

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Council
<b>DATE</b>	14 December 2022
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Treasury Management Strategy – Mid-Year Review
<b>REPORT NUMBER</b>	RES/22/267
<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 to date, during financial year 2022/23.

### 2. RECOMMENDATION

That Council: -

- 2.1 Note the Treasury Management activities undertaken in the 2022/23 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 2022/23 to 2024/25 on 28 February 2022. Part of this policy is to report on Treasury Management activities undertaken during the financial year 2022/23 to date.
- 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 2022/23

- 3.3 The following is a summary of the significant Treasury Management activities which were undertaken during financial year 2022/23: -
- 3.4 Long-Term Borrowing – One new long-term Public Works Loan Board (PWLB) loan has been drawn down during this financial year, when interest rates were

unusually low. The £20m loan was undertaken at a rate of 2.79%. This borrowing effectively replaces matured/repaid debt and will be used to fund the Council's capital programme.

Further long-term borrowing was planned for this year, but this has since been deferred due to adverse market conditions, resulting in relatively high long-term borrowing rates. Until market conditions become more favourable, any further borrowing undertaken will be cheaper, short-term borrowing, usually from other local authorities.

We remain open to the possibility of undertaking some longer-term borrowing, should market conditions become favourable.

- 3.5 Short-Term Borrowing - At the time of writing, the Council currently has c£93m of temporary borrowing from other local authorities. The average interest rate on these loans is 1.6%. More borrowing of this type may be undertaken during the year, as necessary, should interest rates continue to be favourable.
- 3.6 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. At the time of writing, the balance of the temporary loan was £59.8m.
- 3.7 Investments - The Council currently has c£70m 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. The average rate of these investments is 2.25%. This figure includes the Pension Fund's Temporary Loan funds, these are kept in call accounts that enable the funds to be repaid at very short notice.
- 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. 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.
- 3.9 Common Good Fund Investment - A decision was taken by the Council in 2021 to invest £30m of Common Good cash in a Multi-Asset Income fund, which generates greater income for the fund, when compared with traditional fixed-term bank deposits. Several funds were considered for this purpose, and after a period of meetings and further due diligence, the decision was taken to proceed with Fidelity International's Multi-Asset Income fund.

To date this fund has raised £1.3m in interest at an average rate of 4.1%

- 3.10 Retail Price Index (RPI) – At the time of writing, the latest RPI rate (Sept 22) was 12.6%, a rise of 0.3% from the previous month. The rises to this rate have

particular relevance to the Council in relation to its 2016 Bond issuance. Increases in the RPI rate are used to calculate indexation, which is paid alongside half yearly repayments of the Bond debt.

#### 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	L	Yes

		list is compiled in conjunction with the Council's Treasury		
<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
<b>Integrated Impact Assessment</b>	Full impact assessment not required
<b>Data Protection Impact Assessment</b>	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

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