

REPORT TO BUSINESS SERVICES COMMITTEE – 9 SEPTEMBER 2021

OUTTURN REVIEW OF THE PERFORMANCE OF THE TREASURY MANAGEMENT FUNCTION FOR THE PERIOD 1 APRIL 2020 TO 31 MARCH 2021

1 Reason for Report / Summary

- 1.1 This report details performance and compliance in relation to the Treasury Management Function for the period 1 April 2020 to 31 March 2021.

2 Recommendations

The Committee is recommended to:

- 2.1 Note the details of the review of performance of the treasury management function and investment activity for the period 1 April 2020 to 31 March 2021.**

3 Purpose and Decision Making Route

- 3.1 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 per annum. Reports are now prepared covering operational performance on this basis.

4 Discussion

- 4.1 The Council's Treasury Management Strategy for 2020/21 was approved by Business Services Committee on 23 April 2020. 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 2020/21

- 4.2 The Bank of England base rate began the financial year at 0.10% and remained unchanged during the year.

Investment Portfolio – Values and Returns

- 4.3 The average return on short term investment rates achieved in 2020/21 was 0.37% (0.83% - 2019/20). In 2020/21, the rates offered by those financial institutions with whom the Council can invest decreased because of the downward movement of the Bank Rate in response to the economic challenges from the COVID 19 pandemic.
- 4.4 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 1**.

Borrowing

- 4.5 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 were volatile within a narrow band reflecting the continued uncertainty due to the difficult fiscal conditions arising from the pandemic and the resulting lockdowns which stifled growth.
- 4.6 In November 2020, the Public Works Loan Board decreased all lending bands by 1% reversing the previous year's increase.
- 4.7 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.
- 4.8 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**.
- 4.9 The approved indicators for 2020/21 and actual outturn are shown at **Appendix 4**.

5 Council Priorities, Implications and Risk

- 5.1 This report helps deliver all six of the Council's Strategic Priorities and the key principle that underpins them of responsible financial planning.
- 5.2 The table below shows whether risks and implications apply if the recommendation is agreed.

Subject	Yes	No	N/A
Financial		X	
Staffing		X	
Equalities and Fairer Duty Scotland			X
Children and Young People's Rights and Wellbeing			X
Health and Wellbeing			X
Town Centre First			X

- 5.3 There are no direct staffing or financial implications arising from this report. The combined General Fund and HRA financing cost was £41,643,000 (General Fund: £32,021,000 and HRA: £9,622,000), against a revised budget of £43,113,000 (General Fund: £34,697,000 and HRA: £8,416,000), in 2020/21. Proactive investment and debt management has been essential in the management of this budget.
- 5.4 An integrated impact assessment is not required because the recommended actions do not have a differential impact on people with protected characteristics.
- 5.5 The following Risks have been identified as relevant to this matter on a Strategic Level: Balancing the Books ([Directorate Risk Register](#))

6 Scheme of Governance

- 6.1 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.
- 6.2 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 as it relates to the treasury policy statement.

Mary Beattie
Interim Head of Finance

Report prepared by Bruce Lawrence, Treasury Officer
Date 29 August 2021

List of Appendices

- Appendix 1 – Investment Activity
- Appendix 2 – Long Term Borrowing & Debt Rescheduling in 2020/21
- Appendix 3 – Compliance and Performance
- Appendix 4 – Prudential Indicators

Appendix 1

Other Investment Activity

	Balance as at 31 March 2020	Balance as at 31 March 2021	Investment Return 2020/21
Name	£	£	£
Call Accounts	8,800,000	39,950,000	85,530
Money Market Funds	35,000,000	-	101,558
Fixed Term Deposits	21,000,000	-	107,173
	64,800,000	39,950,000	294,261
Trust Funds: Heritable Property	-	-	-
Trust Funds: Government Stocks	227,963	222,259	5,321
Trust Funds Shareholdings: Investment Trusts	415,788	824,325	2,400
Trust Funds Shareholdings: Unit Trusts	2,672,598	3,423,976	83,293
Trust Funds Shareholdings: Others	64,954	80,941	1,435
Investment in Loans Fund	3,097,040	3,029,092	11,891
	6,478,343	7,580,593	104,340
Common Good Funds: Heritable Property	1,907,934	1,907,934	-
Common Good Funds Shareholdings: Unit Trusts	11,406	13,743	506
Investment in Loans Fund	1,456,269	1,573,799	5,542
	3,375,609	3,495,476	6,048
Adhoc loans incl. existing long-term debtors	10,159,196	10,588,271	198,036
Support for Aberdeenshire Business Scheme	104,761	55,747	1,579
	10,263,957	10,644,018	199,615
Investment Land and Buildings	1,448,850	1,326,100	-
Total	86,366,759	62,996,187	604,264

Appendix 2

Long Term Borrowing and Debt Rescheduling in 2020/21

1. New Borrowing

No new loans were raised during the year in line with the approved MTFs. Capital requirements continued to be funded by a mix of internal borrowing, long term borrowing and short term temporary borrowing.

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

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.

	2019/20 Actual	2020/21 Budget	2020/21 Actual
Loans Fund Interest Rate	2.96%	3.04%	2.63%
Loans Fund Expenses Rate	0.04%	0.04%	0.03%
Total Rate	3.00%	3.08%	2.66%

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.

	2019/20 Actual	2020/21 Budget	2020/21 Actual
Average interest rate of longer term borrowing	1.69%	0.00%	0.00%

No new long term borrowing was taken in 2020/21.

(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.

	2019/20 Actual	2020/21 Actual
New borrowing	49.00 years	0.00 years
Debt rescheduling	n/a	n/a
Average	49.00 years	0.00 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	2020/21 Actual
	£
Aberdeen Sterling Liquidity MMF	41,994
Ashford Borough Council	6,986
Bank of Scotland	91,014
Clydesdale Bank PLC	83,402
DMADF	1,036
Federated Investors Sterling MMF	49,939
Insight MMF	916
Legal & General Investment Management Sterling Liquidity MMF	6,942
North East Lincolnshire Council	4,068
North Lincolnshire Council	4,069
State Street Sterling MMF	1,767
Svenska Handelsbanken	2,128
Total Interest Received	294,261

(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 2020 to 31 March 2021.

(iii) *“No more than £25m 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 £30 million. The borrower group limit is also £30m.”*

This element of the policy was complied with.

(iv) “Restriction of temporary borrowing to 30% of the total capital debt outstanding at the time of borrowing”

	Actual 2019/20	Actual 2020/21
Maximum Borrowing to Debt Outstanding	21.10%	19.61%

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 2019/20	Actual 2020/21
Minimum Average Life to Maturity	22.90 years	28.32 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 2019/20	Actual 2020/21
	£	£
Maximum Outstanding with 1 lender	20,000,000	20,000,000

This element of the policy was complied with.

Appendix 4

PRUDENTIAL INDICATORS

Capital Expenditure Indicators

1. Capital Expenditure

The actual capital expenditure incurred for 2020/21 compared to the revised budget was:

Capital Expenditure	2020/21 Budget £'000	2020/21 Actual £'000	Variance £'000	Reason for Variance
General Services	160,071	79,305	(80,766)	Covid-19 restrictions severely impacted the capital programme, which was suspended for around 3 months during lockdown,
HRA	64,801	42,560	(22,241)	Covid-19 restrictions severely impacted the New Build, Housing Improvement Plan and Smart Solar programme of works.
Total Expenditure	224,872	121,865		

2. Capital Financing Requirement

The capital financing requirement measure the Council's underlying need to borrow for capital investment. The capital financing requirement rises over the period as a large proportion of the Council's capital expenditure is financed by additional borrowing thus increasing the Council's total outstanding debt.

	2019/20 Actual £'000	2020/21 Actual £'000
CFR – General Services	657,844	728,983
CFR – Housing	238,812	256,093
Total CFR	896,656	985,076
Movement in CFR	81,659	88,420
Represented by:		
Net financing need for the year	99,380	59,818
Less loan fund repayments and other financing movements	(17,721)	(23,683)
Assets acquired under finance lease/PPP	-	52,285
Movement in CFR	81,659	88,420

Affordability Indicators

These indicators measure whether the Council's level of borrowing is affordable and financially prudent.

3. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2020/21 Indicator	2020/21 Actual
General Services	6.86%	6.57%
HRA	12.70%	14.17%

Prudence Indicators

4. Gross Debt and Capital Financing Requirement

This indicator records the extent that gross debt is less than the capital financing requirement. This indicator shows prudence by demonstrating that over the medium-term external borrowing is used only for a capital purpose. Debt is the sum of external borrowing and other liabilities relating to the financing of assets (e.g. PPP/PFI and other finance leases). The gross debt is expected to remain below the Capital Financing Requirement for the foreseeable future.

	2019/20 Actual £'000	2020/21 Actual £'000
Borrowing	848,439	807,198
Other long-term liabilities	54,072	99,563
Gross debt	902,511	906,761
Capital Financing Requirement	896,655	985,076
Under / (over) borrowing	(5,856)	78,315

5. The Authorised Limit for External Debt

The authorised limit for external debt is required by the Prudential Code to separately identify external borrowing and other liabilities such as PPP/PFI and finance lease obligations. The limit provides a maximum figure to which the Council could borrow at any given point during each financial year.

Authorised limit	2020/21 Approved £m	2020/21 Actual £m
Debt	976	807
Other long-term liabilities	110	100
Total	1,086	907

6. Operational Boundary for External Debt

This indicator is a management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point during each year.

Borrowing levels were maintained well below the operational boundary throughout the year.

Operational Boundary	2020/21 Approved £m	2020/21 Actual £m
Debt	926	807
Other long-term liabilities	110	100
Total	1,036	907

7. Compliance with CIPFA Code of Practice for Treasury Management in the Public Sector

The Council complied with the Code of Practice.

8. Fixed and Variable Interest rate exposures

Exposure to variable interest rates means that the Council is exposed to higher borrowing costs in the event of sudden increases in interest rates. 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. This indicator ensures that no more than 40% of the overall debt portfolio is exposed to fluctuations in interest rates at any time.

	2020/21 Approved Limit	2020/21 Actual
Fixed rate exposure upper limit	100%	83%
Variable rate exposure upper limit	40%	30%

9. Maturity structure of 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		Minimum proportion of fixed rate borrowing maturing	
	Indicator	31/03/21	Indicator	31/03/21
Under 12 months	30%	4.87%	0%	1.62%
1 year to 2 years	30%	3.21%	0%	1.54%
2 years to 5 years	50%	10.24%	0%	9.18%
5 years to 10 years	75%	17.15%	0%	16.33%
10 years and above	90%	68.84%	25%	67.02%

10. Maximum Principal Sums Invested Greater than 364 days

No sums were invested for greater than 364 days during 2020/21.