AGENDA ITEM NO 13

REPORT NO 479/15

ANGUS COUNCIL

ANGUS COUNCIL - 10 DECEMBER 2015

TREASURY MANAGEMENT 2015/16 MID-YEAR REVIEW REPORT

REPORT BY HEAD OF CORPORATE IMPROVEMENT AND FINANCE

ABSTRACT

Members are asked to scrutinise Angus Council's mid-year review report on treasury management activities for the period 1 April 2015 to 30 September 2015.

1 RECOMMENDATIONS

1.1 It is recommended that the Council:

i. Scrutinise the Angus Council mid-year review report on treasury management activities for the period 1 April 2015 to 30 September 2015 attached at Appendix 1;

2 ALIGNMENT TO THE ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT / COPORATE 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 Angus Community Plan and Single Outcome Agreement 2013-2016.

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 2011.

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 2015/16 MID-YEAR REVIEW REPORT

4.1 The treasury management mid-year review report details Angus Council's treasury management activities for the period 1 April 2015 to 30 September 2015 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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<u>NOTE</u>

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

Appendix 1

Angus Council - Treasury management mid-year review report for the period 1 April 2015 to 30 September 2015

The 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:

- borrowing position at 30 September 2015;
- capital financing requirement
- long term borrowing undertaken in the first six months of 2015/16;
- long term borrowing repaid in the first six months of 2015/16;
- PWLB interest rates forecast;
- investment position at 30 September 2015;
- debt rescheduling;
- variations from agreed policies and practices;
- compliance with treasury and prudential limits;

Members may recall the Treasury Management Annual Report 2014/15 (Report 390/15 refers) which noted that the loans pool interest rate for all Scottish Local Authorities was not available at that time. Members may wish to note however that on the basis of year end returns from individual councils, a 2014/15 loans pool rate for Scottish Local Authorities has now been calculated and averages 4.33%. Angus Council's audited loans pool interest rate for the financial year 2014/15 was 4.72%.

Members should note however that the Average Loans Pool Rate as a comparative is not overly relevant as each Local Authority adopts its own bespoke treasury strategy. Within the terms of the Council's current strategy, new long term borrowing has been deferred over the first half of the year, with the intention of reducing underlying cash balances. However this does mean that within the loans pool rate calculation historical loans with higher interest rates carry a greater weighting presently than those relatively recent loans with a low rate of interest. This deferment strategy benefits the council by reducing the total interest payable on Debt.

1. **<u>Borrowing position at 30 September 2015</u>**

The Council's gross and net external debt positions as at 30 September 2015 are shown in Table 1 below. The gross and net external debt positions as at 1 April 2015 are also shown for comparative purposes.

Table 1

External Debt	Total Principal as at 30 September 2015	Total Principal as at 1 April 2015
Fixed Rate Borrowing - P W L B*	£130.332m	£130.480m
Fixed Rate Borrowing – Market**	£30.000m	£30.000m
Total External Debt	**£160.332m**	**£160.480m**
Investments	(£56.468m)	(£43.033m)
Total Net External Debt	£103.864m	£117.447m

<u>Notes</u>

*PWLB 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.

1.1 Capital Financing Requirement

The Council calculates a rolling 12 month forecast of its Capital Financing Requirement (C F R). The C F R 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 12 month period. The forecast C F R therefore essentially takes the existing gross external debt and adjusts for projected net capital expenditure over the forthcoming 12 month period. The C F R therefore denotes 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 2015 the C F R was projected to be £183.580million (that is to say the projected value of our external debt requirements at 30 September 2016).

Where there is headroom between existing gross external debt levels and the C F R, the Council may, at any time over the 12 month period, borrow from the Public Works Loan Board (P W L B) 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 C F R information shown above is taken into account, it can be seen that there is borrowing headroom at 30 September 2015 of £23.248million (C F R of £183.580million less Gross Debt of £160.332 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.

1.2 Long term borrowing undertaken in the first six months of 2015/16

Members are asked to note that a relatively small amount of external borrowing (£2.0m) has been undertaken from the P W L B during the period 1 April 2015 to 30 September 2015. There is an underlying need to borrow for capital purposes however the council currently holds significant levels of temporary cash in balances therefore the new borrowing in the first 6 months of the financial year was only undertaken to replace existing borrowing which had reached its maturity and to take advantage of the additional P W L B discount described below.

The latest interest rate forecast provided by the Council's Treasury Management advisers (detailed in Table 5 below) indicates that P W L B interest rates for new borrowing are likely to rise slowly but steadily over the next 2 years.

Members may recall the Government introduced a 20 basis point (0.20%) discount (otherwise known as a certainty rate) on all borrowing undertaken from the Public Works Loan Board from 1st November 2012 for local authorities providing further information on its locally determined 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.

In addition in the current year, Angus Council met the required criteria to access a further 0.20% of P W L B discount in the form of a Project Borrowing Rate to enable a total discount of 0.40% on borrowing from the Public Works Loans Board in the current financial year up to a maximum of £5.3 million. As noted above, £2.0 million of this sum has so far been drawn down.

Having taken account of:

- the interest rate forecast (Table 5 below);
- the certainty and project rate discounts 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 C F R; and
- the current and projected levels of cash balances,

It is the view of the Head of Corporate Improvement and Finance that other than the intention to draw down the £3.3 million balance of project rate borrowing, significant amounts of new borrowing are unlikely to be undertaken this 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 - P W L B borrowing may become more competitive compared with P W L B rates and the Head of Corporate Improvement and Finance 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 2015/16 Treasury Management Strategy Statement, the Council has not borrowed in advance of need during the first half of the 2015/16 financial year and has no intention to borrow in advance for the remainder of the 2015/16 financial year.

1.3 Long term borrowing repaid in the first six months of 2015/16

The Council has repaid £2.148 million of P W L B loans that naturally matured in the period 1 April 2015 to 30 September 2015. Details of the loans repaid are shown in Table 3 below.

Table 3

Date Repaid	Amount	Rate (%)
11/05/2015	2,000,000	4.04
30/09/2015	148,221	11.625
	2,148,221	4.56

A further £4.148m of P W L B debt is due to mature during the second half of the financial year.

1.4 P W L B interest rates

The highest and lowest P W L B interest rates available during the period 1 April 2015 to 30 September 2015 for 5, 10, 25 and 50 year terms are detailed in Table 5 below. For clarity the rates shown within Table 4 have been reduced to reflect the normal 20 basis point P W L B certainty rate discount. The additional 20 basis point Project Rate discount has not been adjusted as this did not apply from the start of the year. It will be noted that even in a short period of only six months there has been significant movements and volatility in the rates available.

Table 4

Period	Interest Rate Low Point (%)	Interest Rate High Point (%)
5 years	1.82	2.35
10 years	2.40	3.06
25 years	3.06	3.66
50 years	3.01	3.58

The Sector Treasury Services revised forecast for U K Bank Base Rate and new P W L B borrowing interest rates issued on 10 November 2015 is as follows:

Table 5

Rate	Dec 15	Mar 16	Jun 16	Sep 16	Dec 16	Mar 17	Jun 17	Sep 17
Base Rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%
5 Year	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%
10 Year	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%
25 Year	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%
50 Year	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%

The above forecasts for P W L B rates have been reduced to reflect the P W L B certainty rate discount as highlighted above in Section 1(a) of this report, but not the additional 20 basis point Project Rate discount as this did not apply from the start of the year.

2. **Investment position at 30 September 2015**

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 and 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 2014/15 was £55.610Million. 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 progress on the capital programme.

The counterparty limits approved within the Annual Investment Strategy were not breached during the first six months of 2015/16

Notwithstanding the Council's cautious and controlled approach to lending a rate of return for the period 1 April 2015 to 30 September 2015 was achieved, as follows:

Table 6

Average Daily Investment Exposure £000	Angus Council Rate of Return (%)	6 Month Benchmark Return (%)	Internally set local investment rate target (%)
£55.610m	**0.70**	0.62	0.55

The benchmark included above represents the 6 month London Interbank Bid rate. It can be seen from the above table that the Angus Council rate of return is 0.08% higher than the above benchmark and 0.15% higher than the internally set local investment rate target of 0.55% as set out in the annual strategy.

3. **Debt rescheduling**

No debt rescheduling was undertaken during the first six months of 2015/16 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.

4. **Variations from agreed policies and practices**

The Treasury Management Strategy Statement for 2015/16 was approved by the Council on 26 March 2015 (Report 122/15 refers). No adjustments to the strategy were made when the Treasury Management Annual Report was presented to Angus Council on 22 October 2015 (Report 390/15 refers) and the Head of Corporate Improvement and Finance 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 2015 to 30 September 2015.

5. **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 2015/16 Treasury Management Strategy Statement and detailed in the Setting of Prudential Indicators for 2015/16 Budget Process Committee Report (report number 64/15 to the Special Budget Meeting of Angus Council on 12 February 2015).

During the first six months of the 2015/16 financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Council's 2015/16 Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.