Agenda Item 12

Treasury Management Annual Review 2018/19

Falkirk Council

Title: Treasury Management Annual Review 2018/19
Meeting: Executive
Date: 18 June 2019
Submitted By: Director of Corporate & Housing Services

1. Purpose of Report

1.1. As part of the Treasury Management Code of Practice, reporting requirements make provision for an annual review of the Treasury Management Strategy. This review is to be considered by the appropriate Committee and full Council. The purpose of this report is to comply with these requirements.

2. Recommendations

2.1. **The Executive is asked to:-**

(1) Note the contents of the Treasury Management Annual Review 2018/19.

(2) Refer the report to Council for consideration.

3. Background

3.1. This report is the final of three Treasury Management reports to Members related to the 2018/19 financial year. The Treasury Management Strategy report for 2018/19 was considered by the Executive on 10 April 2018 and thereafter approved by Council on 9 May 2019. An interim Treasury Management report was considered by the Executive and Council in November and December 2018, respectively. This report to Members provides an annual review of the Treasury Management function for 2018/19.

4. Considerations

4.1 Economic Review

4.1.1 The approved Treasury Management Strategy 2018/19 assumed that the bank base rate of 0.50% was likely to increase to 0.75% in June 2018. However, the Bank of England (BoE) marginally delayed the increase until August 2018. The rate remains at 0.75% and current expectations are that it won’t increase again until March 2020. The continuing uncertainty surrounding Brexit will undoubtedly have an impact on the timing and quantum of any increases. UK growth in 2018 came in at 1.4% which was lower than the 2017 growth rate of 1.8%, primarily due to the fall on factory outputs and car production. However, growth in the first quarter of 2019 has increased from 0.2% to 0.5% in the previous three months, due to manufacturers’ stock piling ahead of Brexit. Inflation fell to 1.9% during 2018, lower than the 2017 rate of 2.4% and also lower than the BoE’s target rate of

2%, however it increased to 2.1% in April. Unemployment fell to 4%, which is lower than the 2017 level of 4.2% and fell again very slightly to 3.9% in April.

4.1.2 Economic growth in the Eurozone fell during 2018, starting out at 0.4% in quarter 1 and then falling to 0.2% in quarter 2. In terms of interest rates, the European Central Bank have said that an increase in interest rates will be delayed until 2020 at the earliest because of the continuing slowdown of the economy. Forecasts for both growth and inflation have been reduced given the slowdown in the economy.

4.1.3 Economic growth in the US came in at 2.9% for 2018, marginally less than the 3% target but higher than the growth rate of 2.2% in 2017. The Federal Reserve (FED) has continued to increase interest rates on a gradual basis with the last rate increase in December 2018, when it was increased from 2.25% to 2.5%. This is the fifth increase in 2018 and so far there are no indications that further increases will take place in 2019.

4.2 Borrowing Strategy 2018/19 – Outcome

4.2.1 The Council's borrowing requirement for 2018/19 was estimated as part of the three year Capital Programmes for both General Fund & HRA. Assumptions on 2018/19 borrowing were made in December 2017. The borrowing requirement takes into account the anticipated approved capital programmes (not approved until March 2018), the estimated slippage for 2017/18 and any projects which may be rescheduled to 2018/19. Given that the capital projects are part of a three year plan, there will be movement in spend across the years. Consequently because of the timing of spend, borrowing will also move across the years to match the spend.

4.2.2 The 2018/19 Interim Strategy report to the November Executive advised Members that the revised borrowing requirement was c£48.2m. This figure was revised further to £44.8m in the Capital Programmes Update 2018/19 reported to the Executive on 19 February 2019. The actual borrowing requirement against this revised forecast is as detailed below:

	2018/19 Revised Estimate £'m	**2018/19 Actual £'m**	**2018/19 Variance £'m**
Capital Programme (net of receipts and including TIF)	30.3	29.1	(1.2)
Service Payments	(15.0)	(16.1)	(1.1)
Replacement of Long Term Loans Maturing	1.0	1.0	-
Replacement of Short Term Loans Maturing	28.5	28.5	-
Total Borrowing Requirement	**44.8**	**42.5**	**(2.3)**

4.2.3 The borrowing requirement for Capital Programme purposes, is £1.2m less than reported to the February Executive. This reduction is analysed below:

		2018/19 Actual £'m
February Executive - Forecast borrowing required for Capital Programme (net of receipts & including TIF)		30.3
Adjustments:		
Slippage General Fund Capital Programme	(1.5)	
Reduction in Slippage in Housing Capital Programme	0.9	
Slippage in TIF Capital Programme	(0.9)	
Reduction in Housing Revenue Contribution	0.4	
Miscellaneous Additional Housing	(0.1)	
		(1.2)
Actual Borrowing Requirement for Capital Programme (net of receipts & including TIF)		**29.1**

4.2.4 Slippage on the General Capital Programme has increased by a further c£1.5m. As previously advised to Members, Internal Audit carried out a review of the General Fund Capital Programme, including arrangements for dealing with slippage. A number of key controls have now been introduced to monitor and reduce slippage. The timing of the review is such that the improvements that have been introduced will not become fully apparent until 2019/20.

4.2.5 The Housing Capital Programme spent £0.9m more and the TIF Capital Programme spent £0.9m less than was anticipated in February.

4.2.6 The Housing Capital Programme received an additional £0.1m of grant income, but reduced the Revenue Contributions to capital by £0.4m.

4.2.7 The slippage in the General Fund programme forms part of the 2019/20 borrowing requirement included in the 2019/20 Treasury Management Strategy which was reported to Members at the May Council meeting.

4.2.8 The Service Payments noted in paragraph 4.2.2 were £1.1m higher than previously advised to Members. This comprises £0.1m for TIF and £1m for the General Fund. As part of the Council's 5 year Business Plan which was reported to the May Executive, Treasury Management activities were highlighted as an area which would be reviewed and restructured to secure future Revenue Budget savings. The additional £1m General Fund debt repayment is an integral part of this review and restructure. This is also reported in the Financial Outturn Position 2018/19 and the Capital Programmes Outturn 2018/19, which are separate agenda items at this meeting.

4.2.9 Borrowing undertaken during 2018/19 is as detailed below:

	Short Term £'m	Long Term £'m	Total £'m
Borrowing at 01/04/18	**28.5**	**216.6**	**245.1**
Maturing in Year	(28.5)	(1.0)	(29.5)
Borrowing in Year	30.0	15.0	45.0
Borrowing at 31/03/19	**30.0**	**230.6**	**260.6**

4.2.10 As detailed in the table at paragraph 4.2.2, the actual borrowing requirement for 2018/19 was £42.5m, however £45m of borrowing was undertaken as shown in the table above. Previous Strategy reports have noted the Council's under-borrowed position and stated that borrowing beyond that required to fund the Capital Programmes, may still be undertaken regardless of slippage. This additional borrowing of £2.5m, the impact of which has already been factored into the Revenue Budget, will therefore help reduce the Council's under-borrowed position. The level of borrowing undertaken is within the limits approved in the Strategy and remains within the prudential indicator limits approved by Members.

4.2.11 The Strategy noted that whilst short term rates were likely to be more favourable relative to longer period rates, all borrowing periods would be considered. Borrowing undertaken during 2018/19 was on both a short term and long term basis because of the relative interest rates prevailing at the time.

4.2.12 The Council's application for further discounted PWLB borrowing under the Local Infrastructure Rate, which is 0.4% below standard PWLB Rates, has been approved.

4.2.13 The Strategy noted that the Council has £13m of Market Loans which could be repaid during the year should any of the lenders invoke a rate change. As anticipated these rate changes were not made and the Market Loans remain on existing terms. The Market Loans are held with Dexia Credit (£8m) and Just Retirement Ltd; (£5m). Just Retirement Ltd; purchased this loan from KA Finanz AG on 19 December 2018.

4.2.14 There was no opportunity for debt rescheduling activity during the year.

4.3 Investment Strategy

4.3.1 Members are reminded that the primary objectives of the Council's investment strategy remain first and foremost to ensure timeous and full repayment of principal and interest, then securing adequate liquidity of funds invested and finally optimising investment returns consistent with those counterparty risks.

4.3.2 Consistent with the requirement of the investment regulations and as part of the Strategy Report, Council approved a list of "Permitted Investments" setting out the types of investments to be used and monetary/time limits applied to each type of investment. There was no change to the counterparty selection criteria nor to the list of eligible counterparties as advised in the annual Strategy Report to Members.

4.3.3 The Council held £44.1m of investments as at 31 March 2019, £19.1m of which was available on instant access in three UK Banks, £8m on short term deposit with a UK Bank and £17m of deposits with other Local Authorities. This temporary level of investments will be drawn down over the coming months to meet future Council commitments such as maturing short term debt, salary costs, supplier invoices etc.

4.4 Treasury Management Prudential Indicators

4.4.1 Financing of the Capital Programme is a key driver of Treasury Management activities. A series of treasury management prudential indicators are included within the Strategy. The purpose of the indicators is to contain the activity of the treasury function within specified limits, thereby managing risk and reducing the impact of an adverse movement in interest rates.

4.4.2 The three treasury indicators are set out at Appendix 1 and show comparison with the Council's actual exposure as at 31 March 2019. This confirms that the Council's treasury operations were operating well within the set parameters during financial year 2018/19.

4.5 Benchmarking

4.5.1 It was recognised by Members that benchmarking information will vary across Councils because of the size of capital programmes, grant levels, capital receipts etc. and that there may be limitations to the comparisons that can be made. However, Members did suggest that future Treasury Strategy reports include benchmarking information. Appendix 2 therefore provides details of investment balances held by Scottish Local Authorities as at 31 March 2019. The data includes information for 31 out of 32 Scottish Authorities and Falkirk is positioned 16 out of 31, so relatively average in terms of investment levels and consistent with previous years.

4.6 Banking Contract

4.6.1 The Council's banking contract with the Royal Bank of Scotland has now been in operation for 14 months, consequently the majority of the Clydesdale Bank accounts are now closed. Some accounts remain open to capture residual transactions, but the volume has decreased significantly since the contract start date of 1 April 2018.

4.7 Treasury Management Advisers

4.7.1 Link Asset Services continue to offer an extremely valuable service to Falkirk Council, consequently the Council's contract with them has been renewed for a further 2 years effective from 1 April 2019 to 31 March 2021.

4.8 Member Training

4.8.1 The Investment Regulations provide for increased scrutiny by Members of treasury management issues. Training sessions will be scheduled as and when required, to ensure that Members are fully aware of their scrutiny role.

5. Consultation

5.1 There is no requirement to carry out a consultation on this report.

6. Implications

Financial

6.1 The slippage in both the General Fund and Housing Capital Programmes will be carried forward to 2019/20 and the borrowing associated with it, undertaken at that time.

Resources

6.2 There are no resources implications arising from the report recommendations.

Legal

6.3 There are no legal implications arising from the report recommendations.

Risk

6.4 There is a risk that interest rates could increase and that the borrowing associated with the slippage carried forward to 2019/20, could be undertaken at a higher rate than originally anticipated.

Equalities

6.5 An equality and poverty impact assessment was not required.

Sustainability/Environmental Impact

6.6 A sustainable assessment was not required.

7. Conclusions

7.1 Treasury objectives consistent with the 2018/19 Treasury Management Strategy and interim Strategy Review report, have been met in relation to both borrowing and investment.

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Date: 4 June 2019

Appendices
Appendix 1 – Treasury Management Prudential Indicators
Appendix 2 – Investment Levels at 31 March 2019

List of Background Papers:
None

APPENDIX 1

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

1. INTEREST RATE EXPOSURE

These limits set the maximum for fixed and variable interest rates based on the debt position net of investments and seeks to control the level of debt exposed to short term movements in interest rates.

	2018/19	
	UPPER LIMIT	POSITION (31/03/19)
Fixed Interest Rates	100%	100%
Variable Interest Rates	40%	0%

2. MATURITY STRUCTURE ON FIXED INTEREST RATE BORROWING 2018/19

These gross limits are set to control the Council's level of exposure to loans expiring in any one period.

	Lower %	Upper %	Position (31/03/19) %
Under 12 months	0	20	12.4
12 months – 2 years	0	20	1.5
2 years – 5 years	0	30	9.8
5 years – 10 years	0	30	23.5
10 years – 20 years	0	40	12.8
20 years – 30 years	0	40	11.5
30 years – 40 years	0	40	17.4
40 years – 50 years	0	40	11.1
			100.0%

3. PRINCIPAL SUM INVESTED > 364 DAYS

The Council does not place investments for periods longer than 364 days.

Summary of Scottish Local Authoristy Total Investments Outstanding as at 31 March 19 **APPENDIX 2**

By Council	Total Sum Investment
Misc 1	£305,707,831.39
Misc 2	£222,801,457.25
Misc 3	£153,685,000.00
Misc 5	£116,985,000.00
Misc 27	£97,737,719.00
Misc 8	£78,300,000.00
Misc 11	£75,043,000.00
Misc 28	£74,751,895.10
Misc 12	£66,870,000.00
Misc 16	£63,063,276.94
Misc 14	£61,859,095.00
Misc 10	£61,333,661.00
Misc 7	£51,330,000.00
Misc 9	£50,825,000.00
Misc 17	£45,816,192.71
Misc 18	£44,153,855.84
Misc 22	£37,150,000.00
Misc 15	£34,141,904.47
Misc 21	£26,039,894.61
Misc 6	£24,583,940.53
Misc 24	£23,685,000.00
Misc 20	£21,850,000.00
Misc 31	£21,700,000.00
Misc 25	£20,581,000.00
Misc 4	£19,572,000.00
Misc 19	£19,389,236.00
Misc 13	£18,915,221.90
Misc 30	£16,372,303.98
Misc 23	£5,295,818.72
Misc 29	£3,711,399.50
Misc 32	£3,100,000.00
Misc 26	£0.00