

COMMITTEE	Finance, Policy and Resources
DATE	3 December 2015
INTERIM DIRECTOR	Richard Ellis
TITLE OF REPORT	Treasury Management Policy & Strategy – Mid Year Review
REPORT NUMBER	CG/15/130
CHECKLIST COMPLETED	Yes

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1. PURPOSE OF REPORT

This report provides an update on Treasury Management activities undertaken to date in 2015/16.

2. RECOMMENDATION(S)

It is recommended that the Committee consider and recommend this report to Council for approval as follows:

- a) Note the Treasury Management activities undertaken in 2015/16 as detailed in this report.

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 and Strategy on 18 February 2015 which includes a requirement 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 2015/16

The following is a summary of Treasury Management activities which have been undertaken thus far in 2015/16: -

#### Long Term Borrowing

No new long-term borrowing has been undertaken to date. Two PWLB loans for £5m matured on the 15th May 2015. These loans have not as yet been replaced.

The 'cost of carry' on new longer term borrowing remains a prohibitive issue, and we will monitor this situation throughout the financial year.

We remain open to the possibility of undertaking some longer-term borrowing later in this financial year, should market conditions be favourable.

## Short Term Borrowing

Short-term borrowing is still available from other Local Authorities at relatively low levels. Temporary Loans for up to three months, are available at rates around the 0.35% level, with loans for up to six months, coming in at around the 0.45% mark. These levels are an attractive option when compared to more expensive, longer-term loans.

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, which reduces the Council's overall borrowing costs.

The Council currently has some £35m of Temporary Loans from other Local Authorities, at an average rate of 0.40%. This debt will be replaced over time with long-term PWLB loans, as temporary loan rates should start to rise, along with the Bank of England Base Rate.

Current forecasts are that the Bank's Base Rate should begin to rise gradually in the first half of 2016.

## Investments

A review of the Council's Counterparty list was recently undertaken and this was approved by Committee on 15 September 2015. These changes were in line with recommendations by Capita, the Council's appointed Treasury Management advisors, and have provided additional options for the Council's investments.

## 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 now has seven 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

### **Improving Customer Experience –**

No direct impact arising from this report.

### **Improving Staff Experience –**

No direct impact arising from this report

**Improving our use of Resources –**

The strategy of using cost-effective short-term borrowing to help reduce the Council's financing costs demonstrates a pro-active approach, which will use the Council's resources more effectively.

**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.

**Public –**

This report is likely to be of interest to the public as it reports on a previously approved Treasury Management strategy and demonstrates the Council's stewardship of public funds.

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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