REPORT NO 87/18

ANGUS COUNCIL

SCRUTINY & AUDIT COMMITTEE – 6 MARCH 2018
MEETING OF ANGUS COUNCIL – 22 MARCH 2018

TREASURY MANAGEMENT STRATEGY STATEMENT 2018/19

REPORT BY THE HEAD OF CORPORATE FINANCE

ABSTRACT

This report seeks Members approval of the proposed Treasury Management Strategy for Angus Council in 2018/19. The production of a Treasury Management Strategy Statement for the forthcoming financial year is a requirement of the Treasury Management in the Public Services Code of Practice issued by the Chartered Institute of Public Finance and Accountancy. This report also presents the 2018/19 Treasury Management Strategy Statement for review by the Scrutiny and Audit Committee.

1 RECOMMENDATIONS

1.1 It is recommended that the Scrutiny and Audit Committee:

1.1.1 Review and scrutinise the proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 attached as Appendix A to this report; and

1.1.2 Provide any commentary considered appropriate at this time.

1.2 It is recommended that the Council:

1.2.1 Approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 attached as Appendix A to this report; and

1.2.2 Approve the Treasury Indicators in Appendix A – Annex D (Tables 2 and 3).

2 ALIGNMENT TO THE ANGUS COMMUNITY PLAN / SINGLE OUTCOME AGREEMENT / COPORATE 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 within the framework of the Treasury Management Strategy therefore contribute as a whole to the achievement of the Council's corporate priorities and the specific targets and objectives within the Council Plan and Local Outcome Improvement Plan.

3 BACKGROUND

3.1 The need to prepare a Treasury Management Policy Statement and a Treasury Management Strategy Statement is a requirement of the Treasury Management in the Public Services Code of Practice (2017 edition) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The attached Treasury Management Strategy Statement has been prepared in accordance with this Code, although it should be noted that the 2017 edition of the Code has only been available since the end of December 2017.

3.2 The purpose of the Treasury Management Strategy Statement is to develop borrowing, investment and debt rescheduling strategies for the forthcoming financial year based on prospects for interest rates. The strategies adopted take account of the current treasury position and treasury limits in force which will limit treasury risk and the treasury activities of the Council.

4 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

4.1 The 2018/19 Treasury Management Strategy Statement and Annual Investment Strategy sets out the expected treasury management activities for Angus Council for the forthcoming financial year and is attached at Appendix A for consideration and approval by Members.

Structure of Strategy Document

4.2 Although the complete strategy statement document is necessarily lengthy to satisfy the requirements of the Code of Practice, members are asked to note that the core strategy statement is contained in the first 10 pages of Appendix A.

4.3 Appendix A also contains a number of Annexes which are required for full compliance with the Treasury Management code of practice and as such are necessarily of a more technical nature. In the main however, they contain additional information and explanations of aspects of the core strategy document, with the exception of Annex D which contains statutory indicators that require to be considered and approved by members.

Changes from the 2017/18 Strategy Statement

4.4 No changes in respect of the borrowing aspects of the strategy are proposed.

4.5 The investment aspects of the strategy have however been reviewed to determine whether some additional flexibility and minimal managed risk could be applied in order to help where possible towards addressing the Council's wider financial pressures. The review of these aspects has at all times however borne in mind the overarching requirement to consider investments in terms of the following investment priorities:

1. Security (the safety of the investment);
2. Liquidity (accessibility of cash when needed); and
3. Return (income received).

4.6 Section 6.3 (table 7) of the attached Treasury Strategy Statement contains the permitted investment levels for investment in individual financial institutions / Funds. Set out below is a summary of how those premitted investment levels have changed from the 2017/18 strategy. Only those elements that have changed are shown.

Long Term Fitch Rating / Institution / Fund type	Maximum Value of Investment per Institution (As per the 2018/19 proposed strategy)	Value Limit Change From 2017/18
A / A plus	£12.5 million	Increased from £5.0 million
AA minus or greater (UK Domiciled)	£15.0 million	Increased from £10.0 million
AA minus or greater (Non-UK Domiciled)	(£20.0 million in total)	Individual amount permitted with each institution has been retained at £10.0 million per institution The overall total for this category has increased from £15.0 million
Money Market Funds	£10.0 million per individual Fund (£20.0 million in total)	Individual amount permitted per Fund is reduced from £20.0 million A new overall limit for this category has now been set at £20.0 million
Ultra Short Dated Bond Funds	£5.0 million per individual Fund (£10.0 million in total)	This is a new investment category since the 2017/18 strategy In addition to the value limits, a maximum of 25% of the portfolio can be held in these Funds

4.7 In respect of the above changes, the following should also be noted.

4.7.1 The increased permitted limits with financial institutions are a direct consequence of the strength of the banking sector as highlighted by the positve stress test results published by the Bank of England (BoE) on 28 November 2017. The BoE particularly noted the following in this regard:

- The 2017 stress tests utilised a more severe economic scenario than even the global financial crisis of 2008;
- For the first time since stress tests were launched in 2014, no bank needed to strengthen their capital positions;
- The 2017 tests showed the UK banking system is resilient to deep simultaneous recessions both in the UK and globally; and
- Banks are generally 3 times stronger than at the time of the global financial crisis.

4.7.2 Money Market Funds (MMF) have been reviewed in light of upcoming changes to MMF structures due to be implemented during July 2018. These changes will see most MMFs move from a Constant Net Asset Value (CNAV) basis to a Variable Net Asset Value (VNAV) basis. What this means is:

- At the moment the CNAV basis means that return of the underlying invested value in full is guaranteed;
- When these Funds move to the VNAV basis this will no longer be the case;
- Some added risk would therefore be introduced to the use of MMFs; and
- This is reflected in the reduction in the maximum value that can be placed with any single MMF.

4.7.3 Ultra Short Dated Bond Funds (USDBF) is a new category of investment that has been added to the permitted investment list to provide some additional flexibility within the management of surplus cash whilst seeking to achieve a reasonable level of return. The following should be noted in this regard:

- These Funds are referred to as Variable Net Asset Value (VNAV) Funds – this means that return of the underlying invested value in full is not guaranteed;
- Funds exist which have the highest available credit rating of "AAA" – helping to mitigate and manage the risk to the underlying value invested;
- The Funds utilise a wide range of investments and aim to achieve better income returns;
- They do this by taking a bit more investment risk or by investing for longer durations;
- There is therefore some greater volatility in this type of investment as compared to fixed deposits or money market funds;
- Funds do however exist that have ultra low volatility (they move up and down by only fractions of pence in comparison to other investment types) – again helping to mitigate and manage the risk to the underlying value invested; and
- The risk element is reflected in the lower permitted investment limits as compared with other types of investment.

In respect of USDBFs, members are asked to note that given the slightly higher risk profile of these investment vehicles, they will only be used when considered appropriate and with a view to using only the best credit rated funds with the lowest capital value volatility in mitigation of the risks.

Non-Treasury Investments

4.8 The updated Treasury Management Code includes a new element focussed on what it refers to as "non-treasury investments". These are investments which could be made for for the purposes of generating substantial increases in income compared to normal treasury management activities. It's expected that these would mainly be major commercial property purchases focussed on mainly income generation rather than pursuit of service objectives and priorities.

Angus Council does not have any such investments and has no plans to invest in this way and therefore there has been no need to incorporate this new aspect in the Treasury Strategy Statement attached at Appendix A. This will be kept under review and changes made to the Strategy Statement should that ever become necessary.

Capital Strategy

4.9 An updated Prudential Code was also published by CIPFAat the same time as the updated Treasury Management Code. A new requirement has been included in these Codes for the production of a Capital Strategy.

The Codes note that:

> "The capital strategy is intended to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and priorities. It should set out the long-term context in which capital expenditure and investment decisions are made, giving due consideration to both risk and reward impact on achievement of priority outcomes."

The Codes further note:

> "The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity combine and contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability."

The Codes expect that the production and approval of the capital strategy will follow the same procedures as the setting of the Council's budgets. CIPFA have however recognised that the Codes were only published late in the 2018/19 budget preparation process and that implementation of the production of a capital strategy is not therefore required until the 2019/20 budget setting process.

Members are however asked to note that many of the elements required in the capital strategy already exist individually within Angus Council, I particular this Treasury Strategy Statement and the Long Term Affordability report presented to the special budget setting meeting in February (report 64/18 refers).

5 ROLE OF SCRUTINY AND AUDIT COMMITTEE

5.1 The guidance supporting the Treasury Management Code of Practice recommends that each Council delegate the role of scrutiny of treasury management strategy and policies to a specific named body or committee. For Angus Council it is the Scrutiny and Audit Committee that undertakes this role. On this basis the Committee is recommended to review and scrutinise the 2017/18 Treasury Management Strategy Statement and provide any commentary considered appropriate at this time.

6 FINANCIAL IMPLICATIONS

6.1 There are no direct financial implications arising from the recommendations in this report. An effective Treasury Management Strategy does however form a significant part of the Council's financial arrangements and its financial well being.

6.2 For context however, a review has been undertaken of the potential financial benefit of the strategy changes described above. These changes, along with a more positive interest rate outlook, have informed the increase in the internal target rate of return from 0.50% in 2017/18 to 0.65% for 2018/19 as set out at section 6.2 of Appendix A.

6.3 Available surplus cash balances and interest rates fluctuate throughout the year and so it is difficult to be definitive about the financial value of the strategy changes. Setting the 0.15% increase in the target rate of return against the actual outturn for 2016/17 however, indicates that a benefit of some £85,000 may accrue from the strategy changes.

7 RISK IMPLICATIONS

7.1 This report does not require any specific risk issues to be addressed that are not already covered above and in the attached Appendix A, however members will be aware that the management of risk is an integral part of the Council's treasury management activities.

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, were used in the preparation of this report.

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List of Appendices:
Appendix A: **2018/19 Treasury Management Strategy Statement and Annual Investment Strategy**