

The background of the slide features a large, light grey watermark of the Coat of Arms of the Government of Yukon. The crest includes a crown with four maple leaves, a shield divided into four quadrants (top-left: diagonal bars, top-right: a cross, bottom-left: a sailing ship, bottom-right: a beaver), and a ribbon at the bottom with the motto 'A NE FOR A'.

AGENDA ITEM

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**TREASURY
MANAGEMENT ANNUAL
REVIEW 2015/16**

FALKIRK COUNCIL

Subject: TREASURY MANAGEMENT ANNUAL REVIEW 2015/16
Meeting: EXECUTIVE
Date: 7 June 2016
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

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 2015/16. 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 2015/16 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 (to Executive 17/03/15)
 - a mid-year treasury update report (to Executive 01/12/15)
 - 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 2015/16 noted relatively strong UK growth since 2013 with levels of 2.9% being predicted for 2015. However, the actual 2015 growth figures have steadily fallen to a final figure of 2.2%. Inflation forecasts have been repeatedly revised downwards even to the point of negative inflation in 2015. It currently stands at 0.5% and only towards the end of 2017 is it expected to get close to the 2% target rate.
- 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 2017 which is fifteen months later than originally anticipated in the 2015/16 Strategy approved by Members.
- 2.3 In terms of the Eurozone, the ECB announced a quantitative easing programme of 60bn Euros per Month starting from March 2015 with a further increase in December 2015. The anti-austerity government in Greece, elected in January 2015 eventually agreed to implement an acceptable programme of cuts to meet EU demands. However, there are continuing concerns that a Greek exit has just been delayed with an exit from the Euro still a realistic possibility.

- 2.4 Following the election of the Conservative Government in May 2015, David Cameron's promise to hold an EU referendum comes to fruition on 23 June 2016. There are various conflicting views on how the outcome of this referendum will impact on the UK with experts on either side of the fence speculating about what "Brexit" would mean for the economy, trade, laws, immigration etc. Only time will tell what the impact of the result will be.
- 2.5 The US economy has continued to grow largely due to consumer demand. The Federal Reserve Committee increased interest rates in December 2015, the first increase since 2006. However further increases are on hold due to concerns around the risks to world growth.

3. BORROWING STRATEGY 2015/16 – OUTCOME

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

	2015/16 Budget £m	2015/16 Actual £m
Borrowing for Capital Programme (net of receipts and including TIF)	37.0	11.3
Service Payments	(14.0)	(13.3)
Replacement of Short Term Loans Maturing	26.0	26.0
Address Under-Borrowing (see para 3.5)	-	15.0
Total Longer Term Borrowing Requirement	49.0	39.0

- 3.2 The actual long term borrowing requirement for Capital Programme purposes was less than the original estimate. In relation to both TIF and the General Fund, a number of projects were re-scheduled, details of which have previously been advised to Members. There has been slippage in the Housing Capital Programme, again previously advised to Members. In addition, the Housing Programme has sourced additional receipts which has also reduced the borrowing requirement. Details of the reduction in borrowing are as follows:-

	2015/16 £'m
Budgeted borrowing for Capital Programme (net of receipts & incl. TIF)	37.0
Less:	
Re-scheduled TIF projects	(7.0)
Re-scheduled General Fund Projects	(6.9)
Slippage in Housing Capital Programme	(5.0)
Additional Housing Income	(2.8)
Additional Housing Revenue Contribution	(4.0)
Actual borrowing for Capital Programme (net of receipts & incl. TIF)	11.3

- 3.3 Members have been advised of the re-scheduled TIF projects in previous reports to the Executive. The re-scheduled General Fund projects include such projects as Denny Town Centre, Older Peoples Accommodation and Crematorium as previously advised to Members in the September 2015 Executive report. In terms of the Housing Capital Programme, there have been delays in the New Build projects at Stenhousemuir and Denny, again previously advised to Members. The Housing Capital Programme also received Scottish Government funding for Buy Backs, additional income from Council House sales and revenue contributions. All of these factors have impacted on the level of long term borrowing required for Capital Programme purposes during 2015/16.
- 3.4 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 2015/16 combined both short term and long term with the emphasis on short term because of the lower relative interest rates prevailing at the time.
- 3.5 Borrowing undertaken during 2015/16 is as detailed below:

	<u>Short Term</u>	<u>Long Term</u>	<u>Total</u>
	<u>£'m</u>	<u>£'m</u>	<u>£'m</u>
Borrowing at 01/04/15	26.0	202.6	228.6
Maturing in Year	(26.0)	-	(26.0)
Borrowing in Year	29.0	10.0	39.0
Borrowing at 31/03/16	29.0	212.6	241.6

- 3.6 As was reported to Members in previous Strategy reports, in view of the Council's under-borrowed position, the budgeted borrowing requirement in any given year may still be required regardless of the slippage in the capital programmes. Consequently, although our Capital Programme driven actual borrowing requirement for the year was c£24m, we borrowed £39m 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 within the limits approved as part of the 2015/16 Strategy and remains within the prudential indicator limits approved by Members.
- 3.7 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.
- 3.8 There was no opportunity for debt rescheduling activity during the year.
- 3.9 The UK Government has announced plans to abolish the Public Works Loan Board and transfer its lending functions to another body using powers set out in the Public Bodies Act 2011. A consultation document has been published on HM Treasury's website seeking views on proposals to modernise the governance arrangements of central government lending to local authorities. We have been advised that the proposed change will have no impact on central government's capacity to lend to local authorities and that it will simply be arranged through another body. Members will be advised of progress in future Strategy reports.

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. As a consequence of the Council offices being closed over the Christmas and New Year period, the approved limit for investments in the Clydesdale Bank was temporarily breached due to the receipt of unanticipated deposits into the Council's bank account over this period. 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 £37.7m of investments as at 31 March 2016, £9.7m of which was available on instant access in two UK Banks, £15m in Money Market Funds and £13m 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.

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. 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 2016. This confirms that the Council's treasury operations were operating well within the set parameters during financial year 2015/16.

6. MEMBER TRAINING

- 6.1 The Investment Regulations provide for increased scrutiny by Members of treasury management issues and moreover the Executive agreed that training for Members be mandatory prior to serving on the Executive, Audit or Scrutiny Committees. Consequently training sessions tailored towards the needs and responsibilities of Members took place on 15 and 31 March 2016.

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 The Executive notes the contents of the Treasury Management Annual Review 2015/16 and agree that the report is referred to Council for consideration.**

Director of Corporate & Housing Services

Date: 26 May 2016

Ref: AAB070616 – Treasury Management Annual Review 2015/16

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LIST OF BACKGROUND PAPERS

NIL

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.

	2015/16	
	UPPER LIMIT	POSITION (31/03/16)
Fixed Interest Rates	100%	100%
Variable Interest Rates	40%	0%

2. MATURITY STRUCTURE ON FIXED INTEREST RATE BORROWING 2015/16

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

	Lower %	Upper %	Position (31/03/16) %
Under 12 months	0	25	12
12 months – 2 years	0	25	0
2 years – 5 years	0	50	1
5 years – 10 years	0	75	13
10 years – 20 years	0	75	29
20 years – 30 years	0	75	20
30 years – 40 years	0	75	13
40 years – 50 years	0	75	12
			100%

3. PRINCIPAL SUM INVESTED > 364 DAYS

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