

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Council
<b>DATE</b>	24 June 2019
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Treasury Management Policy and Strategy
<b>REPORT NUMBER</b>	RES/19/258
<b>DIRECTOR</b>	Steven Whyte
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Neil Stewart
<b>TERMS OF REFERENCE</b>	5

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### **1. PURPOSE OF REPORT**

- 1.1 To update Council on Treasury Management activities undertaken 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 revised Counterparty list as detailed at Appendix 1.

### **3. BACKGROUND**

#### **3.1 Introduction**

- 3.1.1 The Council approved a Treasury Management policy for the financial years of 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.

3.1.2 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.

### 3.2 Treasury Management 2018/19

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

3.2.1 Loans Pool Rate - 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 2018/19 was 3.82%, which can be broken down to 3.80% for interest, and 0.02% for expenses. This represents a reduction of over 1% from the previous year's rate.

3.2.2 Long Term Borrowing - No long-term borrowing was required during 2018/19 due to the level of funds remaining from the Bond Issuance. Public Works Loans Board (PWLB) loans for £23.4m matured during the financial year 2018/19, and these were not replaced.

3.2.3 As the Bond funds have now been fully utilised, it is our intention to undertake some long-term borrowing in the next financial year, should market conditions be favourable.

3.2.4 Short Term Borrowing - In 2016, the Council made the deliberate decision to run down its external temporary borrowing (short-term loans from other Local Authorities). Again, this was due to the level of funds received from the Bond Issuance. The Bond funds gradually reduced over time as capital programme work progressed. External temporary borrowing is now being built back up to a manageable level, with available rates currently well below long-term borrowing levels.

3.2.5 During the last 2 months of the year, some £44m of temporary borrowing was obtained from other local authorities. The interest rates on these loans ranged from 0.85% to 1%, depending on their length. More borrowing of this type may be undertaken during the coming year, should market conditions continue to be favourable.

3.2.6 North East Scotland Pension Fund – The Council's Loans Fund has an ongoing Temporary Loan from the North East of Scotland Pension Fund. This represents the Pension Fund's excess level of cash funds on hand, which is driven by the Pension Fund's cashflow requirements. This Temporary Loan is a means of earning the Pension funds a fair short-term interest rate from these funds, rather than a means of borrowing for the Loans Fund.

3.2.7 Throughout last year, at the Pension Fund's request, the level of this Temporary Loan was increased by up to £80m from time-to-time, to assist the Fund to maximise their interest return on their excess cash funds. The Pension Fund wish to increase these levels further during financial year 2019/20, by up to

£200m, to help them manage their expected cashflow position. In light of this, additional capacity will require to be added to the Council's Money Market Funds limits.

3.2.8 Investments - As at 31st March 2019, the Council had temporary investments totalling £97.7m at an average rate of 0.85%. Investments were made in line with the current Counterparty List to the following institutions: -

- Clydesdale Bank £6.7m
- HSBC Bank plc £5.0m
- Santander UK £15.0m
- Goldman Sachs Int'l Bank £20.0m
- Close Brothers Ltd £5.0m
- Lancashire County Council £5.0m
- Federated MMF £20.0m
- Aberdeen MMF £20.0m
- Insight MMF £1.0m

### 3.3 Counterparty List

3.3.1 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.

3.3.2 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.

3.3.3 In order to assist the Pension Fund manage their cashflow position, we are proposing to add additional capacity to the Council's Money Market Fund limits. Current limits of £20m per fund, are to be raised to £50m, which is in line with levels utilised during the Bond Issuance. For cashflow purposes, the Clydesdale Bank limit will also need to be increased in line with the proposed Money Market Fund limits.

3.3.4 The Counterparty list was last updated on 17 December 2018. A revised list is attached at Appendix 1, for consideration.

## 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.

## 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 the Council's Counterparty list. The list is compiled in conjunction with the Council's Treasury Advisors and is under constant review.
<b>Legal</b>	None	N/A	N/A
<b>Employee</b>	None	N/A	N/A
<b>Customer</b>	None	N/A	N/A
<b>Environment</b>	None	N/A	N/A
<b>Technology</b>	None	N/A	N/A
<b>Reputational</b>	None	N/A	N/A

## 7. OUTCOMES

The proposals in this report have no impact on the LOIP.  
This report does not impact on the design principles of the Target Operating Model.

## 8. IMPACT ASSESSMENTS

Assessment	Outcome
<b>Equality &amp; Human Rights Impact Assessment</b>	Not Required

<b>Data Protection 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 ";  
CIPFA "The Prudential Code for Capital Finance in Local Authorities";  
Link Asset Services "Treasury Management Annual Investment Strategy";  
Scottish Government "The Investment of Money by Scottish Local Authorities".

## **10. APPENDICES**

- 10.1 Appendix 1 - Counterparty List

## **11. REPORT AUTHOR CONTACT DETAILS**

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**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  
Lloyds Banking Group (includes Bank of Scotland)  
Handelsbanken PLC

**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+**

Nordea Bank ABP

**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  
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 - £50m limit**

Clydesdale Bank plc

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

Leeds Building Society  
Skipton Building Society  
Yorkshire Building Society

## **Collective Investment Schemes - £400m total limit**

### **Money Market Funds - £50m limit**

Aberdeen Liquidity Fund – Sterling  
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