

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	21 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Treasury Management Strategy – Year-End Review
REPORT NUMBER	RES/21/140
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Neil Stewart
TERMS OF REFERENCE	Council, 5 and 6

1. PURPOSE OF REPORT

- 1.1 To update the Council on Treasury Management activities undertaken during financial year 2020/21.

2. RECOMMENDATION(S)

That Council: -

- 2.1 Consider and note the Treasury Management activities undertaken in the 2020/21 financial year as detailed in this report.

3. BACKGROUND

Introduction

- 3.1 The Council approved a Treasury Management policy for the financial years of 2020/21 to 2022/23 on 2 March 2020. Part of this policy is to report a year-end review to full Council.
- 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 2020/21

- 3.3 The following is a summary of the significant Treasury Management activities which were undertaken during financial year 2020/21: -
- 3.4 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 2020/21 was 2.86%, which can be broken down to 2.84% for interest, and 0.02% for expenses. This represents a reduction of 0.72% from the previous year's pool rate.

- 3.5 Long Term Borrowing – No new long-term borrowing was undertaken during financial year 2020/21.
- 3.6 PWLB Interest Rates – In October 2019 HM Treasury introduced a major change to PWLB public sector lending rates. There was an immediate increase to all PWLB borrowing rates of 100 basis points, adding an additional 1% to interest rates. This change meant that HM Treasury set its rates at an average of 180 basis points over the relevant gilt price.
- 3.7 The increase to lending rates was reversed in late November 2020, after a consultation exercise with local authorities and was announced as part of the UK government's autumn spending review.
- 3.8 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 as a result of the Bond Issuance. As these funds were applied over the following financial years to fund the Council's Capital programme, external temporary borrowing has also been built back up at manageable levels, with available rates currently well below long-term borrowing levels. As at 31st March 2021, some £108m of temporary borrowing was held from other local authorities. The average interest rate for these loans is 0.1%.
- 3.9 North East Scotland Pension Fund – The Council's Loans Fund holds 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, and can be accommodated within the Council's overall treasury management functions. As at 31st March 2021, the balance of the temporary loan was £56.6m.
- 3.10 Investments - As at 31st March 2021, the Council had temporary investments totalling £127.2m at an average rate of 0.56%. Investments were made in line with the current Counterparty List to the following institutions: -

• Clydesdale Bank	£28.6m
• HSBC Bank plc	£5.0m
• Royal Bank of Scotland	£10.0m
• Santander UK	£15.0m
• Close Brothers Ltd	£5.0m
• Bank of Scotland	£20.0m
• Federated MMF	£18.6m
• Aberdeen MMF	£20.0m
• Handelsbanken	£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, 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

Category	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 Council Delivery Plan.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Full impact assessment not required
Data Protection Impact Assessment	Not required

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 - None

11. REPORT AUTHOR CONTACT DETAILS

Name	Neil Stewart
Title	Accountant
Email Address	nstewart@aberdeencity.gov.uk
Tel	(01224) 522696