

ABERDEEN CITY COUNCIL

COMMITTEE	Finance and Resources
DATE	06 December 2011
DIRECTOR	Stewart Carruth
TITLE OF REPORT	Treasury Management – Mid Year Review
REPORT NUMBER:	CG/11/149

1. PURPOSE OF REPORT

To update the Committee on Treasury Management activities undertaken in 2011/12.

2. RECOMMENDATION(S)

It is recommended that the Committee considers and recommends this report to Council for approval as follows:

- a) Notes the Treasury Management activities undertaken in 2011/12 as detailed, and
- b) Approves the revised Counterparty list as detailed at Appendix 1.

3. FINANCIAL IMPLICATIONS

Treasury Management activities influence the loans pool interest rates and aims to minimise the cost of borrowing. This directly impacts upon 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.

4. OTHER IMPLICATIONS

If an active Treasury Management policy is not undertaken and implemented there may be future budgetary implications for the Council through greater than budgeted capital financing costs.

5. BACKGROUND/MAIN ISSUES

5.1 Introduction

The Council previously approved a Treasury Management policy on 21 April 2011. Part of this policy is to report a mid-year review to committee on Treasury Management activities undertaken.

With effect from 1 April 2004, Councils are now required by regulation to have regard to the Prudential Code (the Code) when carrying out their duties under part 7 of the Local Government in Scotland Act 2003.

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 this Code that Treasury Management is carried out in accordance with good professional practice. The Code requires the Council to comply with CIPFA "Code of Practice for Treasury Management in the Public Services", which this Council does.

This "mid-year" review on activities undertaken is also in line with new reporting requirements from the latest update of the CIPFA Code of Practice.

5.2 Treasury Management 2011/12

The following is a summary of Treasury Management activities which have been undertaken thus far in 2011/12: -

Long Term Borrowing

New Borrowing Two new PWLB (Public Works Loans Board) loans totalling £10 million were borrowed at relatively low rates (average rate 3.625%) with this years capital requirement in mind.

PWLB Interest Rates As a direct result of the Government Spending Review last October, there was a major change to PWLB public sector lending rates. The rationale behind this major change is that HM Treasury will now set the rates at an average of 100 basis points (or 1 per cent) over the relevant gilt price.

However, this additional rise in PWLB rates by 90 basis points has somewhat discouraged the use of PWLB loans, and forced the Council to consider other forms of long term borrowing, such as LOBO loans (Lenders Option Borrowers Option) from financial institutions, and Bond Issuance.

Short Term Borrowing

Short-term borrowing rates for periods of up to 1 year continue at relatively low levels. The Council's borrowing strategy both last year and this year has been to borrow short-term where possible, to take advantage of these lower rates. The Council currently has some £72m of Temporary Loans from other Local Authorities, at an average rate of 0.87%.

Investments

Due to the downturn in the global economy, many previously undoubted financial institutions have been removed from the Council's Counterparty list during the last few years.

The Counterparty list is the approved banks and building societies that the Council may lend to either directly or through the Money Markets, on a temporary basis.

Reviews of the Council's Counterparty list were undertaken and approved by Committee as the situation deteriorated. The proposed amendments were needed to further tighten the Council's lending criteria and further protect the Council's investments in the fragile financial climate. As well as removing certain institutions from the list, maximum lending periods were also reduced.

Upon advice from Sector Treasury Services, the Council's Treasury Management advisors, it is proposed that the maximum lending term for all institutions is reduced to 3 months, with the exception of the Nationalised UK Banks, which are to remain at 12 months.

This is purely a temporary measure, designed to protect the Council's investments in the current volatile climate.

6. IMPACT

Corporate – Failure to approve the changes to the Counterparty list could lead to reduced earnings to the Council.

Public – None.

7. BACKGROUND PAPERS

None.

8. REPORT AUTHOR DETAILS

Neil Stewart, Treasury Officer,
nstewart@aberdeencity.gov.uk, 01224 522696

**ABERDEEN CITY COUNCIL
REVISED COUNTERPARTY LIST**

Deposits up to 12 months

UK Nationalised and Part Nationalised Banks - £20m limit

Lloyds Banking Group (includes Lloyds TSB Bank plc, Halifax Bank of Scotland)

The Royal Bank of Scotland plc
(includes National Westminster Bank plc, Ulster Bank Ltd)

UK Local Authorities, including Police Authorities - £10m limit

Deposits up to 3 months

Council's Bankers - £20m limit

Clydesdale Bank plc

UK Banks - £10m limit

Barclays Bank plc

HSBC Bank plc

Santander UK plc (includes Abbey, Alliance & Leicester plc, Cater Allen)

UK Building Societies - £10m limit

Nationwide Building Society