ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	11 December 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Treasury Management Strategy – Mid-Year Review
REPORT NUMBER	CORS/24/323
DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Neil Stewart
TERMS OF REFERENCE	5 and 6

1. PURPOSE OF REPORT

1.1 To update the Council on Treasury Management activities undertaken to date during financial year 2024/25.

2. RECOMMENDATION

That Council: -

2.1 Note the Treasury Management activities undertaken to date in the 2024/25 financial year as detailed in this report.

3. CURRENT SITUATION

<u>Introduction</u>

3.1 The Council approved a Treasury Management policy for the financial years of 2024/25 to 2026/27 on 7 February 2024. The policy indicates that a mid-year review is to be reported on Treasury Management activities during each financial year.

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 conducted in accordance with good professional practice, which this Council does.

<u>Treasury Management 2024/25</u>

3.3 The following is a summary of the significant Treasury Management activities which were undertaken to date during financial year 2024/25: -

3.4 Long-Term Borrowing – Two new long-term Public Works Loan Board loans for £20m have been drawn down during this financial year to date. The loans were for 3 and 4 years respectively, and the average rate on these loans is 4.68%.

Substantial long-term borrowing was planned for this financial year, but this has been deferred due to market conditions, which have resulted in relatively high long-term borrowing rates. We remain open to the possibility of undertaking some longer-term borrowing, during this financial year, once longer-term interest rates fall to target levels.

3.5 Short-Term Borrowing - At the time of writing, the Council currently has c£360m of temporary borrowing from other local authorities. The average interest rate on these loans is 5.27%. More borrowing of this type may have to be undertaken during the year, as necessary, until longer-term interest rates become favourable.

3.6 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. As at 14th November 2024, the balance of the temporary loan was £24.5m.

3.7 Investments - The Council currently has c£35.6m 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 4.77%.

3.8 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 seven 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.

3.9 Common Good Fund Investment - A decision was taken by the Council in 2021 to invest £30m of Common Good cash in a Multi-Asset Income fund, which generates greater income for the fund, when compared with traditional fixed-term bank deposits. Several funds were considered for this purpose, and after a period of meetings and further due diligence, the decision was taken to proceed with Fidelity International's Multi-Asset Income fund.

To date this fund has raised £4.2m in interest at an average rate of 5.29%.

3.10 Retail Price Index (RPI) – At the time of writing, the latest RPI rate (Sept 24) was 2.7%. The movements to this rate have particular relevance to the Council in relation to its 2016 Bond issuance. Increases in the RPI rate are used to calculate indexation, which is paid alongside half yearly repayments of the Bond debt.

3.11 Moody's Credit Rating - The annual review meeting regarding the Council's credit rating took place on 30th September 2024. In late October 2024, Moodys confirmed it had made no changes to the Council's credit rating of A2, with a rating outlook of "stable". A copy of the Moody's Credit Opinion is attached at Appendix 1 for information.

3.12 National Wealth Fund – Formerly known as the UK Infrastructure Bank, the National Wealth Fund (NWF) was announced by Chancellor Rachel Reeves in October. The Fund will offer low cost finance to local authorities delivering economic infrastructure projects in the UK.

The revised fund plans to expand its remit beyond infrastructure in support of the UK Government's industrial strategy. The fund now has additional financial capacity and an enhanced risk budget to catalyse private investment in the market.

The fund offers an additional funding option to the Council going forward, and this will be considered as part of the overall funding approach for future projects, where appropriate.

3.13 Service Concessions update – On 3 July 2024, the Council agreed to include information about service concession monies used in the 2024/25 budget, in the next Treasury Management report to Council.

3.14 The Service Concession flexibility comes in the form of statutory guidance that Scottish Ministers introduced and permitted Local Authorities to extend the repayment period for the capital financing of PFI/PPP schools contracts. The contracts were set up a decade or more ago and were structured to repay the debt to the financing company over the life of the contract, rather than over the useful life of the school. This was inconsistent with the repayment of debt on other assets that the Council had borrowed directly for.

3.15 The statutory guidance had to be implemented in financial year 2022/23 or 2023/24, and in the March 2023 it was approved by Council that this flexibility would be implemented during 2023/24.

3.16 There were three aspects to the implications:-

- it lowered the annual cost that the Council would have to account for in the General Fund for the PPP contracts
- the Council's General Fund would continue to account for the cost of debt repayment until 2076/77, reflecting a useful life for the schools of 60 years
- and it created a usable reserve on the Balance Sheet, that was made up of the difference between the actual repayments that had made to the Lenders and new lower value that could now be accounted for based on useful life.

3.17 At the point of implementation the annual saving to the General Fund was approximately £4m, and the usable reserve created amounted to approximately £40m.

3.18 The guidance and accounting entries for the service concession flexibility transaction does require the reserve to be borrowed initially, but this will be reversed over the full term of the flexibility, i.e. cash will replace the borrowing requirement in future years, returning the reserves position of the Council back to a neutral one when complete in 2076/77.

3.19 In March 2024 the Council approved the use of £30m of the useable service concession reserve to support the capital programme. As the Council does not borrow against individual or specific assets, there is often a difference between what the Council needs to borrow on a long-term basis and when it needs to borrow it, which is influenced by market conditions including interest rates.

3.20 With this in mind, and having discussed how other Directors of Finance were treating this arrangement, to fund the cash requirements the Council is managing the borrowing requirement through its treasury management cashflow arrangements rather than borrowing long-term fixing the Council into an additional loan that will not ultimately be needed with the flexibility ends in 2076/77.

3.21 As Council reserves will ultimately be funded by cash, borrowing for the service concession flexibility will be managed through the day to day cashflow needs of the Council. The cost of borrowing this way I have estimated to be achievable within the parameters of the Medium Term Financial Strategy assumptions. Treasury management is expected to provide the Council with an income of c.£250k, based on current interest rates the forecast at Quarter 2 shows that this remains achievable.

3.22 As at 31 March 2024, the balance on the Service Concession earmarked useable reserve is £5.257m, with a commitment to fund the cost of Voluntary Severance/Early Retirement (VSER) scheme for 2024/25 to be funded from this during the year. The cost at Quarter 2 was approximately £0.5m, with further approvals expected in the second half of the year. This funding remains the only monies set aside to support the VSER scheme.

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. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified			
Compliance	No significant risks identified			
Operational	No significant risks identified			
Financial	Loss of deposit in a failed bank or financial institution	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	L	**Yes**
Reputational	No significant risks identified			
Environment / Climate	No significant risks identified			

8. OUTCOMES

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

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	It is confirmed by Chief Officer - Finance that no Integrated Impact Assessment is required
Data Protection Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 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"

10.2 Treasury Management Policy, approved 7th February 2024

11. APPENDICES

Appendix 1 – Moody’s Credit Opinion

12. REPORT AUTHOR CONTACT DETAILS

Name	Neil Stewart
Title	Accountant
Email Address	nstewart@aberdeencity.gov.uk
Tel	(01224) 522696