AGENDA ITEM 12

FALKIRK COUNCIL

Subject: **TREASURY MANAGEMENT ANNUAL REVIEW 2014/15**
Meeting: **FALKIRK COUNCIL**
Date: **24 June 2015**
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 2014/15. This report meets the requirements of these regulations and 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 2014/15 the reporting requirements, which have duly been met, were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year treasury update report
- 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 strategy previously approved by members.

2. ECONOMIC AND INTEREST RATE REVIEW

2.1 The approved Treasury Management Strategy 2014/15, noted that although UK growth was positive, there needed to be a rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for the recovery to become more firmly established. Results for 2014/15 have shown that that the UK economy has grown with expansion in both production and services with the most significant area of growth being in exports. Inflation has continued to fall with the rate turning negative in April 2015, although expectations are for it to rise up to the target level of 2% by the end of 2015. Unemployment has also fallen from 6.6% at the beginning of 2014/15 to the current level of 5.5%.

2.2 The Monetary Policy Committee has maintained the level of quantitative easing at £375bn and the increase in the bank base rate is now not expected until June 2016 which is six months later than originally anticipated in the 2014/15 Strategy approved by Members.

2.3 In terms of the Eurozone, the Greek government is making a strong push to renegotiate the austerity programme and debt repayments. This has been met with a robust rejection by the ECB, EU and IMF, resulting in a dangerous game of brinkmanship. There is therefore a real risk that this could result in Greece leaving the Euro. In terms of the Eurozone economy, the ECB announced a quantitative easing programme of £1.1 trillion euros in January 2015. This seems to have already had a beneficial impact in improving confidence with a continuing trend of marginal increases in GDP growth.

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

3. BORROWING STRATEGY 2014/15 – OUTCOME

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

	2014/15 Original Estimate £m	**2014/15 Actual £m**
Capital Programme (net of receipts and including TIF)	43.0	27.9
Service Payments	(13.4)	(13.0)
Replacement of Short Term Loans Maturing	22.0	22.0
Total Longer Term Borrowing Requirement	51.6	36.9

3.2 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. Consequently borrowing undertaken during 2014/15 combined both short term and long term depending on the interest rates prevailing at the time monies were required.

3.3 Borrowing undertaken during 2014/15 is as detailed below:

	Short Term £'m	**Long Term £'m**	**Total £'m**
Borrowing at 01/04/14	22.0	176.6	198.6
Maturing in Year	(22.0)	-	(22.0)
Borrowing in Year	26.0	26.0	52.0
Borrowing at 31/03/15	26.0	202.6	228.6

3.4 As was previously reported to Members in the 2014/15 Interim Review Strategy, in view of the Council's under-borrowed position, the budgeted borrowing requirement of c£52m, would still be required regardless of the slippage in the 2014/15 capital programmes (separate Capital Outturn 2014/15 report provides an explanation of slippage). Consequently, although our actual borrowing requirement for the year was c£37m, we borrowed £52m in order to reduce our under-borrowed position and in doing so took advantage of beneficial interest rates. The level of long term borrowing undertaken is therefore in line with our borrowing requirement per the approved 2014/15 Strategy and remains within the prudential indicator limits approved by Members.

3.5 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. As anticipated however, these rate changes were not made and the Market Loans remain on existing terms.

3.6 There was no opportunity for 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. The Council did not breach any of the approved limits during the financial year. 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 The Council held £15.2m of investments as at 31 March 2015, £8.3m of which was available on instant access in three UK Banks and £6.9m 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 2015. This confirms that the Council's treasury operations were operating well within the set parameters during financial year 2014/15.

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 relation to both borrowing and investment. The legacy of the financial crisis means that market conditions remain challenging both in terms of counterparty risk and investment returns.

8. RECOMMENDATION

8.1 Council notes the contents of the Treasury Management Annual Review 2014/15.

Chief Finance Officer

Date: 3 June 2015

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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.

	2014/15	
	UPPER LIMIT	**POSITION (31/03/15)**
Fixed Interest Rates	100%	99%
Variable Interest Rates	40%	1%

2. MATURITY STRUCTURE ON FIXED INTEREST RATE BORROWING 2014/15

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

	Lower %	**Upper %**	**Position (31/03/15) %**
Under 12 months	0	25	11
12 months – 2 years	0	25	0
2 years – 5 years	0	50	0
5 years – 10 years	0	75	14
10 years – 20 years	0	75	31
20 years – 30 years	0	75	22
30 years – 40 years	0	75	14
40 years – 50 years	0	75	8
			100%

3. PRINCPAL SUM INVESTED > 364 DAYS

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