

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Council
<b>DATE</b>	29 June 2022
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Treasury Management Strategy – Year-End Review
<b>REPORT NUMBER</b>	RES/22/109
<b>DIRECTOR</b>	Steven Whyte
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Neil Stewart
<b>TERMS OF REFERENCE</b>	5 and 6

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### 1. PURPOSE OF REPORT

- 1.1 To update the Council on Treasury Management activities undertaken during financial year 2021/22.

### 2. RECOMMENDATION

That Council: -

- 2.1 Consider and note the Treasury Management activities undertaken in the 2021/22 financial year as detailed in this report.

### 3. CURRENT SITUATION

#### Introduction

- 3.1 The Council approved a Treasury Management policy for the financial years of 2021/22 to 2023/24 on 28 February 2022. 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 conducted in accordance with good professional practice, which this Council does.

#### Treasury Management 2021/22

- 3.3 The following is a summary of the significant Treasury Management activities which were undertaken during financial year 2021/22: -
- 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 2021/22 was 3.01%, which can be broken down to 2.99% for interest, and 0.02% for expenses.

- 3.5 Long Term Borrowing – 2 new Public Works long-term loans were undertaken during financial year 2021/22. Both loans were for £20m, and the average rate of the new borrowing was 2.00%.
- 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 from the Bond Issuance. External temporary borrowing has since been built back up to a manageable level, with available rates currently well below long-term borrowing levels. As at 31<sup>st</sup> March 2022, £125.5m of temporary borrowing was held from other local authorities. The average interest rate for these loans was 0.25%.
- 3.9 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. As at 31<sup>st</sup> March 2022, the balance of the temporary loan was £58.4m.
- 3.10 Investments - As at 31<sup>st</sup> March 2022, the Council had temporary investments totalling £88.4m at an average rate of 0.59%. Investments were made in line with the current Counterparty List to the following institutions: -

• Clydesdale Bank	£30.0m
• HSBC Bank plc	£5.2m
• Santander UK	£10.0m
• Close Brothers Ltd	£10.0m
• State Street MMF	£4.6m
• Insight MMF	£28.3m
• Aberdeen MMF	£0.3m

#### **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. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

## 7. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H)  *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
<b>Strategic Risk</b>	No significant risks identified			
<b>Compliance</b>	No significant risks identified			
<b>Operational</b>	No significant risks identified			
<b>Financial</b>	Loss of deposit in a failed bank or financial institution	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	L	<b>Yes</b>
<b>Reputational</b>	No significant risks identified			
<b>Environment / Climate</b>	No significant risks identified			

## 8. OUTCOMES

8.1 The proposals in this report have no impact on the Council Delivery Plan.

## 9. IMPACT ASSESSMENTS

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

## 10. BACKGROUND PAPERS

10.1 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"

11. APPENDICES - None

## 12. REPORT AUTHOR CONTACT DETAILS

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