

DRAFT

FINANCE AND RESOURCES COMMITTEE

4 October 2012

TREASURY MANAGEMENT – MID YEAR REVIEW (CG/12/095)

1. With reference to article 13 of the minute of its meeting of 21 June 2012, the Committee had before it a report by the Head of Finance which provided an update on treasury management activities for 2012/2013.

The report recommended:

that the Committee recommend that Council -

- (i) note the treasury management activities undertaken in 2012/2013 as detailed within the report; and
- (ii) approve the revised counterparty list as detailed at appendix 1.

The Committee resolved:

to approve the recommendations.

ABERDEEN CITY COUNCIL

COMMITTEE	Finance and Resources
DATE	04 October 2012
DIRECTOR	Stewart Carruth
TITLE OF REPORT	Treasury Management – Mid Year Review
REPORT NUMBER:	CG/12/095

1. PURPOSE OF REPORT

To update the Committee on Treasury Management activities undertaken to date, during financial year 2012/13.

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 2012/13 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 15 March 2012. 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 2012/13

The following is a summary of Treasury Management activities which have been undertaken thus far in 2012/13: -

Long Term Borrowing

One new PWLB (Public Works Loans Board) loan for £10 million was borrowed in April 2012, at the relatively low rate of 2.95%, with this year's capital borrowing 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 £55m of Temporary Loans from other Local Authorities, at an average rate of 0.65%.

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 list of 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. Last year, upon advice from Sector Treasury Services, the Council's Treasury Management advisors, the maximum lending term for all institutions was reduced to 3 months, with the exception of the Nationalised UK Banks, which were to remain at 12 months. Although this was purely a temporary measure to protect the Council's investments, there are no plans to review this at present, as the current financial climate remains volatile.

After recent discussions with our Treasury Management advisors, it is proposed that the Council increases the Counterparty Limit of the Nationalised UK Banks from £20m to £30m. This would provide the Council with the additional flexibility required to maximise returns on short-term surplus funds, without compromising on Counterparty quality.

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 opened three Money Market Fund accounts in August 2012. This had been approved previously as part of the Council's annual Investment Strategy. These Money Market Fund accounts will greatly assist the Council in spreading its Counterparty risk and also improve cashflow liquidity.

The accounts were opened in August with Goldman Sachs Asset Management, Federated Prime Rate Capital Management and Ignis Asset Management.

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

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**ABERDEEN CITY COUNCIL
REVISED COUNTERPARTY LIST**

Changes are required to the current counterparty list as follows:

1. Increase the limits for the two Part UK Nationalised Banks, Lloyds Banking Group and The Royal Bank of Scotland plc, from £20m to £30m.

Deposits up to 12 months

UK Nationalised and Part Nationalised Banks - £30m 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

UK Building Societies - £10m limit

Nationwide Building Society

Collective Investment Schemes - £30m total limit

Money Market Funds - £10m limit

Federated Prime Rate Sterling Liquidity Fund

Goldman Sachs Sterling Liquid Reserve Fund

Ignis Liquidity Fund