

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Council
<b>DATE</b>	7 February 2024
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Treasury Management Policy
<b>REPORT NUMBER</b>	RES/24/034
<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 outline the Council's Treasury Management Policy for 2024/25 to 2026/27, for approval.

### 2. RECOMMENDATION

That Council: -

- 2.1 Approve the Council's Treasury Management Policy, including the Treasury Management Policy Statement, Borrowing Policy, Investment Policy and Counterparty list, for 2024/25 to 2026/27 as detailed at Appendix 1.

### 3. CURRENT SITUATION

#### Introduction

- 3.1 The Council approved a Treasury Management Policy for the financial years 2023/24 to 2025/26 on 22 February 2023. Part of this policy is to report annually on a policy which covers future financial years. A final report reviewing Treasury Management activities for the year, as well as a mid-year review report, will also be presented to full Council, in due course.
- 3.2 Councils are required by the Local Government Capital Expenditure Limits (Scotland) Regulations 2004 to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Finance in Local Authorities ("the Code") when carrying out their duties under part 7 of the Local Government in Scotland Act 2003.
- 3.3 It is a requirement of this Code that Treasury Management is carried out in accordance with good professional practice. The Code requires compliance with the CIPFA "Code of Practice for Treasury Management in the Public Services", which this Council does. The CIPFA Code of Practice states that Treasury Management reports must be approved by full Council.

- 3.4 Historically, the Council's annual programme of capital investment has been funded by Treasury Management activities, such as additional long-term borrowing.

### **Treasury Management Policy 2024/25 to 2026/27**

- 3.5 The proposed Treasury Management Policy for 2024/25 to 2026/27 is set out in detail at Appendix 1 and is subject to annual review. The policy has been slightly revised to align with the latest versions of both the CIPFA Code of Practice for Treasury Management in the Public Services, and the Prudential Code for Capital Finance in Local Authorities.

### **Treasury Management Policy Statement 2024/25 to 2026/27**

- 3.6 The proposed Treasury Management Policy Statement for 2024/25 to 2026/27 is set out in detail in Appendix 1, Section 5.1, for approval. The Policy Statement uses a form of words as recommended by CIPFA in its Code of Practice for Treasury Management in the Public Services.

### **Borrowing and Investment Policies 2024/25 to 2026/27**

- 3.7 There are no key changes within either the Council's Borrowing or Investment Policies for 2024/25 to 2026/27.
- 3.8 The Council's proposed Borrowing Policy for 2024/25 to 2026/27 is set out in detail at Appendix 1, Section 5.2 for approval. The Council's proposed Investment Policy for 2024/25 to 2026/27 is set out in detail at Appendix 1, Section 5.4 for approval.
- 3.9 The process of setting these policies takes account of the pre-existing structure of the Council's debt and investment portfolios. The limits on fixed rate debt and variable rate debt within this Treasury Management policy may be subject to further change, in line with market conditions. However, any such change to these limits would be reported to Council.
- 3.10 One of the key areas of the Local Government Investments (Scotland) Regulations 2010 (the "investment regulations") is permitted investments. Under the regulations and the associated Finance Circular 5/2010, local authorities are required to set out in their policy the types of investment that they will permit in the financial year. These are known as permitted investments. The Council is required to set a limit to the amounts that may be held in such investment types at any time in the year, although some types of investment may be classed as unlimited, e.g., Bank deposits (subject to individual Counterparty list limits).
- 3.11 Permitted Investment instruments identified for use in the financial years 2024/25 to 2026/27 are listed in Appendix 1, Section 5.5.

The Investment Policy is also required to identify: -

- the different types of risk that each permitted type of investment is exposed to;

- the objectives for each type of permitted investment;
- details of the maximum value and maximum period for which funds may prudently be invested; and
- procedures for reviewing the holding of longer-term investments

### **Counterparty List**

- 3.12 The Council, as part of its Treasury Management Policy, has an approved listing of banks and other financial institutions (the Counterparty list) with which it can undertake short-term money investments.
- 3.13 The Council's Counterparty list is compiled using credit rating information supplied by the major credit rating agencies to Link Asset Services, the Council's appointed Treasury Management advisors.
- 3.14 The Counterparty list was last updated on 22 February 2023, and is attached at Appendix 1, Section 5.7, for approval.

### **CIPFA Code of Practice for Treasury Management in the Public Services**

- 3.15 A revised version of the Treasury Management Code of Practice was issued by CIPFA in December 2021, which took effect from 1<sup>st</sup> April 2023. The latest revision includes some slight changes to practices. Most of the changes to the Code were around borrowing for purely commercial purposes, which this Council does not do.

### **The Prudential Code for Finance in Local Authorities**

- 3.16 Similarly a revised version of the Prudential Code was issued by CIPFA in December 2021. Again, this revision features some changes to prudential indicator reporting with effect from 1<sup>st</sup> April 2023
- 3.17 The Council's Capital Strategy will demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy will also set out the long-term context in which capital expenditure and investment decisions are made and give due consideration to both risk and reward and impact on the achievement of priority outcomes.
- 3.18 The Capital Strategy will be developed, reported for approval and implemented in due course.
- 3.19 The ability for the Council to set the scope and size of its capital plans remains unrestricted, but the prudential system processes have been strengthened to set out greater consideration of prudence, with sustainability and risk reporting to be improved through governance procedures.
- 3.20 The Council remains required to comply with the requirements of the Prudential Code. This includes the setting of several Prudential Indicators.

- 3.21 Included within these indicators are several Treasury Management Indicators for External Debt boundaries. The Code does state “It will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cash flow. However, a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate”.
- 3.22 The Council has in place an early warning system to highlight when these indicators are likely to be breached. No indicators were breached during the previous year.
- 3.23 The Prudential Indicators 2024/25 to 2028/29 will be considered and approved by Council at its budget meeting on 6<sup>th</sup> March 2024.

### **National Limit on Local Authority Borrowing**

- 3.24 HM Treasury has a reserve power to limit local authority borrowing for 'national economic reasons'. The UK Local Government Act 2003 specifies that any such 'National Limit' would be used to protect the country's economic interest if local borrowing under the Prudential Code, albeit prudent locally, were unaffordable nationally.
- 3.25 In principle, a national limit could be set at any point during any financial year. Any such national limit would be implemented, based on local authorities outstanding borrowing with all future borrowing being reduced proportionately. There are no known plans for the introduction of a national limit.

## **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 UK Market Abuse Regulation, 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
<b>Impact Assessment</b>	It is confirmed by Chief Officer - Finance that no Integrated Impact Assessment is 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

- 11.1 Appendix 1 - Treasury Management Policy for 2024/25 to 2026/27

## 12. REPORT AUTHOR CONTACT DETAILS

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