AGENDA ITEM NO 10

REPORT NO 72/20

ANGUS COUNCIL

SCRUTINY & AUDIT COMMITTEE – 3 MARCH 2020
MEETING OF ANGUS COUNCIL – 19 MARCH 2020

TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report seeks Members approval of the proposed Treasury Management Strategy for Angus Council in 2020/21. 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 2020/21 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 2020/21 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 2020/21 attached as Appendix A to this report; and

1.2.2 Approve the proposed change to the Treasury Management Strategy for 2020/21 as requested in paragraph 4.5.

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

2 ALIGNMENT TO THE COUNCIL PLAN / LOCAL OUTCOMES IMPROVEMENT 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 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.

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.

3.3 The Treasury Management Strategy Statement does not sit in isolation however - it is one element in a suite of strategies and reports that includes the capital strategy for 2020/21 which was presented at the special budget meeting of 27 February 2020 (report 85/20 refers).

4 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

4.1 The 2020/21 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 11 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 2019/20 Strategy Statement

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

4.5 Only one change to the permitted investment levels is proposed for 2020/21 – an increase in the maximum maturity period of Third Party Loans (Non Treasury Investments) from 10 years to 25 years (Appendix A - Annex B - Table 5 refers). This increase is proposed in order to allow the Council to be as flexible as possible when considering any lending to third parties (including any such lending associated with the Tay Cities Deal). Third Party Loans would continue to be subject to separate committee reporting arrangements and the agreement of members before progressing.

4.6 With regard to levels of income generated from investing surplus cash, the 2019/20 strategy set a rate of return of 0.95%. As at 31 January 2020, the average rate of return achieved to date was some 0.96%. The rate of return achieved will depend on a number of factors including: movements in the Bank of England base rate; the borrowing appetite of permited countterparties; the interest rates offered by those permitted counterparties; the level of cash balances the Council has available for investment; and the duration of that investment.

4.7 For this 2020/21 strategy the Council will continue to aim to achieve a return of 0.95% on investments placed during the financial year. Whilst this is in line with the average rate of return achieved to date in 2019/20, there are risks attached given the potential future economic uncertainties that may be brought about by Brexit and the fact that levels of surplus cash may be lower than in previous years depending on cash flow patterns and forecasts. The pattern of average rates of return over the previous quarters is demonstrated in the following table, and whilst it has fluctuated over that time a continuing rate of 0.95% is considered to be achievable:

2019/20 Quarter 1 average	0.96%
2019/20 Quarter 2 average	0.97%
2019/20 Quarter 3 average	0.94%
January 2020 average	0.93%
2019/20 average at 31 January 2020	0.96%

Non-Treasury Investments

4.8 The 2017 Treasury Management Code includes a section 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.

4.9 As Angus Council does not have any such investments at this time there has been no need to incorporate this within the Treasury Strategy Statement attached at Appendix A. Options are however being investigated as part of the ongoing Tay Cities Deal work, therefore this will be kept under review and changes made to the Strategy Statement should that ever become necessary.

Review of Angus Council Loans Fund

4.10 The Local Authority (Capital Financing and Accounting) Regulations 2016 sets out the statutory arrangements for local authority borrowing and lending and the requirement to maintain a loans fund. The 2016 Regulations replace the statutory arrangements set out in the Local Government (Scotland) Act 1975 (Schedule 3).

4.11 The loans fund essentially acts as an internal bank for the council, providing the long term financing (known as loans fund advances) that it needs for capital investment. Angus Council's treasury advisor, Link Asset Services, has undertaken a review of the loans fund, brought about by revised flexibility that the 2016 Regulations has granted to local authorities on how they account for loans fund advances. On the basis of this flexibiity, a saving to the corporate loan charges budget (which meets the costs associated with loans fund advances – repayment of principal, interest and expenses) of £2m has been included within the Change Programme in 2020/21.

4.12 The detail of Link's review is currently being assessed by Finance officers, however it will in all likelihood require the following sections of Appendix A to be updated in the near future – section 5.4 (Repayment of Loans Fund Advances), section 5.5 (Policy for the Statutory Repayment of Loans Fund Advances) and section 5.6 Table 4 (Loans Fund Advances – Future Repayment Commitments). Any consequential changes to accounting policies and future repayment commitments will be brought before the relevant committee for approval.

IFRS 16 – Leasing

4.13 IFRS 16 (International Financial Reporting Standard) is a new standard for lease accounting coming into effect on 1 April 2020 that will require lessees to recognise leases on the balance sheet, effectively reflecting the right to use an asset for a period of time and the associated liability for payments. Fully complying with IFRS 16 and ensuring the Council's 2020/21 year end accounts have been prepared in accordance with the Standard is a major exercise that will require the input of officers from a wide range of council services, not just Finance. All leases, including potentially service contracts, where the Council is the lessee (i.e. leasing an asset from a third party) will require to be identified and measured, both in order to establish an initial starting position and on an ongoing basis.

4.14 Work to prepare for IFRS 16 is already underway and will continue during the 2020/21 financial year, however it will not be a quick or easy process identifying and then measuring every lease the Council is entered into. The outcome of this extensive exercise will require to be reflected within the prudential indicators detailed in future Treasury Management Strategy Statements, and this will be picked up for next year's report.

Ethical Investing

4.15 Ethical investing is a term used to describe an investment process which takes environmental, social and governance (ESG) or other ethical considerations into account and is a topic of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity and yield and that ethical issues must play a subordinate role to those priorities.

4.16 A small, but growing, number of financial institutions are promoting ESG products and Link Asset Services are currently looking at how these can be incorporated into its creditworthiness assessment service. This is still very much an evolving area and should any investment in ESG products be undertaken by Angus Council in the future this would require to be within the approved counterparty and creditworthiness criteria, and with regard to the views of our treasury advisors on any proposals.

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 2020/21 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 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: 2020/21 Treasury Management Strategy Statement and Annual Investment Strategy