

COMMITTEE	Finance, Policy and Resources
DATE	1 December 2017
REPORT TITLE	Treasury Management Policy and Strategy – Mid-Year Review
REPORT NUMBER	CG/17/127
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1. PURPOSE OF REPORT:-

- 1.1 To update the Committee on Treasury Management activities undertaken to date during financial year 2017/18.

2. RECOMMENDATION(S)

- 2.1 That the Committee:-

- (a) Consider and note the Treasury Management activities undertaken in the 2017/18 financial year as detailed in this report.
- (b) Refer this report to Council with a recommendation to note the Treasury Management activities undertaken to date in the 2017/18 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 mid-year review to committee on Treasury Management activities undertaken during the financial year 2017/18.
- 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 2017/18

3.3 The following is a summary of Treasury Management activities which have been undertaken thus far in 2017/18: -

3.3.1 Long Term Borrowing

No long-term borrowing has been undertaken so far in this financial year. A PWLB loan for £10m matured on the 15th May 2017. This loan has not been replaced.

3.3.2 There are no plans for any long term borrowing this year, due to funds remaining from last year's Bond Issuance. We will monitor this situation throughout the remaining part of the financial year. We remain open to the possibility of undertaking some longer-term borrowing in the next financial year, should market conditions be favourable.

3.3.3 Short Term Borrowing

Similarly, there is also no requirement for any short term borrowing this year, due to funds remaining from last year's Bond Issuance. We will monitor this situation throughout the remaining part of the financial year.

3.3.4 Investments

At the time of writing, the Council has c£240m of Temporary Investments, largely being the remaining proceeds from last year's Bond Issuance. These funds will continue to reduce over the next 6 months or so, as capital programme work progresses.

3.3.5 A review of the Council's Counterparty list was undertaken and this was approved by Committee on 9 March 2017. 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.

3.3.6 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.

3.3.7 The Council now has nine Money Market Fund accounts opened, each with a £50m limit. These Money Market Fund accounts have greatly assisted the Council in spreading its Counterparty risk and also improve short-term cashflow liquidity.

3.3.8 Credit Rating

On 22nd September, Moody's downgraded the UK's long-term issuer rating to Aa2 from Aa1 and improved the outlook from negative to stable. Following this, and in-line with the sovereign rating, Moody's downgraded the rating for Aberdeen City Council and improved the outlook to stable from negative.

3.3.9 As part of its annual review, Aberdeen City Council officers met with Moody's analysts on 13th October. There is a separate report on today's agenda covering the outcome of the annual review.

3.3.10 MIFID II

New changes to investment regulations come into force from January 2018, called the Markets in Financial Instruments Directive (MIFID II).

3.3.11 The most significant part of MIFID II requires the Council to change its status from a 'Retail' investor to a 'Professional' investor. As the Council qualifies for the 'Professional' category due to the frequency, value and complexity of its investments, there is no choice but to 'opt-up'. This change impacts positively on the classes of assets and instruments that can be used by the Council, but impacts slightly negatively on the level of investor protection offered.

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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