Appendix 1 to Report 304/18

Angus Council - Treasury Management Annual Report 2017/18

1. Introduction

1.1 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).

1.2 In respect of financial year 2017/18 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (report 109/17 refers);
- a mid year treasury management review (report 422/17 refers);
- an annual report following the year end describing the activity compared to the strategy (this report).

1.3 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 2017/18 outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.4 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.

1.5 This annual report contains details of the Council's borrowing and investment activities during 2017/18 including;

- borrowing outturn for 2017/18 (Section 3)
- borrowing strategy for 2017/18 (3.1);
- debt rescheduling during 2017/18 (3.5);
- investment outturn for 2017/18 (Section 4);
- investment strategy for 2017/18 (4.2);
- variations from agreed policies and practices (Section 5);
- compliance with treasury and prudential limits (Section 6).

2. Treasury Management Performance Overview for 2017/18

2.1 Borrowing and investment position as at 31 March 2018

2.1.1 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.

2.1.2 The Council's treasury position as at 31 March 2018 is shown in Table 1 below. The treasury position as at 31 March 2017 is also shown for comparative purposes.

Table 1 – Borrowing and Investment Position

External Debt	Position as at 31 March 2018	Position as at 31 March 2017
Fixed Rate Borrowing - PWLB*	£123.998m	£128.739m
Fixed Rate Borrowing - LOBO**	£16.000m	£16.000m
Fixed Rate Borrowing – Market***	£14.000m	£14.000m
Fixed Rate Total	£153.998m	£158.739m
Variable Rate Borrowing PWLB	Nil	Nil
Variable Rate Borrowing - Market	Nil	Nil
Total External Debt	**£153.998m**	**£158.739m**
Investments	(£50.733m)	(£46.845m)
Total Net External Debt	£103.265m	£111.894m

Notes to Table 1
*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. The council LOBOs are a hybrid of both fixed and variable rates.
*** Market borrowing is from banks and similar institutions in traditional fixed rate and fixed term form.

2.1.3 In addition to its net external debt of £103.265m 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).

2.1.4 Table 1 includes debt which the Council administered for the former Tayside Police Joint Board and continues to administer on behalf of Police Scotland. The amount of capital debt outstanding at 31 March 2018 for the former Tayside Police Joint Board was £5,297,000. Police Scotland meet the costs of this debt which the Council manages on their behalf.

2.2 Treasury management 2017/18 performance summary

Investments

2.2.1 The financial year 2017/18 continued the challenging investment environment of previous years, namely low investment returns. The original expectation for 2017/18 was that the Bank Rate would start rising gently during the financial year, however given the ongoing challenging economic conditions, only one rise in bank rate materialised – rising from 0.25% to 0.50% on 2 November 2017.

2.2.2 The challenging economic environment and continuing low interest rates again required proactive management of debt and investments to keep the loans fund interest rate low and to ensure value from the Council's investments.

2.2.3 Despite the low investment returns available during the 2017/18 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. Table 2 below details the investment rate of return achieved in comparison to market benchmark. The position for 2016/17 is also shown for comparative purposes.

Table 2 – Investment Rate of Return

Year	Benchmark (%)	Actual (%)	Variance
2017/18	0.40	**0.53**	**0.13**
2016/17	0.42	**0.63**	**0.21**

2.2.4 It should be noted 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.

<u>Borrowing</u>

2.2.5 The Angus Council loans fund interest rate used to calculate the amount of interest payable on outstanding debt at the end of 2017/18 is detailed in Table 3 below:

Table 3 – Loans Fund Interest Rate

Year	Budget (%)	Actual (%)	Variance
2017/18	4.67	**4.35**	**0.32**
2016/17	4.80	**4.44**	**0.36**

2.2.6 It can be seen from Table 3 above the Council's loans fund interest rate for 2017/18 was 0.32% lower than the budget and 0.04% 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.

2.2.7 The reduced rate between 2016/17 and 2017/18 primarily reflects a slightly lower debt level; lower than budgeted levels of loans fund advances; and no replacement of maturing debt in year.

2.2.8 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 2017/18 was 0.05% which was a decrease of 0.02% from financial year 2016/17.

2.2.9 Whilst the 2017/18 loans fund comparative rates for all other Scottish Authorities have not yet been published it is expected that the 2017/18 loans pool rate for Angus Council is likely to be broadly in line with the Scottish Average rate when published.

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

2.2.11 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.

3. Borrowing outturn for 2017/18

3.1 Borrowing Strategy for 2017/18

3.1.1 The Council's strategy for borrowing in 2017/18 (report 109/17) 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.

3.1.2 The borrowing strategy for 2017/18 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 Link Asset Services.

3.1.3 As part of the above strategy the capital financing requirement based on the anticipated borrowing needs was set at £183.791million. The actual position at the end of the financial year was £173.785million. 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 reduced borrowing as a result of increased capital receipts / capital funded from the revenue budget.

3.2 Public Works Loans Board interest rates

3.2.1 The highest and lowest P W L B interest rates available during the financial year 2017/18 for 5, 10, 25 and 50 year terms are detailed in Table 4 below. The rates shown have been reduced 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 4 – PWLB Interest Rates 2017/18

Period	Interest Rate Low Point (%)	Interest Rate High Point (%)
5 years	1.38	2.21
10 years	2.01	2.73
20 years	2.66	3.10
25 years	2.72	3.13
45 years	2.46	2.84
50 years	2.46	2.84

3.3 New external borrowing undertaken in 2017/18

3.3.1 No new external borrowing was undertaken from the P W L B or any other market sources during the period 1 April 2017 to 31 March 2018 amounting to a further 0.20% reduction.

3.4 Debt repayments

3.4.1 The Council repaid £4.741million in financial year 2017/18 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 2017/18

Start Date	Maturity Date	Amount	Rate (%)
29/5/09	30/05/2017	£4.000million	3.42
02/04/90	02/10/2017	£0.148million	11.50
25/04/90	02/10/2017	£0.296million	11.75
31/08/88	15/11/2017	£0.297million	9.50
	Total Repaid	**£4.741million**	

3.5 Debt rescheduling

3.5.1 There was no debt rescheduling undertaken in 2017/18 due to a lack of opportunity offered by the current low interest rate environment.

3.6 Borrowing summary

3.6.1 The new external borrowing originally estimated to be required in 2017/18 was £29.793 million per the 2017/18 Treasury Management Strategy Statement (report 109/17 refers). This figure represented the difference between the total estimated external debt for 2016/17 and the estimated 2017/18 Capital Financing Requirement (£158.739 million - £183.791 million = £25.052 million) along with borrowing to replace loans that were due to naturally mature throughout the financial year (£4.741 million).

3.6.2 As noted at paragraph 3.3 above no new external borrowing was undertaken in the financial year. This was due to a number of factors but the 2 main ones were:-

3.6.3 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). In short our need to borrow was reduced/deferred.

3.6.4 Relatively high levels of temporary cash balances available for investment meant there was no urgency to taking new borrowing – given the outlook for investment interest rates to remain low in the medium term and the need to manage counterparty risk on temporary investments the Head of Finance & Legal took a prudent view that further additional borrowing was unnecessary in the financial year. The Head of Finance & Legal also 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 2017/18

4.1 Investment policy

4.1.1 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.

4.1.2 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 2017/18

4.2.1 The investment strategy for 2017/18 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).

4.2.2 An internal local investment rate target of 0.50% was set as an investment return based on the interest rates available and expectations for the 2017/18 year at the time of setting the strategy.

4.2.3 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 2017/18

4.3.1 The Bank Rate remained at a historic low for a large part of the year; only increasing from 0.25% to 0.50% on 2 November 2017 and remaining at that level to the end of the financial year.

4.3.2 The average investment rates available in the money market during the financial year 2017/18 are detailed in Table 6 below.

Table 6 – Average Investment Rates

Overnight	3 Month	6 Month	1 Year
0.35	0.29	0.48	0.73

4.4 Investment performance in 2017/18

4.4.1 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.

4.4.2 The average level of funds available on a daily basis for investment purposes in 2017/18 was £57.983 million. 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.

4.4.3 A full list of investments held by the Council as at 31 March 2018 is shown in Annex A –Table 1.

4.4.4 The Council's cautious and controlled approach to lending resulted in an average daily investment and rate of return for 2017/18, 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 %
57,983	**0.53**	0.40	0.50

4.4.5 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 0.13% higher than the benchmark and 0.03% higher than the internally set local investment rate target of 0.50%.

4.4.6 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, Link Asset Services.

4.4.7 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

5.1 There were no variations from agreed policies or practices during the 2017/18 financial year.

6. Compliance with Treasury and Prudential Limits

6.1 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 2017/18 Treasury Management Strategy Statement and detailed in the Setting of Prudential Indicators for 2017/18 Budget Process Committee Report (report 63/17 refers).

6.2 During financial year 2017/18 the Council operated within the Prudential and Treasury Indicators set out in the Council's 2017/18 Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. Further information with regards to the Prudential Indicator actuals for 2017/18 is presented in Annex B.

APPENDIX 1 - ANNEX A

Table 1 - Angus Council External Investments as at 31 March 2018

Counterparty	**Investment Type**	**Interest Rate (%)**	**Maturity Date**	**Principal Amount (£)**	**Group Lending Limit* (£)**
Clydesdale Bank PLC	Overnight on Call	0.50	01/04/18	5,232,514	**20,000,000**
London Borough of Brent Council	Fixed Term Deposit	0.85	09/04/18	4,000,000	
London Borough of Brent Total				**4,000,000**	**15,000,000**
Moray Council	Fixed Term Deposit	0.55	23/07/18	2,000,000	
Moray Council Total				**2,000,000**	**15,000,000**
Salford City Council	Fixed Term Deposit	0.55	26/07/18	2,000,000	
Salford City Council Total				**2,000,000**	**15,000,000**
UBS	Certificate of Deposit	0.48	11/09/18	5,000,000	
UBS Total				**5,000,000**	**10,000,000**
Royal Bank of Scotland Royal Bank of Scotland Royal Bank of Scotland	Fixed Term Deposit Fixed Term Deposit Fixed Term Deposit	0.66 0.66 0.72	27/06/18 12/07/18 27/11/18	5,000,000 5,000,000 2,500,000	
RBS Total				**12,500,000**	**15,000,000**
Goldman Sachs International	Time Deposit	0.98		5,000,000	
Goldman Sachs Total				**5,000,000**	**5,000,000**
Toronto Dominion Bank Toronto Dominion Bank	Certificate of Deposit Certificate of Deposit	0.51 0.64	17/09/18 21/12/18	5,000,000 5,000,000	
Toronto Dominion Bank				**10,000,000**	**10,000,000**
Standard Chartered	Certificate of Deposit	0.47	20/04/18	5,000,000	
Standard Chartered Total				**5,000,000**	
Total Investments				**50,732,514**	

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 2018.

APPENDIX 1 – ANNEX B

Table 1 – Prudential and Treasury Indicators 2017/18

Details	2017/18 Actual	2017/18 Estimate
	£million	**£million**
<u>Prudential Indicators</u>		
Gross capital expenditure		
General Fund	23.071	30.662
Housing Revenue Account	12.763	13.784
Total Gross capital expenditure	**35.834**	**44.446**
Ratio of financing costs to net revenue stream		
General Fund	11.7%	10.21%
Housing Revenue Account	7.8%	8.77%
Capital Financing Requirement as at 31 March (Excluding Other Long Term Liabilities)	173.785	183.791
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	114.872
Total Authorised limit for external debt		**334.872**
Operational boundary for external debt		
Borrowing	See note below	205.000
Other long term liabilities	See note below	114.872
Total Operational boundary for external debt		**319.872**

<u>Note</u> – The authorised limit and operational boundaries were not exceeded in the 2017/18 financial year.

Table 2 – Limits for Investments over 364 days

Details	Actual @ 31/03/18	2017/18 Limit
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 2018

Maturity structure of borrowing	Actual @ 31/03/18	Upper Limit	Lower Limit
Under 12 months	**4.05%**	**25%**	**0%**
12 months and within 24 months	**2.07%**	**25%**	**0%**
24 months and within 5 years	**7.02%**	**50%**	**0%**
5 years and 10 years	**5.46%**	**50%**	**0%**
10 years and above	**81.40%**	**100%**	**50%**