

ANGUS COUNCIL

**SCRUTINY & AUDIT COMMITTEE – 11 MARCH 2014
MEETING OF ANGUS COUNCIL – 27 MARCH 2014**

TREASURY MANAGEMENT STRATEGY STATEMENT 2014/15**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 2014/15. 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 2014/15 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 2014/15 attached as [Appendix A](#) to this report;

1.1.2 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 2014/15 attached as Appendix A to this report; and

1.2.2 Provide any commentary considered appropriate at this time.

2 BACKGROUND

2.1 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.

2.2 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.

3 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

3.1 The 2014/15 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.

3.2 The overall Treasury Management Strategy for 2014/15 is similar to that adopted for 2013/14 but a number of more material changes have been made in relation to the Investment Strategy and the management of counterparty risk. To aid members consideration of this matter the following paragraphs highlight the main changes made and the reasons for these.

Section 6.3 - Counterparty Criteria (Call Accounts, Term Deposit or Certificates of Deposit Investments)

Changes have been made here for 2014/15 to reflect the introduction of the UK Financial Conduct and Prudential Regulation Authorities to replace certain duties previously undertaken by the Financial Services Authority (FSA). The definition of a suitable counterparty has been amended to be those "authorised by the Bank of England to accept deposits through a branch in the UK." This is the terminology of the Bank of England itself and would allow the Council to use banks domiciled in foreign countries so long as they are authorised by the Bank of England to take deposits through UK branches.

Table 5 – Permitted Counterparty Investment Levels

The only change here for 2014/15 is to increase the maximum value which can be invested in Money Market Funds from £15 to £20m. This will provide flexibility and allow greater use of these AAA rated investments.

Section 6.4 – Country Limits

The wording of this section has been amended to be consistent with the changes at Section 6.3. A maximum of £15m or 50% of the Council's total investments will be placed with non-UK domiciled banks.

Use of Non-UK Domiciled Banks

Angus Council's approach has for many years been to only use banks which are domiciled in the UK, e.g. RBS, Bank of Scotland, etc. This approach is however becoming increasingly difficult to sustain in an environment where greater diversification of risk is essential. The 2014/15 Investment Strategy proposal to change this policy and allow deposits to be placed with foreign banks authorised by the Bank of England to accept deposits through UK branches recognises the changing environment.

Changes to the law via the Financial Services (Banking Reform) Act 2013 are due to come into full force in 2016 and will make it much less likely for Governments in the EU (including the UK) to support banks which get into financial difficulty in the future and this emphasises a need to diversify still further the Council's temporary investments to spread the risks over a wider range of counterparties. In essence the comfort of potential UK Government support for UK banks will be significantly reduced by the new Act and in readiness for this it is considered appropriate to increase the number of Banks the Council can use to take short term deposits.

For the avoidance of doubt however the same minimum credit ratings, Capita colour codings and investment duration periods will apply to non-UK domiciled Banks as they do to UK Banks so that only those with suitably high credit ratings will be used and only for the maximum periods recommended by our Treasury Advisers. As outlined above it is proposed that a maximum of £15m or 50% of the Council's investments would be placed with non-UK domiciled banks at any one time.

The above changes are designed to provide increased flexibility and diversification for the Council's temporary investments thereby ensuring that risk is being managed effectively.

4 ROLE OF SCRUTINY AND AUDIT COMMITTEE

- 4.1 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 2014/15 Treasury Management Strategy Statement and provide any commentary considered appropriate at this time.

5 RISK IMPLICATIONS

- 5.1 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.

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 HUMAN RIGHTS IMPLICATIONS

- 7.1 There are no Human Rights implications arising from the recommendations made in this report.

8 EQUALITIES IMPLICATIONS

- 8.1 The issues dealt with in this report have been the subject of consideration from an equalities perspective. An equalities impact assessment is not required.

9 CONSULTATION

- 9.1 The Chief Executive, Strategic Director of Resources and the Head of Legal and Democratic Services have been consulted in the preparation of this report.

10 CONCLUSION

- 10.1 It is concluded that Members should consider and approve the attached 2014/15 Treasury Management Strategy Statement for Angus Council as attached at Appendix A. Members of the Scrutiny and Audit Committee are invited to consider the attached Treasury Management Strategy Statement and to make any comments considered appropriate.

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 A