AGENDA ITEM NO 8

REPORT NO 419/22

ANGUS COUNCIL

ANGUS COUNCIL - 15 DECEMBER 2022

TREASURY MANAGEMENT 2022/23 MID-YEAR REVIEW

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report reviews Angus Council's treasury management arrangements, activities and performance for the period 1 April 2022 to 30 September 2022.

1. RECOMMENDATION

1.1 It is recommended that the council review and scrutinise the treasury management activities for the period 1 April 2022 to 30 September 2022, as attached at **Appendix 1**.

2. ALIGNMENT TO THE COUNCIL PLAN

2.1 Treasury management is the management of borrowing, investments and cashflows; banking, money market and capital market transactions; the effective control of risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Effective treasury management therefore maximises the resources available to the council to provide services.

2.2 The activities undertaken through the council's treasury management processes, as reflected in **Appendix 1** to this report, therefore contribute to the outcomes contained within the Council Plan.

3. BACKGROUND

3.1 The annual minimum reporting requirements with regards to treasury management (per 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 (CIPFA)) are that full council should receive the following reports:

- an annual treasury strategy in advance of the year (for 2022/23, report 103/22 refers)
- a mid-year treasury management review (this report)
- an annual report following the year end describing the activity compared to the strategy (this will be produced after the 2022/23 year end).

3.2 This treasury management mid-year review details Angus Council's treasury management arrangements, activities and performance for the period 1 April 2022 to 30 September 2022 (as attached at **Appendix 1**), thereby ensuring compliance with the aforementioned CIPFA Codes of Practice.

3.3 CIPFA published revised Treasury Management and Prudential Codes in December 2021, however these are not required to be formally adopted until the 2023/24 financial year. Authorities therefore do not have to amend or revise any treasury or capital strategies for 2022/23 to incorporate the additional disclosure requirements for investment categories and new indicators. This report has been prepared in accordance with the 2017 Codes of Practice.

4. TREASURY MANAGEMENT MID-YEAR REPORT

<u>Economic Climate</u>

4.1 During the first 6 months of 2022/23 there has been a number of significant issues which have affected the economy and public finances including continued rises in inflation, rising interest rates, changes of both Prime Minister and Chancellor and changes in fiscal policy at the UK level.

The first half of the year has shown signs of economic activity losing momentum as production fell due to rising energy prices. This period has also been dominated by rising inflation which has resulted in the Monetary Policy Committee (MPC) implementing a series of increases to the bank base rate as it attempts to bring inflation under control. This situation is not unique to the UK, as other major economies around the world have also taken measures to increase interest rates to combat rising inflation.

4.2 Interest rates are currently at their highest level since the Global Financial Crisis in 2008/2009. The latest forecast sets out a view that both short and long-dated interest rates will be elevated for some time, as the Bank of England seeks to control inflation, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from ultra-high wholesale gas and electricity prices. From a treasury perspective this is both good and bad news. Bad in so far as the cost of borrowing is more expensive but, more noteworthy for the Council, good in terms of the return available on the investment of temporary cash balances. Angus Council continues to experience higher levels of cash balances due to the capital programme not having recovered to pre-pandemic levels as well as high levels of COVID-related grant provided by the Scottish Government which will be spent over the short and medium term. This has made it difficult to justify incurring any borrowing over the first 6 months of 2022/23 however this is being kept under close review given the Council's underlying need to borrow to finance its capital expenditure plans.

5. FINANCIAL IMPLICATIONS

5.1 There are no direct financial implications arising from the recommendation in this report. An effective treasury management service does however form a significant part of the council's financial arrangements and its financial wellbeing.

6. RISK IMPLICATIONS

6.1 This report does not require any specific risk issues to be addressed, however members will be aware that the management of risk is an integral part of the council's treasury management activities.

7. EQUALITY IMPACT ASSESSMENT

7.1 An Equality Impact Assessment is not required.

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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.

List of Appendices

Appendix 1: Treasury Management Mid-Year Review for the Period 1 April 2022 to 30 September 2022

Appendix 1

Treasury Management Mid-Year Review for the Period 1 April 2022 to 30 September 2022

1. Introduction

1.1 This mid-year review report has been prepared in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice and covers the following:

- borrowing position at 30 September 2022 (section 2)
- capital financing requirement (section 3)
- long term borrowing undertaken (section 4)
- long term borrowing repaid (section 5)
- PWLB interest rates (section 6)
- investment position at 30 September 2022 (section 7)
- debt rescheduling (section 8)
- variations from agreed policies and practices (section 9)
- compliance with treasury and prudential limits (section 10).

1.2 The 2022/23 Treasury Management Strategy Statement (TMSS) was approved by the council on 10 March 2022 (report 103/22 refers). There are no policy amendments required to the TMSS based on the latest economic position or budgetary changes already approved.

2. Borrowing Position as at 30 September 2022

2.1 The council's gross and net external debt positions as at 30 September 2022 are shown in Table 1 below. The gross and net external debt positions as at 1 April 2022 are also shown for comparative purposes.

Table 1

External Debt	Position as at 30 September 2022 £m	Position as at 1 April 2022 £m
Fixed Rate Borrowing – PWLB *	108.202	112.647
Fixed Rate Borrowing – LOBO **	16.000	16.000
Fixed Rate Borrowing – Market ***	14.000	14.000
Total External Debt	**138.202**	**142.647**
Investments	(107.754)	(91.584)
Total Net External Debt	30.448	51.063

Notes

* PWLB = Public Works Loans Board

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

*** Market borrowing is from banks and similar institutions in traditional fixed rate and fixed term form.

3. Capital Financing Requirement

3.1 The council calculates a rolling 12 month forecast of its Capital Financing Requirement (CFR). The CFR represents the level of borrowing for capital purposes which it is projected that the council requires to have in place, including the gross external debt already in place, at the end of the rolling 12 month period. The forecast CFR at any point in time therefore essentially takes the existing gross external debt and adjusts for projected net capital expenditure over the forthcoming 12 month period. The CFR therefore gives a snapshot of the underlying need to borrow for capital purposes and this makes it a crucial part of our borrowing arrangements in compliance with relevant Codes of Practice. At 30 September 2022 the CFR was projected to be £186.890m (that is to say the projected value of our external debt requirements at 30 September 2022).

3.2 Where there is headroom between existing gross external debt levels and the CFR, the council may, at any time over the 12 month period, borrow from the Public Works Loan Board (PWLB) or the money market (external borrowing). Alternatively, the council may on a temporary basis borrow from internal balances (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. When the gross external debt and CFR information shown above is taken into account, it can be seen that there is borrowing headroom at 30 September 2022 of £48.688m (CFR of £186.890m less gross debt of £138.202m per Table 1). This is however a snapshot position, with the headroom projected to rise over the remainder of the financial year. The borrowing headroom of £48.688m is the amount of borrowing the Council will eventually have to undertake to pay for the capital expenditure already approved in the General Fund and Housing capital budgets.

4. Long Term Borrowing Undertaken

4.1 No new borrowing has been undertaken during the period 1 April 2022 to 30 September 2022. Whilst under normal circumstances there would be an underlying need to borrow for capital purposes, new borrowing is not necessary as the council currently holds significant levels of temporary cash balances. Any new long term borrowing has been deferred over the first half of the year, with the intention of reducing underlying cash balances. This deferment strategy benefits the council by reducing the total interest payable on debt but does carry the risk that interest rates can rise.

4.2 The council has appointed Link Group as its treasury advisors and part of their service is to assist the council to formulate a view on interest rates. The latest interest rate forecast provided by Link Group is detailed in Table 4 (Section 6) below. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's 'fiscal event'.

4.3 In respect of potential borrowing from the PWLB, the council has access to a 20 basis point (0.20 per cent) discount (otherwise known as the Certainty Rate) on all borrowing undertaken from PWLB in return for providing information on potential long term borrowing and associated capital spending plans. Angus Council will continue to annually submit the information necessary to ensure ongoing access to the reduced borrowing rates.

4.4 Although it is considered unlikely that new borrowing will be undertaken in the second half of this financial year the Director of Finance will closely monitor borrowing opportunities over the remainder of the financial year. Further borrowing may be undertaken should prevailing economic and market conditions move to the advantage of the council or should the current approach of deferring borrowing in the short term be put under threat by rising interest rates. It is also possible that non-PWLB borrowing may become more competitive compared with PWLB rates and the Director of Finance will closely monitor the situation to ensure that any appropriate borrowing opportunities are fully considered and actioned where this is of benefit to the council.

4.5 In accordance with the 2022/23 Treasury Management Strategy Statement, the council has not borrowed in advance of need during the first half of the 2022/23 financial year and has no intention of borrowing in advance for the remainder of the 2022/23 financial year.

5. Long Term Borrowing Repaid

5.1 The council has repaid £4.445m of PWLB loans that naturally matured in the period 1 April 2022 to 30 September 2022, the details of which are shown in Table 2 below:

Table 2

Date Advanced	Date Repaid	Amount £m	Rate %
15/05/89	30/09/22	0.445	9.375
24/06/97	30/09/22	4.000	7.125
Totals		4.445	

5.2 A further £0.445m PWLB loan (at an interest rate of 10.875 per cent) matures during the second half of the financial year.

6. PWLB Interest Rates

6.1 The lowest, highest and average PWLB interest rates available during the period 1 April 2022 to 30 September 2022 for 5, 10, 25 and 50 year terms are detailed in Table 3 below. For clarity the rates shown within Table 3 have been reduced to reflect the 20 basis point PWLB Certainty Rate discount. It will be noted that even in a short period of only six months there has been sizeable movements in the rates available.

Table 3

Period	Interest Rate Low Point %	Interest Rate High Point %	Average Interest Rate %
5 years	2.18	5.44	2.92
10 years	2.36	5.35	3.13
25 years	2.52	5.80	3.44
50 years	2.25	5.51	3.17

6.2 The council's treasury advisor, Link Group, has provided the following forecast for UK Bank Rates (also known as the Base Rate) and new PWLB borrowing interest rates (again reflecting the Certainty Rate discount), as detailed in Table 4 below.

Table 4

Rate	Dec 22 %	Mar 23 %	Jun 23 %	Sep 23 %	Dec 23 %	Mar 24 %	Jun 24 %	Sep 24 %
Bank Rate	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50
5 Year	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60
10 Year	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70
25 Year	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00
50 Year	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70

6.3 It will be noted from Table 4 that PWLB borrowing rates are expected to fall over the next 2 years and this means the Council can continue to postpone new borrowing while rates are higher until a more favourable point in future. The Council's higher than normal temporary cash balances enable this approach.

7. Investment Position at 30 September 2022

7.1 In accordance with CIPFA's Treasury Management Code of Practice, it is the council's investment priority to:

- ensure the **security** of capital (i.e. the safety of the investment);
- ensure the availability of **liquidity** (i.e. the accessibility of the cash); and
- thereafter to obtain an appropriate level of **return** (i.e. the income received) which is consistent with the council's risk appetite.

7.2 The average daily level of funds available for investment purposes in the first six months of 2022/23 was £104.752m. 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 other income and progress on the capital programme.

7.3 Angus Council continued to experience higher levels of temporary cash balances during the six months to 30 September 2022, in part due to the timing and phasing of grant income, but also the capital programme is still subject to a degree of constriction due to shortages of labour and materials and although much improved on 2021/22 levels, payments to suppliers have yet to fully recover to pre-pandemic levels.

7.4 There have been 7 increases in the bank base rate during 2022 so far, increasing from 0.25% in January to 3% on 3 November. This compares markedly with only 1 increase during the previous 23 months when the rate increased from 0.10% to 0.25% in December 2021. The council's takes a cautious and controlled approach to lending and the rate of return for the period 1 April 2022 to 30 September 2022 was as follows:

Table 5

Average Daily Investment Exposure £m	Angus Council Rate of Return %	6 Month Benchmark Return %	Internally Set Investment Rate Target %
104.752	1.05	1.22	0.50

7.5 The benchmark included above represents the six month Sterling Overnight Index Average (SONIA) rate as at 30 September 2022. It can be seen from the above table that the Angus Council rate of return is 0.17 per cent lower than the SONIA benchmark and 0.55 per cent higher than the internally set local investment rate target of 0.50 per cent as set out in the annual strategy. The main reason for the rate of return of 1.05% being lower than the SONIA rate of 1.22% is that the Council had a number of 1 year investments with lower returns so needed to wait for these deals to mature before being able to place the funds at the higher rates now available. Now that most of our longer term investments which were placed in a lower interest rate environment are coming to an end it is anticipated that a much better rate of return will be achieved in the 6 month period to 31 March 2023.

8. Debt Rescheduling

8.1 No debt rescheduling was undertaken during the first six months of 2022/23 as the opportunity to reschedule debt has been limited in the current economic climate. The Council's appointed treasury advisors Link Group are currently investigating the possibility of the early repayment of the LOBO debt of £4m which matures in 2054. This potential rescheduling opportunity will only be considered if it is prudent and affordable.

9. Variations from Agreed Policies and Practices

9.1 The Treasury Management Strategy Statement for 2022/23 was approved by Angus Council on 10 March 2022 (report 103/22 refers). No adjustments to the strategy were made when the Treasury Management Annual Report for 2021/22 was presented to the Scrutiny & Audit Committee on 27 October 2022 (report 360/22 refers).

10. Compliance with Treasury and Prudential Limits

10.1 It is a statutory duty for the council to determine and keep under review affordable borrowing limits. The council's approved Prudential Indicators are outlined in the 2022/23 Treasury Management Strategy Statement and detailed in the Setting of Prudential Indicators for 2022/23 Budget Process committee report (report number 69/22 to the Special Budget Meeting of Angus Council on 3 March 2022).

10.2 During the first six months of the 2022/23 financial year the council has operated within the treasury limits and Prudential Indicators set out in the council's 2022/23 Treasury Management Strategy Statement and in compliance with the council's Treasury Management Practices.