Aberdeenshire COUNCIL Business Services

BUSINESS SERVICES COMMITTEE – 12 SEPTEMBER 2019

OUTTURN REVIEW OF THE PERFORMANCE OF THE TREASURY MANAGEMENT FUNCTION FOR THE PERIOD 1 APRIL 2018 TO 31 MARCH 2019

1 Recommendation

The Committee is recommended to:

1.1 Review this report which details performance and compliance in relation to the Treasury Management function for the period from 1 April, 2018, to 31 March, 2019.

2. Background / Discussion

2.1 Treasury risk management at the Council is conducted within the framework of the Code of Practice for Treasury Management in the Public Services (the CIPFA Code), which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, produce a six month and annual treasury outturn report.

2.2 The Council's Treasury Management Strategy for 2018/19 was approved by the Business Services Committee on 18 April, 2019. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

Interest Rates 2018/19

2.3 The Bank of England base rate began the financial year at 0.50% - this was increased to 0.75% in August 2018. The Bank of England Monetary Policy Committee in August maintained expectations of a slow rise in interest rates, based on the assumption of a straightforward Brexit.

Investment Portfolio – Values and Returns

2.4 The average return on short-term investment rates achieved in 2018/19 was 0.70% (0.46% - 2017/18). The number of financial institutions with whom the Council can invest reduced significantly following the banking crisis in 2008 - this together with the historically-low bank rates is reflected in the average rate of return achieved. In 2018/19, the rates offered by those financial institutions with whom the Council can invest increased as a result of the upward movement of bank rate.

2.5 The Investment Policy complies with the Local Government Investments (Scotland) Regulations 2010 (the Investment Regulations) and the associated consent to invest now incorporates shareholdings, loans to third parties and investment properties. The performance of these investments is detailed in **Appendix 1.**

Borrowing

2.6 Long-term borrowing rates obtainable from the Public Works Loan Board were higher than the bank rate throughout the financial year, which meant there was a cost of carry associated with holding additional surplus funds. The long-term borrowing rates over the course of the year were volatile within a narrow band reflecting the continued uncertainty due to the Brexit negotiations and a variety of problems on global markets.

2.7 Each year, the long-term borrowing requirements of the Council are identified as part of the Council's Medium Term Financial Strategy (MTFS). Despite low long-term borrowing rates, the strategy has been to utilise internal balances to fund capital activity and only undertake long-term borrowing when prudent, thereby securing low rates whilst minimising interest rate and credit risk. Aberdeenshire Finance closely monitors the market to identify the most opportune time to borrow, repay or restructure debt within the constraints of the Treasury Management Strategy. **Appendix 2** details treasury management long-term borrowing activity for the year.

2.8 During the reporting period, there were no instances of the Treasury Management Strategy Statement being in breach and there were no instances of non-compliance, as detailed in **Appendix 3**.

2.9 The approved indicators for 2018/19 and actual outturn are shown at **Appendix 4**.

2.10 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated in the report. They are satisfied that the report complies with the Scheme of Governance and relevant legislation.

3 Scheme of Governance

3.1 The Committee is able to consider this item in terms of Section C.2.7 of the List of Committee Powers in Part 2A of the Scheme of Governance.

4 Implications and Risks

4.1 An equality impact assessment is not required because the recommended actions do not have a differential impact on people with protected characteristics.

4.2 There are no staffing implications as a direct result of this report and there are no direct financial implications arising from this report. The combined General Fund and HRA financing cost was £36,427,000 (General Fund: £29,933,000 and HRA: £6,494,000), against a revised budget of £37,241,000 (General Fund: £30,340,000 and HRA: £6,901,000), in 2018/19. Proactive investment and debt management has been essential in the management of this budget.

4.3 The following Risk has been identified as relevant to this matter on a Strategic Level: Balancing the Books (*Directorate Risk Registers*).

Alan Wood
Head of Finance

Report prepared by: Bruce Lawrence, Treasury Management Officer 13 July, 2019

Appendix 1

Other Investment Activity

Name	**Balance as at 31 March 2018**	**Balance as at 31 March 2019**	**Investment Return 2018/19**
	£s	**£'s**	**£'s**
Call Accounts	8,800,000	17,150,000	81,545
Money Market Funds	0	20,000,000	103,878
Fixed Term Deposits	10,000,000	0	130,959
	18,800,000	**37,150,000**	**316,382**
Trust Funds: Heritable Property	0	0	0
Trust Funds: Government Stocks	215,666	224,473	5,078
Trust Funds Shareholdings: Investment Trusts	346,814	371,200	2,226
Trust Funds Shareholdings: Unit Trusts	3,221,724	3,225,114	113,172
Trust Funds Shareholdings: Others	73,502	72,997	1,635
Investment in Loans Fund	2,773,886	2,994,325	20,232
	6,631,592	**6,888,109**	**142,343**
Common Good Funds: Heritable Property	1,370,133	1,692,019	0
Common Good Funds Shareholdings: Unit Trusts	13,967	14,295	589
Investment in Loans Fund	1,456,326	1,485,243	10,249
	2,840,426	**3,191,557**	**10,838**
Ad hoc loans incl. existing long-term debtors	10,406,078	10,417,556	208,380
Support for Aberdeenshire Business Scheme	168,752	161,813	2.217
	10,574,830	**10,579,369**	**210,597**
Investment Land and Buildings	**1,712,350**	**1,448,850**	**0**
Total	**40,559,198**	**59,257,885**	**680,160**

Appendix 2

Long Term Borrowing and Debt Rescheduling in 2018/19

1. New Borrowing

Opportunities arose through Brexit uncertainty to take new long term borrowing at historically low rates. New loans raised during the year in line with the approved MTFS are detailed below. Capital requirements continued to be funded by a mix of internal borrowing, long term borrowing and short term temporary borrowing.

Date	Amount	Rate of Interest	Term
	£'s	**%**	**Years**
20/11/18	10,000,000	1.83%	6.00
20/11/18	20,000,000	1.66%	4.00
12/03/19	10,000,000	2.36%	49.00
12/03/19	15,000,000	2.36%	50.00
25/03/19	10,000,000	1.93%	10.50
26/03/19	5,000,000	1.90%	10.50
	70,000,000	**1.99%**	**21.96**

2. Early Loan Repayment

No appropriate opportunities arose to take advantage of the early repayment of debt during the year.

If opportunities had arisen it would have given rise to savings over the life of the loans from discounts and lower interest rates on the loans. When a loan with the PWLB is repaid early, a premium or discount is paid or received from the PWLB. These payments or receipts represent the difference between the interest rate of the loan repaid and the current PWLB interest rate for a loan lent for the same period.

Appendix 3

1. Treasury Management Performance

(i) Average cost of servicing Loans Fund advances in year

The Loans fund interest and expenses rates indicate the cost of raising and servicing the Council's borrowings as a percentage of amounts owing to the Loans Fund by the Council's services.

	2017/18 Actual	**2018/19 Budget**	**2018/19 Actual**
Loans Fund Interest Rate	3.49%	3.41%	3.24%
Loans Fund Expenses Rate	0.02%	0.04%	0.03%
Total Rate	**3.51%**	**3.45%**	**3.27%**

The Loans Fund interest rate reflects rates applicable to the whole debt portfolio of the Council. (General Fund and HRA)

(ii) Average interest rate of longer-term borrowing (i.e. for one year or more) raised in-year

Indicates whether the Council is achieving value for money in its borrowings.

	2017/18 Actual	**2018/19 Budget**	**2018/19 Actual**
Average interest rate of longer term borrowing	0.00%	2.50%	1.99%

(iii) Average maturity of long term borrowing raised in year

Indicates whether or not the Council's borrowing strategy is appropriate to the prevailing interest rate environment. In times of low interest rates, it is desirable to borrow for long periods at fixed interest rates to guard against the risk that rates might increase. Conversely, in times of high interest rates, it can be desirable to borrow over shorter periods if rates are expected to fall.

	2017/18 Actual	**2018/19 Actual**
New borrowing	0.00 years	21.96 years
Debt rescheduling	n/a	n/a
Average	0.00 years	21.96 years

When new borrowing is taken, reference is made to our maturity profile when deciding the term of the loans and which offer best value. Decisions are made with reference to Link Asset Services who are our treasury advisors.

2. Compliance with the Investment Policy

(i) Selection of counterparties for lending of surplus money in the Council Loans Fund

Lending in year has been with the counterparties listed below. This complies with the conditions for lending included in the Council's approved Investment Policy.

Interest Receivable Realised from Counterparties

Counterparty	2018/19 Actual
	£s
Bank of Scotland	64,274
Bayerische Landesbank	23,945
Clydesdale Bank PLC	81,545
Federated Investors Sterling MMF	44,346
Insight MMF	124
Legal & General Investment Management Sterling Liquidity MMF	22,233
Royal Bank of Scotland	42,740
Standard Life Sterling Liquidity MMF	34,501
State Street Sterling MMF	2,674
Total Interest Received	**316,382**

(ii) Investment of the fund balances of trusts and common good funds

Investments held by trusts and common good funds administered by the Council complied with the Investment Policy in the period 1 April 2018 to 31 March 2019.

(iii) No more than £10m will be lent to and be outstanding with any one borrower at one time, with the exception of (i) the Debt Management Office where the limit will not be capped and (ii) UK government backed institutions and the Councils bankers, where the limit will be £20 million. The borrower group limit is also £20m.

This element of the policy was complied with.

(iv) Restriction of temporary borrowing to 20% of the total capital debt outstanding at the time of borrowing

	Actual 2017/18	Actual 2018/19
Maximum Borrowing to Debt Outstanding	4.86%	11.75%

This element of the policy was complied with.

(v) The minimum average life to maturity of all long term borrowing will be 5 years

	Actual 2017/18	**Actual 2018/19**
Minimum Average Life to Maturity	24.46 years	23.40 years

This element of the policy was complied with.

(vi) No more than the greater of 25% of all temporary borrowing or £30M will be taken from any one lender at any one time.

	Actual 2017/18	**Actual 2018/19**
	£s	**£s**
Maximum Outstanding with 1 lender	10,000,000	20,000,000

This element of the policy was complied with.

Appendix 4

PRUDENTIAL INDICATORS

Prudential Indicator 1. Ratio of financing cost to net revenue stream

A comparison needs to be made between the financing of capital expenditure and the revenue income stream to support these costs. This shows how much of the revenue budget is committed to the servicing of finance and indicates the affordability of the Council's capital expenditure proposals.

General Fund

	2018/19 Budget £000	**2018/19 Outturn £000**	**2018/19 Variance £000**	**Reason for Variance**
Financing Costs	37,248	36,940	(308)	Capital expenditure lower than budget and lower borrowing costs
Net Revenue Stream	(542,885)	(560,143)	(17,258)	Additional Scottish Government funding
%	6.86%	6.59%		

HRA

	2018/19 Budget £000	**2018/19 Outturn £000**	**2018/19 Variance**	**Reason for Variance**
Financing Costs	7,306	6,494	(812)	Capital expenditure lower than budget and lower borrowing costs
Net Revenue Stream	(57,535)	(57,095)	440	Lost rents higher than budgeted
%	12.70%	11.37%		

Prudential indicator 2. Incremental impact of investment decisions on council tax/rents

There are no proposed changes to the existing capital plans which impacts on the level of borrowing over the medium term and therefore no incremental effect on council tax or rents.

	Approved 2018/19	Actual 2018/19	Approved 2019/20
General Fund	zero	zero	zero
Housing Revenue Account	zero	zero	zero

Prudential Indicator 3. Net borrowing and the capital financing requirement

Part of the Council's treasury activities is to address the funding requirements for the borrowing need. The Treasury team ensures that there is sufficient cash available to meet the Council's cash flow requirements and General Fund and HRA capital plans**.** This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

	Approved 2018/19	Actual 2018/19	~~Approved 2019/20~~
	£m	**£m**	~~**£m**~~
Net Borrowing	756	729	~~846~~
Capital Financing Requirement	845	815	~~929~~

The net borrowing is less than the capital financing requirement this indicates that the Council is utilising internal revenue balances to meet the cash requirements of its capital investment plans.

Prudential Indicator 4. Gross External Borrowing and the Capital Financing Requirement

The Council is required to ensure that any borrowing is only used to finance capital and therefore it must demonstrate that the gross external borrowing does not exceed the total of capital financing requirements over a three-year period. (current plus next two financial years). This indicator is for the overall Council position and does not detail the split between General Fund and HRA.

	Approved 2018/19	Actual 2018/19	2018/19 Variance
	£m	**£m**	**£m**
Gross External Borrowing	787	769	(18)
Capital Financing Requirement	845	815	(30)
(Over)/Under limit	58	46	

The total debt is expected to remain below the Capital Financing Requirement for the foreseeable future.

Prudential Indicator 5 - Estimated capital expenditure

The actual capital expenditure incurred for 2018/19 compared to the budget set in February 2018 was:

	Budget 2018/19	Actual 2018/19	Variance	Reason for Variance
	£m	£m	£m	
General Fund	100.16	85.00	(15.16)	Revised funding model for Inverurie Community Campus resulted in removal from the capital plan.
Housing Revenue Account	49.96	37.70	(12.26)	Slippage in the Housing Improvement Plan
Total Capital Expenditure	**150.12**	**122.69**		

Prudential Indicator 6. Authorised limit and Operational Limit for external debt

The Authorised Limit is the affordable borrowing limit and represents the maximum amount that the Council may borrow at any point during the year. It is set to reflect current and proposed borrowing and contains an allowance for the estimated maximum temporary borrowing during the year to meet cash flow requirements. The authorised limit should not be breached in any circumstances without the prior approval of the Council.

The Operational Limit is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the limit is acceptable subject to the authorised limit not being breached. Borrowing levels were maintained well below the operational boundary throughout the year.

	Approved 2018/19	Actual maximum borrowing 2018/19
	£m	£m
Authorised Limit	911	843
Operational Limit	861	793

Prudential Indicator 7. Compliance with CIPFA Code of Practice for Treasury Management in the Public Services

The Council has complied with the Code

Prudential Indicator 8. Upper limits on fixed and variable interest rate exposures

The Council's primary objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

	Approved Limit 2018/19	Actual 2018/19
Fixed rate exposure upper limit	100%	89%
Variable rate exposure upper limit	40%	18%

This indicator ensures that no more than 40% of the overall debt portfolio is exposed to fluctuations in interest rates at any time.

Prudential Indicator 9. Upper limit for the maturity structure of fixed rate borrowing

In order to avoid exposure to fluctuating or higher interest rates it is important to manage debt maturity to limit any requirement to re-borrow funds in any given period. This indicator sets maximum and minimum limits for the value of debt maturing in different time periods.

	Maximum proportion of fixed rate borrowing maturing Indicator	Maximum proportion of fixed rate borrowing maturing to 31/03/19	Minimum proportion of fixed rate borrowing maturing Indicator	Minimum proportion of fixed rate borrowing maturing to 31/03/19
Under 12 months	30%	3.20%	0%	2.85%
1 year to 2 years	30%	3.81%	0%	3.40%
2 years to 5 years	50%	10.23%	0%	7.32%
5 years to 10 years	75%	16.37%	0%	15.36%
10 years and above	90%	70.18%	25%	66.74%