AGENDA ITEM NO 10

REPORT NO 101/21

ANGUS COUNCIL

MEETING OF ANGUS COUNCIL – 18 MARCH 2021
SCRUTINY & AUDIT COMMITTEE – 27 APRIL 2021

TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report seeks members approval of the proposed Treasury Management Strategy for Angus Council in 2021/22. 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 2021/22 Treasury Management Strategy Statement for review by the Scrutiny and Audit Committee.

1 RECOMMENDATIONS

It is recommended that Angus Council:

1.1 Approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22 attached as Appendix A to this report;

1.2 Approve the amended policy for the statutory repayment of loans fund advances, as laid out in paragraph 5.5 of Appendix A;

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

1.4 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 2021/22 strategy.

It is recommended that the Scrutiny and Audit Committee:

1.5 Review and scrutinise the proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2021/22 attached as Appendix A to this report; and

1.6 Provide any commentary considered appropriate at this time.

2 ALIGNMENT TO THE COUNCIL PLAN / COMMUNITY 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 Community 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 2021/22, as presented at the special budget meeting of 4 March 2021 (report 73/21 refers).

4 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

4.1 The 2021/22 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.

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.

5 CHANGES FROM THE 2020/21 STRATEGY

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

5.2 No changes to the permitted investment levels are proposed for 2021/22.

Rate of Return

5.3 With regard to levels of income generated from investing surplus cash, the 2020/21 strategy set a rate of return of 0.95%. This rate was set prior to the onset of the COVID-19 pandemic and the ensuing impact it has had on the financial markets.

5.4 As at 31 January 2021, the average rate of return achieved to date was some 0.50%. The final rate of return achieved for the 2020/21 financial year will depend on a number of factors including: movements in the Bank of England base rate; the borrowing appetite of permited counterparties; 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. Whilst the rate of return as at 31 January 2021 is below the tartget of 0.95%, it would have been significanly worse were it not for the good investments the council already had in place at the time COVID crisis took hold. As these investments have come to maturity over the course of the year however, the returns earned for reinvesting have been very weak. The pattern of average rates of return over the previous quarters is demonstated for information in the following table:

2020/21 Quarter 1 average	0.74%
2020/21 Quarter 2 average	0.53%
2020/21 Quarter 3 average	0.38%
January 2021 average	0.30%
2020/21 average at 31 January 2021	0. 50%

5.5 For this 2021/22 strategy the council will aim to achieve a return of 0.20% on investments placed during the financial year. Whilst this is below the average rate of return achieved to date in 2020/21, it is reflective of the current and likely future position on interest and investment rates which are unlikely to recover any time soon. There are still risks involved in achieving even this low target rate – the continuing pandemic, the ongoing uncertainties in a post-Brexit economy, the threat of negative interest rates and the fact that levels of surplus cash may be lower than in previous years depending on cash flow patterns and forecasts.

Policy for the Statutory Repayment of Loans Fund Advances

5.6 The council is required to set out its policy for the statutory repayment of loans fund advances on an annual basis, as laid out in Finance Circular 7/2016. There are 4 compliant repayment options that can be applied to repay loans funds advances, however this will change from 1 April 2021 onwards:

- Statutory method – this will no longer be available after 31 March 2021;
- Depreciation method;
- Asset life method, implemented as either equal installments or annuity; or
- Funding / income profile method.

5.7 The circular stipulates that loans fund advances made prior to 1 April 2016 should continue to be repaid using the statutory method. It also allows the continued use of the statutory method for a transitional period for new loans fund advances made up to 31 March 2021.

5.8 From 1 April 2021 the statutory method will no longer be available and one of the other methods must be utilised.

5.9 For loans fund advances relating to 2021/22 onwards, it is proposed that the asset life (annuity) method apply, where repayments are based on the initial life and value of the asset. Calculating the annual repayments by the annuity method links the repayment of the borrowing to the flow of the benefits from that asset. A simplified approach that uses an average loans fund repayment period of 40 years will be primarily used, however some categories of assets such as vehicles may be separated out and a lower repayment period applied to reflect the short life of such assets.

5.10 Paragraph 5.5 of Appendix A to this report details the proposed policy.

6 PUBLIC WORKS LOAN BOARD REVIEW OF FUTURE LENDING TERMS

6.1 In recent years a minority of (non-Scottish) local authorities have borrowed substantial sums from the Public Works Loan Board (PWLB) to buy investment property / pursue commercial opportunities, with the primary aim of generating income. The UK government is clear that this is not an appropriate use of PWLB loans and has worked with local authorities and sector representatives on a targeted intervention to put an end to this practice. Whilst borrowing to pursue opportunities with the primary aim of generating income is illegal in Scotland, Scottish local authorities are impacted by any measures put in place by the PWLB that prevent others from doing it.

6.2 In March 2020 the UK government launched a consultation on revised PWLB lending terms and guidance, the aim of which was to develop a proportionate and equitable way to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing and regeneration under the prudential regime as they do at present. The consultation closed in July 2020 and the PWLB's formal response was published in November 2020.

6.3 New terms applied to all loans arranged from 9am on 26 November 2020, the key features being:

- As a condition of accessing the PWLB, local authorities will be required to submit a high level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB (a similar process is already carried out by Angus Council in order to access the PWLB's Certainty Rate).
- The PWLB will ask the S95 officer of the local authority to confirm there is no intention to buy investment assets primarily for yield at any point in the next three years.
- As it is impossible to reliably link particular loans to specific spending, this restriction applies on a 'whole plan' basis – meaning the PWLB will not lend to any local authority which plans to buy investment assets primary for yield anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB.
- When applying for a new loan, the local authority will be required to confirm that the plans they have submitted remain current and that the assurance that they do not intend to buy investment assets primarily for yield is still accurate.

6.4 Whilst Council officers do not envisage any issues in complying with these new terms, consideration may require to be given to the presentation of projects forming part of the ongoing Tay Cities Deal work to ensure their regeneration credentials are highlighted approrpriately.

7 COVID-19 PANDEMIC FISCAL FLEXIBILITY MEASURES

7.1 Both the revenue and capital budgets for 2021/22 were prepared within the context of the ongoing COVID-19 pandemic. This has included consideration of fiscal flexibilities, the package of measures identified by the Scottish Government for local authorities to utilise – should doing so be deemed prudent and appropriate – in order to address funding pressures faced due to the pandemic, these are:

- use of capital receipts from the sale of assets received in both 2020/21 and 2021/22 to fund revenue COVID expenditure
- amendment to the credit arrangement accounting treatment (PPP/PFI projects), applied in either 2020/21 or 2021/22 (final details of how this flexibility will operate are awaited)
- the deferral of loans fund principal repayments due to be repaid in either 2020/21 or 2021/22 (but not both).

7.2 All three measures have the potential to impact on elements of the Treasury Strategy Statement, in particular the capital financing requirement and loans fund balances / advances / repayments. There is however no intention to deploy any of the fiscal flexibilities at present – a separate report on the budgetary impact from COVID-19 and potential use of Scottish Government fiscal flexibilities was presented and approved at the Special Angus Council meeting on 4 March 2021 (report 72/21 refers).

8 REVIEW OF ANGUS COUNCIL LOANS FUND - UPDATE

8.1 The Local Authority (Capital Financing and Accounting) (Scotland) 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).

8.2 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.

8.3 Whilst Link have concluded their review and provided a draft report, the application of the review findings (in particular the phasing of the savings) still requires to be finalised. As part of the 2021/22 budget setting on 4 March 2021 Council approved deferral of the loans fund review (originally intended to be implemented in 2020/21) – report 76/21 refers.This deferral will allow the council to conclude on whether it requires to use the COVID-19 fiscal flexibilties prior to implementation of the savings from the loans fund review. This will allow full exploration of the various options for maximum benefit to the council.

8.4 Once finalised and the review findings applied, the following sections of Appendix A will require to be updated in the near future to reflect its outcome - 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).

9 IFRS 16 LEASING - UPDATE

9.1 IFRS 16 (International Financial Reporting Standard) is a new standard for lease accounting 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. In recognition of the pressures on public sector finance teams arising from the COVID-19 pandemic, the implementation of IFRS16 has been deferred, and the effective date for implementation will now be 1 April 2022. Fully complying with IFRS 16 and ensuring the Council's 2022/23 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.

9.2 Work to prepare for IFRS 16 is already underway and will continue during the 2021/22 financial year, however it will not be a quick or easy process identifying and then measuring under IFRS 16 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.

10 ROLE OF SCRUTINY AND AUDIT COMMITTEE

10.1 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 2021/22 Treasury Management Strategy Statement and provide any commentary considered appropriate at this time.

11 FINANCIAL IMPLICATIONS

11.1 There are no additional 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 wellbeing.

12 RISK IMPLICATIONS

12.1 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: 2021/22 Treasury Management Strategy Statement and Annual Investment Strategy