

ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy and Resources
DATE	26 September 2013
ACTING DIRECTOR	Paul Fleming
TITLE OF REPORT	Treasury Management – Mid Year Review
REPORT NUMBER:	CG/13/091

1. PURPOSE OF REPORT

To update the Committee on Treasury Management activities undertaken to date, during financial year 2013/14.

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 2013/14 as detailed.

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 on 21 February 2013. 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 current reporting requirements from the latest update of the CIPFA Code of Practice.

5.2 Treasury Management 2013/14

The following is a summary of Treasury Management activities which have been undertaken thus far in 2013/14: -

Long Term Borrowing

No new long term borrowing has yet been undertaken in this financial year. Longer-term Public Works Loans Board interest rates, for periods from 10 years to 50 years, are currently in the range of 3.70% to 4.50%.

Short-term borrowing is currently available from other Local Authorities at historic low levels. Temporary Loans, for up to one year, are available at rates around the 0.50% level, making these a more attractive option at present.

We remain open to the possibility of undertaking a small amount of longer-term borrowing later in this financial year, if more favourable market conditions were to arise.

Short Term Borrowing

With short-term borrowing rates for periods of up to 1 year continuing at historic 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 £45m of Temporary Loans from other Local Authorities, at an average rate of 0.45%. This debt will be replaced over time with long-term PWLB loans, as temporary loan rates start to rise. Current forecasts are that short term interest rates will not begin to rise until 2016.

Investments

Due to the downturn in the global economy, many previously undoubted financial institutions have been removed from the Council's Counterparty list over the past 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 Council increased the Counterparty Limit of the Nationalised UK Banks from £20m to £30m. This provided 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, with Goldman Sachs Asset Management, Federated Prime Rate Capital Management and Ignis Asset Management.

These had been approved previously as part of the Council's annual Investment Strategy. These Money Market Fund accounts have greatly assisted the Council in spreading its Counterparty risk and also improve short-term cashflow liquidity.

In June 2013, approval was given for the Council to open two additional Money Market Fund accounts with Morgan Stanley & Deutsche Bank, taking our total to five accounts, each with a £10m limit.

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

The CIPFA Code of Practice states that in the use of financial instruments for the prudent management of risk, priority must be given to security and liquidity, when investing funds.

8. BACKGROUND PAPERS

None.

9. REPORT AUTHOR DETAILS

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