

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	14 December 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Treasury Management Strategy – Year-End and Mid-Year Reviews
REPORT NUMBER	RES/20/209
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TERMS OF REFERENCE	Council, 5 and 6

1. PURPOSE OF REPORT

- 1.1 To update the Council on Treasury Management activities undertaken during financial year 2019/20 and also to update the Council on Treasury Management activities undertaken to date, during financial year 2020/21.

2. RECOMMENDATION(S)

That the Council:-

- 2.1 Consider and note the Treasury Management activities undertaken in the 2019/20 financial year as detailed in this report; and
- 2.2 Consider and note the Treasury Management activities undertaken in the 2020/21 financial year to date, as detailed in this report.

3. BACKGROUND

Introduction

- 3.1 The Council approved a Treasury Management policy for the financial years of 2020/21 to 2022/23 on 2 March 2020. Part of this policy is to report a year-end review to full Council, and also to report on Treasury Management activities undertaken during the financial year 2020/21 to date.
- 3.2 Historically, the Council's annual programme of capital investment has been funded by Treasury Management activities, such as additional long-term borrowing. It is a requirement of CIPFA "Code of Practice for Treasury Management in the Public Services" that Treasury Management is carried out in accordance with good professional practice, which this Council does.

Treasury Management 2019/20

- 3.3 The following is a summary of the significant Treasury Management activities which were undertaken during financial year 2019/20: -
- 3.4 Loans Pool Rate - The Council's average Loans Pool Rate takes account of all loan interest and expenses paid, as well as investment interest received during the financial year. The Loans Pool Rate for 2019/20 was 3.58%, which can be broken down to 3.56% for interest, and 0.02% for expenses. This represents a reduction of 0.24% from the previous year's rate.
- 3.5 Long Term Borrowing - Seven new PWLB (Public Works Loan Board) loans totalling £130 million were borrowed at an average interest rate of 1.85%, to assist financing the Council's capital programmes.
- 3.6 These new loans, which have an average life of 44 years, were borrowed in line with the Council's existing debt Maturity Profile. These loans are the first long-term borrowing that the Council has undertaken since the Bond issuance in November 2016, during which time long-term debt of £64.2m has been repaid, but not replaced until now.
- 3.7 PWLB Interest Rates – In October 2019 HM Treasury introduced a major change to PWLB public sector lending rates. There was an immediate increase to all PWLB borrowing rates of 100 basis points, adding an additional 1% to interest rates. This change meant that HM Treasury set its rates at an average of 180 basis points over the relevant gilt price.
- 3.8 At Spring Budget 2020, the Government announced a new, discounted rate of PWLB lending to support social housing in England, Scotland and Wales. The new Housing Revenue Account (HRA) rate was available from 12 March 2020. The value of this discount is 100 basis points below the rate at which the Council usually borrows from the PWLB.
- 3.9 Short Term Borrowing - In 2016, the Council made the deliberate decision to run down its external temporary borrowing (short-term loans from other Local Authorities). This was due to the level of funds received from the Bond Issuance. External temporary borrowing has been built back up to a manageable level, with available rates currently well below long-term borrowing levels. As at 31st March 2020, some £98m of temporary borrowing was held from other local authorities. The average interest rate for these loans is 0.9%.
- 3.10 North East Scotland Pension Fund – The Council's Loans Fund has an ongoing Temporary Loan from the North East of Scotland Pension Fund. This represents the Pension Fund's excess level of cash funds on hand, which is driven by the Pension Fund's cashflow requirements. This Temporary Loan is a means of earning the Pension funds a fair short-term interest rate from these funds, rather than a means of borrowing for the Loans Fund.
- 3.11 Throughout last year, at the Pension Fund's request, the level of this Temporary Loan was increased, to assist the Fund to maximise their interest return on their

excess cash funds. As at 31st March 2020, the balance of the temporary loan was £67.4m.

3.12 Investments - As at 31st March 2020, the Council had temporary investments totalling £128.3m at an average rate of 0.56%. Investments were made in line with the current Counterparty List to the following institutions: -

- Clydesdale Bank £13.3m
- HSBC Bank plc £5.0m
- Royal Bank of Scotland £5.0m
- Santander UK £10.0m
- Goldman Sachs Int'l Bank £10.0m
- Close Brothers Ltd £5.0m
- Bank of Scotland £20.0m
- Federated MMF £30.0m
- Aberdeen MMF £30.0m

3.13 **Treasury Management 2020/21**

The following is a summary of the significant Treasury Management activities which have been undertaken to date during financial year 2020/21: -

3.14 PWLB Interest Rates – As previously mentioned, in October 2019 HM Treasury introduced an increase to all PWLB borrowing rates of 100 basis points. Following a recent consultation review, HM Treasury announced in late November 2020 that it was reducing PWLB interest rates by 100 basis points with immediate effect.

3.15 Long-Term Borrowing – No new long-term Public Works Loan Board (PWLB) loans have been drawn down during this financial year to date.

3.16 There are no firm plans for any further long term borrowing this year. We will monitor this situation throughout the remaining part of the financial year as it could be influenced by progress achieved on the Council's Capital programme, which in turn is being influenced by the response to the Covid-19 pandemic. We remain open to the possibility of undertaking some longer-term borrowing, should market conditions become favourable.

3.17 Short-Term Borrowing - At the time of writing, the Council currently has c£124m of temporary borrowing from other local authorities. The average interest rate on these loans is 0.19%. More borrowing of this type may be undertaken during the year, should market conditions continue to be favourable, but only once the level of investments held begins to fall.

3.18 The Council's Loans Fund has an ongoing Temporary Loan from the North East of Scotland Pension Fund. This helps the Pension Fund by providing it with a reasonable rate of return on their temporary excess funds, while also assisting the Council's short-term cashflow liquidity. The level of the temporary loan is c£57m at the time of writing.

3.19 Investments - The Council currently has c£99m of Temporary Investments. These funds are invested across a range of highly rated Banks and Money

Market Funds in line with the Council's current Counterparty List. The average rate of these investments is 0.28%. This figure includes the Pension Fund's Temporary Loan funds, which are kept in call accounts to enable the funds to be repaid back at very short notice.

- 3.20 Money Market Funds - Money Market Funds are AAA rated, short term pooled investment vehicles. They offer security, counterparty diversification and instant access to funds, when required. The Council operates eight Money Market Fund accounts. These Money Market Fund accounts greatly assist the Council in spreading its Counterparty risk while also improving short-term cashflow liquidity.

4. FINANCIAL IMPLICATIONS

- 4.1 Treasury Management activities influence the loans pool interest rates and aims to minimise the cost of borrowing. This directly impacts on costs chargeable to the Council's revenue budgets through the interest rates that are applied to capital financing costs. Whilst the level of borrowing a Council can undertake is now devolved from the Scottish Government to individual Councils, it will still be constrained by the requirement for capital investment to be affordable, sustainable and prudent. The main test of affordability will be whether the capital financing costs can be contained within the revenue budgets.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report, however it should be noted that the issuance of the Bonds requires the Council to comply with the Market Abuse Regulations, the Disclosure and Transparency Rules, the Listing Rules and ongoing obligations as set out in the London Stock Exchange Admission and Disclosure Standards.

6. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Financial	Loss of deposit in a failed bank or financial institution	L	The Council has strict lending criteria, only financial institutions with the highest credit ratings are included on the Council's Counterparty list. The list is compiled in conjunction with the Council's Treasury Advisors and is under constant review.

7. OUTCOMES

The proposals in this report have no impact on the Council Delivery Plan.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Full impact assessment not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

- 9.1 CIPFA "Code of Practice for Treasury Management in the Public Services "
CIPFA "The Prudential Code for Capital Finance in Local Authorities"
Link Asset Services "Treasury Management Annual Investment Strategy"
Scottish Government "The Investment of Money by Scottish Local Authorities"

10. APPENDICES - None

11. REPORT AUTHOR CONTACT DETAILS

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