Appendix 1

Treasury Management Policy: Borrowing and Investment

Approved by Council on XX

ABERDEEN
CITY COUNCIL

Document Control

Approval Date	Submitted for approval on 5 February 2025
Implementation Date	01/04/2025
Policy Number	-
Policy Author(s) and Owner	Neil Stewart, Jonathan Belford
Approval Authority	Council
Scheduled Review	Annually
Changes	No significant changes

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1. Purpose Statement

1.1 This policy outlines the Council's approach to its Treasury Management activities, including Borrowings and Investments, for financial years 2025/26 to 2027/28. The policy is subject to an annual review.

1.2 The policy statement uses a form of words as recommended by CIPFA in its Code of Practice for Treasury Management in the Public Services.

2. Application and Scope Statement

2.1 The policy sets out the framework that which the Council's Borrowing and Investment strategies will work within.

2.2 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.

3. Responsibilities

3.1 It shall be the responsibility of the Chief Officer - Finance, or designated officer, to ensure that this policy is kept up to date and is monitored for its effectiveness. The policy shall be reviewed annually to take account of changes in regulations, statute or professional guidance.

3.2 The Chief Officer - Finance, as the "Proper Officer", in terms of Section 95 of the Local Government (Scotland) Act 1973, shall be the adviser on financial matters to the Council and all its Committees. S/he shall be responsible for the proper administration of the Council's financial affairs.

3.3 The policy is implemented and applied on a day-to-day basis by the Accountant (Treasury).

4. Supporting Procedures & Documentation

4.1 The Council is required by the Local Government Capital Expenditure Limits (Scotland) Regulations 2004 to have regard to the Prudential Code for Capital Finance in Local Authorities ("the Code") when carrying out its duties under part 7 of the Local Government in Scotland Act 2003.

4.2 It is a requirement of this Code that Treasury Management is carried out in accordance with good professional practice. The Code requires compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) "Code of Practice for Treasury Management in the Public Services", which the Council does. The CIPFA Code of Practice states that Treasury Management Strategy reports must be approved by full Council.

4.3 The latest version of the Treasury Management Code of Practice was issued by CIPFA in December 2021. The Treasury Management Policy Statement, Borrowing and Investment Strategy documents contained within this report have been prepared in line with this.

4.4 CIPFA's Code of Practice recommends that Treasury Management policy should be reported to full Council at least annually. A year-end report reviewing Treasury Management activities for the year, and a mid-year review, are also presented to full Council, as per CIPFA's recommendations.

5. Policy Statement

5.1 TREASURY MANAGEMENT POLICY STATEMENT FOR 2025/26 TO 2027/28

Aberdeen City Council will adopt the CIPFA Treasury Management in the Public Services Code of Practice. The Council will also have regard to the Local Government Investments (Scotland) Regulations 2010.

The Council defines its treasury management activities as:
The management of the organisation's borrowings, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organization and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council's appointed Treasury Advisors are Link Asset Services. Their expertise will continue to be used by the Council in making Treasury decisions in areas such as debt rescheduling, interest rate forecasts, market conditions, advice on new types of financial instruments and compiling the Council's Counterparty list.

5.2 BORROWING POLICY FOR 2025/26 TO 2027/28

Under the Prudential Code previous borrowing restrictions linked to consents no longer apply. With Public Works Loans Board (PWLB) rates at historic low levels in periods from 40 to 50 years, our policy would be to borrow, if required, in these periods to take advantage of those rates. Rates are monitored on an on-going basis to determine the optimum time to undertake any necessary borrowing. When decisions on new borrowing are being made, due consideration must also be given to the Council's Debt Maturity Profile.

Approximately 63% of the Council's long-term borrowing is long-term fixed rate PWLB loans. Whilst there is no immediate intention to reschedule these debts, if opportunities arise to do so that will result in a decrease in the Council's cost of borrowing then these will be fully examined to determine whether this represents Best Value. Due care and attention to both IFRS 9 Financial Instruments (International Financial Reporting Standard), and the Council's Debt Maturity Profile will be examined prior to entering any such commitment.

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2025/26, 2026/27 and 2027/28 of 100% of its net outstanding principal sums.

It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2025/26, 2026/27 and 2027/28 of 30% of its net outstanding principal sums. This means that the Chief Officer - Finance will manage fixed interest rate exposures within the range 30% to 100% and variable interest rate exposures within the range 0% to 30%.

It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowing as follows:
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

	Upper limit	Lower limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	90%	25%

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

5.3 STATUTORY REPAYMENT OF LOANS FUND ADVANCES

The Council is required to set out its policy for the statutory repayment of loans fund advances prior to the start of the financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

For Loans Fund balances outstanding as at 1 April 2019, the policy will be to adopt a simplified prudent approach that uses an average Loans Fund repayment period of 40 years, applying an annuity method. The interest rate used for the annual repayment will be 5%, with this being the average consolidated rate on the Councils external borrowing for the period 2003/04 to 2018/19.

The average life and average interest rate will be kept under review each year to ensure they remain prudent.

The policy is subject to the following details:

- An average Asset life for the year's total advances will normally be used. There will not be separate schedules for the components of a building (e.g. plant, roof etc).
- The Average Asset Life will be determined by the Chief Officer - Finance.
- The interest rate used in the annuity calculation will be determined by the Chief Officer - Finance.
- Loans Fund Repayments will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for assets under construction where repayments will be deferred until the year after the asset becomes operational.
- Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Chief Officer - Finance.
- If appropriate, shorter repayment periods (i.e. less than the asset life) may be used for some or all new borrowing.
- The policy will aim to support the maintenance of a balanced and sustainable Housing Revenue Account business plan.
- Where revenue contributions or specific grants are received from government or other sources that can be associated with the debt financing costs of capital investment, then the repayments will be profiled in line with the income profile (e.g. TIF, City Deal). These will be kept under review to ensure the provision for repayment remains prudent.
- The Council may make additional voluntary debt repayment provision from revenue or capital resources. In this case, the Chief Officer - Finance may make an appropriate reduction in later years' levels of Loans Fund Repayments.

The policy was previously approved by the City Growth & Resources Committee on 25 April 2019 and can be viewed via the following link:
https://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=618&MId=6191&Ver=4

5.4 INVESTMENT POLICY FOR 2025/26 TO 2027/28

The Council's investment priorities are: -

(a) the security of capital and
(b) the liquidity of its investments.

The policy is designed to ensure that the Council complies with all applicable legislation and regulation relating to the management of portfolio liquidity risk and has robust controls in place to protect the financial soundness of this Council.

The policy must be read in conjunction with all applicable operational policies. The policy is aligned with the low risk appetite of this Council and fundamentally with the two key principles of preservation of capital and guarantee of liquidity of the investments. The policy has also been designed to provide the Council with the flexibility to obtain an adequate return on its investments in line with predefined levels of security and liquidity.

The Council's approved counterparty list will be adhered to when making short-term investments and reviewed as necessary. This ensures that only those counterparties with the highest credit ratings are used within the maximum limits set. If it is considered necessary to make any changes to the list Committee approval will be sought.

Prior to the introduction of the current investment regulations, investments made by Scottish local authorities were limited to one year. This restriction was removed from 1st April 2010 and the Council accordingly has used these powers when such investing is both appropriate and attractive, while respecting the key principles of preservation of capital and guaranteeing the liquidity of the investments.

Rates offered by approved counterparties are to be monitored on an on-going basis to determine the optimum time to undertake any investments. When decisions on new investments are being made, due consideration must also be given to the Council's projected cashflow position.

The Local Authority investment market may develop new investment products, in line with current investment regulations. In order to protect against any possible loss of income, the power to add a new investment instrument to the list of Permitted Investments, should be delegated to the Chief Officer - Finance. Any such approval would be reported at the next full Council meeting.

Liquidity of its investments is a key priority of the Council. To ensure good availability of liquidity for cashflow purposes, no more than 50% of the Council’s available investments should be placed in longer-term, fixed rate investments. The remainder will be kept in highly liquid investments and invested on a short-term basis, using either Bank deposits or “Aaa”/”AAA” rated Money Market Funds.

Any change in the level of liquidity held will require approval from the Chief Officer - Finance and will be reported at the next full Council meeting.

The level of liquidity required at any given time will be based on several factors, including:

(a) the Council’s cashflow requirements over the months ahead. This would include any known payments to third parties, loan repayments etc.
(b) the level of surplus funds administered on behalf other bodies such as the Pension Fund, ALEOs and Trusts, as these funds may be called back at any time by the bodies.
(c) any payment with regards to capital projects which may require financing at short notice.

ENVIRONMENTAL, SOCIAL & GOVERNANCE (ESG) CONSIDERATIONS
At this time, the Council considers the advice of its financial advisors when compiling its Counterparty list. Our financial advisors are informed by credit ratings agencies whom supply such ratings on potential counterparties. These ratings incorporate ESG risks alongside more traditional financial risk metrics, therefore ESG considerations are already incorporated in our Counterparty list to an extent.

The Council will continue to work with and follow the advice of its financial advisors when looking at ways in which to incorporate further ESG factors into their own assessment service.

5.5 LIST OF PERMITTED INVESTMENTS
This Council approves the following forms of investment instrument for use as permitted investments: -

DEPOSITS - Unlimited (subject to individual Counterparty list limits)
- Debt Management Agency Deposit Facility
- Term deposits – local authorities (as per Counterparty list)
- Call accounts – banks and building societies (as per Counterparty list)
- Term deposits – banks and building societies (as per Counterparty list)
- Fixed term deposits with variable rate/maturities (Structured deposits, as per Counterparty list)

COLLECTIVE INVESTMENT SCHEMES - £250m
- Government Liquidity Funds
- Money Market Funds (subject to individual Counterparty list limits)
- Enhanced cash funds
- Gilt Funds
- Bond Funds
- Multi-Asset Funds

GOVERNMENT SECURITIES - £100m
- Treasury Bills
- UK Government Gilts
- Bond issuance (from financial institution guaranteed by UK Government)
- Bonds issued by multi-lateral development banks

CORPORATE SECURITIES - £10m
- Certificates of deposit (as per Counterparty list)

PERMITTED INVESTMENTS - NON-TREASURY INVESTMENTS
- The Council can also invest in the following areas, which are out with the Treasury Management scope and would be subject to separate committee approval: -
    a) All shareholding, unit holding and bond holding, including those in a local authority owned company;

b) Investments for service purposes. This includes loans to a local authority company or other entity formed by a local authority to deliver public services, including Joint Venture entities;
c) Loans made to third parties;
d) Investment properties.

5.6 OBJECTIVES OF PERMITTED INVESTMENTS

DEPOSITS - The following forms of 'investments' are more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

- Debt Management Agency Deposit Facility (DMADF) – This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. As it is low risk it also earns low rates of interest. The longest period for a term deposit with the DMADF is 6 months.
- Term Deposits – This is the most widely used form of investing used by local authorities. It offers a much higher rate of return than the DMADF. In addition, longer term deposits offer an opportunity to increase investments returns by locking in high rates ahead of an expected fall in the level of interest rates.

- Call accounts – The objectives are as for Term Deposits, but with instant access to recalling cash deposited. This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit. Use of call accounts is highly desirable to ensure that the authority has ready access to cash for liquidity purposes.

- Fixed term deposits with variable rate/maturities – This encompasses all types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluid nature of this area, this section allows flexibility to adopt new instruments as and when they are brought to the market.

- Deposits with Counterparties currently in receipt of government support/ownership – These banks offer another dimension of creditworthiness in terms of Government backing through either partial or full direct ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits.

COLLECTIVE INVESTMENT SCHEMES -

- Money Market Fund (MMF) – By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. Money Market Funds can have either a constant net asset value (CNAV) or a low volatility net asset value (LVNAV).

  Due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60-day WAM means they have locked in investments earning higher rates of interest than are currently available in the market.

MMFs also help an authority to diversify its own portfolio and offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

- Government Liquidity Funds – These are the same as money market funds (see above) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

- Enhanced cash funds – These funds are similar to MMFs, can still be AAA rated but have variable net asset values (VNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile.

  These funds can have WAMs and Weighted Average Life (WALs) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

- Gilt Funds – These are funds which invest only in UK Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in DMADF, but they do have an exposure to movements in market prices of assets held.

- Bond Funds – These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

- Multi-Asset Funds – These funds contain a combination of asset classes (such as cash, equity or bonds) and therefore increase the diversification of an investment. This reduces risk/volatility but can also impact upon potential returns. Funds can be tailored to suit an investors tolerance of risk.

GOVERNMENT SECURITIES – The following types of investments are where a local authority directly purchases a particular investment instrument - a security. It has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield - it is normally the interest paid by the issuer divided by the price paid, unless the security is initially issued at a discount (e.g. treasury bills).

- Treasury Bills – These are short term bills (up to 12 months, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

- UK Government Gilts – These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity, if the yield curve is positive.

- Bond issuance (from financial institution guaranteed by UK Government) – This is similar to a gilt due to the Government guarantee.

- Bonds issued by multi-lateral development banks (MLDBs) – These are similar to both gilts and bond issuance but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

CORPORATE SECURITIES – The following types of investments are where a local authority directly purchases a particular investment instrument – a security. It has a market price when purchased and that value can change during the period is held until it is sold. The annual earnings on a security is called a yield – the interest paid by the issuer divided by the price paid. These are similar to government securities although they generally have a higher risk than government debt and as such earn higher yields.

- Certificates of deposit (CDs) – These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

PERMITTED INVESTMENTS - NON-TREASURY INVESTMENTS
- The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries/ALEOs, and investment property portfolios.

5.7 COUNTERPARTY LIST

Deposits up to 12 months

All the banks listed in this category have a suggested duration of 12 months from our treasury advisors, Link Asset Services credit rating list – i.e. the highest rated

UK Banks - £30m limit
HSBC Bank plc
Handelsbanken PLC
Lloyds Banking Group (includes Bank of Scotland)
The Royal Bank of Scotland Group plc (includes National Westminster Bank plc)
Standard Chartered Bank

Other Banks - £20m limit
Countries with a minimum of AA+ Sovereign rating and Banks with a suggested duration of 12 months from LAS credit rating list – i.e. the highest rated

Australia - AAA
Australia and New Zealand Banking Group Ltd.
Commonwealth Bank of Australia
National Australia Bank Ltd.
Westpac Banking Corp.

Canada – AA+
Bank of Montreal
Bank of Nova Scotia
Canadian Imperial Bank of Commerce
Royal Bank of Canada
Toronto-Dominion Bank

Finland – AA+
Nordea Bank ABP

Germany - AAA
DZ BANK AG Deutsche Zentral-Genossenschaftsbank
Landwirtschaftliche Rentenbank
NRW.BANK

Netherlands - AAA
Nederlandse Waterschapsbank N.V.
Cooperatieve Rabobank U.A.
ING Bank N.V.

Singapore - AAA
DBS Bank Ltd.
Oversea-Chinese Banking Corp. Ltd.
United Overseas Bank Ltd

Sweden - AAA
Skandinaviska Enskilda Banken AB (SEB)
Svenska Handelsbanken AB
Swedbank AB

Switzerland - AAA
UBS AG

UK Local Authorities (including Police Authorities) – £20m limit
(per authority)

Deposits up to 6 months

Council's Bankers - £30m limit
Clydesdale Bank plc (trading as Virgin Money)

UK Banks - £20m limit
Barclays Bank PLC
Goldman Sachs International Bank
Santander UK PLC

UK Building Societies - £10m limit
Nationwide Building Society
Skipton Building Society
Yorkshire Building Society

Deposits up to 3 months

UK Building Societies - £10m limit
Coventry Building Society
Leeds Building Society

Collective Investment Schemes

Money Market Funds - £30m limit
Aberdeen Liquidity Fund – Sterling
Deutsche Managed Sterling Fund
Federated Short Term Sterling Prime Fund
HSBC Sterling Liquidity Fund
Insight Liquidity Fund
Morgan Stanley Sterling Liquidity Fund
State Street Global Advisors GBP Liquidity Fund

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6. Definitions

6.1 CIPFA Treasury Management in the Public Services Code of Practice
This is the CIPFA guidance document that all local authorities must follow for their treasury management activities.

6.2 Counterparty list
This is an approved listing of banks and other financial institutions with which the Council can undertake short-term money investments. The list is compiled using credit rating information supplied by the major credit rating agencies to Link Asset Services, the Council's appointed Treasury Management advisors.

6.3 Prudential Code
A CIPFA produced framework to support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Code are to ensure that the capital investment plans of local authorities are affordable and proportionate, and external long-term borrowing is prudent and sustainable. Risks associated with investments for service purposes are proportionate to their financial capacity, and treasury management and investment decisions are taken in accordance with professional good practice.

6.4 Public Works Loan Board
Operated by the UK Debt Management Office (DMO) on behalf of HM Treasury, to provide loans to local authorities from the National Loans Fund to support capital projects.

6.5 Debt Maturity Profile
A list/chart of loans/debt expressed in the order of their principal repayment dates.

6.6 Loans Fund Advances
The mechanism used to distribute both principal and interest costs for external borrowing, to the appropriate internal Council departmental budgets.

6.7 Money Market Funds
These funds collective investment schemes which are AAA rated. These fund portfolios are widely diversified, using many forms of investment types in order to produce a sustainable level of return to investors.

6.8 Liquidity
The availability of liquid assets/cash on hand, in order for the Council to meet its financial obligations.

7. Risk

7.1 TREASURY RISKS AND CONTROLS

All treasury borrowing and investments are subject to the following risks: -

7.2 Credit and counterparty risk: this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

Control: This authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes.

7.3 Liquidity risk: this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk, as credit risk can never be zero. In this document, liquidity risk has been treated as whether instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, Certificates of Deposit, corporate bonds can usually be liquidated at short notice if the need arises, there are two caveats: - a) cash may not be available until a settlement date up to three days after the sale, b) there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer.

Control: This authority has a cash flow forecasting system to enable it to determine how long investments can be made for and how much can be invested. This authority operates with a liquidity policy that at least 50% of its external investments will be liquid (i.e accessible in 35 days or less).

7.4 Interest rate risk: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report. All types of investment instrument have interest rate risk except for instruments with a variable rate of interest.

Control: This authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which seeks to minimise borrowing costs.

7.5 Market risk: this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long-term increase in value.

Control: This authority does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value.

7.6 Legal and regulatory risk: this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Control: This authority will not undertake any form of investing until it has ensured that it has all the necessary powers and complied with all regulations.

8. Policy Performance

8.1 Loans Fund Pool Rate – The Council maintains a Consolidated Loans Fund (CLF) under the powers contained in the Local Government (Scotland) Act 1975. All loans raised by the Council are paid into the Fund and all advances to finance capital expenditure are made from the Fund, except projects financed directly from Revenue Accounts.

In essence, the Loans Fund acts as a bank to the Council's Services. The Loans Fund finances the daily cashflow of Services (and either pays or charges interest) as well as deciding the amount of borrowing to undertake to finance capital expenditure. The Treasury section pro-actively manages the Council's debt and investment portfolios with the goal of reducing the overall cost of debt servicing to the Council.

All loans and investment interest and expenses for the year, as well as interest on historic outstanding borrowing, are reflected within the Council's average Loans Pool Rate. The projected pool rate is monitored against an estimate throughout the year, and any adverse movements in this would be reported to the Chief Officer – Finance.

The Loans Pool Rate is the key financial indicator of the effectiveness of Treasury Management Policy. The final rate is reported to full Council as part of the annual Treasury Management Year-End Review report.

8.2 The Council remains required to comply with the requirements of the Prudential Code. This includes the setting of several Prudential Indicators. Included within these indicators are several Treasury Management Indicators for External Debt boundaries.

The Code does state "It will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate".

The Council has in place an early warning system to highlight when these indicators are likely to be breached. No indicators were breached during the previous year.

9. Design and Delivery

9.1 This policy has taken into consideration organisational design and governance principles of Aberdeen City Council's Operating Model.

9.2 This policy has been designed to allow scope for the use of emerging products, financial instruments and/or services which would improve the effectiveness of the Council's Treasury Management function.

10. Housekeeping and Maintenance

10.1 This policy is constantly monitored throughout the year. In line with CIPFA recommendations, Treasury Management matters are reported to full Council at least 3 times annually: -

- Annual Policy and Strategy Review
- Year End Summary
- Mid-Year Review

Should an urgent matter arise outwith the timing of these reports (e.g. a new Counterparty to be added), then a separate report can be made to full Council for approval.

11. Communication and Distribution

11.1 Although this policy is not published separately, the policy would be available as part of the relevant Council report, and therefore would be accessible through the Committee Reporting section of the Council's website and the Council's Intranet. The policy will be shared with users and stakeholders, such as Internal Audit.

12. Information Management

12.1 Information generated by the application of the policy will be managed in accordance with the Council's Corporate Information Policy and supporting Procedures.