ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 22 AUGUST 2023
ANGUS COUNCIL – 7 SEPTEMBER 2023

TREASURY MANAGEMENT ANNUAL REPORT 2022/23

REPORT BY IAN LORIMER, DIRECTOR OF FINANCE

ABSTRACT

This report details Angus Council's treasury management arrangements, activity and performance during 2022/23.

1. RECOMMENDATIONS

1.1 It is recommended that the Scrutiny and Audit Committee:

(i) review and scrutinise the 2022/23 treasury management annual report and its associated appendix;

(ii) review the updated Treasury Management Practices (TMP's); and

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

1.2 It is recommended that Angus Council:

(i) review and scrutinise the annual report on 2022/23 treasury management activities attached at **Appendix 1**, considering any commentary that may have been provided by the Scrutiny and Audit Committee; and

(ii) review the updated Treasury Management Practices (TMP's).

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 2022/23 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 2022/23. This was mainly due to additional general grants received from the Scottish Government and increased levels of slippage on a number of projects within the capital programme.

  In a bid to combat inflationary pressures within the economy the Bank of England implemented a series of increases to the Bank Base Rate, which rose from 0.75% in April 2022 to 4.25% in March 2023. Investment returns followed this upward trend which allowed the Council to benefit from improved returns as investments matured and surplus cash was re-invested. The full benefit of these higher returns will not be realised until these new investments mature in the 2023/24 financial year.

3.3 The treasury management annual report details Angus Council's borrowing and investment activities during 2022/23 and is attached at **Appendix 1**.

4. TREASURY MANAGEMENT PRACTICES

4.1 Treasury Management Practices (TMP's) are the detailed operational rules and policies which the Director of Finance and the Treasury Team apply on a day to day basis. They set out in more detail how the Treasury Strategies agreed by the Council will be implemented in practice. It is good practice to review the TMPs regularly. It has been a number of years since the Council's TMPs were subject to a full review and reporting to elected members but this has been recently undertaken based on the latest edition of the Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA) 2021. The updated version of the TMPs following the recent review can be accessed here.

4.2 TMPs are essentially a document which sets out the manner in which the Council will seek to achieve its treasury management policies and objectives and prescribes how it will manage and control those activities. As such their content is very much operational. It is, however, a requirement of the Code of Practice that the TMP's should be subject to scrutiny by the responsible body (the Scrutiny & Audit Committee and full Council) following recommendations by the responsible officer (Director of Finance). The nature and extent of the involvement of an organisation's responsible body in approving and monitoring its TMPs and accompanying schedules is a matter for local decision and this may be delegated to the responsible officer (Director of Finance). Should Members require clarification on any specific aspect of the TMPs, these should be raised directly with the Director of Finance.

5. ELECTED MEMBER TRAINING

5.1 Further training on the Council's treasury management arrangements and elected members role in relation to this was identified by members of the Scrutiny & Audit Committee in the recent self-evaluation undertaken on the Committee's operations. A training session for all elected members has been arranged for 21 August 2023 ahead of this report being considered. The training will be based around this Annual Report and will build on the introductory training provided in October 2022.

6. FINANCIAL IMPLICATIONS

6.1 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.

7. RISK IMPLICATIONS

7.1 This report does not require any specific risk issues to be addressed. The management of risk is however an integral part of the Council's treasury management activities.

8. EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment is not required as the recommendations of this report do not impact on people..

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 2022/23

Treasury Management Annual Report 2022/23

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 103/22 refers);
- a mid-year treasury management review (report 419/22 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 2022/23 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 2022/23

Borrowing and Investment Position as at 31 March 2023

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 2023 is shown in Table 1 below, with the position as at 31 March 2022 shown for comparative purposes.

Table 1 – Borrowing and Investment Position

External Debt	Position as at 31 March 2023 £m	Position as at 31 March 2022 £m
Fixed Rate Borrowing – PWLB (see note 1)	107.757	112.647
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	137.757	142.647
Variable Rate Borrowing PWLB	Nil	Nil
Variable Rate Borrowing – Market	Nil	Nil
Total External Debt	**137.757**	**142.647**
Investments	(87.782)	(91.584)
Net External Debt	**49.975**	**51.063**

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 £49.975m, 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 2023 for the former Tayside Police Joint Board was £2.232m. Police Scotland meet the costs of this debt which the council manages on their behalf.

Borrowing - 2022/23 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 2022/23 is detailed in Table 2 below, with 2021/22 also detailed for comparison purposes.

Table 2 – Loans Fund Interest Rate

Year	Budget %	Actual %	Variance %
2022/23	4.50	3.93	(0.57)
2021/22	4.30	4.35	0.05

2.6 It can be seen from Table 2 above the council's loans fund interest rate for 2022/23 was 0.57 per cent lower than the 2022/23 budget and 0.42 per cent lower than the 2021/22 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 2021/22 and 2022/23 primarily reflects the increased levels of return on short-term investments resulting from rising interest rates throughout 2022/23 which has helped to reduce borrowing 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 2022/23 was 0.10 per cent which was an increase of 0.01 per cent from financial year 2021/22.

2.9 Whilst the 2022/23 loans fund comparative rates for all other Scottish local authorities have not yet been published it is expected that the 2022/23 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 Group) 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 – 2022/23 Performance Summary

2.12 During the 2022/23 financial year investment returns began to increase after many years of low interest rates, as a result of increasing inflation and rising interest rates..

2.13 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 favourable. Table 3 below details the investment rate of return achieved in comparison to the market benchmark. The position for 2021/22 is also shown for comparative purposes. Returns have been positively affected by rising interest rates throughout 2022/23.

Table 3 – Investment Rate of Return

Year	Benchmark %	Actual %	Variance %
2022/23	0.50	1.87	1.37
2021/22	0.09	0.26	0.17

2.14 However, it should be noted 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 2022/23

Borrowing Strategy for 2022/23

3.1 The council's strategy for borrowing in 2022/23 (report 103/22) 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 2022/23 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 Group.

3.3 As part of the above strategy the capital financing requirement based on the anticipated borrowing needs was set at £179.100m (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 £143.923m. The year end position has primarily arisen as a result of significant levels of slippage within the General Fund and HRA capital programmes - resulting in the deferral of long term borrowing as well as increases in borrowing rates making the timing of new borrowing less favourable.

Public Works Loans Board Interest Rates

3.4 The highest and lowest Public Works Loans Board (PWLB) interest rates available during the financial year 2022/23 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 2022/23

Period	Interest Rate Low Point %	Interest Rate High Point %
5 years	2.18	5.44
10 years	2.36	5.45
25 years	2.52	5.88
50 years	2.25	5.51

New External Borrowing Undertaken in 2022/23

3.5 No new external borrowing was undertaken during 2022/23.

Debt Repayments

3.6 The council repaid £4.889m in financial year 2022/23 of PWLB loans that naturally matured, as detailed in Table 5 below. These loans were taken out a number of years ago when the interest rate environment was very different to that prevailing today.

Table 5 – Matured Debt Repaid in 2022/23

Start Date	Maturity Date	Amount £m	Rate %
15.05.89	30.09.22	0.444	9.375
24.06.97	30.09.22	4.000	7.125
03.07.90	11.11.22	0.445	10.875

Debt Rescheduling

3.7 There was no debt rescheduling undertaken in 2022/23 as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Borrowing Summary

3.8 The new external borrowing originally estimated to be required in 2022/23 was £41.342m per the 2022/23 Treasury Management Strategy Statement (report 103/22 refers). This figure represented the difference between the total external debt for 2022/23 and the estimated 2022/23 Capital Financing Requirement (£179.100m - £142.647m = £36.453m), along with borrowing to replace loans that were due to naturally mature throughout the financial year (£4.889m) and was therefore very much a maximum possible borrowing position.

3.9 As noted at paragraph 3.5 no new external borrowing was undertaken in the financial year 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 being reduced / deferred.

- High levels of temporary cash balances available for investment meant there was no urgency to taking new borrowing – given that borrowing rates had increased and the advice was that rates were likely to reduce in the medium term, the Director of Finance took a prudent view that further additional borrowing was unnecessary in the financial year.

4. Investment outturn for 2022/23

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 2022/23

4.3 The investment strategy for 2022/23 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 0.50 per cent was set as an investment return based on the interest rates available and expectations for the 2022/23 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 2022/23

4.6 Investment returns increased throughout 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and tighter monetary policy was required. Starting in April 2022 at 0.75%, the Bank Rate moved up in stepped increases of either 0.25% or 0.50%, reaching 4.25% by the end of March 2023. A further increase to 4.50% was implemented in May 2023 with the potential for more increases in 2023/24.

Table 6 – Average Investment Rates *

Overnight %	3 Month %	6 Month %	1 year %
2.24	2.09	1.42	0.90

*SONIA (Sterling Overnight Index Average).

Investment performance in 2022/23

4.7 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.

4.8 The average level of funds available on a daily basis for investment purposes in 2022/23 was £104.702 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, receipt of grants and progress on the capital programme.

4.9 A full list of investments held by the council as at 31 March 2023 is shown in Annex A of this appendix.

4.10 The council's cautious and controlled approach to lending resulted in an average daily investment and rate of return for 2022/23, 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 %
104.702	1.87	1.42	0.50

4.11 The benchmark included above represents the average 6 month SONIA rate. It can be seen from the above that the Angus Council rate of return is 0.45% higher than the benchmark and 1.37% higher than the internally set local investment rate target of 0.50%.

4.12 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 Group.

4.13 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 2022/23 there were no variations from agreed policies and practices.

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 2022/23 Treasury Management Strategy Statement (report 103/22) and presented in greater detail in report 69/22 on the Setting of Prudential Indicators for 2022/23 Budget Process.

6.2 During financial year 2022/23 the Council operated within the Prudential and Treasury Indicators set out in the Council's 2022/23 Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. Further information with regards to the Prudential Indicator actuals for 2022/23 is presented in Annex B of this appendix.

Angus Council External Investments as at 31 March 2023

Counterparty	Investment Type	Interest Rate %	Maturity Date	Principal Amount £m	Group Lending Limit £m
Clydesdale Bank	Overnight on Call	4.25	01/04/23	13.282	25.000
Aberdeen Standard Investments	Money Market Fund	3.95	Call	2.500	15.000
Australia and New Zealand Banking Group	Fixed Term Deposit	2.05	18.05.23	2.500	5.000
		3.05	10.08.23	2.500	
Standard Chartered Bank	Fixed Term Deposit	3.98	18.05.23	5.000	15.000
		4.05	12.06.23	10.000	
National Westminster Bank (RFB)	Fixed Term Deposit	2.60	10.08.23	10.000	20.000
	Fixed Term Deposit	2.85	17.08.23	5.000	
	Fixed Term Deposit	4.32	15.09.23	5.000	
Santander UK	Fixed Term Deposit	4.53	15.09.23	2.000	15.000
Toronto Dominion Bank	Fixed Term Deposit	4.04	12.09.23	3.000	15.000
		4.75	09.11.23	4.500	
		4.85	21.12.23	7.500	
North Lanarkshire Council	Fixed Term Deposit	3.60	18.09.23	5.000	20.000
Skandinaviska Enskilda Banken	Fixed Term Deposit	5.01	28.04.24	10.000	15.000
Total Investments				**87.782**	

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 2023.

Table 1 – Prudential and Treasury Indicators 2022/23

Details	2022/23 Actual £m	2022/23 Estimate (per R103/22) £m
<u>Prudential Indicators</u>		
Gross capital expenditure		
General Fund	22.159	33.161
Housing Revenue Account	11.770	19.209
Total Gross capital expenditure	**33.929**	**52.370**
Ratio of financing costs to net revenue stream		
General Fund	9.3%	10.3%
Housing Revenue Account	10.3%	12.8%
Capital Financing Requirement as at 31 March (Excluding Other Long Term Liabilities)	143.923	153.653
<u>Treasury Indicators</u>		
Authorised limit for external debt		
Borrowing	Note 1	220.000
Other long term liabilities	Note 1	145.000
Total Authorised limit for external debt		**365.000**
Operational boundary for external debt		
Borrowing	Note 1	205.000
Other long term liabilities	Note 1	145.000
Total Operational boundary for external debt		**350.000**

Note 1 – The authorised limit and operational boundaries were not exceeded in the 2022/23 financial year.

Table 2 – Limits for Investments Over 365 Days

Details	Actual @ 31/03/23	2022/23 Limit
Upper limit for total principal sums invested for over 365 days	Nil	Unlimited

Table 3 – Maturity Structure of Borrowing at 31 March 2023

Maturity structure of borrowing	Actual @ 31/03/23	Upper Limit	Lower Limit
Under 12 months	**2.61%**	**25%**	**0%**
12 months and within 24 months	**0.43%**	**25%**	**0%**
24 months and within 5 years	**3.07%**	**50%**	**0%**
5 years and 10 years	**2.58%**	**50%**	**0%**
10 years and above	**91.31%**	**100%**	**50%**