

ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy and Resources
DATE	4 December 2014
DIRECTOR	Ewan Sutherland
TITLE OF REPORT	Treasury Management – Mid Year Review
REPORT NUMBER:	CG/14/141

1. PURPOSE OF REPORT

To update the Committee on Treasury Management activities undertaken to date, during financial year 2014/15.

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 2014/15 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

None.

5. BACKGROUND/MAIN ISSUES

5.1 Introduction

The Council previously approved a Treasury Management policy on 21 February 2014. 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 2014/15

The following is a summary of Treasury Management activities which have been undertaken thus far in 2014/15: -

Long Term Borrowing

Three new PWLB (Public Works Loans Board) loans for £10 million each were borrowed in October. These loans were taken to replace loans which had previously matured earlier this financial year. Long term loan interest rates reached an historic low during October. The average rate of the new borrowing is 3.63%, while the matured loans were running at an average rate of 9.39%. This difference in interest costs equates to an annual saving of £1.7m for the Loans Fund.

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

Short Term Borrowing

Short-term borrowing is still available from other Local Authorities at relatively low levels. Temporary Loans, for up to six months, are available at rates around the 0.45% level, making these an attractive option.

The Council's borrowing strategy for the last few years has been to borrow short-term where possible, to take advantage of these lower rates.

The Council currently has some £40m of Temporary Loans from other Local Authorities, at an average rate of 0.45%. This debt is gradually being replaced over time with long-term PWLB loans, as temporary loan rates will start to rise along with the Bank of England Base Rate. Current forecasts are that the Bank's Base Rate should begin to rise midway through 2015.

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. Some of these institutions have since stabilised their financial positions are starting to return to the Council's Counterparty list.

Some proposed changes to the Counterparty List are attached at Appendix 1. All proposed changes are in line with current recommendations by Capita, the Council's appointed Treasury Management advisors.

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 currently has five Money Market Fund accounts opened, each with a £10m limit. These Money Market Fund accounts have greatly assisted the Council in spreading its Counterparty risk and also improve short-term cashflow liquidity.

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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**ABERDEEN CITY COUNCIL
COUNTERPARTY LIST**

Changes are required to the current counterparty list as follows:

1. Remove Ulster Bank Ltd from the Royal Bank of Scotland Group
2. Increase the HSBC Bank plc limit from £10m to £20m
3. Standard Chartered Bank - Reduce maximum lending period from 'up to 12 months' to 'up to 6 months'
4. Barclays Bank plc, Santander UK plc and Nationwide Building Society – Increase maximum lending period from 'up to 3 months' to 'up to 6 months'
5. Add Close Brothers, Coventry Building Society and Leeds Building Society with a lending period of 'up to 3 months'

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)

UK Banks - £20m limit

HSBC Bank plc

Other Banks - £10m limit

Handelsbanken

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

Deposits up to 6 months

UK Banks - £10m limit

Barclays Bank plc

Santander UK plc (includes Cater Allen)

Standard Chartered Bank

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

Close Brothers

UK Building Societies - £10m limit

Coventry Building Society

Leeds Building Society

Collective Investment Schemes - £50m total limit

Money Market Funds - £10m limit

Deutsche Managed Sterling Fund

Federated Short Term Sterling Prime Fund

Goldman Sachs Sterling Liquid Reserve Fund

Ignis Liquidity Fund

Morgan Stanley Sterling Liquidity Fund