AGENDA ITEM NO 8

REPORT NO 373/21

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 30 NOVEMBER 2021
ANGUS COUNCIL – 16 DECEMBER 2021

TREASURY MANAGEMENT ANNUAL REPORT 2020/21

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report details Angus Council's treasury management arrangements, activity and performance during 2020/21.

1. RECOMMENDATIONS

1.1 It is recommended that the Scrutiny and Audit Committee:

(i) review and scrutinise the 2020/21 treasury management annual report and its associated appendix; and

(ii) provide any commentary considered appropriate at this time.

1.2 It is recommended that Angus Council:

(i) review and scrutinise the annual report on 2020/21 treasury management activities attached at **Appendix 1**, considering any commentary that may have been provided by the Scrutiny and Audit Committee.

2. ALIGNMENT TO COUNCIL PLAN / COMMUNITY 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 the Community 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 The report is coming to members for consideration slightly later this year due to a backlog of work caused by the significant additional workloads created by the pandemic.

3.3 The financial year 2020/21 has seen some significant events impacting on treasury operations:

- <u>COVID-19 Pandemic</u>
  Throughout 2020/21 the COVID-19 pandemic has significantly impacted every aspect of economic and commercial life at both a national and local level. Angus Council experienced unprecedented levels of cash balances during this time - partly due to the timing and phasing of grant income coming into the Council, but also resulting from the cessation of all capital works due to the lockdown. Although construction activity restarted in mid-summer the impact of the pandemic continued to affect the capital programme during the year, resulting in higher levels of slippage on a number of projects.

Continued economic uncertainty has seen the Bank Rate remain at a historically low 0.10 per cent throughout the year and investment rates hovering just above zero in many cases. Prior to the onset of the COVID-19 pandemic the Council set an investment return target of 0.95 per cent for 2020/21, however the actual return achieved was 0.46 per cent.

- Public Works Loan Board (PWLB) Review of Future Lending Terms
  In March 2020 the UK government launched a consultation on revised PWLB lending terms and guidance. The aim was to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing and regeneration under the prudential regime as they do at present. The consultation closed in July 2020 and the PWLB's formal response was published in November 2020.

  New terms applied to all loans arranged from 26 November 2020, with key features including the submission of a high level description of capital spending and financing plans and confirmation from the Section 95 Officer of the local authority that no investment assets will be bought primarily for yield.

  Whilst Council officers do not envisage any issues in complying with the new terms, consideration may require to be given to the presentation of projects forming part of the ongoing Tay Cities Deal work to ensure their regeneration credentials are highlighted approrpriately.

- Loans Fund Review
  Whilst the Council's treasury advisors (Link Asset Services) have concluded their review and provided a draft report, the application of the review findings (in particular the phasing of the savings) has been deferred, as agreed through the 2021/22 budget setting on 4 March 2021 (report 76/21 refers). This is to be the subject of a separate report intended to be brought to Council early in 2022.

3.4 The treasury management annual report details Angus Council's borrowing and investment activities during 2020/21 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.

6. EQUALITY IMPACT ASSESSMENT

6.1 An Equality Impact Assessment is not required.

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 2020/21

Treasury Management Annual Report 2020/21

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 72/20 refers);
- a mid year treasury management review (report 326/20 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 2020/21 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 of the Treasury Management in the Public Services Code of Practice that relevant treasury management reports are considered and if necessary, commented upon by the Scrutiny and Audit Committee.

2. Treasury Management Performance Overview for 2020/21

Borrowing and Investment Position as at 31 March 2021

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 2021 is shown in Table 1 below, with the position as at 31 March 2020 shown for comparative purposes.

Table 1 – Borrowing and Investment Position

External Debt	Position as at 31 March 2021 £m	Position as at 31 March 2020 £m
Fixed Rate Borrowing – PWLB (see note 1)	111.094	114.570
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	141.094	144.570
Variable Rate Borrowing PWLB	Nil	Nil
Variable Rate Borrowing – Market	Nil	Nil
Total External Debt	**141.094**	**144.570**
Investments	(87.471)	(68.442)
Net External Debt	**53.623**	**76.128**

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 £53.623m, the council also administers a number of other funds (e.g. Charitable Funds and Common Good) and maintains a number of internal revenue balances (e.g. 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 2021 for the former Tayside Police Joint Board was £3.402m. Police Scotland meet the costs of this debt which the council manages on their behalf.

Borrowing - 2020/21 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 2020/21 is detailed in Table 2 below, with 2019/20 also detailed for comparison purposes.

Table 2 – Loans Fund Interest Rate

Year	Budget %	Actual %	Variance %
2020/21	4.30	4.50	0.20
2019/20	4.30	4.33	0.03

2.6 It can be seen from Table 2 above the council's loans fund interest rate for 2020/21 was 0.20 per cent higher than the 2020/21 budget and 0.17 per cent higher than the 2019/20 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 increase in rate between 2019/20 and 2020/21 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 2020/21 was 0.07 per cent which was a decrease of 0.03 per cent from financial year 2019/20.

2.9 Whilst the 2020/21 loans fund comparative rates for all other Scottish local authorities have not yet been published it is expected that the 2020/21 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 its 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 – 2020/21 Performance Summary

2.12 The financial year 2020/21 proved to be a more challenging investment environment than previous years. In response to financial uncertainties due to the COVID-19 pandemic, the Bank of England decreased the base rate to 0.10 per cent on 19 March 2020 and it remained at this rate throughout the year (and continues to do so).

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 2020/21 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 marginally higher. Table 3 below details the investment rate of return achieved in comparison to the market benchmark. The position for 2019/20 is also shown for comparative purposes.

Table 3 – Investment Rate of Return

Year	Benchmark %	Actual %	Variance %
2020/21	0.07	0.46	0.39
2019/20	0.70	0.95	0.25

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 2020/21

Borrowing Strategy for 2020/21

3.1 The council's strategy for borrowing in 2020/21 (report 72/20) 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 2020/21 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 £168.629m (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 £142.407m. The end of the year position has primarily arisen as a result of significant levels of slippage in both the General Fund and Housing 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 2020/21 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 2020/21

Period	Interest Rate Low Point %	Interest Rate High Point %
5 years	0.72	1.99
10 years	1.00	2.28
25 years	1.53	2.86
50 years	1.32	2.71

New External Borrowing Undertaken in 2020/21

3.5 No new external borrowing was undertaken from the PWLB or any other market sources during the period 1 April 2020 to 31 March 2021. 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 (particularly COVID related 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 likely 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 £3.476m in financial year 2020/21 of PWLB loans that naturally matured, as detailed in Table 5 below.

Table 5 – Matured Debt Repaid in 2020/21

Start Date	Maturity Date	Amount £m	Rate %
19/02/91	30/09/20	0.296	10.875
20/06/88	16/11/20	0.297	9.375
26/03/81	16/11/20	0.025	14.000
31/03/81	31/03/21	0.710	13.500
07/07/89	31/03/21	0.148	9.625
30/08/96	31/03/21	2.000	8.250

Debt Rescheduling

3.7 There was no debt rescheduling undertaken in 2020/21 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 2020/21 was £27.534m per the 2020/21 Treasury Management Strategy Statement (report 72/20 refers). This figure represented the difference between the total external debt for 2019/20 and the estimated 2020/21 Capital Financing Requirement (£144.571m - £168.629m = £24.058m), along with borrowing to replace loans that were due to naturally mature throughout the financial year (£3.476m) 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 2020/21

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 2020/21

4.3 The investment strategy for 2020/21 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 per cent was set as an investment return based on the interest rates available and expectations for the 2020/21 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 2020/21

4.6 Following cuts to the Bank Rate in March 2020, which were made to counter the hugely negative impact of the national lockdown on the economy, the Bank Rate remained at a historic low of 0.10 per cent throughout 2020/21.

4.7 The Bank of England and the Government introduced new programmes of supplying the banking system with significant amounts of cheap credit to support businesses during the national lockdown. Additionally, the Government also provided local authorities with cash grants to administer to businesses affected by the COVID-19 pandemic. This resulted in there being more liquidity in the financial markets than there was demand to borrow, and consequently investment rates plummeted and remained low throughout 2020/21.

Table 6 – Average Investment Rates

Overnight %	3 Month %	6 Month %	1 Year %
0.10	0.01	0.07	0.17

Investment performance in 2020/21

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 2020/21 was £95.714 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 Angus Council experienced unprecedented levels of cash balances during the COVID-19 pandemic, in part due to the timing and phasing of grant income coming into the council. In many cases, this additional grant income was expended relatively soon after it was received, e.g. the business support grants. General revenue grant, which would normally be received in equal instalments from the Scottish Government throughout the financial year, was "front loaded" over the first quarter to allow council's to cover additional COVID-related costs coming through at that time. The cessation of all capital works due to the lockdown, as well as limited spending on other areas such as maintenance works, drastically reduced payments to suppliers however, hence the build up of cash balances over the year.

4.11 During 2020/21 there were two breaches of counterparty limits approved within the Annual Investment Strategy:

- In accordance with our treasury management strategy any excess funds, up to a maximum of £20m, can be invested overnight with the Clydesdale Bank to earn interest and allow readily available funds to meet daily cash flow requirements. On 27 May 2020 due to an unexpected higher amount of income being received, funds available for overnight investment exceeded the maximum which can be placed with Clydesdale Bank. Readily available cash was required at this time as cash flows were unpredictable, therefore a decision had to be made at short notice to place £1m overnight on a money market fund. This was an expedient and low risk solution to unexpected circumstances. Although this resulted in the maximum balance on the fund being exceeded by £1m for 1 day there was no risk to the cash placed and no interest was lost on the overnight investment.

- On 9 April 2020 an investment of £5m was made with an A rated counterparty. The investment was due to mature on 10 August 2020, however the option to rollover the investment for a further six months was exercised. It only came to light that the rating of the counterparty had changed from A to A- after the decision to rollover the investment was taken, and it could not be revoked. In accordance with the council's treasury management strategy for 2020/21 the maximum value of investments which can be held with an A rated counterparty is £12.5m and an A- counterparty is £2.5m. The investment limit for this counterparty was thus exceeded by £2.5m for a six month period, albeit the risk associated with this was considered to be very low. The internal checklist that is used by Finance officers when assessing potential investments has since been expanded and improved in order to avoid any repeat of this issue arising in the future.

4.12 A full list of investments held by the council as at 31 March 2021 is shown in Annex A of this appendix.

4.13 The council's cautious and controlled approach to lending resulted in an average daily investment and rate of return for 2020/21, 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 %
95.714	0.46	0.07	0.95

4.14 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 0.39% higher than the benchmark and 0.49% lower than the internally set local investment rate target of 0.95%.

4.15 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.

4.16 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 2020/21 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 2020/21 Treasury Management Strategy Statement (report 72/20) and presented in greater detail in report 90/20 on the Setting of Prudential Indicators for 2020/21 Budget Process.

6.2 During financial year 2020/21 the Council operated within the Prudential and Treasury Indicators set out in the Council’s 2020/21 Treasury Management Strategy Statement and in compliance with the Council’s Treasury Management Practices. Further information with regards to the Prudential Indicator actuals for 2020/21 is presented in Annex B of this appendix.

Angus Council External Investments as at 31 March 2021

Counterparty	Investment Type	Interest Rate %	Maturity Date	Principal Amount £	Group Lending Limit £
Clydesdale Bank	Overnight on Call	0.10	01/04/21	12,970,865	20,000,000
Falkirk Council	Fixed Term Deposit	0.27	14/12/21	5,000,000	15,000,000
Aberdeenshire Council	Fixed Term Deposit	0.40	27/08/21	3,000,000	15,000,000
Royal Bank of Scotland	Call	0.15	n/a	5,000,000	15,000,000
Santander	Call	0.50	n/a	5,000,000	12,500,000
		0.40	n/a	7,500,000	
Glasgow City Council	Fixed Term Deposit	0.30	23/06/21	5,000,000	15,000,000
		0.22	19/10/21	5,000,000	
West Dunbartonshire Council	Fixed Term Deposit	0.43	25/06/21	3,000,000	15,000,000
		0.27	15/12/21	5,000,000	
		0.25	22/12/21	5,000,000	
National Westminster Bank	Fixed Term Deposit	0.20	26/05/21	5,000,000	15,000,000
Goldman Sachs International	Time Deposit – 95 days notice	0.17	n/a	5,000,000	12,500,000
	Time Deposit – 185 days notice	0.22	n/a	3,000,000	
	Time Deposit – 185 days notice	0.22	n/a	3,000,000	
Handelsbanken	Call	0.025	n/a	10,000,000	10,000,000
Total Investments				**87,470,865**	

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 2021.

Table 1 – Prudential and Treasury Indicators 2020/21

Details	2020/21 Actual	2020/21 Estimate (per R72/20)
<u>Prudential Indicators</u>		
Gross capital expenditure		
General Fund	22.736	36.885
Housing Revenue Account	15.565	19.861
Total Gross capital expenditure	**38.301**	**56.746**
Ratio of financing costs to net revenue stream		
General Fund	9.4%	10.6%
Housing Revenue Account	9.7%	10.4%
Capital Financing Requirement as at 31 March (Excluding Other Long Term Liabilities)	142.407	167.118
<u>Treasury Indicators</u>		
Authorised limit for external debt		
Borrowing	Note 1	220.000
Other long term liabilities	Note 1	158.000
Total Authorised limit for external debt		**378.000**
Operational boundary for external debt		
Borrowing	Note 1	205.000
Other long term liabilities	Note 1	158.000
Total Operational boundary for external debt		**363.000**

Note 1 – The authorised limit and operational boundaries were not exceeded in the 2020/21 financial year.

Table 2 – Limits for Investments Over 365 Days

Details	Actual @ 31/03/21	2020/21 Limit
Upper limit for total principal sums invested for over 365 days	Nil	Unlimited

Table 3 – Maturity Structure of Borrowing at 31 March 2021

Maturity structure of borrowing	Actual @ 31/03/21	Upper Limit	Lower Limit
Under 12 months	**3.38%**	**25%**	**0%**
12 months and within 24 months	**3.70%**	**25%**	**0%**
24 months and within 5 years	**4.71%**	**50%**	**0%**
5 years and 10 years	**2.78%**	**50%**	**0%**
10 years and above	**85.43%**	**100%**	**50%**