

## **BUSINESS SERVICES COMMITTEE – 14 SEPTEMBER 2017**

### **OUTTURN REVIEW OF THE PERFORMANCE OF THE TREASURY MANAGEMENT FUNCTION FOR THE PERIOD 1 APRIL 2016 TO 31 MARCH 2017**

#### **1 Recommendation**

**The Committee is recommended to:**

- 1.1 To review this report which details performance and compliance in relation to the Treasury Management function for the period 1 April 2016 to 31 March 2017.**

#### **2. Background / Discussion**

- 2.1 The Code of Practice for Treasury Management by Local Authorities issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which forms part of the Council's Financial Regulations, states that the performance of the treasury management function should be reviewed at least twice a year.
- 2.2 The Treasury Management Strategy Statement and Prudential Indicators are approved annually. The Strategy Statement incorporates the Investment Policy and Long Term Borrowing Strategy. The Strategy Statement in relation to 2016/17 was approved by Policy and Resources Committee on 21 April 2016 (Item 6, Page 1677).
- 2.3 The Bank rate was 0.5% at the start of the financial year 2016/17 and was reduced by the Bank of England to 0.25% on 4<sup>th</sup> August 2016 in a bid to stimulate the economy. This was the first cut since 2009.
- 2.4 The average return on short term investment rates achieved in 2016/17 was 0.53% (0.56% - 2015/16). 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 2016/17 the rates offered by those financial institutions with whom the Council can invest reduced significantly as a result of a reduction in demand for wholesale deposits.
- 2.5 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 reduced reflecting the uncertainty due to the Brexit vote and the election of the new US President impacting on global markets.
- 2.6 Each year the long term borrowing requirements of the Council are identified. 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 1** details treasury management long term borrowing activity for the year.

- 2.7 During the reporting period there were no instances of the Treasury Management Strategy Statement being in breach.  
During the reporting period there were no instances of non-compliance as detailed in **Appendix 2**.
- 2.8 The approved indicators for 2016/17 and actual outturn are shown at **Appendix 3**.
- 2.9 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 are detailed in **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 and 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 £36,236,000 (General Fund: £29,902,000 and HRA: £6,334,000), against a revised budget of £36,722,000 (General Fund: £30,042,000 and HRA: £6,680,000), in 2016/17. 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 2017

## Appendix 1

### Long Term Borrowing and Debt Rescheduling in 2016/17

#### 1. New Borrowing

Date	Amount £'s	Rate of Interest %	Term Years
08/06/16	10,000,000	2.71%	44.50
08/06/16	10,000,000	2.71%	49.50
17/06/16	15,000,000	2.70%	35.50
17/06/16	15,000,000	2.56%	15.50
17/06/16	20,000,000	1.79%	7.50
17/06/16	10,000,000	2.60%	40.50
17/06/16	10,000,000	2.59%	41.50
17/06/16	10,000,000	2.57%	50.00
28/06/16	10,000,000	2.49%	43.50
05/07/16	10,000,000	2.17%	49.50
	<b>120,000,000</b>	<b>2.44%</b>	<b>34.17</b>

#### 2. Early Loan Repayment

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

If these had occurred 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 2

### A. Compliance and Performance

#### 1. Treasury Management Performance

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

Purpose:- 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.

	<b>2015/16 Actual</b>	<b>2016/17 Budget</b>	<b>2016/17 Actual</b>
Loans Fund Interest Rate	4.05%	4.43%	3.74%
Loans Fund Expenses Rate	0.02%	0.03%	0.03%
<b>Total Rate</b>	<b>4.07%</b>	<b>4.46%</b>	<b>3.77%</b>

The Loans Fund interest rate reflects rates applicable to the whole debt portfolio of the Council.

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

Purpose:- Indicates whether or not the Council is achieving value for money in its borrowings.

	<b>2015/16 Actual</b>	<b>2016/17 Budget</b>	<b>2016/17 Actual</b>
Average interest rate of longer term borrowing	2.97%	4.14%	2.44%

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

Purpose:- 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.

	<b>2015/16 Actual</b>	<b>2016/17 Actual</b>
New borrowing	36.25 years	34.17 years
Debt rescheduling	n/a	n/a
Average	36.25 years	34.17 years

When new borrowing was taken during the year, reference was made to our maturity profile when deciding the term of the loans and which offered best value. Decisions were made with reference to Capita Asset Services who are our treasury advisors.

## Compliance with the Investment Policy

- (i) *“Selection of counterparties for lending of surplus money in the Council Loans Fund”:-*

Lending has been to the counterparties listed below. This complies with the conditions for lending included in the Investment Policy.

### Interest Receivable Realised from Counterparties

Counterparty	2016/17 Actual
	£s
Bank of Scotland	57,315
Clydesdale Bank PLC	31,223
DZ Bank AG	25,570
Federated Investors Sterling MMF	27,298
Goldman Sachs International Bank	20,609
Insight Sterling Liquidity Fund	3,935
Landesbank Baden Wuerttemberg	30,082
Legal & General Investment Management Sterling Liquidity MMF	16,041
Nationwide Building Society	33,907
Norddeutsche Landesbank	33,370
Nordea Bank	32,411
Santander Time Deposit	192
Standard Chartered Bank	9,370
Standard Life Sterling Liquidity MMF	29,696
State Street Sterling MMF	348
Sumitomo Mitsui Banking Corp	35,741
Svenska Handelsbanken	27,793
<b>Total Interest Received</b>	<b>414,901</b>

- (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 2016 to 31 March 2017.

- (iii) *“Restriction of amount lent to any one borrower at any one time to £10M”.*

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 2015/16	Actual 2016/17
Maximum Borrowing to Debt Outstanding	3.09%	3.13%

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

	<b>Actual 2015/16</b>	<b>Actual 2016/17</b>
Minimum Average Life to Maturity	23.83 years	23.98 years

(vi) *“No more than the greater of 25% of all temporary borrowing or £15M will be taken from any one lender at any one time except where the Bank of England is the lender where a limit of £25M will apply”*

	<b>Actual 2015/16</b>	<b>Actual 2016/17</b>
	<b>£s</b>	<b>£s</b>
Maximum Outstanding with 1 lender	10,000,000	5,000,000

## Appendix 3

### PRUDENTIAL INDICATORS

#### 1. Estimated ratio of financing cost to net revenue stream

Purpose:- This ratio indicates the percentage of the revenue budget that is required to meet the cost of external borrowing. A separate ratio is shown for the General Fund (GF) and Housing Revenue Account (HRA), and indicates the affordability of the Council's capital expenditure proposals.

Indicator:

	<b>Approved 2016/17</b>	<b>Actual 2016/17</b>	<b>Approved 2017/18</b>
General Fund	6.71%	6.47%	7.02%
Housing Revenue Account	12.71%	12.20%	12.77%

#### 2. Estimated incremental impact of investment decisions on council tax/rents

Purpose:- This ratio links with the previous ratio and indicates the impact of capital expenditure plans on the revenue budget.

Indicator:

	<b>Approved 2016/17</b>	<b>Actual 2016/17</b>	<b>Approved 2017/18</b>
General Fund	zero	zero	zero
Housing Revenue Account	zero	zero	zero

This indicates that, because there is no proposed change to the existing capital plans which impacts on the level of borrowing over the medium term there is no incremental effect on council tax or rents.

#### 3. Net borrowing and the capital financing requirement

Purpose:- These indicators show the estimated total borrowing required to fund existing and additional capital expenditure proposals and the estimated level of actual borrowing. The indicators are only required for the Council's overall position and are not divided between the General Fund and HRA.

Indicator:

	<b>Approved 2016/17</b>	<b>Actual 2016/17</b>	<b>Approved 2017/18</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Net Borrowing	648	642	708
Capital Financing Requirement	757	727	817

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.

#### 4. Estimated capital expenditure

Purpose:- This indicator details the value of the capital expenditure budget and actual.

Indicator:

	<b>Initial Budget 2016/17</b>	<b>Actual 2016/17</b>	<b>Initial Budget 2017/18</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
General Fund	108.26	102.34	132.34
Housing Revenue Account	31.35	27.99	34.76
<b>Total</b>	<b>139.61</b>	<b>130.33</b>	<b>167.10</b>

#### 5. Authorised limit and operational limit for external debt

Purpose:- The authorised limit sets an absolute limit for the Council's total external borrowing inclusive of long term liabilities. 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 operational limit excludes the allowance for temporary borrowing and reflects the budgeted provision for borrowing. It is however necessary to retain some scope for managing temporary cash shortfalls, hence the requirement to set a higher authorised limit. The authorised limit should not be breached in any circumstances without the prior approval of the Council.

Indicator:

	<b>Approved 2016/17</b>	<b>Actual 2016/17</b>	<b>Approved 2017/18</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Authorised Limit	835	816	922
Operational Limit	785	766	847



**6. Has the Council adopted the CIPFA Code of Practice for Treasury Management in the Public Services?**

Purpose:- Prudential indicators require a close link to existing good practice in Treasury Management. Adoption of the CIPFA Code reflects best practice in this area.

Indicator: Yes

## 7. Upper limits on fixed and variable interest rate exposures

Purpose:- The Treasury Management Policy requires the Council to minimise risk rather than to maximise return. Exposure to variable interest rates means that the Council is exposed to higher borrowing costs in the event of a sudden increase in interest rates.

Indicator:

	Approved 2016/17	Actual 2016/17	Approved 2017/18
Fixed rate exposure upper limit	100%	106%	100%
Variable rate exposure upper limit	40%	10%	40%

The fixed rate upper limit has been exceeded due to the nature of the prescribed method of calculation, whereby net borrowing includes temporary investments. In 2016/17 net borrowing was less than total fixed rate borrowing due to the level of temporary investments.

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

## 8. Upper limit for the maturity structure of fixed rate borrowing

Purpose:- 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.

Indicator:

	Maximum proportion of fixed rate borrowing maturing Indicator	Maximum proportion of fixed rate borrowing maturing to 31/03/17	Minimum proportion of fixed rate borrowing maturing Indicator	Minimum proportion of fixed rate borrowing maturing to 31/03/17
Under 12 months	30%	8.49%	0%	6.91%
1 year to 2 years	30%	3.86%	0%	3.14%
2 years to 5 years	50%	13.85%	0%	11.28%
5 years to 10 years	75%	9.27%	0%	6.96%
10 years and above	90%	69.68%	25%	66.57%

**Appendix 4  
Other Investment Activity**

<b>Name</b>	<b>Balance as at 31 March 2016</b>	<b>Balance as at 31 March 2017</b>	<b>Investment Return 2016/17</b>
	<b>£s</b>	<b>£'s</b>	<b>£'s</b>
Call Accounts	8,700,000	4,050,000	33,307
Money Market Funds	10,000,000	0	77,318
Fixed Term Deposits	0	25,000,000	304,276
	<b>18,700,000</b>	<b>29,050,000</b>	<b>414,901</b>
Trust Funds: Heritable Property	0	0	0
Trust Funds: Government Stocks	201,113	221,618	4,764
Trust Funds Shareholdings: Investment Trusts	63,929	79,304	2,153
Trust Funds Shareholdings: Unit Trusts	2,721,717	3,252,805	90,621
Trust Funds Shareholdings: Others	64,669	73,959	586
Investment in Loans Fund	2,647,428	2,729,286	18,849
	<b>5,698,856</b>	<b>6,356,972</b>	<b>116,973</b>
Common Good Funds: Heritable Property	730,384	1,391,747	0
Common Good Funds Shareholdings: Unit Trusts	13,786	14,753	511
Investment in Loans Fund	1,449,424	1,468,349	7,582
	<b>2,193,594</b>	<b>2,874,849</b>	<b>8,093</b>
Adhoc loans incl. existing long-term debtors	7,683,481	12,666,148	144,528
Support for Aberdeenshire Business Scheme	122,639	130,702	239
	<b>7,806,120</b>	<b>12,796,850</b>	<b>144,767</b>
Investment Land and Buildings	<b>1,740,900</b>	<b>1,687,350</b>	<b>0</b>
<b>Total</b>	<b>36,139,470</b>	<b>52,766,021</b>	<b>684,734</b>