ABERDEEN CITY COUNCIL

COMMITTEE:	Finance and Resources
DATE:	21 June 2012
DIRECTOR:	Stewart Carruth
TITLE OF REPORT:	Treasury Management Policy and Strategy
REPORT NUMBER:	CG/12/059

1. PURPOSE OF REPORT

To update the Committee on Treasury Management activities undertaken during financial year 2011/12.

2. RECOMMENDATION(S)

It is recommended that the Committee :

a) Notes the Treasury Management activities undertaken in 2011/12 as detailed; and
b) Recommends to Council that it notes the Treasury Management activities undertaken in 2011/12.

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 <u>be affordable, sustainable and prudent</u>. The main test of affordability will be whether the capital financing costs can be contained within the revenue budgets.

4. SERVICE AND COMMUNITY IMPACT

None

5. 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.

6. REPORT

6.1 Introduction

The Council previously approved a Treasury Management policy for 2011/12 to 2013/14 on 21 April 2011. Part of this policy is to report a year-end review to committee on Treasury Management activities undertaken during the financial year 2011/12.

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 “year-end” review on activities undertaken is also in line with new reporting requirements from the latest update of the CIPFA Code of Practice.

6.2 Treasury Management 2011/12

The following is a summary of the significant Treasury Management activities which were undertaken during 2011/12: -

6.2.1 <u>Loans Pool Rate</u> 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 2011/12 was 4.45%, which can be broken down to 4.42% for interest, and 0.03% for expenses.

This is a reduction from the 2010/11 rate which was 4.65%, a reduction of 0.20% which to equates to a saving of £1.2m in interest charges.

6.2.2 <u>Long Term Borrowing</u>

Three new <u>PWLB (Public Works Loan Board)</u> loans totalling £20 million were borrowed at an average rate of 2.76%, in order to finance the Council’s capital programmes. These new loans were borrowed over a range of repayment terms, from 4 to 9 years, with the Council’s existing debt Maturity Profile in mind.

PWLB Interest Rates As a direct result of last year's Government Spending Review, there was a major change to PWLB public sector lending rates. There was an immediate increase to all PWLB borrowing rates by some 90 basis points. The rationale behind this major change is that HM Treasury will now set the rates at an average of 100 basis points over the relevant gilt price.

This change presented the Council with 2 challenges :

The first of these was to minimise any rise in borrowing costs. During the 2011/12 financial year, this was achieved using a combination of factors - due to the previously undertaken borrowing at relatively low rates, and by reducing the repayment term of new loans. (e.g. borrowing for up to 10 years, rather than 20-50 years).

The second problem was that, as reported last year, the PWLB introduced "penalty rates" which discourages debt rescheduling by Councils. This reduced the Council's ability to make rescheduling savings, as it had in the past. However, the "Spending Review" 90 basis point rise in rates was not similarly reflected in the penalty rates; thereby further reducing opportunities for the Council.

This discourages the use of PWLB loans and forces the Council to look increasingly to other forms of long term borrowing, such as LOBO loans (Lenders Option Borrowers Option) from financial institutions.

6.2.3 Short Term Borrowing

Short-term borrowing rates for periods of up to 1 year continued at relatively low levels. The Council's borrowing strategy during the year was to borrow short-term where possible, to take advantage of these lower rates. To illustrate this, as at 31st March 2012, the Council had some £53.5m of Temporary Loans from other Local Authorities, at an average rate of 0.76%. Compared with similar PWLB rates of 1.28%, this represents a saving of £278k in interest costs.

6.2.4 Investments

Over the last few years, the downturn in the global economy has seen many financial institutions removed from the Council's Counterparty list as their credit ratings fell. The list is compiled using credit rating information supplied by the major credit rating agencies to Sector Treasury Services; the Council's appointed Treasury Management advisors. At present, only the Government backed institutions, Lloyds Banking Group and the Royal Bank of Scotland Group, are used for deposits of any longer than three months.

As at 31st March 2012, the Council had temporary investments totalling £42.1m at an average rate of 1.61%. These were invested in line with the current Counterparty list to the following institutions -

- Bank of Scotland £20.0m
- Clydesdale Bank £ 3.6m
- Royal Bank of Scotland plc £18.5m

6.2.5 Member Training Session

A Treasury Management workshop was held for members and key officers on 1st February 2011. The purpose of this session was to fully explain Elected Members' and Officers' roles and responsibilities within the Treasury Management environment, and how to maintain effective scrutiny of the Treasury Management framework.

The session was conducted by Sector Treasury Services, and was well received. It is our intention to hold a further of these sessions in the near future, in line with the latest update of the CIPFA Code of Practice for Treasury Management, which actively encourages this type of session.

- Further Sessions t.b.c.

7. AUTHORISED SIGNATURE

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8. REPORT AUTHOR DETAILS

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9. BACKGROUND PAPERS

CIPFA "Code of Practice for Treasury Management in the Public Services",
Sector Treasury Services "Treasury Management Annual Investment Strategy", Scottish Government "The Investment of Money by Scottish Local Authorities".