

BUSINESS SERVICES COMMITTEE – 15 SEPTEMBER 2022

OUTTURN REVIEW OF THE PERFORMANCE OF THE TREASURY MANAGEMENT FUNCTION FOR THE PERIOD 1 APRIL 2021 TO 31 MARCH 2022

1. Executive Summary/Recommendations

1.1. This report details performance and compliance in relation to the Treasury Management Function for the period 1 April 2021 to 31 March 2022.

1.2. Recommendations

The Committee is recommended to:

1.2.1. Note the details of the review of performance of the treasury management function and investment activity for the period 1 April 2021 to 31 March 2022.

2. Decision Making Route

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

3. Discussion

3.1. The Council's Treasury Management Strategy for 2021/22 was approved by Business Services Committee on 22 April 2021 (Item 7). 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.

3.2. Interest Rates 2021/22

The Bank of England bank rate began the financial year at 0.10%. There have been 3 rises in the reporting period as the Monetary Policy Committee (MPC) have been reacting to the current cost of living crisis and rapidly increasing inflation.

- 16/12/2021 0.25%
- 03/02/2022 0.75%
- 17/03/2022 1.00%

3.3. **Investment Portfolio – Values and Returns**

The average return on short term investment rates achieved in 2021/22 was 0.13% (0.37% - 2020/21). In 2021/22 the rates offered by those financial institutions with whom the Council can invest decreased because of the downward movement of Bank Rate in response to the economic challenges from the COVID 19 pandemic.

3.4. 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 is detailed in **Appendix 1**.

3.5. **Borrowing**

3.6. 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.

3.7. 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.

3.8. 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.

3.9. The Finance Service 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.

3.10 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**.

3.11 The approved indicators for 2021/22 and actual outturn are shown at **Appendix 4**.

4. **Council Priorities, Implications and Risk**

4.1 This report helps deliver all six of the Council's Strategic Priorities and the key principle that underpins them of responsible financial planning.

4.2 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
Climate Change and Sustainability			X
Health and Wellbeing			X
Town Centre First			X

- 4.3 There are no direct staffing or financial implications arising from this report. The combined General Fund and HRA financing cost (excluding PFI & similar contracts) was £42,477,000, against a revised budget of £42,071,000, in 2021/22. Proactive investment and debt management has been essential in the management of this budget.
- 4.4 The screening section as part of Stage One of the Integrated Impact Assessment process has not identified the requirement for any further detailed assessments to be undertaken. The report deals with the performance of the Treasury Management Strategy which has been approved previously.
- 4.5 The following Risk has been identified as relevant to this matter on a Strategic Level:
- We live within our means and use public money to maximise outcomes for our communities ([Directorate Risk Register](#)). This strategy sets out the means to which the Council can support the delivery of its services.

5 Scheme of Governance

- 5.1 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.
- 5.2 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.

Ritchie Johnson
Director of Business Services

Report prepared by Bruce Lawrence, Treasury Management Officer
Date: 26 July 2022

List of Appendices:

- Appendix 1 – Other Investment Activity
- Appendix 2 – Long Term Borrowing and Debt Rescheduling in 2021/22
- Appendix 3 – Compliance and Performance
- Appendix 4 – Prudential Indicators

Appendix 1. Other Investment Activity

Name	Balance as at 31 March 2021	Balance as at 31 March 2022	Investment Return 2021/22
	£	£	£
Call Accounts	39,950,000	39,750,000	44,182
Money Market Funds	0	0	8,427
Fixed Term Deposits	0	0	25,293
	39,950,000	39,750,000	77,902
Trust Funds: Heritable Property	0	0	0
Trust Funds: Government Stocks	222,259	230,552	5,432
Trust Funds Shareholdings: Investment Trusts	824,325	743,850	2,530
Trust Funds Shareholdings: Unit Trusts	3,423,976	2,493,931	92,725
Trust Funds Shareholdings: Others	80,941	79,740	1,629
Investment in Loans Fund	3,029,092	3,020,767	3,375
	7,580,593	6,568,840	105,691
Common Good Funds: Heritable Property	7,111,448	6,128,556	0
Common Good Funds Shareholdings: Unit Trusts	13,743	14,922	525
Investment in Loans Fund	1,573,799	1,603,395	2,021
	8,698,990	7,746,873	2,546
Adhoc loans incl. existing long-term debtors	10,588,271	10,537,600	194,405
Support for Aberdeenshire Business Scheme	55,747	32,149	675
	10,644,018	10,569,749	195,080
Investment Land and Buildings	1,326,100	1,124,015	0
Total	68,199,701	65,759,477	381,219

Appendix 2. Long Term Borrowing and Debt Rescheduling in 2021/22

1. New Borrowing

The following 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.

Date	Amount £	Rate of Interest %	Term Years
19/07/21	25,000,000	1.72%	50.00
19/07/21	25,000,000	1.73%	49.50
08/12/21	25,000,000	1.62%	33.00
08/12/21	5,000,000	1.51%	40.00
08/12/21	5,000,000	1.49%	41.00
08/12/21	5,000,000	1.46%	43.00
08/12/21	5,000,000	1.44%	44.00
08/12/21	5,000,000	1.39%	48.00
11/03/22	10,000,000	2.11%	48.00
11/03/22	10,000,000	2.10%	49.00
11/03/22	10,000,000	2.09%	50.00
	130,000,000	1.74%	45.10

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.

	2020/21 Actual	2021/22 Budget	2021/22 Actual
Loans Fund Interest Rate	2.63%	2.68%	2.29%
Loans Fund Expenses Rate	0.03%	0.04%	0.03%
Total Rate	2.66%	2.72%	2.32%

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.

	2020/21 Actual	2021/22 Budget	2021/22 Actual
Average interest rate of longer term borrowing	0.00%	2.50%	1.74%

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.

	2020/21 Actual	2021/22 Actual
New borrowing	0.00 years	45.10 years
Debt rescheduling	n/a	n/a
Average	0.00 years	45.10 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	2021/22 Actual
	£
Aberdeen Sterling Liquidity MMF	4,518
Clydesdale Bank PLC	39,932
Federated Investors Sterling MMF	2,713
Legal & General Investment Management Sterling Liquidity MMF	1,196
Santander PLC	20,164
Standard Chartered Bank	5,129
Svenska Handelsbanken	4,250
Total Interest Received	77,902

(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 2021 to 31 March 2022.

(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 2020/21	Actual 2021/22
Maximum Borrowing to Debt Outstanding	19.61%	18.61%

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 2020/21	Actual 2021/22
Minimum Average Life to Maturity	28.32 years	28.76 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 2020/21	Actual 2021/22
	£	£
Maximum Outstanding with 1 lender	20,000,000	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

	2021/22 Budget £000	2021/22 Outturn £000	2021/22 Variance £000	Reason for Variance
Financing Costs (including PFI & Similar contracts)	42,346	44,277	1,931	New PFI contract commenced during 2021/22
Net Revenue Stream	(624,451)	(670,099)	(45,648)	Additional funding
%	6.8%	6.6%		

HRA

	2021/22 Budget £000	2021/22 Outturn £000	2021/22 Variance £000	Reason for Variance
Financing Costs	8,416	9,978	1,562	Borrowing costs higher than budget for loans fund advances
Net Revenue Stream	(66,529)	(68,066)	(1,537)	Increase in recovery from tenants
%	12.7%	14.7%		

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.

Indicator:

	Approved 2021/22	Actual 2021/22	Approved 2022/23
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.

Indicator:

	Approved 2021/22	Actual 2021/22
	£m	£m
Net Borrowing	967	922
Capital Financing Requirement	1,115	1,049

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.

Indicator:

	Approved 2021/22	Actual 2021/22	2021/22 Variance
	£m	£m	£m
Gross External Borrowing	1,061	962	(99)
Capital Financing Requirement	1,115	1,049	(66)
(Over)/Under limit	54	87	

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 2021/22 compared to the budget set in March 2021 was:

Indicator:

	Budget 2021/22	Actual 2021/22	Variance	Reason for Variance
	£m	£m	£m	
General Fund	145.54	91.26	(54.28)	Underspends on projects beyond the Council's control including ongoing delays from the impact of Covid-19 and supply chain shortages.
Housing Revenue Account	94.00	59.98	(34.02)	Delays were encountered in the Housing Improvement Plan and the New Build Programme due to impact of Covid-19 and supply chain issues.
Total Capital Expenditure	239.54	151.24		

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.

Indicator:

	Approved 2021/22	Actual 2021/22
	£m	£m
Authorised Limit	1,213	962
Operational Limit	1,151	962

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.

Indicator:

	Approved Limit 2021/22	Actual 2021/22
Fixed rate exposure upper limit	100%	85%
Variable rate exposure upper limit	40%	27%

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.

Indicator:

	Maximum proportion of fixed rate borrowing maturing Indicator	Maximum proportion of fixed rate borrowing maturing to 31/03/22	Minimum proportion of fixed rate borrowing maturing Indicator	Minimum proportion of fixed rate borrowing maturing to 31/03/22
Under 12 months	30%	1.62%	0%	1.34%
1 year to 2 years	30%	3.21%	0%	2.66%
2 years to 5 years	50%	9.18%	0%	7.61%
5 years to 10 years	75%	17.15%	0%	14.22%
10 years and above	90%	74.17%	25%	68.84%