AGENDA ITEM NO 13

REPORT NO 360/22

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 27 OCTOBER 2022

ANGUS COUNCIL – 3 NOVEMBER 2022

TREASURY MANAGEMENT ANNUAL REPORT 2021/22

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report details Angus Council's treasury management arrangements, activity and performance during 2021/22.

1. RECOMMENDATIONS

1.1 It is recommended that the Scrutiny and Audit Committee:

(i) review and scrutinise the 2021/22 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 2021/22 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

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.

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 and the Prudential Code for Capital Finance in Local Authorities, both published by the Chartered Institute of Public Finance and Accountancy.

3.2 The financial year 2021/22 has seen some significant events impacting on treasury operations:

- <u>The Economy and Interest Rates</u>
  Angus Council continued to hold higher temporary cash balances during 2021/22. This was due to the phasing of COVID-19 support grants received from the Scottish Government, and also due to higher levels of slippage on a number of projects within the capital programme.

  The Bank Base Rate remained at 0.10% until December 2021 when the Bank of England increased it to 0.25%. Further increases were implemented in February 2022 to 0.50% and in March 2022 to 0.75% in a bid to tackle rising inflation. Investment returns remained low for most of the year, with rates starting to increase towards to end of the 2021/22 financial year.

- <u>Loans Fund Review</u>
  Following the conclusion of the Council's treasury advisors (Link Asset Services) review and the issue of their final report a new policy for the repayment of loans fund advances was approved by Council on 10 March 2022 (report 104/22 refers).

3.3 The treasury management annual report details Angus Council's borrowing and investment activities during 2021/22 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 wellbeing.

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.

<u>NOTE</u>
No background papers as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing this Report.

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List of Appendices:

Appendix 1 –Treasury Management Annual Report 2021/22

Treasury Management Annual Report 2021/22

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 101/21 refers);
- a mid-year treasury management review (report 391/21 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 2021/22 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 2021/22

Borrowing and Investment Position as at 31 March 2022

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 2022 is shown in Table 1 below, with the position as at 31 March 2021 shown for comparative purposes.

Table 1 – Borrowing and Investment Position

External Debt	Position as at 31 March 2022 £m	Position as at 31 March 2021 £m
Fixed Rate Borrowing – PWLB (see note 1)	112.647	111.094
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	142.647	141.094
Variable Rate Borrowing PWLB	Nil	Nil
Variable Rate Borrowing – Market	Nil	Nil
Total External Debt	**142.647**	**141.094**
Investments	(91.584)	(87.471)
Net External Debt	**51.063**	**53.623**

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 £51.063m, 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 Reserve, 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 2022 for the former Tayside Police Joint Board was £2.776m. Police Scotland meet the costs of this debt which the council manages on their behalf.

<u>Borrowing - 2021/22 Performance Summary</u>

2.5 The Angus Council loans fund interest rate used to calculate the amount of interest payable on outstanding debt at the end of 2021/22 is detailed in Table 2 below, with 2020/21 also detailed for comparison purposes.

Table 2 – Loans Fund Interest Rate

Year	Budget %	Actual %	Variance %
2021/22	4.30	4.35	0.05
2020/21	4.30	4.50	0.20

2.6 It can be seen from Table 2 above the council's loans fund interest rate for 2021/22 was 0.05 per cent higher than the 2021/22 budget and 0.15 per cent lower than the 2020/21 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 decrease in rate between 2020/21 and 2021/22 primarily reflects the reduced levels of loans fund advances and net external interest costs between the years.

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 2021/22 was 0.09 per cent which was an increase of 0.02 per cent from financial year 2020/21.

2.9 Whilst the 2021/22 loans fund comparative rates for all other Scottish local authorities have not yet been published it is expected that the 2021/22 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.

<u>Investments – 2021/22 Performance Summary</u>

2.12 The financial year 2021/22 proved to be another challenging investment environment with investment returns remaining low until starting to increase at the end of 2021 following the first increase in the bank base rate.

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 2021/22 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 2020/21 is also shown for comparative purposes.

Table 3 – Investment Rate of Return

Year	Benchmark %	Actual %	Variance %
2021/22	0.09	0.26	0.17
2020/21	0.07	0.46	0.39

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 2021/22

Borrowing Strategy for 2021/22

3.1 The council's strategy for borrowing in 2021/22 (report 101/21) 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 2021/22 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 £167.929m (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 £148.847m. The end of the year position has primarily arisen as a result of a significant levels of slippage within the General Fund capital programme and higher than normal levels of revenue reserves associated with temporary COVID funding from the Scottish Government 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 2021/22 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 2021/22

Period	Interest Rate Low Point %	Interest Rate High Point %
5 years	1.05	2.37
10 years	1.39	2.52
25 years	1.67	2.75
50 years	1.25	2.49

New External Borrowing Undertaken in 2021/22

3.5 New external borrowing of £4m was undertaken in December 2021 from the PWLB to fund the net unfinanced capital expenditure and naturally maturing debt. The loan matures in 50 years and interest is payable at a fixed rate of 1.360%.

Debt Repayments

3.6 The council repaid £2.448m in financial year 2021/22 of PWLB loans that naturally matured, as detailed in Table 5 below. Many of these loans were taken out more than 30 years ago when the interest rate environment was very different to that prevailing today.

Table 5 – Matured Debt Repaid in 2021/22

Start Date	Maturity Date	Amount £m	Rate %
14/04/1989	17/05/21	0.296	9.375
07/06/2012	07/06/21	1.000	2.410
22/02/1982	30/09/21	0.625	15.000
30/03/1982	15/11/21	0.082	13.625
25/04/1990	31/03/22	0.445	11.750

Debt Rescheduling

3.7 There was no debt rescheduling undertaken in 2021/22 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 2021/22 was £29.282m per the 2021/22 Treasury Management Strategy Statement (report 101/21 refers). This figure represented the difference between the total external debt for 2020/21 and the estimated 2021/22 Capital Financing Requirement (£141.095m - £167.929m = £26.834m), along with borrowing to replace loans that were due to naturally mature throughout the financial year (£2.448m) and was therefore very much a maximum possible borrowing position.

3.9 As noted at paragraph 3.5 above £4m of new external borrowing was undertaken in the financial year. No further borrowing was undertaken due to a number of factors, but the 2 main ones were:-

- Lower than expected borrowing requirements to fund the General Fund capital programme due to slippage on projects and additional funding from other sources which resulted in 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 low risk of a large rise in the interest rates the council could borrow at.

4. Investment outturn for 2021/22

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 2021/22

4.3 The investment strategy for 2021/22 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 0.20 per cent was set as an investment return based on the interest rates available and expectations for the 2021/22 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 2021/22

4.6 Over the last two years, the coronavirus outbreak has done huge economic damage to both the UK economy and economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Base Rate to 0.10%, it left the rate unchanged at its subsequent meetings, until raising it to 0.25% in December 2021, 0.50% in February 2022 and then to 0.75% in March 2022.

4.7 Policies implemented by The Bank of England and the Government to provide support to the economy and business sectors affected by the COVID -19 pandemic continued in 2021/22 and resulted in there being more liquidity in the financial markets than there was demand to borrow. Consequently, investment rates remained low throughout most of 2021/22 and only started to increase when the rise in Bank Base Rate was announced.

Table 6 – Average Investment Rates *

Overnight %	3 Month %	6 Month %	1 year %
0.11	-0.01	0.09	0.31

*LIBID rates 01.04.21 to 31.12.21.
Note that LIBID and LIBOR rates ceased from the end of 2021 and have now been replaced by SONIA (Sterling Overnight Index Average). This rate will be used for benchmarking from 2022/23.

Investment performance in 2021/22

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 2021/22 was £92.936 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 continued to experience unprecedented levels of cash balances during the 2021/22 financial year, in part due to the timing and phasing of grant income to deal with the pandemic, received towards the very end of 2020/21 and carried forward to be utilised in the current and future financial years. The capital programme is still subject to a degree of constriction due to shortages of labour and materials and although much improved on 2020/21 levels, the flow of capital spending has yet to fully recover to pre-pandemic levels.

4.11 A full list of investments held by the council as at 31 March 2022 is shown in Annex A of this appendix.

4.12 The council's cautious and controlled approach to lending resulted in an average daily investment and rate of return for 2021/22, 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 %
92.936	0.26	0.09	0.20

4.13 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 0.17% higher than the benchmark and 0.06% higher than the internally set local investment rate target of 0.20%.

4.14 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.

4.15 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 During 2021/22 there was a breach of counterparty limits when funds were placed with a counterparty in excess of the limits permitted within the Treasury Management Strategy Statement. This was due to a misinterpretation of the approved credit ratings and counterparty limits. To minimise the risk of this type of error occurring in the future, the counterparty limits were reviewed and presented with more clarity. The limits of funds which can be placed with approved counterparties were also revised to allow sufficient flexibility to place funds with a diverse range of institutions. Full details of the breach and amendments to counterparty limits can be viewed in the Treasury Management Mid-Year Review, report 391/21.

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 2021/22 Treasury Management Strategy Statement (report 101/21) and presented in greater detail in report 77/21 on the Setting of Prudential Indicators for 2021/22 Budget Process.

6.2 During financial year 2021/22 the Council operated within the Prudential and Treasury Indicators set out in the Council's 2021/22 Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. Further information with regards to the Prudential Indicator actuals for 2021/22 is presented in Annex B of this appendix.

Angus Council External Investments as at 31 March 2022

Counterparty	Investment Type	Interest Rate %	Maturity Date	Principal Amount £	Group Lending Limit £
Clydesdale Bank	Overnight on Call	0.75	01/04/22	18,083,635	25,000,000
Standard Chartered Bank	Fixed Term Deposit	0.29	17/05/22	5,000,000	15,000,000
Close Brothers Ltd.	Fixed Term Deposit	0.40	25/05/22	2,500,000	5,000,000
Santander	Call	0.50	n/a	5,000,000	15,000,000
		0.40	n/a	7,500,000	
National Westminster Bank	Fixed Term Deposit	0.16	26/05/22	5,000,000	20,000,000
		0.17	16/06/22	5,000,000	
		0.19	10/08/22	5,000,000	
Goldman Sachs International	Time Deposit – 95 days notice	0.17	n/a	5,000,000	15,000,000
	Time Deposit – 185 days notice	0.22	03/10/22	3,000,000	
	Time Deposit – 185 days notice	0.22	03/10/22	3,000,000	
Australia and New Zealand Banking Group	Fixed Term Deposit	0.19	10/08/22	2,500,000	5,000,000
Toronto Dominion Bank	Fixed Term Deposit	0.23	13/09/22	3,000,000	15,000,000
		0.76	31/10/22	4,500,000	
		0.64	22/12/22	7,500,000	
East Ayrshire Council	Fixed Term Deposit	0.45	13/12/22	10,000,000	20,000,000
Total Investments				**91,583,635**	

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 2022.

Table 1 – Prudential and Treasury Indicators 2021/22

Details	2021/22 Actual	2021/22 Estimate (per R101/21)
Prudential Indicators		
Gross capital expenditure		
General Fund	22.848	30.980
Housing Revenue Account	26.759	25.683
Total Gross capital expenditure	**49.607**	**56.663**
Ratio of financing costs to net revenue stream		
General Fund	8.6%	11.3%
Housing Revenue Account	9.1%	11.2%
Capital Financing Requirement as at 31 March (Excluding Other Long Term Liabilities)	148.847	161.018
Treasury Indicators		
Authorised limit for external debt		
Borrowing	Note 1	220.000
Other long term liabilities	Note 1	152.000
Total Authorised limit for external debt		**372.000**
Operational boundary for external debt		
Borrowing	Note 1	205.000
Other long term liabilities	Note 1	152.000
Total Operational boundary for external debt		**357.000**

Note 1 – The authorised limit and operational boundaries were not exceeded in the 2021/22 financial year.

Table 2 – Limits for Investments Over 365 Days

Details	Actual @ 31/03/22	2021/22 Limit
Upper limit for total principal sums invested for over 365 days	Nil	Unlimited

Table 3 – Maturity Structure of Borrowing at 31 March 2022

Maturity structure of borrowing	Actual @ 31/03/22	Upper Limit	Lower Limit
Under 12 months	**3.43%**	**25%**	**0%**
12 months and within 24 months	**2.52%**	**25%**	**0%**
24 months and within 5 years	**3.06%**	**50%**	**0%**
5 years and 10 years	**2.49%**	**50%**	**0%**
10 years and above	**88.50%**	**100%**	**50%**