Appendix 1 to Report 390/15

Angus Council - Treasury Management Annual Report 2014/15

1. Introduction

The Council is required through regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury report reviewing treasury management activities and prudential and treasury indicators following the end of each financial year. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy Code of Practice on Treasury Management (the Code) and the Chartered Institute of Public Finance and Accountancy Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2014/15 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (report 130a/14 refers);
- a mid year treasury management review (report 503/14 refers);
- an annual report following the year end describing the activity compared to the strategy (this report).

The regulatory environment places an onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

The report also fulfils the requirement under the Code that relevant treasury management reports are considered and if necessary commented upon by the Scrutiny and Audit Committee.

This annual report contains details of the Council's borrowing and investment activities during 2014/15 including;

- borrowing outturn for 2014/15 (Section 3)
- borrowing strategy for 2014/15 (3.1);
- debt rescheduling during 2014/15 (3.5);
- investment outturn for 2014/15 (Section 4);
- investment strategy for 2014/15 (4.2);
- variations from agreed policies and practices (Section 5);
- compliance with treasury and prudential limits (Section 6).

2. Treasury Management Performance Overview for 2014/15

2.1 Borrowing and investment position as at 31 March 2015

The Council's debt and investment position is organised by the treasury management team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through the member reporting detailed in the introduction above, and through officer activity detailed in the Council's Treasury Management Practices (report 130a/14 provides further information in respect of the Council's Treasury Management Practices).

The Council's treasury position as at 31 March 2015 is shown in Table 1 below. The treasury position as at 31 March 2014 is also shown for comparative purposes.

Table 1 – Borrowing and Investment Position

External Debt	Position as at 31 March 2015	Position as at 31 March 2014
Fixed Rate Borrowing - PWLB*	£130.480m	£133.480m
Fixed Rate Borrowing - Market**	£30.000m	£30.000m
Fixed Rate Total	£160.480m	£163.480m
Variable Rate Borrowing PWLB	Nil	Nil
Variable Rate Borrowing - Market	Nil	Nil
Total External Debt	**£160.480m**	**£163.480m**
Investments	(£43.033m)	(£39.500m)
Total Net External Debt	£117.447m	£123.980m

Notes
*PWLB represents is the Public Works Loans Board
** Market borrowing is from banks and similar financial institutions – all of the Council's Market Borrowing is in the form of Lender Option Borrower Option debt (LOBOs). 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. The council LOBOs' are a hybrid of both fixed and variable rate loans however it should be noted that as the likelihood of the interest rate remaining unchanged for up to 60 years is low.

In addition to its net external debt of £117.447m the Council also administers a number of other funds (for example, Charitable Funds and Common Good) and maintains a number of internal revenue balances (for example, Capital Fund, General Fund Balance, Housing Revenue Account Balance and Renewal and Repair Funds).

Table 1 includes debt which the Council administers for the former Tayside Police Joint Board and will continue to administer on behalf of Police Scotland. The amount of capital debt outstanding at 31 March 2015 for the former Tayside Police Joint Board was £7,201,000. Police Scotland meet the costs of this debt which the Council manages on their behalf.

2.2 Treasury management 2014/15 performance summary

The financial year 2014/15 continued the challenging investment environment of previous years, namely low investment returns, although levels of counterparty (those who we lend to) risk subsided somewhat. The original expectation for 2014/15 was that the Bank Rate would not rise during the year but would start rising gently from quarter 1 2015. This expectation has however been pushed back to quarter 3 2016. In line with this expectation, there was no additional quantitative easing (purchasing of government bonds by the Bank of England) during 2014/15 and the Bank Rate ended the year unchanged at 0.5% for the fifth successive year.

The challenging economic environment and historically low interest rates again required proactive management of debt and investments to keep the loans fund interest rate low and to protect the Council's investments.

Despite the continuing turbulence in the money market during the 2014/15 financial year, the Council has performed relatively well by taking the opportunity of securing long term investment interest rates from suitable counterparties at times when their interest rates on offer were relatively high. This resulted in an investment rate of return of 0.67% which is 0.24% above the 3 month London Interbank Bid rate benchmark return of 0.43%.

However, depending on the level and timing of the Council’s available cash balances and market investment interest rates it may not always be possible to outperform the benchmark rate of return by such a margin.

The Angus Council loans fund interest rate used to calculate the amount of interest payable on outstanding debt at the end of 2014/15 is detailed in Table 2 below:

Table 2 – Loans Fund Interest Rate

Year	Budget (%)	Actual (%)
2014/15	4.95	**4.72**
2013/14	4.85	**4.73**

It can be seen from Table 2 above the Council’s loans fund interest rate for 2014/15 was 0.23% lower than the budget and 0.01% lower than the previous year’s interest rate. A number of factors affect the interest rate including the interest rates payable on new / refinanced external borrowing; the level of return on short term investments, the existing total Loans Fund advances outstanding and the level of new Loans Fund advances associated with in-year capital spend levels. The marginally reduced rate between 2013/14 and 2014/15 primarily reflects an overall reduction in external debt and lower than budgeted levels of loans fund advances with a consequential reduction in interest payable offset by lower investment returns.

The Council, of course, incurs expenses in administering and managing the loans fund and the rate required to recover such expenses from borrowing accounts in 2014/15 was 0.06%. For comparison purposes the expenses rate in 2013/14 was 0.07%.

The loans fund comparative rates for 2014/15 for all other Scottish Authorities have yet to be published, however the 2013/14 loans pool rate for Angus Council was 4.73% which was slightly above the Scottish average of 4.52% for Scottish Local Authorities (excluding Orkney and Shetland) and it is thought likely that the 2014/15 position as outlined will be broadly in line with the Scottish Average rate when published.

It should be noted that the treasury management team is assisted by the Council’s treasury management advisers (Capita Asset Services) in undertaking treasury management activities.

In summary as a result of sound treasury management activity, the Council was able to meet all its financial obligations and cashflow requirements throughout the financial year without encountering any liquidity problems. Additionally, a higher than budgeted return on investments was delivered in compliance with the treasury management policies and strategies set by Members.

The Council also achieved a lower than budgeted rate of interest applied to outstanding debt, although this is not solely influenced by treasury management activity as highlighted after Table 2 above (for example - levels of capital spend).

3. Borrowing outturn for 2014/15

3.1 Borrowing Strategy for 2014/15

The Council’s strategy for borrowing in 2014/15 (report 130a/14) was to be as flexible as possible, within the constraints of the Prudential and Treasury Indicators, to ensure that borrowing could be undertaken at what was considered to be the most appropriate time (based on the information, intelligence and advice available at the time of making the decision) and for a term suited to the Council's debt maturity profile.

The borrowing strategy for 2014/15 was therefore to borrow either long or short term (to fund the Council's capital financing requirement) when interest rates were at or below the target levels provided by Capita Asset Services.

As part of the above strategy the capital financing requirement based on the anticipated borrowing needs was set at £195.401million. The actual position at the end of the financial year was £161.461million. The end of the year position has mainly arisen as a result of: slippage in capital programmes resulting in the deferral of some long term borrowing; and overall reprofiling of the Council's capital programme.

3.2 Public Works Loans Board interest rates

The highest and lowest P W L B interest rates available during the financial year 2014/15 for 5, 10, 25 and 50 year terms are detailed in Table 3 below. The rates shown have been amended to reflect the 20 basis point P W L B certainty rate reduction. It will be noted that there was significant movement and volatility in the interest rates available.

Table 3 – PWLB Interest Rates 2014/15

Period	Interest Rate Low Point (%)	Interest Rate High Point (%)
5 years	1.71	2.87
10 years	2.18	3.66
20 years	2.74	4.22
25 years	2.85	4.30
49 years	2.81	4.28
50 years	2.82	4.28

3.3 New external borrowing undertaken in 2014/15

New external borrowing of £5million was undertaken from the P W L B during the period 1 April 2014 to 31 March 2015 reflecting the underlying need to borrow for capital purposes identified from the calculation of the capital financing requirement and the very low interest rates available. This borrowing refinanced a portion of debt which matured during the year as detailed at section 3.4 below. The following table details the interest rate and terms at which the new long term P W L B loan was undertaken:

Table 4 – New External Borrowing 2014/15

Date Taken	Amount	Term	Rate (%)
09/01/2015	£2million	20 years	3.05
09/01/2015	£3million	49 years	3.14

3.4 Debt repayments

The Council repaid £8 million in financial year 2014/15 for P W L B loans that naturally matured. Details of the loans repaid are shown in Table 5 below.

Table 5 – Matured Debt Repaid 2014/15

Start Date	Maturity Date	Amount	Rate (%)
12/11/2008	12/05/2014	£3million	3.83
03/03/2010	03/09/2014	£2million	2.62
03/03/2010	03/02/2015	£2milion	2.84
10/05/2010	10/11/2014	£1million	2.52
	Total Repaid	**£8million**	

3.5 Debt rescheduling

There was no debt rescheduling undertaken in 2014/15.

3.6 Borrowing summary

The new external borrowing originally estimated to be required in 2014/15 was £39.921 million per the 2014/15 Treasury Management Strategy Statement (report 130a/14 refers). This figure represented the difference (£31.921 million) between the total estimated external debt for 2013/14 and the estimated 2014/15 Capital Financing Requirement (£163.480million and £195.401million respectively) along with borrowing to replace loans that were due to naturally mature throughout the financial year (£8.0million).

As can be seen from Table 4 above a total of only £5million of new external borrowing was undertaken in the financial year which is £34.921million below the original estimate of £39.921million. This was due to a number of factors but the 2 main ones were:-

Lower than expected borrowing requirements to fund the General Fund and Housing capital programmes due to slippage on projects, higher levels of capital receipts than budgeted and additional funding from the revenue budget (CFCR) on the Housing capital programme. In short our need to borrow was reduced/deferred.

Relatively high levels of temporary cash balances available for investment meant there was no urgency to taking new borrowing – given the outlook for interest rates to remain low in the short to medium term and the need to manage counterparty risk on temporary investments the Head of Corporate Improvement and Finance took a prudent view that further additional borrowing was unnecessary in the financial year. The Head of Corporate Improvement & Finance took the view that the cost of new borrowing could be avoided by postponing new borrowing with minimal risk of a large rise in the interest rates the Council could borrow at.

4. Investment outturn for 2014/15

4.1 Investment policy

The Council's investment policy is governed by the Scottish Government Investment Regulations, which were originally implemented as part of the 2010/11 annual investment strategy approved by the Council on 25 March 2010.

The policy sets out the 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.).

4.2 Investment strategy for 2014/15

The investment strategy for 2014/15 was for investments to be made with reference to the Council's core cash balance, cash flow requirements and the outlook for short-term interest rates (that is to say - rates for investments up to 12 months).

An internal local investment rate target of 0.60% was set as an investment return based on the interest rates available and expectations for the 2014/15 year at the time of setting the strategy.

The strategy also noted that for its cash flow generated balances, the Council would seek to utilise its business reserve accounts, Money Market Funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest whilst still maintaining adequate liquidity to deal with unforeseen needs for cash which might arise during the year.

4.3 Investment rates in 2014/15

The Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening ended up being advanced to early 2016

The average investment rates available in the money market during the financial year 2014/15 are detailed in Table 6 below.

Table 6 – Average Investment Rates

Overnight	3 Month	6 Month	1 Year
0.50	0.49	0.70	1.06

4.4 Investment performance in 2014/15

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

The average level of funds available on a daily basis for investment purposes in 2014/15 was £53.260million. These funds were available on a temporary basis, and the level of funds that were available was mainly dependent on the timing of payments, receipts of grants and progress on the capital programme.

A full list of investments held by the Council as at 31 March 2015 is shown in Annex A – Table 1.

The Council's cautious and controlled approach to lending resulted in an average daily investment and rate of return for 2014/15, as shown in Table 7 below:

Table 7 – Investment Return Details

Average Daily Investment Exposure £000	Angus Council Rate of Return %	3 Month Benchmark Return %	Internally set local investment rate target %
53,260	**0.67**	0.43	0.60

The above benchmark represents the uncompounded 3 month London Interbank Bid rate. It can be seen from the above that the Angus Council rate of return is 0.24% higher than the benchmark and 0.07% higher than the internally set local investment rate target of 0.60%.

It should be noted that the credit worthiness of all investment counterparties utilised by Angus Council is monitored on an ongoing basis in conjunction with the Council's treasury adviser, Capita Asset Services.

No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

5. Variations from agreed policies and practices

There were no variations from agreed policies or practices during the 2014/15 financial year.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Prudential and Treasury Indicators are outlined in the 2014/15 Treasury Management Strategy Statement and detailed in the Setting of Prudential Indicators for 2014/15 Budget Process Committee Report (report 88/14 refers).

During financial year 2014/15 the Council operated within the Prudential and Treasury Indicators set out in the Council's 2014/15 Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. Further information with regards to the Prudential Indicator actuals for 2014/15 is presented in Annex B.

APPENDIX 1 - ANNEX A

Table 1 - Angus Council External Investments as at 31 March 2015

Counterparty	Investment Type	Interest Rate (%)	Maturity Date	Principal Amount (£)	Group Lending Limit* (£)
Clydesdale Bank PLC	Overnight on Call	0.50	01/04/15	7,533,000	**20,000,000**
Lloyds Banking Group	Fixed Term Deposit	0.95	07/09/15	2,000,000	
Lloyds Banking Group	Fixed Term Deposit	1.00	14/10/15	3,500,000	
Lloyds Banking Group	Fixed Term Deposit	0.57	18/05/15	2,000,000	
Lloyds Banking Group	Fixed Term Deposit	1.00	11/03/16	4,500,000	
Lloyds Total	Fixed Term Deposit			**12,000,000**	**15,000,000**
Nationwide Building Society	Fixed Term Deposit	0.66	15/07/15	2,500,000	
Nationwide BS Total	Fixed Term Deposit			**2,500,000**	**5,000,000**
Royal Bank of Scotland	Fixed Term Deposit	1.00	21/08/15	5,000,000	
Royal Bank of Scotland	Fixed Term Deposit	0.90	18/11/15	2,000,000	
Royal Bank of Scotland	Fixed Term Deposit	0.90	20/11/15	3,000,000	
RBS Total	Fixed and Call Account			**10,000,000**	**15,000,000**
Dundee City Council		0.65	29/01/16	7,000,000	
Dundee City Council Total				**7,000,000**	**7,000,000**
Barclays Bank PLC	Fixed Term Deposit	0.51	26/05/15	4,000,000	
Barclays Bank Total				**4,000,000**	**5,000,000**
Total Investments				**43,033,000**	

The Group Lending Limit Column – The group lending limits detailed in the above table were the limits based on the credit ratings of each financial institution as at 31 March 2015.

APPENDIX 1 – ANNEX B

Table 1 – Prudential and Treasury Indicators 2014/15

Details	2014/15 Actual £million	2014/15 Estimate £million
Prudential Indicators		
Gross capital expenditure		
General Fund	35.278	42.900
Housing Revenue Account	13.568	14.356
Total Gross capital expenditure	**48.846**	**57.256**
Ratio of financing costs to net revenue stream		
General Fund	9.8%	9.45%
Housing Revenue Account	9.0%	10.86%

Capital Financing Requirement as at 31 March (Excluding Other Long Term Liabilities)	161.461	195.401
Incremental impact of capital investment decisions		
Increase in council tax (band D) per annum	Nil	Nil
Increase in average rent per week	Nil	Nil
<u>Treasury Indicators</u>		
Authorised limit for external debt		
Borrowing	See note below	220.000
Other long term liabilities	See note below	84.414
Total Authorised limit for external debt		**304.414**
Operational boundary for external debt		
Borrowing	See note below	205.000
Other long term liabilities	See note below	84.414
Total Operational boundary for external debt		**289.414**

<u>Note</u> – The authorised limit and operational boundaries were not exceeded in the 2014/15 financial year.

Table 2 – Limits for Investments over 364 days

Details	Actual @ 31/03/15	2014/15 Estimate
Upper limit for total principal sums invested for over 364 days:		
Year 1	Nil	Unlimited
Year 2	Nil	Unlimited
Year 3 onwards	Nil	Nil

Table 3 – Maturity Structure of Borrowing at 31 March 2015

Maturity structure of borrowing during 2014/15	Actual @ 31/03/15	Upper Limit	Lower Limit
Under 12 months	**4.8%**	**25%**	**0%**
12 months and within 24 months	**3.6%**	**25%**	**0%**
24 months and within 5 years	**10.9%**	**50%**	**0%**
5 years and 10 years	**11.7%**	**50%**	**0%**
10 years and above	**69.0%**	**100%**	**50%**