

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	09 December 2019
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Treasury Management Policy and Strategy – Mid-Year Review
REPORT NUMBER	RES/19/432
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Neil Stewart
TERMS OF REFERENCE	5

1. PURPOSE OF REPORT

- 1.1 To update the Council on Treasury Management activities undertaken to date during financial year 2019/20.

2. RECOMMENDATION(S)

That Council:-

- 2.1 Consider and note the Treasury Management activities undertaken in the 2019/20 financial year to date, as detailed in this report.

3. BACKGROUND

3.1 Introduction

The Council approved a Treasury Management policy for the financial years 2019/20 to 2021/22 on 4 March 2019. Part of this policy is to report a mid-year review to full Council on Treasury Management activities undertaken to date during financial year 2019/20.

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 2019/20**

The following is a summary of the significant Treasury Management activities which have been undertaken to date during financial year 2019/20: -

3.3.1 Long-Term Borrowing

Four new long-term Public Works Loan Board (PWLB) loans have been drawn down during this financial year totalling £80m. The average rate of the new borrowing is 1.96%. PWLB loans totalling £43m have matured over the past few years but were not replaced at the time due to the level of funds held from the 2016 Bond Issuance. This borrowing effectively replaces that matured debt and the additional sum will be used to fund the Council's capital programme.

3.3.2 HM Treasury announced on 9 October that it was increasing the interest rate it charges on new PWLB borrowing by an additional 1%. Although this increase was unprecedented, it was not completely surprising as there had been very high levels of local authority borrowing during the previous period of relatively low interest rates. At the time of writing and after the rate rise, long-term PWLB rates were around 3%, which is still well within the Council's budgeted borrowing range.

3.3.3 There are no plans for any further long term borrowing this year. 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.

3.3.4 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). 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 has now been built back up to a manageable level, with available rates currently well below long-term borrowing levels.

3.3.5 At the time of writing, the Council currently has c£60m of temporary borrowing from other local authorities. The average interest rate on these loans is 0.78%. More borrowing of this type may be undertaken during the year, should market conditions continue to be favourable.

3.3.6 The Council's Loans Fund also has an ongoing Temporary Loan from the North East of Scotland Pension Fund. Earlier this year, the level of the loan was increased on a short-term basis, at the Pension Fund's request. This increase helped the Pension Fund by providing it with a reasonable rate of return on their temporary excess funds, while also assisting the Council's short-term cashflow liquidity. The level of the temporary loan is c£63m at the time of writing.

3.3.7 Investments

The Council currently has c£160m of Temporary Investments. These funds are invested across a range of highly rated Banks and Money Market Funds in line with the Council's current Counterparty List. This figure includes the Pension Fund's Temporary Loan funds, which are kept in call accounts to enable the funds to be repaid back at very short notice.

3.3.8 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.

3.3.9 The Council operates eight Money Market Fund accounts. These Money Market Fund accounts greatly assist the Council in spreading its Counterparty risk while also improving short-term cashflow liquidity.

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
Financial	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.

7. OUTCOMES

The proposals in this report have no impact on the LOIP/ TOM.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not Required
Privacy Impact Assessment	Not Required
Duty of Due Regard / Fairer Scotland Duty	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

None.

11. REPORT AUTHOR CONTACT DETAILS

Neil Stewart
Accountant
nstewart@aberdeencity.gov.uk
01224 522696