

FALKIRK COUNCIL

Subject: TREASURY MANAGEMENT – INTERIM REVIEW 2013/14
Meeting: EXECUTIVE
Date: 19 November 2013
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 As part of the Treasury Management Code of Practice, reporting requirements make provision for a mid-year review of the Treasury Management function to be considered by the appropriate Committee and full Council.

2. ECONOMIC AND INTEREST RATE OUTLOOK

- 2.1 Council approved the Treasury Management Strategy for 2013/14 in March 2013. The strategy highlighted that the UK economic outlook remained uncertain, a key reason for this being the Eurozone difficulties. Economic indicators in the UK have suggested that the economy is recovering. The economic growth appears to have supported the labour market, with further reductions in unemployment. However, earnings rose by 1.0% year on year, well below the rate of inflation of 2.7% in August, causing continuing pressure on household income. The UK remains a long way from getting back to sustainable strong growth.
- 2.2 Tensions in the Eurozone have eased and most countries are now starting to see a return to growth after a prolonged recession. However there are still concerns over Greece, Spain and Cyprus with the need for future bail outs looming. The US following its government shutdown, has agreed to extend the debt limit which will allow borrowing to rise until February 2014. Talks on a longer term deal are scheduled to take place mid-December.
- 2.3 In the Strategy Report, there was an expectation that the Bank Rate would remain at 0.5%, until Quarter 1 of 2015. However, recent economic data is suggesting that the rates will remain low possibly as far out as June 2016. Expectations for the first change in the bank rate are being linked to unemployment falling to or below 7%. In contrast long term rates have risen from those rates included in the Strategy Report, albeit that these rates continue to be unpredictable.
- 2.4 The latest medium-term interest rate forecast as supplied by Sector, the Council's treasury advisers, is as follows:

Annual Average %	Bank Rate	MONEY RATES		PWL B RATES			
		3 months	1 Yr	5 Yr	10 Yr	25 Yr	50 Yr
2013/14	0.50	0.4	0.79	2.36	3.52	4.37	4.42
2014/15	0.50	0.4	0.80	2.70	3.8	4.50	4.60
2015/16	0.50	0.4	0.98	2.73	3.95	4.85	4.95

3. BORROWING STRATEGY

- 3.1 The Council's estimated longer term borrowing requirement is set out below:

	2013/14 Original Estimate £m	2013/14 Revised Estimate £m
Capital Programmes (net of receipts including TIF)	52.1	61.3
Service Payments	(20.1)	(19.1)
Longer Term Loans maturing in year	<u>10.0</u>	<u>10.0</u>
Total Longer Term Borrowing Requirement	<u>42.0</u>	<u>52.2</u>

- 3.2 In the Strategy Report, it was noted that the Council's longer term borrowing requirement for the year would be significant. With this in mind, it was agreed to consider the complete range of borrowing periods as and when we need to borrow. A £10m PWLB loan is due to be repaid in March 2014 and we will shortly engage with our Treasury Advisors to determine the best mix of borrowing periods. As noted above in 3.1, the longer term borrowing requirement is c£10m more than the original estimate. This additional requirement is due to the under borrowing in 2012/13 as result of slippage in both the General Fund and Housing Capital Programmes. This reduction in borrowing was reported in June 2013.
- 3.3 The Strategy Report highlighted the potential for four Market Loans, up to a value of £26m, to be repaid during the year should any of the lenders invoke a rate change clause as per their contracts. This has not occurred.
- 3.4 The PWLB has extended the "PWLB Certainty Rate" by a further year. This facility enables eligible local authorities to access discounted PWLB borrowing. Falkirk Council has submitted an application and awaits further instruction from the PWLB.
- 3.5 Given the latest outlook for the future direction of interest rates, as outlined in Section 2, it remains the case that funding of the longer term borrowing requirement will continue to be linked to short term rates until such time as longer term rates start to fall. The potential for repayment of any of the Market Loans identified in para 3.3 remains low given the current structure of long-term interest rates.
- 3.6 Debt rescheduling activities remain on hold given the current structure of long-term interest rates. This position is likely to persist until such time as the premature repayment rates for PWLB loans rise from their current levels.

4. INVESTMENT STRATEGY

- 4.1 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 counterparty risks.
- 4.2 The Council held £1.6m of investments available on instant access, in two UK banks at the end of October 2013.

- 4.3 The Strategy Report to Council in March included a list of eligible counterparties and their respective credit ratings. The Clydesdale Bank has been subsequently downgraded from C to D+. This downgrading means that the bank no longer meets our approved counterparty selection criteria. As a consequence the balances being deposited on a “call account” basis have been restricted and instead are being deposited with those institutions who do meet our approved selection criteria.

5. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

- 5.1 Financing of the Capital Programme is a key driver of Treasury Management activities which in turn is managed by a series of treasury management prudential indicators.
- 5.2 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.

(1)	<u>Interest Rate Exposure</u>	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.		
		<u>Position</u> <u>(31/10/13)</u>	<u>2013/14</u> <u>Limit</u>	
		Limits on fixed interest rates based on net debt	100%	100%
		Limits on variable interest rates based on net debt	-	40%
(2)	<u>Maturity Structure on Fixed Interest Rate Borrowing</u>	These gross limits are set to control the Council’s level of exposure to loans expiring in any one period.		
		<u>Position</u> <u>(31/10/13)</u> %	<u>Lower</u> %	<u>Upper</u> %
	Under 12 months	15	0	25
	12 months – 2 years	0	0	25
	2 years – 5 years	0	0	50
	5 years – 10 years	11	0	75
	10 years – 20 years	23	0	75
	20 years – 30 years	18	0	75
	30 years – 40 years	23	0	75
	40 years – 50 years	10	0	75
(3)	<u>Maximum Principal Sum Invested > 364 Days</u>	As indicated in the Strategy Report, the Council does not place investments for periods longer than 364 days.		

6. MEMBER TRAINING

- 6.1 The Investment Regulations provide for increased scrutiny by Members of treasury management issues. A training session tailored towards the needs and responsibilities of Members will be organised in due course.

7. CONCLUSION

- 7.1 The short term interest rates continue to remain low in contrast to the long term PWLB rates which have increased over the last few months. Given our borrowing requirement we must remain vigilant to the factors affecting the movement in rates e.g. UK growth, Eurozone and US issues, and work closely with our Treasury Advisors to ensure that any borrowing is undertaken at the most advantageous rate possible.

8. RECOMMENDATIONS

- 8.1 Executive notes the progress of the Council's Treasury Management Strategy for 2013/14.
- 8.2 Executive agree the report is referred to Council for consideration.

Chief Finance Officer

Date: 25 October 2013

Contact Officer: Carole McGhee

LIST OF BACKGROUND PAPERS

1. Treasury Management Strategy 2013/14 submitted to Council on 6 March 2013.

Any person wishing to inspect the background papers listed above should telephone Falkirk 01324 506340 and ask for Carole McGhee/Amanda Templeman.