AGENDA ITEM 6

FALKIRK COUNCIL

Subject: **TREASURY MANAGEMENT ANNUAL REVIEW 2013/14**
Meeting: **FALKIRK COUNCIL**
Date: **25 June 2014**
Author: **CHIEF FINANCE OFFICER**

1. INTRODUCTION

1.1 The Council is required by regulations issued under the Local Government Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2013/14. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 During 2013/14 the reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 06/03/2013)
- a mid-year treasury update report (Council 11/12/2013)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policy and strategy previously approved by members.

2. ECONOMIC AND INTEREST RATE REVIEW

2.1 The Treasury Management Strategy 2013/14, approved by Council in March 2013, noted that the outlook for the global economy remained uncertain with the UK economy struggling to recover both in terms of generating growth and controlling inflation. However, over the last nine months, we have had a continuing run of strong economic news which has consolidated confidence that the UK economy is recovering. GDP has grown at a rate of 3.1% over the last year and inflation has fallen throughout 2013/14 and is now at 1.8% which is below the Government's target level of 2%. Unemployment has also fallen to a level of 6.8%.

2.2 The Monetary Policy Committee has maintained the level of quantitative easing at £375bn despite recent evidence that the UK economic recovery is strengthening. The original expectation was that the bank base rate would start to rise from March 2015, however, this is now not expected to happen until December 2015.

2.3 In terms of the sovereign debt crisis within the Eurozone, Ireland and Portugal made good progress and were able to exit from their bail out programmes. However Greece did not fare so well and continues to remain vulnerable. Although the Eurozone finally escaped from seven quarters of recession in quarter 2 of 2013, growth has remained weak.

2.4 The investment environment remains challenging with low investment returns and continuing heightened levels of counterparty risk.

3. BORROWING STRATEGY 2013/14 – OUTCOME

3.1 The Council's longer term borrowing requirement for the year is set out below:

	2013/14 Original Estimate £m	**2013/14 Actual £m**
Capital Programme (net of receipts and including TIF)	52.1	43.3
Service Payments	(20.1)	(19.6)
Longer Term Loans maturing in year	10.0	10.0
Total Longer Term Borrowing Requirement	42.0	33.7

3.2 The reduction in borrowing was factored into the budget approved by Members in February 2014. This reduction relates to slippage in the General Capital Programme and additional capital receipts/use of reserves in the Housing Programme. The expenditure and related borrowing will now fall into the current financial year.

3.3 The Strategy noted that whilst short term rates were likely to be more favourable, all borrowing periods would be considered. Consequently borrowing undertaken during 2013/14 combined both short term and long term depending on the interest rates prevailing at the time monies were required.

3.4 Borrowing undertaken during 2013/14 is as detailed below:

	Short Term £'m	**Long Term £'m**	**Total £'m**
Borrowing at 01/04/13	22.0	147.6	169.6
Maturing in Year	(22.0)	(10.0)	(32.0)
Borrowing in Year	22.0	39.0	61.0
Borrowing at 31/03/14	22.0	176.6	198.6

3.5 As noted in the 2013/14 Interim Review Strategy, the Council has been in an under-borrowed position for some time i.e. cash balances have been used to fund capital expenditure in place of borrowing. This has been beneficial as the loans fund interest rate has remained lower as a result. However, due to the potential for increased interest rates we will be translating some of this under borrowing into long term loans on a gradual and managed basis. Due to timing differences, only £29m of the longer term borrowing requirement was undertaken by 31 March 2014, with a further £10m PWLB borrowing being undertaken in April 2014. Part of this additional £10m long term borrowing will go towards reducing the underborrowing position of the Council. This additional borrowing remains within the prudential indicator limits approved by Members.

3.6 The Strategy noted that the Council has £26m of Market Loans which could be repaid during the year should any of the lenders invoke a rate change. However, these rate changes were not made and the Market Loans remain on existing terms.

3.7 There was no debt rescheduling activity during the year.

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 those counterparty risks.

4.2 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. During the early part of the year, the Council briefly breached the limit of £8m with the Clydesdale Bank. This was due to difficulties in the selection of investment counterparties as noted in section 2.4 of this report. However, the credit rating downgrade of the Clydesdale Bank during 2013/14 required the Council to review its £8m limit and as such the level of investments in the Clydesdale Bank was restricted during the remainder of the year. Thereafter, the Council deposited monies with institutions who do meet our approved counterparty selection criteria.

4.3 Aside from the downgrading of the Clydesdale Bank, there was no other change to the counterparty selection criteria nor the list of eligible counterparties as advised in the Strategy Report to Council in March 2013. However, in the light of the position outlined at 4.2, the Council set up four Money Market Funds as allowed under the approved counterparty list. This facility has provided the Council with an alternative counterparty for investments.

4.4 The Council held £18.4m of investments as at 31 March 2014, £9.4m of which was available on instant access in three UK Banks and £9.0m in Money Market Funds.

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 indictors. 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.

5.2 The three treasury indicators are set out at Appendix 1 and show comparison with the Council's actual exposure as at 31 March 2014. This confirms that the Council's treasury operations were operating well within the set parameters during financial year 2013/14.

6. MEMBER TRAINING

6.1 The Investment Regulations provide for increased scrutiny by Members of treasury management issues and to this end a training session tailored towards the needs and responsibilities of Members took place on 28 April 2014.

7. CONCLUSION

7.1 Treasury objectives consistent with the Strategy have been met in terms of both borrowing and investment. The legacy of the financial crisis means that market conditions remain challenging.

8. RECOMMENDATION

8.1 Council notes the contents of the Annual Review 2013/14.

Chief Finance Officer

Date: 3 June 2014

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<u>LIST OF BACKGROUND PAPERS</u>

NIL

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.

	2013/14	
	UPPER LIMIT	**POSITION (31/03/14)**
Fixed Interest Rates	100%	99%
Variable Interest Rates	40%	1%

2. MATURITY STRUCTURE ON FIXED INTEREST RATE BORROWING 2013/14

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

	Lower %	**Upper** %	**Position (31/03/14)** %
Under 12 months	0	25	6
12 months – 2 years	0	25	10
2 years – 5 years	0	50	0
5 years – 10 years	0	75	10
10 years – 20 years	0	75	25
20 years – 30 years	0	75	21
30 years – 40 years	0	75	19
40 years – 50 years	0	75	9
			100%

3. PRINCPAL SUM INVESTED > 364 DAYS

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