ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy and Resources
DATE	9 June 2015
INTERIM DIRECTOR	Angela Scott
TITLE OF REPORT	Treasury Management Policy and Strategy
REPORT NUMBER	CG/15/68
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

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

2. RECOMMENDATION(S)

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

a) Note the Treasury Management activities undertaken in 2014/15 as detailed; and

b) Recommend to Council that it notes the Treasury Management activities undertaken in 2014/15.

3. FINANCIAL IMPLICATIONS

Treasury Management activities influence the loans pool interest rates and aims to minimise the cost of borrowing. This directly impacts on 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 approved a Treasury Management policy for 2015/16 to 2017/18 on 18 February 2015. Part of this policy is to report a year end review to committee on Treasury Management activities undertaken during the financial year 2014/15.

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 2014/15

The following is a summary of the significant Treasury Management activities which were undertaken during 2014/15: -

5.2.1 <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 2014/15 was 3.87%, which can be broken down to 3.85% for interest, and 0.02% for expenses.

This is a significant reduction on the 2013/14 rate, which was 4.22%.

5.2.2 <u>Long Term Borrowing</u>

Five new <u>PWLB (Public Works Loan Board)</u> loans totalling £50 million were borrowed at an average interest rate of 3.47%, to assist financing the Council's capital programmes.

These new loans, which have an average life of 48 years, were borrowed in line with the Council's existing debt Maturity Profile.

Of these new loans, £35 million were drawn to replace historic maturing debt with a relatively high average interest rate of over 9%.

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 of 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 2014/15 financial year, this was achieved by a combination of factors. The continued use of short-term borrowing at relatively low rates, and also the replacement of maturing debt with new loans at record low levels, assisted in minimising borrowing costs.

The second problem was that, as previously reported, 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 2015, the Council had £25m of Temporary Loans from other Local Authorities, at an average rate of 0.42%. Compared with similar PWLB rates of 1.44%, this represents a saving of £255k 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 the 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 Capita Asset 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 2015, the Council had temporary investments totalling £67.1m at an average rate of 0.69%. These were invested in line with the current Counterparty list to the following institutions -

- Bank of Scotland £30.0m
- Clydesdale Bank plc £7.9m
- Leeds Building Society £10.0m
- Handelsbanken £9.2m
- Ignis (Money Market Fund) £10.0m.

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

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

9. REPORT AUTHOR DETAILS

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