

ANGUS COUNCIL

**SCRUTINY AND AUDIT COMMITTEE – 24 SEPTEMBER 2020
ANGUS COUNCIL – 5 NOVEMBER 2020**

TREASURY MANAGEMENT ANNUAL REPORT 2019/20

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report details Angus Council's treasury management arrangements, activity and performance during 2019/20.

1. RECOMMENDATIONS

1.1 It is recommended that the Scrutiny and Audit Committee:

- (i) review and scrutinise the 2019/20 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 2019/20 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 Outcomes 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 requirements of 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.

3.2 2019/20 has seen some significant events impacting on treasury operations at both a local and national level both in year and going forward:

- COVID-19 Pandemic

Although the full effect of the pandemic was not felt until towards the end of the financial year, it has had a significant impact on interest rates with the Bank of England reducing the Bank Rate from 0.75% to 0.25% and then to its current level of 0.10%. For the Council the impact of this will be much lower levels of return on investments during 2020/21. The Council set an investment return target of 0.95% for 2020/21 which is now highly unlikely to be achieved.

The pandemic also put a stop to all capital projects on site, although this in itself did not create significant levels of slippage on the Council's capital programme due to the year

end timing of it. It has however had a significant impact on the progress of the 2020/21 capital programme, as noted in report 212/20.

The introduction of a new International Financial Reporting Standard (IFRS) for leases, IFRS 16, has been delayed for a further year due to the pandemic and will now require to be implemented with effect from 1 April 2021. IFRS 16 requires lessees to recognise assets on their balance sheet, effectively reflecting the right to use an asset for a period of time and the associated liability for payments, and will impact on the Council's prudential indicators that are reported through both capital and treasury management channels.

- PWLB Interest Rate Increase
The unexpected one percentage point increase to the interest rate for Public Works Loan Board (PWLB) loans by HM Treasury in October 2019, whilst not impacting directly on Angus Council at that point as we were not requiring to borrow, did have ramifications for the wider treasury environment.
- Loans Fund Review
Angus Council's treasury advisors, Link Asset Services, have undertaken a review of the loans fund as a result of revised flexibility that has been granted to local authorities (through the Local Authority (Capital Financing and Accounting) (Scotland) Regulations 2016) on how they account for loans fund advances. This review has proceeded over the course of 2019/20, with a view to reporting the outcome to the meeting of Angus Council on 17 December 2020.

3.3 The treasury management annual report details Angus Council's borrowing and investment activities during 2019/20 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 2019/20

Treasury Management Annual Report 2019/20**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 74/19 refers);
- a mid year treasury management review (report 406/19 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 2019/20 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 2019/20**Borrowing and Investment Position as at 31 March 2020**

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 2020 is shown in Table 1 below, with the position as at 31 March 2019 shown for comparative purposes.

Table 1 – Borrowing and Investment Position

External Debt	Position as at 31 March 2020 £m	Position as at 31 March 2019 £m
Fixed Rate Borrowing – PWLB (see note 1)	114.570	117.756
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	144.570	147.756
Variable Rate Borrowing PWLB	Nil	Nil
Variable Rate Borrowing – Market	Nil	Nil
Total External Debt	144.570	147.756
Investments	(68.442)	(61.859)
Net External Debt	76.128	85.897

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 £76.128m 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 2020 for the former Tayside Police Joint Board was £4.064m. Police Scotland meet the costs of this debt which the Council manages on their behalf.

Borrowing - 2019/20 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 2019/20 is detailed in Table 2 below, with 2018/19 also detailed for comparison purposes.

Table 2 – Loans Fund Interest Rate

Year	Budget %	Actual %	Variance %
2019/20	4.30	4.33	-0.03
2018/19	4.40	4.28	0.12

- 2.6 It can be seen from Table 2 above the Council's loans fund interest rate for 2019/20 was 0.03% higher than the budget and 0.05% higher 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 marginal increase in rate between 2018/19 and 2019/20 primarily reflects the reduced levels of loans fund advances between the years, i.e. if external interest costs are chargeable against a lower level of internal debt in the Loans Fund that means a higher interest rate has to be charged on the internal debt to recover the costs.
- 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 2019/20 was 0.10% which was an increase of 0.03% from financial year 2018/19.
- 2.9 Whilst the 2019/20 loans fund comparative rates for all other Scottish Authorities have not yet been published it is expected that the 2019/20 loans pool rate for Angus Council is likely to be broadly in line with the Scottish Average rate when published.
- 2.10 The Council's treasury management team was assisted during the year 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 – 2019/20 Performance Summary

- 2.12 The financial year 2019/20 continued the challenging investment environment of previous years. The original expectation for 2019/20 was that the Bank Rate (also known as the base rate) would remain at 0.75% during the financial year. However, in response to financial uncertainties due to the COVID-19 pandemic, the Bank of England decreased this rate from 0.75% to 0.25% on 11 March 2020. There was a further decrease to 0.10% on 19 March 2020.

- 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 lower investment returns available during the 2019/20 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 2018/19 is also shown for comparative purposes.

Table 3 – Investment Rate of Return

Year	Benchmark %	Actual %	Variance %
2019/20	0.70	0.95	0.25
2018/19	0.78	0.80	0.02

- 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 2019/20

Borrowing Strategy for 2019/20

- 3.1 The Council's strategy for borrowing in 2019/20 (report 74/19) 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 2019/20 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 £172.421million (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 £149.808million. The end of the year position has mainly arisen as a result of slippage in capital programmes resulting in the deferral of long term borrowing.

Public Works Loans Board Interest Rates

- 3.4 The highest and lowest Public Works Loans Board (PWLB) interest rates available during the financial year 2019/20 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 2019/20

Period	Interest Rate Low Point %	Interest Rate High Point %
5 years	1.00	2.45
10 years	1.13	2.76
25 years	1.73	3.25
50 years	1.57	3.05

New External Borrowing Undertaken in 2019/20

- 3.5 No new external borrowing was undertaken from the PWLB or any other market sources during the period 1 April 2019 to 31 March 2020. This is a somewhat unusual position when part of the Council's capital budgets are intended to be funded by borrowing but arises due to slippage in capital programmes (borrowing requirements are reduced) and there being adequate supply of temporary cash balances which allows borrowing to be deferred until later. Those temporary cash balance levels are driven by the totality of all of the Council's financial transactions, our levels of Reserves, our working capital position and our treasury policies. In very broad terms the Council's temporary cash balances have remained at a higher level because our receipt of income from Government Grants, Council Tax, Housing Rents, etc. has been ahead of the pace at which payments are having to be made for staff, supplies, etc. A higher level of temporary cash balances will continue into the foreseeable future based on current Reserve levels, a continuing positive working capital position and slippage on capital programmes due to the pandemic.

Debt Repayments

- 3.6 The Council repaid £3.186m in financial year 2019/20 of PWLB loans that naturally matured, as detailed in Table 5 below.

Table 5 – Matured Debt Repaid in 2019/20

Start Date	Maturity Date	Amount £m	Rate %
08/06/88	15/05/19	0.445	9.38
16/08/11	16/08/19	2.000	3.24
22/05/89	30/09/19	0.445	9.38
07/07/89	31/03/20	0.296	9.63

Debt Rescheduling

- 3.7 There was no debt rescheduling undertaken in 2019/20 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 2019/20 was £27.850m per the 2019/20 Treasury Management Strategy Statement (report 74/19 refers). This figure represented the difference between the total external debt for 2018/19 and the estimated 2019/20 Capital Financing Requirement (£147.757m - £172.421m = £24.664m), along with borrowing to replace loans that were due to naturally mature throughout the financial year (£3.186m) and was therefore very much a maximum possible borrowing position.
- 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 and additional funding from other sources. 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 2019/20

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 2019/20

- 4.3 The investment strategy for 2019/20 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 (up to 12 months).
- 4.4 An internal local investment rate target of 0.95% was set as an investment return based on the interest rates available and expectations for the 2019/20 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 2019/20

- 4.6 The Bank Rate remained at 0.75% until 11th March 2020 when it reduced to 0.25% followed by a further reduction one week later to a historic low of 0.10%. These rate reductions were implemented as part of a stream of measures to mitigate the immense impact on the economy of the COVID-19 pandemic.
- 4.7 As this happened towards the close of the financial year however, the average investment rates available in the money market during the 2019/20 do not reflect where the year ended, as detailed in Table 6 below.

Table 6 – Average Investment Rates

Overnight %	3 Month %	6 Month %	1 Year %
0.53	0.63	0.70	0.80

Investment performance in 2019/20

- 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 2019/20 was £75.851 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 2020 is shown in Annex A of this appendix.
- 4.11 The Council's cautious and controlled approach to lending resulted in an average daily investment and rate of return for 2019/20, as detailed in Table 7 below:

Table 7 – Investment Returns

Average Daily Investment Exposure £m	Angus Council Rate of Return %	6 Month Benchmark Return %	Internally set local investment rate target %
75.851	0.95	0.70	0.95

- 4.12 The benchmark included above represents the average 6 month uncompounded London Interbank Bid (LIBID) rate. It can be seen from the above that the Angus Council rate of return is 0.25% higher than the benchmark and equalled the internally set local investment rate target of 0.95%.
- 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 2019/20 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 2019/20 Treasury Management Strategy Statement (report 74/19) and presented in greater detail in report 63/19 on the Setting of Prudential Indicators for 2019/20 Budget Process.
- 6.2 During financial year 2019/20 the Council operated within the Prudential and Treasury Indicators set out in the Council's 2019/20 Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. Further information with regards to the Prudential Indicator actuals for 2019/20 is presented in Annex B of this appendix.

Angus Council External Investments as at 31 March 2020

Counterparty	Investment Type	Interest Rate %	Maturity Date	Principal Amount £	Group Lending Limit £
Clydesdale Bank	Overnight on Call	0.10	01/04/20	6,441,887	20,000,000
North Lanarkshire Council	Fixed Term Deposit	0.90	09/09/20	3,000,000	15,000,000
Aberdeenshire Council	Fixed Term Deposit	0.96	17/12/20	5,000,000	15,000,000
Dumfries & Galloway Council	Fixed Term Deposit	1.15	11/06/20	5,000,000	15,000,000
Bank of Scotland	Fixed Term Deposit	1.25	18/05/20	5,000,000	12,500,000
		1.10	10/08/20	5,000,000	
Stirling Council	Fixed Term Deposit	0.85	07/05/20	2,000,000	15,000,000
		1.15	14/09/20	2,000,000	
West Dunbartonshire Council	Fixed Term Deposit	1.10	08/10/20	5,000,000	15,000,000
		0.97	16/12/20	5,000,000	
		1.15	26/02/21	2,000,000	
Australia & New Zealand Banking Group	Fixed Term Deposit	1.14	14/04/20	5,000,000	12,500,000
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	
	Time Deposit – 185 days notice	0.97	n/a	3,000,000	
Aberdeen Liquidity Fund	Call	0.47	n/a	7,000,000	10,000,000
Total Investments				68,441,887	

Group Lending Limit – the limits detailed in the above table were the limits based on the credit ratings of each financial institution as at 31 March 2020.

Table 1 – Prudential and Treasury Indicators 2019/20

Details	2019/20 Actual	2019/20 Estimate
<u>Prudential Indicators</u>		
Gross capital expenditure		
General Fund	28.142	37.063
Housing Revenue Account	14.162	20,654
Total Gross capital expenditure	42.304	57.717
Ratio of financing costs to net revenue stream		
General Fund	10.7%	10.9%
Housing Revenue Account	8.8%	10.2%
Capital Financing Requirement as at 31 March (Excluding Other Long Term Liabilities)	149.808	166.022
<u>Treasury Indicators</u>		
Authorised limit for external debt		
Borrowing	Note 1	220.000
Other long term liabilities	Note 1	126.000
Total Authorised limit for external debt		346.000
Operational boundary for external debt		
Borrowing	Note 1	205.000
Other long term liabilities	Note 1	126.000
Total Operational boundary for external debt		331.000

Note 1 – The authorised limit and operational boundaries were not exceeded in the 2019/20 financial year.

Table 2 – Limits for Investments Over 365 Days

Details	Actual @ 31/03/20	2019/20 Limit
Upper limit for total principal sums invested for over 365 days	Nil	Unlimited

Table 3 – Maturity Structure of Borrowing at 31 March 2020

Maturity structure of borrowing	Actual @ 31/03/20	Upper Limit	Lower Limit
Under 12 months	0.63%	25%	0%
12 months and within 24 months	3.66%	25%	0%
24 months and within 5 years	6.26%	50%	0%
5 years and 10 years	3.94%	50%	0%
10 years and above	85.51%	100%	50%