

ABERDEEN CITY COUNCIL

COMMITTEE	Finance and Resources
DATE	13 June 2013
DIRECTOR	Stewart Carruth
TITLE OF REPORT	Treasury Management Policy and Strategy
REPORT NUMBER:	CG/13/062

1. PURPOSE OF REPORT

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

2. RECOMMENDATION(S)

The Committee is asked to consider the report and make recommendations to Council for approval as follows:-

- a) Notes the Treasury Management activities undertaken in 2012/13 as detailed,
- b) Recommends to Council that it notes the Treasury Management activities undertaken in 2012/13;and
- c) 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

None.

5. BACKGROUND/MAIN ISSUES

5.1 Introduction

The Council previously approved a Treasury Management policy for 2013/14 to 2015/16 on 21 February 2013. Part of this policy is to report a year-end review to committee on Treasury Management activities undertaken during the financial year 2012/13.

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.

5.2 Treasury Management 2012/13

The following is a summary of the significant Treasury Management activities which were undertaken during 2012/13: -

5.2.1 Loans Pool Rate 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 2012/13 was 4.25%, which can be broken down to 4.22% for interest, and 0.03% for expenses.

This is a reduction from the 2011/12 rate which was 4.45%. This reduction of 0.20% equates to a saving of £1.2m in interest charges.

5.2.2 Long Term Borrowing

One new PWLB (Public Works Loan Board) loan for £10 million was borrowed at an interest rate of 2.95%, in order to assist the financing of the Council's capital programmes. This new loan was borrowed over a repayment term of 9 years, with the Council's existing debt Maturity Profile in mind.

PWLB Interest Rates As a direct result of the Government 2011 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 2012/13 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 as well as other innovative methods of financing capital investment.

5.2.3 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 2013, the Council had some £50.9m of Temporary Loans from other Local Authorities, at an average rate of 0.44%. Compared with similar PWLB rates of 1.13%, this represents a saving of £350k in annualised interest costs.

5.2.4 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. This significantly reduced range of investment options available to the Council.

The Counterparty 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.

In April 2010, changes to investment regulations allowed Scottish Local Authorities to use 'AAA rated' Money Market Funds for the first time. These have been used successfully and safely, and assist with the management of short-term fluctuations in the Council's daily cashflow.

As at 31st March 2013, the Council had temporary investments totalling £49.0m at an average rate of 1.30%. These were invested in line with the current Counterparty list to the following institutions -

- Bank of Scotland £15.0m
- Clydesdale Bank plc £ 4.1m
- Royal Bank of Scotland plc £29.9m.

5.2.5 Member Training Session

A Treasury Management workshop was held for members on 18th February 2013. 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 latest update of the CIPFA Code of Practice for Treasury Management actively encourages this type of session.

The session was conducted by Sector Treasury Services, and was well received. It would be the intention to run similar sessions later in the financial year 2013/14.

5.2.6 Treasury Management Consultancy Services

The Council's existing Treasury Management Consultancy Services contract with Sector Treasury Services Ltd was due to expire on the 1st of April 2013.

In February 2013, quotes were invited from interested parties for the provision of these services for three years. After the submissions were carefully evaluated, Sector Treasury Services Ltd were awarded the contract, which will run until 31st March 2016.

5.2.7 Banking Services Tender

The Council's existing Banking Services Tender with Clydesdale Bank is due to expire on 1st October 2013. This five-year contract was a joint procurement exercise with Aberdeenshire Council.

Both Councils commenced working together on a new joint Banking Services Tender earlier this year.

With things having changed considerably in the Banking Sector over the past five years, it was deemed appropriate to hold pre-tender meetings with interested parties, to ascertain what options are available to the Councils in the current market.

The Tender is due to be formally advertised shortly, submissions will be evaluated and reported to the relevant Committee in due course.

6. IMPACT

Corporate - 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.

7. MANAGEMENT OF RISK

If the suggested changes to the Council's Counterparty List are not implemented, this would restrict the Council's available investment options, which could result in loss of income to the Council.

8. 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".

9. REPORT AUTHOR DETAILS

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ABERDEEN CITY COUNCIL COUNTERPARTY LIST

Changes are required to the current counterparty list as follows:

1. Add Handelsbanken to 'Deposits up to 12 months – Other Banks'
2. Add Morgan Stanley Sterling Liquidity Fund and Deutsche Managed Sterling Fund to the list of Money Market Funds within Collective Investment Schemes.

Deposits up to 12 months

UK Nationalised and Part Nationalised Banks - £30m limit

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

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

UK Banks - £10m limit

HSBC Bank plc

Standard Chartered Bank

Other Banks - £10m limit

Handelsbanken

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

Deposits up to 6 months

UK Building Societies - £10m limit

Nationwide Building Society

Deposits up to 3 months

Council's Bankers - £20m limit

Clydesdale Bank plc

UK Banks - £10m limit

Barclays Bank plc

Collective Investment Schemes - £50m total limit

Money Market Funds - £10m limit

Federated Prime Rate Sterling Liquidity Fund

Goldman Sachs Sterling Liquid Reserve Fund

Ignis Liquidity Fund

Morgan Stanley Sterling Liquidity Fund

Deutsche Managed Sterling Fund