

ANGUS COUNCIL

**SCRUTINY AND AUDIT COMMITTEE – 24 SEPTEMBER 2019
ANGUS COUNCIL – 17 OCTOBER 2019**

TREASURY MANAGEMENT ANNUAL REPORT 2018/19

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report details Angus Council's treasury management arrangements, activity and performance during 2018/19.

1 RECOMMENDATIONS

1.1 It is recommended that the Scrutiny and Audit Committee:

- (i) review and scrutinise the 2018/19 treasury management annual report and its associated appendix; and
- (ii) provide any commentary considered appropriate at this time.

1.2 It is recommended that the Council:

- (i) review and scrutinise the annual report on 2018/19 treasury management activities for Angus Council attached at **Appendix 1**, considering any commentary that may have been provided by the Scrutiny and Audit Committee.

2 ALIGNMENT TO THE COUNCIL PLAN / LOCAL OUTCOMES IMPROVEMENT 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, contribute as a whole to the outcomes contained within the Council Plan and Local Outcome Improvement Plan.

3 TREASURY MANAGEMENT ANNUAL REPORT

3.1 The Council is required, through regulations issued under the Local Government in Scotland Act 2003, to produce an annual report reviewing treasury management activities and prudential and treasury indicators following the end of each financial year. This report meets the Treasury Management in the Public Services Code of Practice (2017 edition) and the Prudential Code for Capital Finance in Local Authorities (2017 edition), both published by the Chartered Institute of Public Finance and Accountancy.

3.3 The treasury management annual report details Angus Council's borrowing and investment activities during 2018/19 and is attached at **Appendix 1**.

4 FINANCIAL IMPLICATIONS

4.1 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 well being.

5 RISK IMPLICATIONS

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

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.

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List of Appendices:

Appendix 1 –Treasury Management Annual Report 2018/19

Treasury Management Annual Report 2018/19**1. Introduction**

1.1 The annual minimum reporting requirements with regard to treasury management are that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (report 87/18 refers);
- a mid year treasury management review (report 384/18 refers);
- an annual report following the year end describing the activity compared to the strategy (this report).

1.2 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 2018/19 outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.3 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.

2. Treasury Management Performance Overview for 2018/19**Borrowing and Investment Position as at 31 March 2019**

2.1 The Council's borrowing 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.

2.2 The borrowing and investment position as at 31 March 2019 is shown in Table 1 below, with the position as at 31 March 2018 shown for comparative purposes.

Table 1 – Borrowing and Investment Position

External Debt	Position as at 31 March 2019 £m	Position as at 31 March 2018 £m
Fixed Rate Borrowing – PWLB (see note 1)	117.756	123.998
Fixed Rate Borrowing – LOBO (see note 2)	16.000	16.000
Fixed Rate Borrowing – Market (see note 3)	14.000	14.000
Fixed Rate Total	147.756	153.998
Variable Rate Borrowing PWLB	Nil	Nil
Variable Rate Borrowing – Market	Nil	Nil
Total External Debt	147.756	153.998
Investments	(61.859)	(50.733)
Net External Debt	85.897	103.265

Note 1 - PWLB is the Public Works Loans Board

Note 2 - LOBO borrowing is from banks and similar financial institutions. Whilst these loans allow the lender to vary the rate of interest at specific points in time (referred to as call dates) 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.

Note 3 - Market borrowing is from banks and similar institutions in traditional fixed rate and fixed term form.

- 2.3 In addition to its net external debt of £85.897m 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).
- 2.4 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 2019 for the former Tayside Police Joint Board was £4.667m. Police Scotland meet the costs of this debt which the Council manages on their behalf.

Borrowing - 2018/19 Performance Summary

- 2.5 The Angus Council loans fund interest rate used to calculate the amount of interest payable on outstanding debt at the end of 2018/19 is detailed in Table 2 below, with 2017/18 also detailed for comparison purposes.

Table 2 – Loans Fund Interest Rate

Year	Budget %	Actual %	Variance %
2018/19	4.40	4.28	0.12
2017/18	4.67	4.35	0.32

- 2.6 It can be seen from Table 2 above the Council's loans fund interest rate for 2018/19 was 0.12% lower than the budget and 0.07% 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.
- 2.7 The reduced rate between 2017/18 and 2018/19 primarily reflects a slightly lower debt level; lower than budgeted levels of loans fund advances; and no replacement of maturing debt in year.
- 2.8 The Council incurs expenses in administering and managing the loans fund and the rate required to recover such expenses from borrowing accounts in 2018/19 was 0.07% which was an increase of 0.02% from financial year 2017/18.
- 2.9 Whilst the 2018/19 loans fund comparative rates for all other Scottish Authorities have not yet been published it is expected that the 2018/19 loans pool rate for Angus Council is likely to be broadly in line with the Scottish Average rate when published.
- 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.
- 2.11 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.

Investments – 2018/19 Performance Summary

- 2.12 The financial year 2018/19 continued the challenging investment environment of previous years. The original expectation for 2018/19 was that the Bank Rate (also known as the base rate) would rise during the financial year, and on 2 August 2018 the Bank of England increased this rate from 0.50% to 0.75%.

- 2.13 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.
- 2.14 Despite the lowish investment returns available during the 2018/19 financial year, the Council has performed relatively well by taking the opportunity of securing competitive investment interest rates from suitable counterparties at times when their interest rates on offer were relatively high. Table 3 below details the investment rate of return achieved in comparison to the market benchmark. The position for 2017/18 is also shown for comparative purposes.

Table 3 – Investment Rate of Return

Year	Benchmark %	Actual %	Variance %
2018/19	0.78	0.80	0.02
2017/18	0.40	0.53	0.13

- 2.15 It should be noted however that, 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.

3. Borrowing Outturn for 2018/19

Borrowing Strategy for 2018/19

- 3.1 The Council's strategy for borrowing in 2018/19 (report 87/18) 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.
- 3.2 The borrowing strategy for 2018/19 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.
- 3.3 As part of the above strategy the capital financing requirement based on the anticipated borrowing needs was set at £174.103million (NB this is the 12 month forward looking position in accordance with the Investment Regulations). The actual position at the end of the financial year was £157.607million. 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.

Public Works Loans Board Interest Rates

- 3.4 The highest and lowest Public Works Loans Board (PWLB) interest rates available during the financial year 2018/19 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 PWLB certainty rate reduction. It will be noted that there was significant movement and volatility in the interest rates available.

Table 4 – PWLB Interest Rates 2018/19

Period	Interest Rate Low Point %	Interest Rate High Point %
5 years	1.50	2.07
10 years	1.80	2.50
25 years	2.33	2.93
50 years	2.16	2.79

New External Borrowing Undertaken in 2018/19

- 3.5 No new external borrowing was undertaken from the PWLB or any other market sources during the period 1 April 2018 to 31 March 2019.

Debt Repayments

- 3.6 The Council repaid £6.241m in financial year 2018/19 of PWLB loans that naturally matured, as detailed in Table 5 below.

Table 5 – Matured Debt Repaid in 2018/19

Start Date	Maturity Date	Amount £m	Rate %
22/06/09	22/06/18	4.000	3.67
31/08/88	31/08/18	0.741	9.50
04/08/11	04/02/19	1.500	3.38

Debt Rescheduling

- 3.7 There was no debt rescheduling undertaken in 2018/19 due to a lack of opportunity offered by the current low interest rate environment.

Borrowing Summary

- 3.8 The new external borrowing originally estimated to be required in 2018/19 was £26.346m per the 2018/19 Treasury Management Strategy Statement (report 87/18 refers). This figure represented the difference between the total external debt for 2017/18 and the estimated 2018/19 Capital Financing Requirement (£153.998m - £174.103m = £20.105m), along with borrowing to replace loans that were due to naturally mature throughout the financial year (£6.241m).

- 3.9 As noted at paragraph 3.5 above however, no new external borrowing was undertaken in the financial year. 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). In short our need to borrow was reduced / deferred.
- 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 Director of Finance took a prudent view that further additional borrowing was unnecessary in the financial year. The Director of Finance 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 2018/19

Investment Policy

- 4.1 The Council's investment policy is governed by the Local Government Investment (Scotland) Regulations and the CIPFA Treasury Management in the Public Services Code of Practice.
- 4.2 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.).

Investment Strategy for 2018/19

- 4.3 The investment strategy for 2018/19 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).
- 4.4 An internal local investment rate target of 0.65% was set as an investment return based on the interest rates available and expectations for the 2018/19 year at the time of setting the strategy.
- 4.5 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.

Investment rates in 2018/19

- 4.6 The Bank Rate remained at a historic low for a large part of the year; only increasing from 0.50% to 0.75% in August 2018 and remaining at that level to the end of the financial year.
- 4.7 The average investment rates available in the money market during the financial year 2018/19 are detailed in Table 6 below.

Table 6 – Average Investment Rates

Overnight %	3 Month %	6 Month %	1 Year %
0.51	0.68	0.79	0.94

Investment performance in 2018/19

- 4.8 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.
- 4.9 The average level of funds available on a daily basis for investment purposes in 2018/19 was £68.271 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.
- 4.10 A full list of investments held by the Council as at 31 March 2019 is shown in Annex A –Table 1.
- 4.11 The Council's cautious and controlled approach to lending resulted in an average daily investment and rate of return for 2018/19, as shown in Table 7 below:

Table 7 – Investment Return Details

Average Daily Investment Exposure £m	Angus Council Rate of Return %	6 Month Benchmark Return %	Internally set local investment rate target %
68.271	0.80	0.79	0.65

- 4.12 The benchmark included above represents the average 6 month un compounded London Interbank Bid (LIBID) rate. It can be seen from the above that the Angus Council rate of return is 0.01% higher than the benchmark and 0.15% higher than the internally set local investment rate target of 0.65%.
- 4.13 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.

4.14 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 2018/19 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 2018/19 Treasury Management Strategy Statement and detailed in the Setting of Prudential Indicators for 2018/19 Budget Process Committee Report (report 65/18 refers).

6.2 During financial year 2018/18 the Council operated within the Prudential and Treasury Indicators set out in the Council’s 2018/19 Treasury Management Strategy Statement and in compliance with the Council’s Treasury Management Practices. Further information with regards to the Prudential Indicator actuals for 2018/19 is presented in Annex B.

APPENDIX 1 - ANNEX A

Angus Council External Investments as at 31 March 2019

Counterparty	Investment Type	Interest Rate %	Maturity Date	Principal Amount £	Group Lending Limit £
Clydesdale Bank	Overnight on Call	0.75	01/04/19	1,359,095	20,000,000
North Lanarkshire Council	Fixed Term Deposit	0.90	17/04/19	7,500,000	15,000,000
South Ayrshire Council	Fixed Term Deposit	1.05	16/09/19	5,000,000	15,000,000
West Dunbartonshire Council	Fixed Term Deposit	0.85	10/04/19	5,000,000	15,000,000
Bank of Scotland	Fixed Term Deposit	1.05	08/08/19	5,000,000	12,500,000
		1.00	19/06/19	2,500,000	
Santander	Fixed Term Deposit	1.00	16/05/19	5,000,000	12,500,000
		0.99	19/06/19	2,500,000	
National Westminster Bank	Certificate of Deposit	1.00	11/07/19	5,000,000	15,000,000
		1.17	15/11/19	5,000,000	
UBS AG	Certificate of Deposit	1.00	10/09/19	5,000,000	10,000,000
Goldman Sachs International	Time Deposit – 95 days notice	0.90	n/a	5,000,000	12,500,000
	Time Deposit – 185 days notice	0.91	n/a	3,000,000	
Aberdeen Liquidity Fund	Call	0.79	n/a	5,000,000	10,000,000
Total Investments				61,859,095	

The Group Lending Limit Column – the limits detailed in the above table were the limits based on the credit ratings of each financial institution as at 31 March 2019.

APPENDIX 1 – ANNEX B

Table 1 – Prudential and Treasury Indicators 2018/19

Details	2018/19 Actual	2018/19 Estimate
<u>Prudential Indicators</u>		
Gross capital expenditure		
General Fund	22.746	27.385
Housing Revenue Account	10.772	14.815
Total Gross capital expenditure	33.518	42.200
Ratio of financing costs to net revenue stream		
General Fund	11.6%	10.62%
Housing Revenue Account	8.6%	9.88%
Capital Financing Requirement as at 31 March (Excluding Other Long Term Liabilities)	157.607	173.785
<u>Treasury Indicators</u>		
Authorised limit for external debt		
Borrowing	Note 1	220.000
Other long term liabilities	Note 1	107.326
Total Authorised limit for external debt		327.326
Operational boundary for external debt		
Borrowing	Note 1	205.000
Other long term liabilities	Note 1	107.326
Total Operational boundary for external debt		312.326

Note 1 – The authorised limit and operational boundaries were not exceeded in the 2018/19 financial year.

Table 2 – Limits for Investments Over 365 Days

Details	Actual @ 31/03/19	2018/19 Limit
Upper limit for total principal sums invested for over 365 days	Nil	Unlimited

Table 3 – Maturity Structure of Borrowing at 31 March 2019

Maturity structure of borrowing	Actual @ 31/03/19	Upper Limit	Lower Limit
Under 12 months	1.96%	25%	0%
12 months and within 24 months	0.62%	25%	0%
24 months and within 5 years	9.33%	50%	0%
5 years and 10 years	3.86%	50%	0%
10 years and above	84.23%	100%	50%