

ABERDEEN CITY COUNCIL

---

COMMITTEE	Council
DATE	15 <sup>th</sup> March 2017
DIRECTOR	Bernadette Marjoram
TITLE OF REPORT	Bond Financing Strategy – Economic Policy Panel
REPORT NUMBER	CHI/17/052
CHECKLIST COMPLETED	YES

---

1. PURPOSE OF REPORT

The purpose of the report is to provide Members with further detail on proposals for an Economic Policy Panel. Its primary purpose would be to advise on and inform the Council's annual credit rating assessment review, and its reporting would also inform the ongoing delivery of the Regional Economic Strategy and other key economic matters relevant to the Council.

2. RECOMMENDATIONS

It is recommended that Council:

- i) Approves the draft Terms of Reference for an Economic Policy Panel (Appendix 1) for its interest at this stage and delegate authority to the Head of Legal and Democratic Services to finalise the Terms of Reference;
- ii) Agrees that a Panel is piloted for a period of three credit rating reviews;
- iii) Instructs the Chief Executive to undertake a national advertisement with a view to recruiting appropriately qualified members for the Panel; and thereafter, to recommend proposed members to the first available Finance, Policy and Resources Committee for its approval;
- iv) Agrees that the Finance, Policy & Resources Committee shall have due regard to the reports and other work of the Panel;

- v) Instructs the Head of Economic Development in consultation with the Head of Finance to undertake an ongoing evaluation of the pilot and report the findings back to the Finance, Policy and Resources Committee on an annual basis.

### 3. FINANCIAL IMPLICATIONS

The proposed model assumes that any input data to the work of the panel would be sourced and analysed by officers in the Council's Economic Development Service. Where any additional analysis is required, additional costs would be met from within existing Service or Corporate Governance budgets.

The costs of allowances to the proposed Panel Members are estimated at this stage at £60-80,000 per annum based on three members at c12 days per annum, and would include two visits to Aberdeen a year. This includes allowances to members, travel expenses and recruitment and administration costs and would be met from within Corporate Governance Directorate budgets.

### 4. OTHER IMPLICATIONS

While the focus of a Panel would be to support the Council's annual credit rating review, it could also provide further benefits in relation to informing the delivery of the Regional Economic Strategy and the key economic priorities in the city and wider region. It could also benefit the Council's wider economic priorities such as:

- Responding to implications of Brexit;
- The Council's medium term financial planning;
- Independent comment on any major proposals;
- The Council's inward investment delivery and 'economic messaging'; or
- Regional Economic Strategy Group and Regional Advisory Board;

### 5. BACKGROUND/MAIN ISSUES

Prior to the Council being able to issue a Bond, it needed to obtain a credit rating from a Credit Rating Agency. The Council secured an Aa2 Rating (negative outlook, mirroring the negative outlook on the UK sovereign rating) from Moodys, and it is important that Aberdeen City Council maintains this credit rating level. This credit rating shall be reviewed by Moodys on an annual basis.

As part of the credit rating appraisal Moodys required an assessment of the Council's financial and institutional framework and a detailed assessment of the current and future economic performance of Aberdeen and the North East of Scotland. It should also be noted that investors too required a detailed analysis of the city and regional economies.

This type of analysis will also be needed for the future annual Credit Rating Reviews. In addition feedback during the investor presentations corroborated the importance of independent economic commentary to support the Council's credit rating reviews by providing assurance on the medium to long term economic performance of Aberdeen and the North East of Scotland to existing and future investors.

In December the Council discussed a report on the implications for the Council of the bond. That report provided information on a model (the Jersey Fiscal Panel) that the Council could consider in response to the requirements of the annual credit rating review.

## 6. DEVELOPING THE PROPOSAL

Since then, officers have been discussing the potential for a panel with a number of regional and industry (financial services) stakeholders. These include:

- Chartered Institute of Public Finance & Accountancy (CIPFA)
- Bank of England agents
- Banking sector
- Fund managers
- Scottish Government (officials)
- State of Jersey (officials)
- Opportunity North East

These discussions highlighted different non-statutory models that currently operate that aim to provide independent scrutiny and assessment of economic analysis and reporting. The following models were frequently referred to in the consultation programme:

- Monetary Policy Committee;
- Office of Budget Responsibility
- The Scottish Fiscal Commission
- The State of Jersey Fiscal Panel where its finance committee must have regard to the Panel's work and research

The main findings from the consultations are:

Credit rating agencies value independent analysis and reporting of local economies. A panel is seen as a robust check on the economic analysis provided to the credit rating agency as it provides independent validation of economic policy and performance.

A panel is separate from existing institutions and governance – it has no other remit/ agenda. However, the State of Jersey's finance committee does have regard to its Fiscal Policy Panel's work. For

example, the State Treasurer must provide a rationale for not acting on the Panel's advice.

A panel sends positive signal to existing investors (bondholders) that there is continuous monitoring of the Aberdeen and regional economy, and independent commentary on the findings of that analysis.

The main focus of any panel is on the credit rating. However, the potential output of a panel could have wider applications. For example, consultations indicated that having such a panel could provide an opportunity to look at the relationships between the economy of the place and societal impacts – a successful economy is key to funding public services, that in turn provide social outcomes. Some consultations indicated that the work of a panel could also look at understanding the societal benefits of successful economies and business.

There are three 'checks' in maintaining a credit rating – economic, financial and, related, inward investment performance. Based on the need and likely objectives, an 'Economy Panel' is the most appropriate term; but separately officers could consider internal support in terms of financial performance (institutional); while the resourcing of the Council's inward investment plan will ensure that it maximises the opportunity of access to a panel to inform the economic messages used for inward investment purposes.

Availability of resources for a panel is important – for example, the State of Jersey Panel is supported by an economic adviser/ analysts that do all of the work that sits under its panel.

### **Benefits**

A panel provides assurance for bond holders and other inward investors – just as the decision to invest in a city is quick, a decision to disinvest is as quick. Any mechanism that provides assurance to existing investors is beneficial, and a sends a positive signal on the economic performance of Aberdeen and the region.

For the credit rating agencies, and bond holders, this provides further assurance that the Council is an integral part of the local economy. For investors, a panel can mitigate against the effects of any national or local political uncertainty.

Beyond the support to the Council's credit rating review, a panel, and an annual 'state of the region' report, indirectly provides a medium term strategy plan to the investor market, and in this sense will benefit the increasing inward investment focus.

Unanticipated benefits of annual independent 'state of nation' reporting can be to inform wider decisions/ policy making. For example, strategy/ action plans, investment, employability, sectors. In the case

of Jersey, and its experience of 'boom/ bust' in its key financial services sector, its access to a panel helped inform how it provided an economic stimulus, and its investment response. The Jersey example also indicates the benefits of the panel's work in informing medium term financial planning and providing a strategic direction and overview, and informing the decision-making of its finance committee.

### **Composition**

The quality, expertise and credibility of panel members are important in ensuring its success. Feedback from the consultation programme suggests that membership should be restricted to ideally three people.

The presence of observers is a way of securing input from independent bodies that could not be actual members – eg Bank of England local agent observers do not endorse the annual report.

Members should be appointed for a three or five year period so that there is continuity and an accumulated knowledge of Aberdeen and the wider economy.

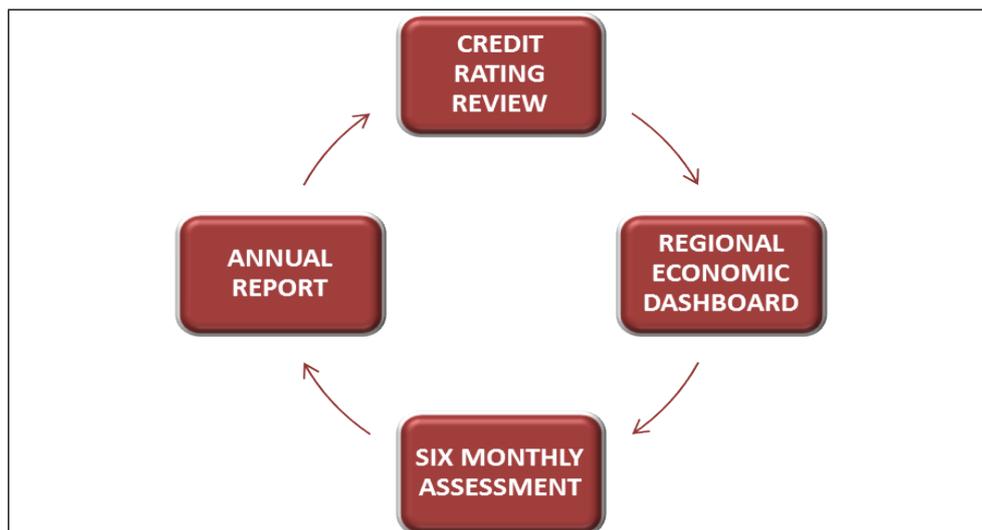
### **Recruitment**

It is recommended that positions for membership of the panel are advertised nationally.

## 7. OBJECTIVES

The figure below illustrates the proposed process.

**Figure 1: An Aberdeen Economic Panel - Process**



Following analysis of the consultation exercise, and in order to meet the aims to support the annual credit rating assessment for the COuncil, the objectives of the panel are to:

- Provide independent commentary of the state of the Aberdeen economy in the form of an annual report that will be presented at the Council's Finance, Policy & Resources Committee;
- Provide a 'sounding board' for any emerging issues in relation to the wellbeing of the Aberdeen and regional economies; and
- To meet on a six monthly basis with regional stakeholders – elected members, industry, / businesses to discuss emerging issues from economic data and returns provided by officers.

## 8. IMPACT

**Corporate** – Just as the credit rating and bond issue positioned the Council as a leading Council in this area, the establishment of a Panel is seen as a unique and positive mechanism to provide independent advice on the economic performance of the city and wider region that in turn is an integral part of the institutional framework for the bond and the wider obligations to bond holders, investors and the London Stock Exchange. After its pilot, it may also provide wider benefits in developing the Council's own transformation programme.

**Public** - This report does not require an Equality and Human Rights Impact Assessment, or a Privacy Impact Assessment. It will be of interest to the public as it relates to the Council's issue of a bond to support financing the Council's capital programme.

### **Improving Customer Experience**

The Panel supports improving the customer (external stakeholders and UK and international investment community) by providing an independent annual economic commentary on the performance of the local and regional economy and additional information and assurance around investment decisions.

### **Improving Staff Experience**

The credit rating process and the subsequent bond issue have already delivered significant learning and development opportunities for staff across Council services. Under the proposed model, Council officers will support the work of the Panel, and will provide further opportunities to engage with wider national stakeholders that in turn will benefit the Council's economic development activity.

### **Improving our use of Resources**

The proposed model builds on the existing investment by the council in focusing resources on robust economic monitoring and analysis and a Regional Economic Dashboard; and its focus on inward investment, and the institutional investment strand of that. Supporting the work of a Panel would not require additional resources and will also improve the overall effectiveness of how data and analysis is provided.

## 9. MANAGEMENT OF RISK

The Council must endeavour to maintain a suitable credit rating. Should this significantly fall from the Aa2, existing bondholders can request repayment of their proportion of bonds held, that in turn could influence the Council's wider borrowing commitments, and, indirectly, the Council's inward investment priorities. There are a number of institutional mitigations that can be put in place, in particular in relation to financial management and reporting. The Panel however provides further mitigation by providing a transparent and independent assurance to investors in Aberdeen, the North East and Scotland.

There is a risk that the economic performance of Aberdeen and the wider region decreases over time, and due to a number of exogenous factors, the credit rating is lowered. An example of this could be the implications of Brexit, or an economic recession. While this is out of the control of the Council and the Panel, the effects of this on the annual credit rating could be mitigated by the annual economy report and outlook.

#### 10. BACKGROUND PAPERS

- Bond Financing Strategy – Implications for the Council report CG/16/152

#### 11. REPORT AUTHOR DETAILS

Richard Sweetnam  
Head of Economic Development  
[rsweetnam@aberdeencity.gov.uk](mailto:rsweetnam@aberdeencity.gov.uk)  
01224 522662

## APPENDIX 1 – TERMS OF REFERENCE

### ABERDEEN ADVISORY ECONOMIC PANEL

#### PROPOSED TERMS OF REFERENCE & GUIDELINES

1.	<p><b><u>Name of Group</u></b></p> <p>Aberdeen Economic Panel comprising a non-statutory and independent panel that supports the Council's annual credit rating review.</p>
2.	<p><b><u>Purpose</u></b></p> <p>The Panel is being established to :</p> <ul style="list-style-type: none"><li>- Provide independent commentary of the state of the Aberdeen economy in the form of an annual report that will be presented at the Council's Finance, Policy &amp; Resources Committee;</li><li>- Provide a 'sounding board' for any emerging issues in relation to the wellbeing of the Aberdeen and regional economies; and</li><li>- To meet on a six monthly basis to meet with regional stakeholders/ businesses to discuss emerging issues from economic data and returns provided by officers.</li></ul>
3.	<p><b><u>Scope</u></b></p> <p>The Panel would:</p> <ul style="list-style-type: none"><li>- Produce an annual 'state of the nation' economic report on the Aberdeen and regional economic performance.</li><li>- Undertake 'site visits' twice a year to consult with businesses in key sectors on the issues, challenges and opportunities in Aberdeen and the wider north east region to inform that report.</li><li>- Provide constructive challenge on any wider interventions that could inform the Council's annual credit rating assessment.</li></ul>
4.	<p><b><u>Membership and Appointment</u></b></p> <p>Membership of the Panel will reflect its purpose to provide independent and valid analysis to support the Council's annual credit rating assessment and therefore draws on the following expertise. Positions will be advertised in national press/ journals.</p> <p>In addition, it could draw on the support of observers from:</p> <ul style="list-style-type: none"><li>- Bank of England</li><li>- Aberdeen City Council (Economic Development, Finance)</li></ul> <p>It will be supported by data and evidence from Aberdeen City Council's economists and analysts, working in partnership with regional stakeholders and drawing on other analysis where required.</p>

5.	<p><b><u>Code of Conduct</u></b></p> <p>The Panel will be expected to uphold the spirit and wording of the code of conduct:</p> <ul style="list-style-type: none"> <li>a) Honesty</li> <li>b) Integrity</li> <li>c) Objectivity</li> <li>d) Openness</li> <li>e) Confidentiality</li> </ul>
6.	<p><b><u>Resources and Budget</u></b></p> <p>Allowances to support the work of the Panel will be provided by Aberdeen City Council up to £60-80,000 per annum. This includes allowances to members, travel expenses and recruitment and administration costs.</p> <p>Information and data from the Council's Regional Economic Dashboard will be made available for the work of the Panel, from within existing Council resources.</p> <p>Administrative support to the Panel will be available from within existing Council resources.</p>
7.	<p><b><u>Communications</u></b></p> <p>Any communications involving the Panel will be prior agreed with the Council in relation to its obligations to the London Stock Exchange.</p>
8.	<p><b><u>Meetings</u></b></p> <p>The Panel will meet two times a year.</p> <p>Papers will be issued at an agreed number of weeks in advance of the meeting and a schedule of meetings two years in advance will be agreed by the Panel.</p>
9.	<p><b><u>Reporting</u></b></p> <p>The annual economic report will be publically available.</p>