

**FALKIRK COUNCIL**

**Subject: TREASURY MANAGEMENT – INTERIM REVIEW 2012/13**  
**Meeting: FALKIRK COUNCIL**  
**Date: 5 December 2012**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 As part of the new regulatory framework for Treasury Management, reporting requirements make provision for a mid-year review of the Treasury Management function to be considered by full Council.

**2. ECONOMIC AND INTEREST RATE OUTLOOK**

- 2.1 Council approved the Treasury Management Strategy for 2012/13 in March 2012. The strategy highlighted that the UK economic outlook remained uncertain, a key reason for this being the Eurozone difficulties. Whilst the Eurozone issues remain, the UK has seen a return to growth emerging from recession in the 3 months from July to September. The key issue will be how sustainable this growth is. The growth in GDP was distorted by the Jubilee and the Olympics and the economy remains flat. In addition, the Eurozone remains a threat and as a result the recovery remains fragile. A further significant factor of recovery is the “fiscal cliff” facing the US where automatic tax hikes and government spending cuts are due to kick in, taking c£600bn out of the economy next year.
- 2.2 In the Strategy Report, there was an expectation that the Bank Rate would remain at 0.5%, at least until the end of the financial year, however recent economic data is suggesting that the rates will remain low for a prolonged period of time possibly as far out as mid 2014. In addition long term rates have fallen considerably from those rates included in the Strategy Report, albeit these rates continue to be unpredictable.
- 2.3 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
2012/13	0.50	0.62	1.34	1.84	2.9	4.1	4.2
2013/14	0.50	0.60	1.48	1.65	2.65	3.8	4.00
2014/15	0.70	1.03	2.23	2.08	3.10	4.15	4.35

### 3. BORROWING STRATEGY

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

	<b>2012/13 Original Estimate £m</b>	<b>2012/13 Revised Estimate £m</b>
Capital Programmes (net of receipts)	40.5	41.8
Service Payments	(18.1)	(18.4)
Longer Term Loans maturing in year	<u>20.6</u>	<u>20.6</u>
Total Longer Term Borrowing Requirement	<u>43.0</u>	<u>44.0</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. The £20m PWLB loans are due to be repaid in December 2012 and we will shortly engage with our Treasury Advisors to determine the best mix of borrowing periods. The report also 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.
- 3.3 Since the Strategy Report was presented to Council, the PWLB has introduced a new facility "PWLB Certainty Rate" which will enable eligible local authorities to access discounted PWLB borrowing. Falkirk Council's eligibility to this facility has been confirmed.
- 3.4 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 and/or fixed rate periods of up to 5 years. The potential for repayment of any of the Market Loans identified in para 3.2 still remains low given the current structure of long-term interest rates.
- 3.5 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 remains 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 £0.739m of investments available on instant access, in two UK banks at the end of October 2012.
- 4.3 There has been no change to the counterparty selection criteria nor the list of eligible counterparties as advised in the Strategy Report to Council in March. However, we are in the process of reviewing our counterparties with a view to using 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 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) <b><u>Interest Rate Exposure</u></b> 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.			
		<b><u>Position</u></b> <b><u>(31/10/12)</u></b>	<b><u>2012/13</u></b> <b><u>Limit</u></b>
Limits on fixed interest rates based on net debt		89%	100%
Limits on variable interest rates based on net debt		11%	40%
(2) <b><u>Maturity Structure on Fixed Interest Rate Borrowing</u></b> These gross limits are set to control the Council’s level of exposure to loans expiring in any one period.			
	<b><u>Position</u></b> <b><u>(31/10/12)</u></b>	<b><u>Lower</u></b>	<b><u>Upper</u></b>
	%	%	%
Under 12 months	16	0	25
12 months – 2 years	7	0	25
2 years – 5 years	0	0	50
5 years – 10 years	6	0	75
10 years – 20 years	10	0	75
20 years – 30 years	11	0	75
30 years – 40 years	24	0	75
40 years – 50 years	26	0	75
(3) <b><u>Maximum Principal Sum Invested &gt; 364 Days</u></b> 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 Whilst interest rates remain fairly stagnant the impact of the Eurozone and US issues coupled with the sustainability of UK growth will need to be closely monitored. As such, the timing of any interest rate rises and monitoring the significant gap which currently exists between short and longer term rates, remain the key focus for the Treasury Section at this time.

## **8. RECOMMENDATION**

- 8.1 Council notes the progress of the Council's Treasury Management Strategy for 2012/13.

**Chief Finance Officer**

**Date: 22 November 2012**

**Contact Officer: Carole McGhee/Amanda Templeman**

### **LIST OF BACKGROUND PAPERS**

1. Treasury Management Strategy 2012/13 submitted to Council on 14 March 2012.

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