

ANGUS COUNCIL

SCRUTINY AND AUDIT COMMITTEE – 27 AUGUST 2024
ANGUS COUNCIL – 12 SEPTEMBER 2024

TREASURY MANAGEMENT ANNUAL REPORT 2023/24

REPORT BY IAN LORIMER, THE DIRECTOR OF FINANCE

1. ABSTRACT

- 1.1 This report details Angus Council's treasury management arrangements, activity and performance during 2023/24.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Scrutiny and Audit Committee:
- (i) reviews and scrutinises the 2023/24 treasury management annual report and its associated appendix;
 - (ii) provides any commentary considered appropriate at this time.
- 2.2 It is recommended that Angus Council:
- (i) reviews and scrutinises the annual report on 2023/24 treasury management activities attached at Appendix 1, considering any commentary that may have been provided by the Scrutiny and Audit Committee.

3. ALIGNMENT TO THE COUNCIL PLAN AND COUNCIL POLICIES

- 3.1 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.

4. BACKGROUND

- 4.1 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 (CIPFA).

5. CURRENT POSITION

- 5.1 The financial year 2023/24 has seen some significant events impacting on treasury operations:

The Economy and Interest Rates

Angus Council continued to hold temporary cash balances during 2023/24, although the level of cash balances held reduced from the levels held in 2022/23. This reduction was mainly due to increased expenditure on large capital projects and the decision not to undertake new borrowing in 2023/24. Having these temporary cash balances available for investment meant there was no urgency to take new borrowing particularly given that borrowing rates had increased during 2023/24. Also, the expectation was that rates were likely to reduce in the medium term, allowing the Director of Finance to take a prudent view that further additional borrowing was unnecessary in the financial year and could be deferred.

The Bank of England at their March 2024 meeting left bank interest rates at 5.25% for the fifth time in a row. The Bank's communication suggested that there was improved confidence in the UK economy and that inflation will fall sustainably back to the 2% target. This may result in cuts to the bank rate in 2024/25. Although temporary cash balances are expected to reduce in 2024/25 due to expenditure on large capital projects, the Council may wish to secure some of its borrowing needs if the anticipated cuts in borrowing rates come to fruition.

- 5.2 The treasury management annual report details Angus Council's borrowing and investment activities during 2023/24 and is attached at Appendix 1.

6. TREASURY MANAGEMENT PRACTICES

- 6.1 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. The TMP's were subject to a detailed review and reported to elected members in 2023/24. The updated version of the TMPs following the review can be accessed [here](#) in the event that any elected member wishes to view them.

7. FINANCIAL IMPLICATIONS

- 7.1 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.

8. RISK MANAGEMENT

- 8.1 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.

9. ENVIRONMENTAL IMPLICATIONS

- 9.1 There are no direct environmental implications arising from the recommendations of the report.

10. EQUALITY IMPACT ASSESSMENT, HUMAN RIGHTS AND FAIRER SCOTLAND DUTY

- 10.1 A screening assessment has been undertaken and a full Equality Impact Assessment is not required for the following reason:-

This is a noting report and does not have any impact on individuals.

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 2023/24

Treasury Management Annual Report 2023/24**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 89/23 refers);
- a mid-year treasury management review (report 352/23 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 2023/24 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 2023/24**Borrowing and Investment Position as at 31 March 2024**

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 2024 is shown in Table 1 below, with the position as at 31 March 2023 shown for comparative purposes.

Table 1 – Borrowing and Investment Position

External Debt	Position as at 31 March 2024 £m	Position as at 31 March 2023 £m
Fixed Rate Borrowing – PWLB (see note 1)	104.168	107.757
Fixed Rate Borrowing – LOBO (see note 2)	12.000	16.000
Fixed Rate Borrowing – Market (see note 3)	14.000	14.000
Fixed Rate Total	130.168	137.757
Variable Rate Borrowing PWLB	Nil	Nil
Variable Rate Borrowing – Market	Nil	Nil
Total External Debt	130.168	137.757
Investments	(53.323)	(87.782)
Net External Debt	76.845	49.975

Note 1 - PWLB is the Public Works Loans Board.

Note 2 - LOBO borrowing is from banks and similar financial institutions. Whilst these loans allow the lender to vary the rate of interest at specific points in time (referred to as call dates) the council is not legally obliged to accept such changes, hence both the lender and borrower have options on whether to continue the loan or not. The council LOBOs are a hybrid of both fixed and variable rates.

Note 3 - Market borrowing is from banks and similar institutions in traditional fixed rate and fixed term form.

- 2.3 In addition to its net external debt of £76.845m, 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 2024 for the former Tayside Police Joint Board was £1.841m. Police Scotland meet the costs of this debt which the council manages on their behalf.

Borrowing - 2023/24 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 2023/24 is detailed in Table 2 below, with 2022/23 also detailed for comparison purposes.

Table 2 – Loans Fund Interest Rate

Year	Budget %	Actual %	Variance %
2023/24	4.35	4.10	(0.25)
2022/23	4.50	3.93	(0.57)

- 2.6 It can be seen from Table 2 above the council's loans fund interest rate for 2023/24 was 0.25 per cent lower than the 2023/24 budget and 0.17 per cent higher than the 2022/23 interest rate. A number of factors affect the interest rate including the interest rates payable on any new / refinanced external borrowing undertaken; 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 minor rise in loans fund rate between 2022/23 and 2023/24 was mainly due to increased interest paid on revenue balances. The level of return on short-term investments increased slightly as a result of higher interest rates in 2023/24 despite reducing cash balances. However, these higher interest rates also resulted in increased interest being paid on internal and external revenue balances.
- 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 2023/24 was 0.09 per cent which was an decrease of 0.01 per cent from financial year 2022/23.
- 2.9 Whilst the 2023/24 loans fund comparative rates for all other Scottish local authorities have not yet been published it is expected that the 2023/24 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 – 2023/24 Performance Summary

- 2.12 Interest returns picked up throughout 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

- 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. Returns have been positively affected by higher interest rates throughout 2023/24. The position for 2022/23 is also shown for comparative purposes.

Table 3 – Investment Rate of Return

Year	Benchmark %	Actual %	Variance %
2023/24	3.50	5.01	1.51
2022/23	0.50	1.87	1.37

- 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 2023/24

Borrowing Strategy for 2023/24

- 3.1 The council's strategy for borrowing in 2023/24 (report 89/23) 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 2023/24 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 £215.836m (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 £154.045m. 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 2023/24 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 2023/24

Period	Interest Rate Low Point %	Interest Rate High Point %
5 years	4.13	5.93
10 years	4.20	5.53
25 years	4.58	5.96
50 years	4.27	5.74

New External Borrowing Undertaken in 2023/24

- 3.5 No new external borrowing was undertaken during 2023/24. Temporary cash balances have been used instead to meet the Council's capital financing requirements during 2023/24. This is a short term solution however and new borrowing will eventually be required. The plan remains to take new borrowing once interest rates fall below current levels.

Debt Repayments

- 3.6 The council repaid £3.589m in financial year 2023/24 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. As reported in the Treasury Management Mid Year Report (report 352/23), an opportunity for early repayment of a LOBO debt with Commerzbank arose. This debt of £4m was repaid in full on 18 October 2023.

Table 5 – Matured Debt Repaid in 2023/24

Start Date	Maturity Date	Amount £m	Rate %
31/08/1988	15/05/2023	0.445	9.50
04/08/2011	04/08/2023	1.500	4.29
29/09/1997	29/09/2023	1.200	6.625
22/05/1989	02/10/2023	0.444	9.375

Debt Rescheduling

- 3.7 No debt rescheduling occurred during the year.

Borrowing Summary

- 3.8 The new external borrowing originally estimated to be required in 2023/24 was £43.729m per the 2023/24 Treasury Management Strategy Statement (report 89/23 refers). This figure represented the difference between the total external debt for 2023/24 and the estimated 2023/24 Capital Financing Requirement (£177.898m - £137.758m = £40.140m), along with borrowing to replace loans that were due to naturally mature throughout the financial year (£3.589m) 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.
- Levels of temporary cash balances available (although reducing from the 2022/23 levels) for investment meant there was no urgency to take 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 2023/24

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 2023/24

- 4.3 The investment strategy for 2023/24 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 3.50 per cent was set as an investment return based on the interest rates available and expectations for the 2023/24 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 2023/24

- 4.6 Investment returns increased in 2023/24 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and tighter monetary policy was required. Starting in April 2023 at 4.25%, the Bank Rate moved up in stepped increases of either 0.25% or 0.50%, reaching 5.25% by August. At the end of the financial year, the bank rate remained at 5.25%. It is anticipated by our Treasury advisers, Link Group, that the first cut in bank rate will be in September 2024 and that the bank rate will reduce to 4% by March 2025.

Table 6a – Average Investment Rates 2023/24*

Overnight %	3 Month %	6 Month %	1 year %
4.96	5.13	5.23	5.25

*SONIA (Sterling Overnight Index Average).

Table 6b – Average Investment Rates 2022/23*

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

*SONIA (Sterling Overnight Index Average).

Investment performance in 2023/24

- 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 2023/24 was £86.227 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 2024 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 2023/24, 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 %
86.227	5.01	5.23	3.50

- 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 0.22% lower than the benchmark and 1.51% higher than the internally set local investment rate target of 3.50%.
- 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 2023/24 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 2023/24 Treasury Management Strategy Statement (report 89/23) and presented in greater detail in report 61/23 on the Setting of Prudential Indicators for 2023/24 Budget Process.
- 6.2 During financial year 2023/24 the Council operated within the Prudential and Treasury Indicators set out in the Council's 2023/24 Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. Further information with regards to the Prudential Indicator actuals for 2023/24 is presented in Annex B of this appendix.

Angus Council External Investments as at 31 March 2024

Counterparty	Investment Type	Interest Rate %	Maturity Date	Principal Amount £m	Group Lending Limit £m
Clydesdale Bank	Overnight on Call	5.25	01/04/2024	6.823	25.000
Nordea Bank	Fixed Term Deposit	5.34	24/05/2024	2.500	15.000
Dundee City Council	Fixed Term deposit	6.55	12/06/2024	10.000	20.000
Australia and New Zealand Banking Group	Fixed Term Deposit	5.47	30/04/2024	2.500	5.000
		5.93	09/08/2024	2.500	
National Westminster Bank (RFB)	Fixed Term Deposit	5.85	09/08/2024	10.000	20.000
		5.96	16/08/2024	5.000	
Close Brothers Ltd	Fixed Term Deposit	5.42	01/08/2024	3.000	0.000
Santander UK	Call 180 days	6.00	n/a	11.000	15.000
Total Investments				53.323	

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 2024.

Table 1 – Prudential and Treasury Indicators 2023/24

Details	2023/24 Actual £m	2023/24 Estimate (per R89/23) £m
<u>Prudential Indicators</u>		
Gross capital expenditure		
General Fund	34.226	36.210*
Housing Revenue Account	12.993	14.732*
Total Gross capital expenditure	47.219	50.942
Ratio of financing costs to net revenue stream		
General Fund	9.4%	8.3%
Housing Revenue Account	11.5%	12.2%
Capital Financing Requirement as at 31 March (Excluding Other Long Term Liabilities)	154.045	179.912
<u>Treasury Indicators</u>		
Authorised limit for external debt		
Borrowing	Note 1	235.000
Other long term liabilities	Note 1	169.000
Total Authorised limit for external debt		404.000
Operational boundary for external debt		
Borrowing	Note 1	220.000
Other long term liabilities	Note 1	169.000
Total Operational boundary for external debt		389.000

*The revised 2023/24 estimates have been used for comparable purposes.

Note 1 – The authorised limit and operational boundaries were not exceeded in the 2023/24 financial year.

Table 2 – Limits for Investments Over 365 Days

Details	Actual @ 31/03/24	2023/24 Limit
Upper limit for total principal sums invested for over 365 days	Nil	Unlimited

Table 3 – Maturity Structure of Borrowing at 31 March 2024

Maturity structure of borrowing	Actual @ 31/03/24	Upper Limit	Lower Limit
Under 12 months	0.46%	25%	0%
12 months and within 24 months	1.99%	25%	0%
24 months and within 5 years	1.94%	50%	0%
5 years and 10 years	2.39%	50%	0%
10 years and above	93.22%	100%	50%