, it would be intended that any such borrowing will be taken at a number of points during the year to mitigate the risk of interest rate movements and taking cognisance of the subsequent lending opportunities that are available in respect of the net cost of incurring additional borrowing.

In accordance with the 2018/19 Treasury Management Strategy Statement, the Council has not borrowed in advance of need during the first half of the 2018/19 financial year and has no intention to borrow in advance for the remainder of the 2018/19 financial year.

4. Long term borrowing repaid in the first six months of 2018/19

The Council has repaid £4.741million of PWLB loans that naturally matured in the period 1 April 2018 to 30 September 2018. Details of the loans repaid are shown in Table 2 below.

Table 2

Date Repaid	Amount (£)	Rate (%)
22/06/18	4,000,000	3.67
31/08/18	741,102.57	9.50
Totals	**4,741,102.57**	

A further £1,500,000 of PWLB (at an interest rate of 3.38%) matures during the second half of the financial year.

5. PWLB interest rates

The highest and lowest PWLB interest rates available during the period 1 April 2018 to 30 September 2018 for 5, 10, 25 and 50 year terms are detailed in Table 3 below. For clarity the rates shown within Table 3 have been reduced to reflect the 20 basis point PWLB certainty rate discount. It will be noted that even in a short period of only six months there has been sizeable movements in the rates available.

Table 3

Period	Interest Rate Low Point (%)	Interest Rate High Point (%)
5 years	1.87	2.19
10 years	2.29	2.63
25 years	2.70	3.03
50 years	2.45	2.84

The Link Asset Services revised forecast for UK Bank Base Rate and new PWLB borrowing interest rates issued on 2 November 2018 is as follows:

Table 4

Rate	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20
Base Rate	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%
5 Year	1.80%	1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.30%
10 Year	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%
25 Year	2.70%	2.80%	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%
50 Year	2.50%	2.60%	2.60%	2.70%	2.80%	3.00%	2.90%	3.00%

The above forecasts for PWLB rates have been reduced to reflect the PWLB certainty rate discount as highlighted above in Section 1.2 of this appendix.

6. Investment position at 30 September 2018

In accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice, it is the Council's investment priority to: ensure the security of capital; ensure availability of liquidity; and thereafter to obtain an appropriate level of return which is consistent with the Council's risk appetite.

The average daily level of funds available for investment purposes in the first six months of 2018/19 was £63.340million. These funds were available on a temporary basis, and the level of funds that were available was mainly dependent on the timing of payments, receipt of grants and other income and progress on the capital programme.

The counterparty limits approved within the Annual Investment Strategy were not breached during the first six months of 2018/19.

Notwithstanding the historically low Bank of England base rate and the Council's cautious and controlled approach to lending, a rate of return for the period 1 April 2018 to 30 September 2018 was achieved, as follows:

Table 5

Average Daily Investment Exposure £m	Angus Council Rate of Return (%)	6 Month Benchmark Return (%)	Internally set local investment rate target (%)
63.340	0.68	0.78	0.65

The benchmark included above represents the 6 month London Interbank Bid rate as at 30 September 2018. It can be seen from the above table that the Angus Council rate of return is 0.10% lower than the above benchmark and 0.03% higher than the internally set local investment rate target of 0.65% as set out in the annual strategy.

7. Debt rescheduling

No debt rescheduling was undertaken during the first six months of 2018/19 as the opportunity to reschedule debt has been limited in the current economic climate. This situation is expected to continue for the foreseeable future, however when interest rates begin to rise again there may be opportunities for debt rescheduling.

8. Variations from agreed policies and practices

The Treasury Management Strategy Statement for 2018/19 was approved by the Council on 22 March 2018 (Report 87/18 refers). No adjustments to the strategy were made when the Treasury Management Annual Report for 2017/18 was presented to Angus Council on 18 October 2018 (Report 304/18 refers) and the Head of Finance & Legal is not recommending any changes at this time.

There were also no variations from agreed policies or practices to report during the period 1 April 2018 to 30 September 2018.

9. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review "affordable borrowing limits". The Council's approved Prudential Indicators are outlined in the 2018/19 Treasury Management Strategy Statement and detailed in the Setting of Prudential Indicators for 2018/19 Budget Process committee report (report number 65/18 to the Special Budget Meeting of Angus Council on 15 February 2018).

During the first six months of the 2018/19 financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's 2018/19 Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.