

ANGUS COUNCIL

**SCRUTINY & AUDIT COMMITTEE – 10 MARCH 2015
MEETING OF ANGUS COUNCIL – 26 MARCH 2015**

TREASURY MANAGEMENT STRATEGY STATEMENT 2015/16

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 2015/16. 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 2015/16 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 2015/16 attached as Appendix A to this report;

1.1.2 Approve, in the event of the circumstances arising as set out in section 4 of this report, the delegation to the Head of Corporate Improvement & Finance proposed at paragraph 4.7 and approve the reporting arrangements contained therein; and

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

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 2015/16 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 2015/16 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.

Possible Credit Rating Changes

- 4.2 Whilst no significant changes to policy or approach in relation to the management of counterparty risk compared to current arrangements are proposed for the Treasury Management Strategy for 2015/16, members are asked to note that changes to be enacted by the Financial Services (Banking Reform) Act 2013 have triggered a review of rating methodologies by the credit rating agencies.
- 4.3 The changes are due to come into force by 2016, at which time it will no longer be legal for a government to bail-out a bank in financial difficulties. National regulators will instead be required to bail-in creditors in order of seniority until their losses reach a defined level of the bank's liabilities before any government money can be injected. **This could include Local Authorities.**
- 4.4 It is possible that as a result of the reviews by the credit rating agencies, the credit ratings of some institutions may fall below the Council's existing minimum counterparty criteria set out at section 6.3 of the attached strategy. Guidance issued by the Council's external treasury adviser (Capita) notes that any such reductions in credit ratings would not however be indicative of deteriorating credit quality in the institutions concerned. Rather it would be reflective of the underlying methodology changes by the agencies in reaction to the regulatory changes.
- 4.5 Capita has also noted that it is entirely possible that once any credit rating methodology changes are worked through, there may be only relatively minor reductions to credit ratings. In light of this, it is not considered necessary to amend the Council's minimum credit rating criteria at this time.
- 4.6 Accordingly, members are asked to note that there may come a point in the year where as a result of the credit rating agency reviews, some (or even all) of the institutions currently on the Council's counterparty list no longer meet the Council's current counterparty minimum credit rating criteria. The Council would however still require to carry out effective treasury management until an amendment to the strategy could be presented to and approved by Council. In this regard it should be noted that whilst the Head of Corporate Improvement & Finance has delegated authority to carry out treasury management activity, this is only within the parameters and framework of the approved strategy.
- 4.7 Members are therefore requested to approve, in the event of reductions in credit ratings and only until an amended strategy can be approved, the delegation of authority to the Head of Corporate Improvement & Finance to operate the Council's treasury management activity within his best judgement, taking cognisance of any updated creditworthiness information, analysis and advice from Capita. In such circumstances, the Head of Corporate Improvement & Finance will at that time alert the Finance convenor and vice convenor to the action taken and will then present to the next available Council meeting, detail of the action taken and proposals to amend the Treasury Management strategy to reflect the credit rating methodology changes.

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 2015/16 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: 2015/16 Treasury Management Strategy Statement and Annual Investment Strategy