

## ABERDEEN CITY COUNCIL

---

<b>COMMITTEE</b>	Council
<b>DATE</b>	17 December 2018
<b>REPORT TITLE</b>	Treasury Management Policy and Strategy – Mid-Year Review
<b>REPORT NUMBER</b>	RES/18/246
<b>DIRECTOR</b>	Steven Whyte
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Neil Stewart
<b>TERMS OF REFERENCE</b>	4

---

### 1. PURPOSE OF REPORT

- 1.1 To update the Council on Treasury Management activities undertaken to date during financial year 2018/19.

### 2. RECOMMENDATION(S)

That Council:-

- 2.1 Consider and note the Treasury Management activities undertaken in the 2018/19 financial year as detailed in this report; and
- 2.2 Approve the Council's Counterparty list as detailed at Appendix 1.

### 3. BACKGROUND

#### 3.1 Introduction

The Council approved a Treasury Management policy for the financial years 2018/19 to 2020/21 on 5 March 2018. Part of this policy is to report a year-end review to full Council on Treasury Management activities undertaken during the financial year 2018/19.

- 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.

### 3.3 Treasury Management 2018/19

The following is a summary of the significant Treasury Management activities which have been undertaken during financial year 2018/19: -

#### 3.3.1 Long-Term Borrowing

No long-term borrowing has been undertaken so far in this financial year. Two PWLB loans totalling £23.4m matured during the first part of the year. These loans have not yet been replaced. There are no further long-term maturities in this financial year.

3.3.2 There are no plans for any long term borrowing this year, due to funds remaining from the 2016 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, should market conditions become favourable.

#### 3.3.3 Short-Term Borrowing

Similarly, there has been no requirement for any short term borrowing from other local authorities so far this year. The Council's Loans Fund has an ongoing Temporary Loan from the North East of Scotland Pension Fund. The level of the loan was increased by £60m on a short-term basis, at the Pension Fund's request. This increase has temporarily assisted the Council's short-term cashflow liquidity.

#### 3.3.4 Investments

At the time of writing, the Council has c£120m 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 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.

3.3.6 The Council operates nine Money Market Fund accounts. These Money Market Fund accounts have greatly assisted the Council in spreading its Counterparty risk while also improving short-term cashflow liquidity.

3.3.7 In October 2018 two of the funds on our list, Aberdeen & Standard Life, were merged into the Aberdeen Liquidity Fund. We are proposing to add the HSBC Liquidity Fund to our list to replace the Standard Life fund.

### 3.3.8 Counterparty List

The Council, as part of its Treasury Policy, has an approved listing of banks and other financial institutions (the Counterparty list) with which it can undertake short-term money investments. Basically, if the Council has “cash” then the counterparty list determines where officers can invest this cash.

3.3.9 The Council's Counterparty list is compiled using credit rating information supplied by the major credit rating agencies to Link Asset Services, who are the Council's appointed Treasury Management advisors.

3.3.10 In August 2016, the Council approved a refreshed Counterparty List, which added additional capacity for its investments. This capacity was required to invest the influx of funds that would result from the Council's bond issuance. The revised Counterparty list at Appendix 1, effectively scales back that capacity towards regular, 'pre-Bond' levels.

### 3.3.11 Loans Fund Review

3.3.12 The Council's Treasury Management advisors have been engaged to carry out a review of Loans Fund Charges. The outcome of the review, including any recommendation to change accounting policies, will be reported to City Growth and Resources Committee, through the Quarter 3 Financial Performance Report.

## **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, however it should be noted that the issuance of the Bonds requires the Council to comply with the Market Abuse Regulations, the Disclosure and Transparency Rules, the Listing Rules and ongoing obligations as set out in the London Stock Exchange Admission and Disclosure Standards. The Bond Governance Project Board has oversight on ensuring all governance requirements in relation to the bond issuance are in place.

## 6. MANAGEMENT OF RISK

	Risk	Low (L), Medium (M), High (H)	Mitigation
<b>Financial</b>	Loss of deposit in a failed bank or financial institution	L	The Council has strict lending criteria, only financial institutions with the highest credit ratings are included on on the Council's Counterparty list. The list is compiled in conjunction with the Council's Treasury Advisors and is under constant review.

## 7. OUTCOMES

Local Outcome Improvement Plan Themes	
	Impact of Report
<b>Prosperous Economy</b>	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.

## 8. IMPACT ASSESSMENTS

Assessment	Outcome
<b>Equality &amp; Human Rights Impact Assessment</b>	Not Required
<b>Privacy Impact Assessment</b>	Not Required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not Applicable

## 9. BACKGROUND PAPERS

- 9.1 CIPFA "Code of Practice for Treasury Management in the Public Services"; Scottish Government "The Investment of Money by Scottish Local Authorities".

**10. APPENDICES**

10.1 Appendix 1 - Counterparty List

**11. REPORT AUTHOR CONTACT DETAILS**

Neil Stewart  
Treasury Officer  
[nstewart@aberdeencity.gov.uk](mailto:nstewart@aberdeencity.gov.uk)  
01224 522696

**COUNTERPARTY LIST**

**Deposits up to 12 months**

All the banks listed in this category have a suggested duration of 12 months from our treasury advisors, Link Asset Services (LAS) credit rating list – i.e. the highest rated

**UK Nationalised and Part Nationalised Banks - £30m limit**

The Royal Bank of Scotland Group plc  
(includes Royal Bank of Scotland plc, National Westminster Bank plc)  
(actual rating overridden by the significant UK Govt. Ownership, i.e. >20%)

**UK Banks - £30m limit**

HSBC Bank plc – Highest rated UK bank  
Lloyds Banking Group (includes Bank of Scotland)

**Other Banks - £20m limit**

Countries with a minimum of AA+ Sovereign rating and Banks with a suggested duration of 12 months from LAS credit rating list – i.e. the highest rated

**Australia - AAA**

Australia and New Zealand Banking Group Ltd.  
Commonwealth Bank of Australia  
National Australia Bank Ltd.  
Westpac Banking Corp.

**Canada - AAA**

Bank of Montreal  
Bank of Nova Scotia  
Canadian Imperial Bank of Commerce  
Royal Bank of Canada  
Toronto-Dominion Bank

**Finland – AA+**

OP Corporate Bank PLC

**Germany - AAA**

DZ BANK AG Deutsche Zentral- Genossenschaftsbank  
Landesbank Hessen-Thüringen Girozentrale  
Landesbank Berlin AG

### **Netherlands - AAA**

Cooperatieve Rabobank U.A.  
ING Bank N.V.

### **Singapore - AAA**

DBS Bank Ltd.  
Oversea-Chinese Banking Corp. Ltd.  
United Overseas Bank Ltd

### **Sweden - AAA**

Skandinaviska Enskilda Banken AB (SEB)  
Svenska Handelsbanken AB  
Swedbank AB

### **Switzerland - AAA**

UBS AG

### **UK Local Authorities (including Police Authorities) – £20m limit (per authority)**

## **Deposits up to 6 months**

### **UK Banks - £20m limit**

Abbey National Treasury Services PLC  
Barclays Bank PLC  
Close Brothers Ltd  
Goldman Sachs International Bank  
Handelsbanken PLC  
Santander UK PLC  
Standard Chartered Bank  
Sumitomo Mitsui Banking Corporation Europe Ltd

### **UK Building Societies - £10m limit**

Coventry Building Society  
Nationwide Building Society

## **Deposits up to 3 months**

### **Council's Bankers - £30m limit**

Clydesdale Bank plc

### **UK Building Societies - £10m limit**

Leeds Building Society  
Skipton Building Society  
Yorkshire Building Society

## **Collective Investment Schemes - £180m total limit**

### **Money Market Funds - £20m limit**

Aberdeen Liquidity Fund – Sterling  
Blackrock ICS Instit Fund  
Deutsche Managed Sterling Fund  
Federated Short Term Sterling Prime Fund  
Goldman Sachs Sterling Liquid Reserve Fund  
HSBC Sterling Liquidity Fund  
Insight Liquidity Fund  
Morgan Stanley Sterling Liquidity Fund  
State Street Global Advisors GBP Liquidity Fund