AGENDA ITEM NO 8

REPORT NO 103/22

ANGUS COUNCIL

MEETING OF ANGUS COUNCIL – 10 MARCH 2022

TREASURY MANAGEMENT STRATEGY STATEMENT 2022/23

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report seeks members approval of the proposed Treasury Management Strategy for Angus Council in 2022/23. 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.

1 RECOMMENDATIONS

It is recommended that Angus Council:

1.1 Approve the proposed Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 attached as Appendix A to this report; and

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

2 ALIGNMENT TO THE COUNCIL 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.

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 2022/23, as presented at the special Angus Council budget meeting of 3 March 2022 (report 66/22 refers).

4 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY

4.1 The 2022/23 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, except for Annex D which contains statutory indicators that require to be considered and approved by members.

4.4 The statutory indicators contained in Annex D are based on assumptions adopted for the preparation of the capital budget for 2022/23 as presented to Angus Council on 3 March 2022. If there are any changes to the capital budget then this Treasury Management Strategy Statement will be subject to an addendum.

5 CHANGES FROM THE 2021/22 STRATEGY

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

5.2 There were a small number of changes to the permitted investment levels, approved by Angus Council, in the Treasury Management 2021/22 Mid-Year Report (report 391/21) and it is proposed to retain these revised limits for 2022/23. No further changes are proposed for 2022/23.

Rate of Return

5.3 With regard to levels of income generated from investing surplus cash, the 2021/22 strategy set a rate of return of 0.20%. This rate was set during the COVID-19 pandemic and in a low interest rate environment.

5.4 As at 31 January 2022, the average rate of return achieved to date was some 0.24%. The final rate of return achieved for the 2021/22 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 2022 is slightly above the target of 0.20%, it reflects the impact the on-going pandemic has made on the global economy and the uncertain times we live in. Interest rates continued to be low throughout 2021/22 until the Base Rate was increased by the Bank of England to 0.25% in December 2021 and then 0.5% in February 2022 in a bid to control rising inflation. The pattern of average rates of return over the previous quarters is demonstated for information in the following table:

2021/22 Quarter 1 average	0.23%
2021/22 Quarter 2 average	0.22%
2021/22 Quarter 3 average	0.24%
January 2022 average	0.32%
2021/22 average at 31 January 2022	0.24%

5.5 For this 2022/23 strategy the council will aim to achieve a return of 0.5% on investments placed during the financial year. This is higher than the average rate of return achieved to date in 2021/22 and there are risks attached, given the potential future economic uncertainties and the fact that levels of surplus cash may be lower than in previous years depending on cash flow patterns and forecasts.

6 2021 REVISED CIPFA TREASURY MANAGEMENT CODE AND PRUDENTIAL CODE

6.1 CIPFA published the revised codes on 20 December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. The council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and related reports during the financial year.

6.2 The revised codes will have the following implications:

- a requirement for the council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requiremnt to set a proportionate approach to commercial and service capital investment;
- address Environmental, Social and Governance (ESG)issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risk associated with non-treasury investment (similar to current Treasury Management Practices - TMPs)
- ensure that any long term treasury investment is supported by a business model;
- a requiement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;

- amendment to the knowledge and skills register for individuals involved in the treasury management function – to be proportionate to the size and complexity of the treasury management conducted by the council;
- a new requirement to clarify reporting requirements for service and commercial investment (especially where supported by borrowing/leverage).

6.3 In addition, all investments and investment income must be attributed to one of the following three purposes:

- **Treasury management**
  Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.
- **Service delivery**
  Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing or permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose"
- **Commercial return**
  Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity i.e. that 'plausable losses' could be absorbed in budgets or reserves without unmanagemeable detriment to local services. An authority must not borrow to invest primarily for financial return.

6.4 Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 Treasury Management Strategy Statement.

7 COVID-19 PANDEMIC FISCAL FLEXIBILITY MEASURES - UPDATE

7.1 Both the revenue and capital budgets for 2022/23 have been prepared within the context of the ongoing COVID-19 pandemic. Members may recall from the 2021/22 budget setting process and in particular Report 72/21 that what were termed fiscal flexibilities were being made available to Councils as a means of providing flexibility to deal with the cost implications arising from COVID-19. The flexibilities were suggested as a solution at a time when additional funding for COVID-19 was more limited and were something of a fall-back solution in the absence of sufficient additional funding. While the flexibility to use capital receipts differently and defer loans fund repayments remain available to the Council these can only be used towards COVID-19 costs (rather than other budget pressures) and since the Council has yet to fully spend all of the previous funding provided for COVID-19 (Report 285/21 refers) there is currently no basis for use of these flexibilities in setting the 2022/23 budget. A third fiscal flexibility in relation to service concession payments is still under discussion with Scottish Government but the outcome of those discussions will not be concluded until well after the Council has set its budget.

8 REVIEW OF ANGUS COUNCIL LOANS FUND – UPDATE

8.1 As detailed in report 68/22 on the long-term affordability of the capital programme, the council's treasury advisor, Link Group, have concluded their review of the loans fund and provided an updated report as requested by finance officers. The application of the review findings and the savings is the subject of a separate report for the Council meeting on 10 March 2022.

9 IFRS 16 LEASING - UPDATE

9.1 IFRS 16 (International Financial Reporting Standard) is a new standard for lease accounting that is due to come into effect on 1 April 2022. This standard will require lessees to recognise leases on their balance sheet, effectively reflecting the right to use an asset for a period of time and the associated liability for payments. In order to fully comply with IFRS 16 and ensure the council's 2022/23 year end accounts have been prepared in accordance with the standard, all leases (including 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 to establish an initial starting point and on an ongoing basis.

9.2 As leases are included in the other long term liability figures which make up the Prudential Indicators set out in Appendix A, it is possible that those Indicators currently proposed will be exceeded. Once the detailed data gathering has been substantially completed, later in the 2022/23 financial year, the impact of this extensive exercise will require to be reflected within the prudential indicators and these may need to be amended mid-year.

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. The last Scrutiny & Audit Committee before the local government elections is taking place before the Council has set its 2022/23 revenue and capital budgets so for 2022/23 it has not been possible to have the Treasury Management Strategy considered by Scrutiny & Audit prior to coming to full Council for approval.

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.

13 EQUALITY IMPACT ASSESSMENT

13.1 An Equality Impact Assessment is not required.

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: 2022/23 Treasury Management Strategy Statement and Annual Investment Strategy