ABERDEEN CITY COUNCIL

COMMITTEE	Finance, Policy and Resources
DATE	29 June 2017
REPORT TITLE	Treasury Management Policy and Strategy
REPORT NUMBER	CG/17/047
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1. PURPOSE OF REPORT:-

1.1 To update the Committee on Treasury Management activities undertaken during financial year 2016/17.

2. RECOMMENDATION(S)

2.1 Consider and note the Treasury Management activities undertaken in the 2016/17 financial year as detailed in this report.

2.2 Refer this report to Council with a recommendation to note the Treasury Management activities undertaken in the 2016/17 financial year.

3. BACKGROUND/MAIN ISSUES

Introduction

3.1 The Council approved a Treasury Management policy for the financial years of 2017/18 to 2019/20 on 16 February 2017. Part of this policy is to report a year-end review to committee on Treasury Management activities undertaken during the financial year 2016/17.

3.2 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 CIPFA "Code of Practice for Treasury Management in the Public Services" that Treasury Management is carried out in accordance with good professional practice, which this Council does.

Treasury Management 2016/17

3.3 The following is a summary of the significant Treasury Management activities which were undertaken during 2016/17: -

Loans Pool Rate

3.3.1 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 2016/17 was 3.48%, which can be broken down to 3.46% for interest, and 0.02% for expenses. This is a reduction of 0.36% from the Loans Pool Rate in 2015/16, which equates to a saving of £2.5m in financing costs.

Long Term Borrowing

3.3.2 The Council issued Bonds to the value of £370m to the debt capital markets on the 8th of November, at an annual interest rate of 0.1%, to assist financing the Council's future capital programmes. The Bonds are repayable in half-yearly instalments, over 35 years from financial year 2019/20. This repayment structure complemented the Council's existing debt maturity profile by smoothing out future debt repayments.

3.3.3 Two new PWLB (Public Works Loan Board) loans totalling £30 million were borrowed at an average interest rate of 2.67%, which will also assist financing the Council's capital programmes. These new PWLB loans have an average life of 48 years and were borrowed in line with the Council's existing debt Maturity Profile.

Bond Tap

3.3.4 HSBC, the Council's bond book-runner, were approached by a new investor about a potential tap on the existing bonds. This would involve the Council issuing additional debt, at the terms of the original bonds. In order to investigate this opportunity, Council approval was sought and granted for the Head of Finance to issue up to £500m of Bonds, an increase of £100m on the previously agreed figure. Some initial talks were held with the potential investor, but due to changes in market conditions, the proposed tap did not come to fruition. This may be revisited in the future, subject to changes in market sentiment.

Short Term Borrowing

3.3.5 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. The Council's stance changed in November, once the Bonds proceeds were received. After this point, all Temporary Loans from other Local Authorities were repaid upon their maturity. As at 31st March 2017, only one loan of £3m remained which was repaid in mid-April 2017.

Investments

3.3.6 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. The Council's investment strategy required to be updated in August 2016, with a revised Counterparty list, taking account of the additional capacity needed to invest the funds resulting from the bonds issuance.

3.3.6 As at 31st March 2017, the Council had temporary investments totalling £309.4m at an average rate of 0.38%. These funds will gradually reduce over the next 12 to 18 months, as capital programme work progresses. Investments were made in line with the current Counterparty List to the following institutions:-

- Standard Life (Money Market Fund) £50.0m
- Federated (Money Market Fund) £50.0m
- Aberdeen (Money Market Fund) £50.0m
- Clydesdale Bank £18.4m
- Santander UK £18.0m
- Bank of Scotland £30.0m
- Highland Council £10.0m
- Goldman Sachs Int'l Bank £20.0m
- W Dunbartonshire Council £13.0m
- Tewkesbury Borough Council £10.0m
- Dundee City Council £5.0m
- Stirling Council £9.0m
- Lancashire County Council £5.0m
- Plymouth City Council £8.0m
- Leeds Building Society £5.0m
- Moray Council £2.0m
- Conwy County Borough Council £1.0m
- Salford City Council £5.0m

4. FINANCIAL IMPLICATIONS

4.1 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.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

Financial

6.1 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.

Other

6.2 Consideration has also been given to Employee, Customer / Citizen, Environmental, Technological, Legal and Reputational risks, and no risks were identified.

7. IMPACT SECTION

Economy

7.1 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.

7.2 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.

People

7.3 No direct impact arising from this report.

Place

7.4 No direct impact arising from this report.

Technology

7.5 No direct impact arising from this report.

8. BACKGROUND PAPERS

8.1 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. APPENDICES (if applicable)

9.1 There are no appendices to the report.

10. REPORT AUTHOR DETAILS

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