Agenda Item 8

Treasury Management Annual Review 2016/17

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Falkirk Council

Title:	**Treasury Management Annual Review 2016/17**
Meeting:	**Executive**
Date:	**13 June 2017**
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 function. 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 2016/17.

(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 2016/17 financial year. The Treasury Management Strategy report for 2016/17 was considered by the Executive on 15 March 2016 and thereafter approved by Council in May 2016. An interim Treasury Management report was considered by the Executive and Council in November and December 2016, respectively. This report to Members provides an annual review of the Treasury Management function for 2016/17.

4. Considerations

4.1 Economic Review

4.1.1 The approved Treasury Management Strategy 2016/17 noted that the bank base rate of 0.5% was not likely to rise until after March 2017. However Brexit resulted in a further cut in the rate to 0.25% in August 2016 and it is not expected to go back up until mid 2019. UK Growth forecasts for 2017 have been revised downwards from 2% to 1.9% whilst unemployment has fallen to 4.7%. Inflation is currently at 2.7%, the highest level since September 2013 with the expectation that it will fall back to 2.2% in 2 years' time.

Regardless of the outcome of the quickly arranged UK general election which takes place on 8 June, the great unknown is how the Brexit negotiations will progress over the next two years and the impact it will have on the economy.

4.1.2 Economic growth in the Eurozone picked up in 2016 and it looks promising for 2017. However, Greece continues to cause concern in the European Union (EU). It seems reluctant to implement key reforms required by the EU to make the country more efficient and make significant progress towards the country being able to pay its way. The Dutch general and French presidential elections have already taken place in 2017 and the election in Germany is scheduled for September 2017.

4.1.3 The US economy has seen high levels of volatility in quarterly GDP growth but GDP for 2016 came in at an average of 1.6%. The current US Federal interest rate is 1% but it is forecast that this will rise by increments of 0.25% until it reaches 1.75% by the end of 2017.

4.2 Borrowing Strategy 2016/17 – Outcome

4.2.1 The Council's long term borrowing requirement for 2016/17 is estimated as part of the three year Capital Programmes for both General Fund & HRA. Assumptions on 2016/17 borrowing are made in December 2015. The borrowing requirement takes into account the anticipated approved capital programmes (not approved until February 2016), the estimated slippage for 2015/16 and any projects which may be rescheduled to 2016/17. 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 2016/17 Interim Strategy report to the Executive advised Members that the revised long term borrowing requirement was c£40.0m. The actual borrowing against this forecast is as detail below:

	2016/17 Revised Estimate £m	**2016/17 Actual £m**
Capital Programme (net of receipts and incl; TIF)	24.4	12.5
Service Payments	(13.2)	(13.5)
Replacement of Short Term Loans Maturing	29.0	29.0
Total Longer Term Borrowing Requirement	**40.2**	**28.0**

4.2.3 The long term borrowing requirement for Capital Programme purposes is £11.9m less than reported to the November Executive. This reduction is analysed below:

		2016/17 Actual £'m
November Executive - Forecast borrowing required for Capital Programme (net of receipts & including TIF)		24.4
Adjustments:		
Slippage General Fund Capital Programme	(3.1)	
Additional Capital Grant ASN School	(2.1)	
Additional General Fund Receipts	(0.4)	
Accelerated Spend in Housing Capital Programme	2.8	
Additional Council House Sales Income	(3.6)	
Additional Grant for New Builds & Buy Backs	(2.7)	
Additional Housing Revenue Contribution	(2.8)	(11.9)
Actual Borrowing Requirement for Capital Programme (net of receipts & including TIF)		**12.5**

4.2.4 The Capital Programmes Update report to the February Executive advised Members that the slippage in the General Fund Programme had increased by c£3.0m. In addition the report noted that the Scottish Government had paid all grant monies due for the new ASN school in 2016/17 (£2.1m). In terms of the Housing Capital Programme, the report to the February Executive advised of an increase in grants for New Builds and Buy Backs (£2.7m). An increase in receipts from Council House sales was also reported to the February Executive. Housing were able to accelerate spend of £2.8m to mitigate previously reported slippage in the New Build Programme and additional revenue contributions of £2.8m were made to the Housing Capital Programme.

4.2.5 The slippage in the General Fund programme forms part of the 2017/18 borrowing requirement included in the 2017/18 Treasury Management Strategy which was reported to Members in March.

4.2.6 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. However borrowing undertaken during 2016/17 was on a short term basis because of the lower relative interest rates prevailing at the time.

4.2.7 Borrowing undertaken during 2016/17 is as detailed below:

	Short Term £'m	Long Term £'m	Total £'m
Borrowing at 01/04/16	29.0	212.6	241.6
Maturing in Year	(29.0)	-	(29.0)
Borrowing in Year	24.0	-	24.0
Borrowing at 31/03/17	**24.0**	**212.6**	**236.6**

4.2.8 As detailed in the table at paragraph 4.2.2, the actual borrowing requirement for 2016/17 was £28m, however only £24m of borrowing was undertaken. The Council had sufficient cash balances at 31 March 2017 and therefore in order to minimise the cost of carry i.e. the difference between investment earnings and borrowing rates, the full £28m was not borrowed. The level of long term borrowing undertaken is therefore within the limits approved in the Strategy and remains within the prudential indicator limits approved by Members.

4.2.9 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. Two of the four Market Loans (£13m) are held with Barclays Bank. The 2016/17 Interim Strategy report advised that in June 2016, Barclays waived their right to change the applicable interest rate of the two loans. This effectively means that these loans have become fixed interest rate loans at their current rate with no risk that the rates will change. The remaining two Market Loans continue on existing terms.

4.2.10 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. None of these limits were breached during 2016/17. There was no change to the counterparty selection criteria nor the list of eligible counterparties as advised in the annual Strategy Report to Members.

4.3.3 The Council held £28.4m of investments as at 31 March 2017, £9.4m of which was available on instant access in two UK Banks, £4m in Money Market Funds, £8m on short term deposit with a UK Bank and £7m 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 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 2017. This confirms that the Council's treasury operations were operating well within the set parameters during financial year 2016/17.

4.5 Member Training

4.5.1 The Investment Regulations provide for increased scrutiny by Members of treasury management issues. Going forward training sessions will be scheduled to ensure that Members are fully aware of their scrutiny role, particularly following the recent Local Elections in May 2017 which resulted in a number of new Councillors being elected.

4.6 Benchmarking

4.6.1 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 the Scottish Local Authorities as at 31 March 2017. The data includes information for 30 out of 32 Scottish Authorities and Falkirk is positioned 19 out of 32, so relatively average in terms of investment levels.

4.6.2 Other areas for benchmarking could include Debt Outstanding and the Loans Fund Pooled Interest Rate. This information is collated annually some six to eight months, following the financial year end. The 2017/18 Interim Strategy Report due to go to the Executive by the end of December 2017, will include this information where available.

5. Consultation

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

6. Implications

Financial

6.1 The slippage in the General Fund Capital Programme will be carried forward to 2017/18 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 2017/18, 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 2016/17 Treasury Management Strategy and interim Strategy Review report, have been met in relation to both borrowing and investment.

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Appendices
Appendix 1 – Treasury Management Prudential Indicators
Appendix 2 – Investment Levels at 31 March 2017

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.

	2016/17	
	UPPER LIMIT	**POSITION (31/03/17)**
Fixed Interest Rates	100%	100%
Variable Interest Rates	40%	0%

2. MATURITY STRUCTURE ON FIXED INTEREST RATE BORROWING 2016/17

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

	Lower %	**Upper %**	**Position (31/03/17) %**
Under 12 months	0	25	10.1
12 months – 2 years	0	25	0.4
2 years – 5 years	0	50	3.6
5 years – 10 years	0	75	27.3
10 years – 20 years	0	75	12.7
20 years – 30 years	0	75	22.6
30 years – 40 years	0	75	19.1
40 years – 50 years	0	75	4.2
			100.0%

3. PRINCPAL SUM INVESTED > 364 DAYS

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

Summary of Scottish Local Authority Total Investments Outstanding as at 31 March 2017

APPENDIX 2

By Council	Total Sum Investment
Misc 27	£309,373,647.19
Misc 1	£303,670,955.06
Misc 4	£198,569,000.00
Misc 3	£144,400,000.00
Misc 5	£137,675,000.00
Misc 28	£83,476,201.80
Misc 6	£73,573,884.22
Misc 11	£68,722,000.00
Misc 8	£63,520,200.00
Misc 9	£53,752,294.15
Misc 10	£49,000,000.00
Misc 14	£46,845,000.00
Misc 7	£45,270,000.00
Misc 12	£43,365,000.00
Misc 15	£39,607,170.26
Misc 13	£38,935,921.58
Misc 17	£32,338,494.00
Misc 22	£29,050,000.00
Misc 18	£28,436,820.15
Misc 16	£27,595,723.69
Misc 21	£27,512,156.64
Misc 20	£15,450,000.00
Misc 2	£14,928,000.00
Misc 19	£11,260,839.00
Misc 23	£10,668,819.70
Misc 31	£9,800,000.00
Misc 29	£8,511,061.23
Misc 25	£3,640,000.00
Misc 32	£3,100,000.00
Misc 24	£2,715,000.00
Misc 30	£0.00
Misc 26	£0.00