

BUSINESS SERVICES COMMITTEE – 14 SEPTEMBER 2018

OUTTURN REVIEW OF THE PERFORMANCE OF THE TREASURY MANAGEMENT FUNCTION FOR THE PERIOD 1 APRIL 2017 TO 31 MARCH 2018

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 2017 to 31 March 2018.**

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 2017/18 was approved by Business Services Committee on 2 March 2017 (Item 5).
- 2.3 The Bank rate was 0.25% at the start of the financial year 2017/18 and was increased by the Bank of England to 0.50% on 2nd November 2017, reversing the previous year's cut, as the economy had grown and in a bid to ease inflationary pressures.
- 2.4 The average return on short term investment rates achieved in 2017/18 was 0.46% (0.53% - 2016/17). 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 2017/18 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 were volatile within a narrow band reflecting the uncertainty due to the Brexit negotiations and a variety of problems on global markets.
- 2.6 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 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 and there were no instances of non-compliance as detailed in **Appendix 2**.
- 2.8 The approved indicators for 2017/18 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 £36,269,000 (General Fund: £29,653,000 and HRA: £6,615,000), against a revised budget of £37,237,000 (General Fund: £30,341,000 and HRA: £6,896,000), in 2017/18. 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 2018

Appendix 1

Long Term Borrowing and Debt Rescheduling in 2017/18

1. New Borrowing

No new long term borrowing was raised during the year in line with the approved MTFS. Capital requirements continued to be funded by a mix of internal 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 2

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.

	2016/17 Actual	2017/18 Budget	2017/18 Actual
Loans Fund Interest Rate	3.74%	3.68%	3.49%
Loans Fund Expenses Rate	0.03%	0.02%	0.02%
Total Rate	3.77%	3.71%	3.51%

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.

	2016/17 Actual	2017/18 Budget	2017/18 Actual
Average interest rate of longer term borrowing	2.44%	0.00%	0.00%

No new long term borrowing was taken in 2017/18.

(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.

	2016/17 Actual	2017/18 Actual
New borrowing	34.17 years	n/a
Debt rescheduling	n/a	n/a
Average	34.17 years	n/a

If new borrowing was to be taken during the year, 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 Capita 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	2017/18 Actual
	£s
Bank of Scotland	13,151
Clydesdale Bank PLC	43,615
Federated Investors Sterling MMF	14,565
Goldman Sachs International Bank	44,023
Greater Manchester Waste Disposal Authority	205
Legal & General Investment Management Sterling Liquidity MMF	5,553
North Lincolnshire County Council	4,603
Royal Bank of Scotland	32,055
Santander Time Deposit	35,000
Standard Life Sterling Liquidity MMF	12,418
State Street Sterling MMF	206
Total Interest Received	205,394

(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 2017 to 31 March 2018.

(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 2016/17	Actual 2017/18
Maximum Borrowing to Debt Outstanding	3.13%	4.86%

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 2016/17	Actual 2017/18
Minimum Average Life to Maturity	23.98 years	24.46 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 2016/17	Actual 2017/18
	£s	£s
Maximum Outstanding with 1 lender	5,000,000	10,000,000

This element of the policy was complied with.

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:

	Approved 2017/18	Actual 2017/18	Approved 2018/19
General Fund	7.02%	6.38%	6.88%
Housing Revenue Account	12.77%	12.30%	12.70%

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:

	Approved 2017/18	Actual 2017/18	Approved 2018/19
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:

	Approved 2017/18	Actual 2017/18	Approved 2018/19
	£m	£m	£m
Net Borrowing	708	679	756
Capital Financing Requirement	817	768	845

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. **Gross External Borrowing and the capital financing requirement**

Purpose:- This is a new indicator introduced for this report following an agreed recommendation from Internal Audit. The indicator will be included in the Treasury Strategy from 2019/20 onwards. The requirement is for gross debt to be kept below the CFR, except in the short term i.e. in the preceding year plus estimates of any additional capital financing requirement in the current and next two financial years. This indicator records the extent that gross external borrowing is less than the capital financing requirement. This is a key indicator of prudence and is designed to ensure that, over the medium term, external borrowing is only for a capital purpose. The indicators are only required for the Council's overall position and are not divided between the General Fund and HRA.

Indicator:

	Approved 2017/18	Actual 2017/18	Approved 2018/19
	£m	£m	£m
Gross External Borrowing	N/A	700	N/A
Capital Financing Requirement	817	768	845
(Over)/Under limit	N/A	68	N/A

An under borrowed position was maintained in 2017/18 therefore the Council meets the requirement of the indicator. This will be regularly monitored and external borrowing only undertaken as required.

5. **Estimated capital expenditure**

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

Indicator:

	Initial Budget 2017/18	Actual 2017/18	Initial Budget 2018/19
	£m	£m	£m
General Fund	132.34	105.18	100.16
Housing Revenue Account	34.76	31.60	49.96
Total	167.10	136.78	150.12

6. 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:

	Approved 2017/18	Actual 2017/18	Approved 2018/19
	£m	£m	£m
Authorised Limit	922	788	924
Operational Limit	847	738	874

7. 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

8. 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 2017/18	Actual 2017/18	Approved 2018/19
Fixed rate exposure upper limit	100%	93%	100%
Variable rate exposure upper limit	40%	17%	40%

In 2017/18 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.

9. 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 31/03/18	Minimum proportion of fixed rate borrowing maturing Indicator	Minimum proportion of fixed rate borrowing maturing to 31/03/18
Under 12 months	30%	3.38%	0%	3.20%
1 year to 2 years	30%	3.81%	0%	3.09%
2 years to 5 years	50%	10.72%	0%	7.32%
5 years to 10 years	75%	15.49%	0%	13.31%
10 years and above	90%	70.18%	25%	69.51%

**Appendix 4
Other Investment Activity**

Name	Restated* Balance as at 31 March 2017	Balance as at 31 March 2018	Investment Return 2017/18
	£s	£'s	£'s
Call Accounts	4,050,000	8,800,000	43,615
Money Market Funds	0	0	32,742
Fixed Term Deposits	25,000,000	10,000,000	129,037
	29,050,000	18,800,000	205,394
Trust Funds: Heritable Property	0	0	0
Trust Funds: Government Stocks	221,618	215,666	4,903
Trust Funds Shareholdings: Investment Trusts	79,304	90,360	2,175
Trust Funds Shareholdings: Unit Trusts	3,252,805	3,221,724	101,869
Trust Funds Shareholdings: Others	73,959	73,502	1,512
Investment in Loans Fund	2,729,286	2,817,885	13,234
	6,356,972	6,419,137	123,693
Common Good Funds: Heritable Property	1,391,747	1,370,133	0
Common Good Funds Shareholdings: Unit Trusts	14,753	13,967	694
Investment in Loans Fund	1,468,349	1,456,326	7,031
	2,874,849	2,840,426	7,725
Adhoc loans incl. existing long-term debtors	9,258,617*	10,406,078	181,358
Support for Aberdeenshire Business Scheme	130,702	168,752	655
	9,389,319	10,574,830	182,013
Investment Land and Buildings	1,687,350	1,712,350	0
Total	49,358,490*	40,346,743	518,825

