

ANGUS COUNCIL

**MEETING OF ANGUS COUNCIL – 24 MARCH 2016
SCRUTINY & AUDIT COMMITTEE – 19 APRIL 2016**

TREASURY MANAGEMENT STRATEGY STATEMENT 2016/17

REPORT BY THE HEAD OF CORPORATE IMPROVEMENT AND FINANCE

ABSTRACT

This report seeks Members approval of the proposed Treasury Management Strategy for Angus Council in 2016/17. 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 2016/17 Treasury Management Strategy Statement for review by the Scrutiny and Audit Committee.

1 RECOMMENDATIONS

1.1 It is recommended that the Council:

1.1.1 Approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17 attached as Appendix A to this report;

1.1.2 Approve the proposed changes to the Treasury Management Strategy for 2016/17 as requested at paragraphs 4.6 and 4.10;

1.1.3 Approve the continued delegation to the Head of Corporate Improvement & Finance proposed at paragraph 4.8;

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

1.1.5 Note that a further report will be brought back before Council should the Scrutiny and Audit committee provide any commentary that could require any change to the 2016/17 strategy.

1.2 It is recommended that the Scrutiny and Audit Committee:

1.2.1 Review and scrutinise the proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17 attached as Appendix A to this report; and

1.2.2 Provide any commentary considered appropriate at this time.

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 local outcomes contained within the Angus Community Plan and Single Outcome Agreement 2013-2016.

3 BACKGROUND

3.1 The need to prepare a Treasury Management Policy Statement and a Treasury Management Strategy Statement is a requirement of the 2011 Treasury Management in the Public Services Code of Practice published by the Chartered Institute of Public Finance and Accountancy. The

attached Treasury Management Strategy Statement has been prepared in accordance with this Code.

- 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 2016/17 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.

Review of Strategy Document

- 4.2 At a training session for members in June 2015, members requested that where possible, the language of the strategy statement should be simplified and the Strategy Statement has been considered and reviewed in this light. The existing structure of the strategy document has been retained for consistency and to ensure that the coverage of the strategy is compliant with the Code of Practice. Efforts have been made though to simplify the language where possible within the constraints of such a technical area and without losing the context and meaning of the strategy as the underlying guide for actions taken throughout the year by officers within the treasury management section.
- 4.3 In this regard members are asked to note that the core strategy statement is contained in the first 10 pages of Appendix A. The Appendix 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 to the Strategy Principles

- 4.4 Only 1 change to the underlying principles of the Treasury Strategy is proposed from the position that has been in place throughout 2015/16. With the exception of this change and the language review referred to above, the strategy proposed is the same as that approved for 2015/16.
- 4.5 The 1 change that is proposed relates to the maximum level of total Council investments that can be placed with institutions that have been given the same credit rating by the Fitch credit rating agency. Table 5 within the attached Appendix A sets out the proposed limits in this regard and if the strategy is approved then the criteria applying to the first 2 categories in the table ("A minus" and "A / A plus") would be set at 35% and 60% of the Council's total investments respectively – this would represent an increase of 10% from the current strategy. The limits for the other categories in the table would be unchanged from those currently in operation.
- 4.6 This change is proposed in recognition of the ongoing review of credit ratings referred to below and is requested to provide added flexibility to officers in the treasury management section with respect to the mix of investments that can be in place at any one time. It is considered that this can be operated without significantly affecting the overall risk profile of the Council's investment position and members are asked to approve the change.

Possible Credit Rating Changes

- 4.7 It was noted in last year's Treasury Management Strategy report to Council (paragraphs 4.2 to 4.7 of report 122/15 refers) that as a result of regulatory changes, credit rating agencies were reviewing their rating methodologies. It was noted that these reviews could result in some institutions falling below the Council's minimum counterparty credit quality criteria over the course of the year. In light of this members approved (and only until an amended strategy could be approved) that in the event of reductions in credit ratings, the Head of Corporate Improvement & Finance had delegated authority to operate the Council's treasury management activity within his

best judgement, taking cognisance of any updated creditworthiness information, analysis and advice from the Council's external treasury management advisers (Capita Asset Services).

- 4.8 The credit rating agencies are at this time continuing their review process and consequently the same potential exists for the coming financial year that credit rating changes during the year could see a number of institutions no longer meeting the Council's minimum criteria for placing of an investment. Accordingly, members are asked to approve the continuation of the delegation of authority set out in paragraph 4.7 above, to allow officers to carry out effective treasury management activity until an appropriate report could be brought to Council detailing the position and requesting any changes considered necessary to the treasury strategy.

Revision to Permitted Investment List

- 4.9 The Scottish Government recently issued The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 which updated the borrowing powers of Local Government. Under these updated regulations, the Council now has the ability to borrow through its Loans Fund and to then on-lend this borrowing to the area's Common Good Funds, but only in respect of funding expenditure which would be classed as capital expenditure if it had been incurred directly by the Council.
- 4.10 Specific guidance is still awaited on the application of this regulation, however it is anticipated (in line with stipulations that were made when power to on-lend to Registered Social Landlords was brought in a couple of years ago) that the on-lending to Common Good Funds will only be possible where this is listed as a permitted investment in the Council's Treasury Management Strategy.
- 4.11 Accordingly the opportunity has been taken to add Common Good Funds to the permitted investment list (table 5, Annex C of the attached Appendix A refers) as part of this review of the treasury management strategy. Members are asked to approve this approach.

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 2016/17 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.

7 RISK IMPLICATIONS

- 7.1 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.

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: 2016/17 Treasury Management Strategy Statement and Annual Investment Strategy