ITEM No 1 1

REPORT NO. 361/01

ANGUS COUNCIL

FINANCE AND INFORMATION TECHNOLOGY COMMITTEE – 13th March, 2001

POLICY AND RESOURCES COMMITTEE – 20th March, 2001

TREASURY MANAGEMENT STRATEGY STATEMENT – 2001/2

REPORT BY THE DIRECTOR OF FINANCE

ABSTRACT

This report apprises members of the proposed Treasury Management Strategy for Angus Council in 2001/2. The production of a Treasury Management Strategy Statement for the forthcoming year is a requirement of the revised Code of Practice on Treasury Management in Local Authorities issued by the Chartered Institute of Public Finance and Accountancy in May, 1996. The Treasury Management Strategy Statement is submitted for consideration by members with a view to obtaining approval for adoption by the Council. In addition to the foregoing, members should note the requirements of the Treasury Management Policy Statement and Section 15 of the Council's Financial Regulations pertaining to Treasury Management. Members should also note the availability of the Treasury Management Systems Document which covers detailed systems and procedures within the Treasury Management Section of the Finance Department.

1. RECOMMENDATION

It is recommended that the Committee agree the adoption of the attached Treasury Management Strategy Statement for implementation within Angus Council. Further, members should note the requirements of the Treasury Management Policy Statement and Section 15 of the Council's Financial Regulations pertaining to Treasury Management. Members should also note the availability of the Treasury Management Systems Document which covers detailed systems and procedures within the Treasury Management Section of the Finance Department.

2. INTRODUCTION AND BACKGROUND

The need to prepare a Treasury Management Policy Statement and Treasury Management Strategy Statement is a requirement of the Code of Practice on Treasury Management in Local Authorities published by the Chartered Institute of Public Finance and Accountancy in May, 1992 and revised in May, 1996. Members are referred to Report Number 254/96 to the Finance and Information Technology Committee dated 30th April, 1996 at which the original Code of Practice was adopted for implementation within Angus Council and Report Number 320/97 to the Finance and Information Technology Committee dated 11th March, 1997 at which the revised Code of Practice was adopted for implementation within Angus Council.

3. TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management Strategy Statement sets out the expected treasury activities for the forthcoming financial year and is attached at Appendix 1 for consideration and approval by members.

4. TREASURY MANAGEMENT POLICY STATEMENT

The Treasury Management Policy Statement was most recently approved by the Finance and Information Technology Committee dated 17th October, 2000 and the Policy and Resources Committee dated 24th October, 2000. Since that time the Policy Statement has been strictly adhered to and has resulted in the exercise of stringent financial control within the Treasury Management Section of the Finance Department. Notwithstanding the foregoing, the Policy Statement and its operation within the Treasury Management Section of Finance has been the subject of ongoing monitoring to take account of changing circumstances in this area of activity. Such a review has revealed the operational adequacy and effectiveness of the Policy Statement with no requirement for amendment at this time.

A copy of the existing Treasury Management Policy Statement is attached at Appendix 2 for the information of members.

5. CONCLUSION

It is concluded that members should consider and approve the attached Treasury Management Strategy Statement for financial year 2001/2 as attached at Appendix 1.

6. HUMAN RIGHTS IMPLICATIONS

There are no Human Rights Implications arising as a result of this report.

7. CONSULTATION

The Chief Executive and the Director of Law and Administration have been consulted in the preparation of this report.

DAVID S SAWERS
DIRECTOR OF FINANCE

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.

Angus Council - Treasury Management Strategy Statement

Introduction

The Treasury Management Strategy details the expected activities of the Treasury Function in the financial year 2001/2. Its production and submission to the Finance and Information Technology Committee is a requirement of the Council's approved Treasury Management Policy most recently approved at the Finance and Information Technology Committee dated 17th October, 2000 and further submitted for information to this meeting of the Finance and Information Technology Committee dated 13th March, 2001. The strategy covers:

- the current treasury position;
- the treasury limits in force which will limit treasury risk and activities of the Council;
- the prospects for interest rates;
- the capital borrowings required and the portfolio strategy;
- the investments strategy;
- debt rescheduling opportunities.

1. Current Portfolio Position

The Council's total external debt position at the commencement of financial year 2000/1 was, as follows:

		1 April 2000 Total Principal	
Fixed Rate Funding	PWLB	£96.144 m	
	Market	£ 1.869 m	£98.013 m
Variable Rate Funding	PWLB	£ 2.741 m	
	Market	£ 7.813 m	£10.554 m
Total External Debt			**£108.567 m**
Total Investments - internally managed			£12.829 m

The Council's equated external debt position and corresponding equated external interest rate for the financial year 1999/2000 was, as follows:

		1999/2000 Equated Principal		1999/2000 Equated Rate	
Fixed Rate Funding	PWLB	£95.239 m		8.23 %	
	Market	£ 1.888 m	£97.127 m	6.67 %	8.15 %
Variable Rate Funding	PWLB	£ 2.741 m		5.44 %	
	Market	£ 3.750 m	£ 6.491 m	8.19 %	7.68 %
Equated External Debt			**£103.618 m**		**8.12 %**
Equated Investments - internally managed			£13.879 m		5.43 %

2. Treasury Limits for 2001/2

Section 45 of the Local Government and Housing Act, 1989 requires English and Welsh Councils to approve at the commencement of each financial year certain treasury limits. Although this Act only applies to English and Welsh Authorities it is also recommended as good practice for Scotland. Whilst the Director of Finance is empowered to borrow as circumstances require, the limits set by Angus Council as part of its Treasury Policy are, as follows:

- temporary borrowing should not normally exceed 20 per cent of total external borrowing or 25 per cent at the discretion of the Director of Finance or £20 million or £25 million respectively, whichever is less

- long term variable interest rate loans should not normally exceed 25 per cent of long term external borrowing or 30 per cent at the discretion of the Director of Finance

- temporary borrowing and long term variable interest rate loans when taken together should not normally exceed 45 per cent of total external borrowing or 55 per cent at the discretion of the Director of Finance

3. Prospects for Interest Rates

The United Kingdom (UK) Economy has maintained sound growth, low inflation and low unemployment throughout the last 12 months. The Government's Finances are very healthy and have been further bolstered by the sale of new telecom licenses. The higher growth performance has been primarily due to improvements in net exports.

The immediate outlook is for a period of growth albeit lower than last year. Household consumption is likely to moderate offsetting a likely growth in public spending. Cash flow considerations are likely to depress private investment growth and with an expected moderation in world growth net exports are unlikely to improve further. Despite a tight labour market, competition is likely to suppress inflation with the expectation that inflation will drift lower over the 12 month period.

With domestic demand moderating short term interest rates are unlikely to rise further, although in the face of a tight labour market the Monetary Policy Committee (MPC) will remain cautious. As the Economy moves into 2001 it is likely that these concerns will ease and monetary policy will be relaxed.

The effect on interest rates for the UK is expected to be, as follows:

Shorter term interest rates – Taking all the evidence together, including the level of the exchange rate and the continued general tightness of the labour market, the bias of the MPC is likely to remain towards tightening in the near term. This should ease with the base rate falling from 5.75 per cent to 5.5 per cent later in 2001.

Longer term interest rates – Given the positive inflationary outlook, the view on longer term fixed interest rates is broadly neutral. However, the scope for further improvements in yields is low and the likely scenario is a gradual drift upwards in rates from current levels. Current long term rates of around 4.75 per cent are likely to drift above 5 per cent. However, technical factors may from time to time overlay the fundamentals determining yields (as occurred in December, 2000) causing yields to fall.

4. Capital Borrowings Required and the Portfolio Strategy

Based upon the prospects for interest rates outlined above, there are a number of strategy options available. The anticipation is that shorter term rates will be more expensive than longer term fixed borrowing throughout 2001/2. However, with shorter term rates expected to fall and longer term fixed rates expected to rise, the differential is likely to narrow over time. The interest rate market should continue to remain relatively calm with interest rate movements occurring within narrower bands than compared to previous years.

Against this background the Director of Finance will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

Sensitivity of the forecast - The Council Officers, in conjunction with the Treasury Advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of view:

- *In the event of an acceleration in growth and an expected rise in longer and shorter term interest rates* - the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are relatively cheap.

- *In the event of a slowdown in growth and an expected fall in longer and shorter term interest rates* - fixed rate borrowings will be postponed (waiting for borrowings to get cheaper) and any rescheduling from fixed rate funding into variable or shorter rate funding will be exercised.

5. Temporary Investments Strategy

It is anticipated that there will be no longer term investments during the course of the year. Temporary investments will be made depending on the amount and duration of surpluses and the structure of interest rates at the time. Investments will be made in accordance with the Approved Investment Regulations (1990) and with the Institutions approved as part of the Treasury Policy Statement.

6. Debt Rescheduling

Any debt rescheduling is likely to take place when fixed interest rates are anticipated to be at their highest, although the situation will be continually monitored in order to take advantage of any perceived abnormalities in the yield curve.

Any action taken via rescheduling will be in accordance with the strategy position outlined in Section 4 above.

The reasons for rescheduling will include the following:

- the generation of cash savings at minimum risk;

- in order to assist the strategy outlined in Section 4 above; and

- in order to enhance the balance of the longer term portfolio (amend the maturity profile and/or the balance of volatility).

Angus Council - Treasury Management Policy Statement

Introduction and Background

The need to prepare a Treasury Management Policy Statement is a requirement of the Code of Practice on Treasury Management in Local Authorities (the Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in May, 1992 and revised in May, 1996. Members are referred to Report Number 254/96 to the Finance and Information Technology Committee dated 30th April, 1996 at which the original Code of Practice was adopted for implementation within Angus Council and Report Number 320/97 to the Finance and Information Technology Committee dated 11th March, 1997 at which the revised Code of Practice was adopted for implementation within Angus Council. As a complementary issue the Council's Financial Regulations, as shown at Appendix 2A, have been amended to reflect the requirements of the new Code.

I. Approved Activities of the Treasury Management Operation

1. The approved activities of the Treasury Management Operation cover:

    - borrowing;
    - lending;
    - debt repayment and rescheduling;
    - financial instruments new to the Authority;
    - risk exposure;
    - cash flow;
    - the use of External Fund Managers (other than relating to the Pension Fund).

2. It is the Council's responsibility to approve a Treasury Management Policy Statement (this document) on a periodic basis (i.e. say every four years or in the event of a major change in Policy). The Council delegates responsibility for review of the Policy, and monitoring of the Treasury Management Function in accordance with the Policy, to the Finance and Information Technology Committee (hereafter referred to as the Committee).

3. As a minimum requirement the Committee will receive and consider:

    - an Annual Treasury Management Strategy at the commencement of the new financial year (which sets out the likely operations for the forthcoming year);
    - mid way through the financial year an Annual Report on Treasury Management Activity for the preceding financial year

4. The Director of Finance will:

    - implement and monitor the Treasury Management Policy, revising and resubmitting the Policy for consideration to the Committee and the Council periodically or if material changes are required;
    - draft and submit an Annual Treasury Management Strategy to the Committee at the commencement of each financial year;
    - mid way through the financial year draft and submit to the Committee an Annual Report on Treasury Management Activity for the preceding financial year;
    - implement and monitor the Strategy and report to Committee any material divergence or necessary revisions as and when required.

II. Formulation of Treasury Management Strategy

1. Whilst this Policy Document outlines the procedures and considerations for the Treasury Function as a whole, requiring revision occasionally, the Treasury Management Strategy sets out the expected treasury activities for the forthcoming financial year. This Strategy will be submitted to Committee for approval at the commencement of each financial year.
2. The Treasury Management Strategy is concerned with the following elements:
   - the prospects for interest rates;
   - the limits placed by the Council on treasury activities (per this Policy);
   - the expected borrowing strategy;
   - the temporary investment strategy;
   - the expectations for debt rescheduling.
3. The Treasury Management Strategy will establish the expected move in interest rates against alternatives (using published forecasts, where applicable) and highlight sensitivities to different scenarios.

III. Approved Methods and Sources of Raising Capital Finance

1. Finance will only be raised in accordance with legislation and, within this limit, the Council has a number of approved methods and sources of raising capital finance. These include:

On Balance Sheet	**Fixed**	**Variable**
Public Works Loan Board	●	●
Market Long Term	●	●
Market Temporary	●	●
Local Temporary	●	●
Local Bonds	●	
Overdraft		●
Internal (Capital Receipts and Revenue Balances)	●	●
Off Balance Sheet		
Leasing (not Operating Leases)	●	●
Covenants	●	●
Other Methods of Financing		
Government and European Community Capital Grants		
Lottery Money		
Private Finance Initiatives		

2. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director of Finance has delegated powers through this Policy and the Strategy to take the most appropriate form of borrowing from the approved sources.

IV. Approved Instruments and Organisations for Investment Purposes

1. Investment Regulations in Scotland are primarily governed by Section 3 of the Local Government (Scotland) Act, 1973 which allows investment in:

   - Scottish Councils;
   - Committees, Joint Committees or Joint Boards; and
   - Scottish Water Authorities

2. These Regulations are overly restrictive for the current Scottish Local Authority Function and the Accounts Commission has acknowledged this in their Guidance Note 96/5 (LA) - Borrowing in Advance of Need. This document suggests there is sufficient tolerance within Section 69 of the 1973 Act to expand the approved organisations for investment purposes to suitable UK based Financial Institutions included in CIPFA FIS news article issued in 1986. Whilst CIPFA have now withdrawn this Guide, the scope of the advice appears to remain valid under the Accounts Commission Guide. As a consequence the Guidance allows investment counterparties from the following financial sectors:

   - Clearing Banks and their Subsidiaries
   - Nationalised Industries and Building Societies

   The Guidance does provide some latitude to invest over and above these types of Institutions.

3. The Director of Finance will formulate a suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list with specific counterparty limits. This criteria forms part of the Policy and is attached at Appendix 2B. Any revisions to the criteria will be submitted to the Committee for approval.

4. All forms of investment will be considered dependent on the prevailing economic climate, regulations and local considerations. The Director of Finance has delegated powers through this Policy and the Strategy to place the most appropriate form of investment with the approved sources.

V. Policy on Interest Rate Exposure

Section 45 of the Local Government and Housing Act, 1989 requires English and Welsh Councils to approve at the commencement of each financial year certain treasury limits. Although this Act only applies to English and Welsh Authorities it is also recommended as good practice for Scotland. Whilst the Director of Finance is empowered to borrow as circumstances require, the limits set by Angus Council as part of its Treasury Policy are, as follows:

- temporary borrowing should not normally exceed 20 per cent of total external borrowing or 25 per cent at the discretion of the Director of Finance or £20 million or £25 million respectively, whichever is less

- long term variable interest rate loans should not normally exceed 25 per cent of long term external borrowing or 30 per cent at the discretion of the Director of Finance

- temporary borrowing and long term variable interest rate loans when taken together should not normally exceed 45 per cent of total external borrowing or 55 per cent at the discretion of the Director of Finance

VI. Policy on External Fund Managers (other than relating to Pension Funds)

The Council's Policy is not to appoint External Investment Fund Managers, as core / surplus funds are not sustained at a level and for a period sufficient to justify such an appointment.

VII. Policy on Delegation and Review Requirements and Reporting Arrangements

The Director of Finance shall have powers to delegate specific functions of Treasury Management to Finance Staff, ensuring that as far as possible a proper system of internal check and division of duties is in place. He will also issue a clear statement of the responsibilities attaching to each post and a clear determination of the limits which apply to each postholder involved in Treasury Management. Details of delegation are recorded in the Treasury Management Systems Document.

Further, the Director of Finance shall ensure provisions exist with regard to absence cover and that staff involved in Treasury Management are given adequate training.

Financial Regulations

TREASURY MANAGEMENT

1 ADOPTION OF CIPFA'S CODE OF PRACTICE

The Director of Finance and his staff shall observe the guidance laid down in the CIPFA Code of Practice for Treasury Management in Local Authorities.

2 TREASURY MANAGEMENT POLICY STATEMENT

The Director of Finance shall prepare a Treasury Management Policy Statement which shall be adopted by the Council and thereafter shall be implemented and monitored by the Finance and Information Technology Committee.

3 TREASURY MANAGEMENT REPORTS

At the commencement of the financial year the Director of Finance shall report to the Finance and Information Technology Committee on Treasury Management Strategy for the forthcoming financial year.

Mid way through the financial year the Director of Finance shall report to the Finance and Information Technology Committee on Treasury Management Activities for the preceding financial year.

4 THE CHIEF FINANCE OFFICER

All money in the hands of the Council shall be under the control of the officer designated for the purposes of Section 95 of the Local Government (Scotland) Act 1973 referred to in CIPFA's Code of Practice as the Chief Finance Officer. The Chief Finance Officer for this Council is the Director of Finance.

5 DELEGATED TREASURY MANAGEMENT POWERS

All executive decisions on borrowing, investment or financing shall be delegated to the Director of Finance who shall act in accordance with the Code.

6 DEPARTURE FROM THE CODE

Should the Director of Finance wish to depart in any material respect from the main principles of the Code, the reasons should be disclosed in a report to the Finance and Information Technology Committee.

Approved Organisations for Investment Purposes

Surplus funds, where practicable and reasonable, shall be applied in the first instance to repay temporary borrowing. Where this is not appropriate, surplus funds shall be invested, as follows:

- the Bank of Scotland Home and Office Banking System (HOBS);
- the Bank of Scotland Term Deposit Centre (TDC);
- any of the UK Clearing Banks and Building Societies with an F1 short term credit rating and preferably an AA long term credit rating. The total lent to any one bank or building society not normally to exceed £5 million at any time (excluding accumulation of interest);
- other non-capped Local Authorities. The total lent to any one Authority not normally to exceed £5 million at any time (excluding accumulation of interest)

The order of preference should be subject to the interest rates on offer.