Agenda Item 7

Treasury Management Annual Review 2017/18

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Falkirk Council

Title: **Treasury Management Annual Review 2017/18**

Meeting: **Falkirk Council**

Date: **27 June 2018**

Submitted By: **Director of Corporate & Housing Services**

1. Purpose of Report

1.1 The purpose of this report is to the Treasury Management Annual Review 2017/18 to Council for consideration.

2. Recommendation

2.1 Council is invited to consider the Treasury Management Annual Review 2017/18.

3. Background

3.1 The Treasury Management Code of Practice requires a Treasury Management Annual Review to be reported to the appropriate committee and to Council.

4. Consideration

4.1 The Annual Review for 2017/18 was considered by the Executive on 12 June 2018. The Executive agreed to refer the report to Council for consideration.

5. Consultation

5.1 This report has not been subject to consultation.

6. Implications

Financial

6.1 There are no financial implications arising from the report.

Resources

6.2 There are no resource implications arising from the report.

Legal

6.3 There are no legal implications arising from the report.

Risk

6.4 There are no risk implications arising from the report.

Equalities

6.5 An equality and poverty impact assessment was not carried out.

Sustainability/Environmental Impact

6.6 No sustainability assessment has been completed as part of compiling the report.

7. Conclusions

7.1 The Treasury Management Annual Review 2017/18 was considered by the Executive on 12 June 2018 and is now before Council for consideration.

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Director of Corporate & Housing Services

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Date: 14 June 2018

Appendix

1) Report to the Executive – 12 June 2018.

List of Background Papers:

The following papers were relied on in the preparation of this report in terms of the Local Government (Scotland) Act 1973:

None

Appendix

Falkirk Council

Title:	**Treasury Management Annual Review 2017/18**
Meeting:	**Executive**
Date:	**12 June 2018**
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 Strategy. 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 2017/18.

(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 2017/18 financial year. The Treasury Management Strategy report for 2017/18 was considered by the Executive on 21 March 2017 and thereafter approved by Council on 29 March 2017. An interim Treasury Management report was considered by the Executive and Council in November and December 2017, respectively. This report to Members provides an annual review of the Treasury Management function for 2017/18.

4. Considerations

4.1 Economic Review

4.1.1 The approved Treasury Management Strategy 2017/18 noted that the bank base rate of 0.25% was likely to increase to 0.5% in June 2019. However the rate increased to 0.5% in November 2017 and although there was an expectation that it would rise again in May 2018, the Bank of England (BoE) has delayed. The main reason for the delay is the slowdown in economic growth partly attributable to the bad weather in March. The BoE have also advised that rate rises when they do come, will be at a slow pace. Inflation fell to 2.5% in March, and although it is above the BoE’s target rate of 2%, it is the lowest rate in a year. Expectations are that it will fall back to target by early 2021. Unemployment currently stands at 4.2% with a drop to 4%

forecast by 2020. The uncertainty surrounding the final terms of Brexit will undoubtedly have an impact on all of these forecasts.

4.1.2 Economic growth in the Eurozone came in at 2.3% for 2017, however inflation was only 1.4% in March which is below the 2% target. Consequently any increase in interest rate is unlikely before the end of 2019.

4.1.3 Economic growth in the US came in at 2.3% for 2017, which was up from the 2016 figure of 1.6%. Unemployment fell to 3.9%, the lowest rate since 2000. The Federal Reserve (Fed) has increased interest rates on six occasions since December 2015, with the central rate of interest currently standing at 1.75% effective from March 2018.

4.2 Borrowing Strategy 2017/18 – Outcome

4.2.1 The Council's long term borrowing requirement for 2017/18 was estimated as part of the three year Capital Programmes for both General Fund & HRA. Assumptions on 2017/18 borrowing were made in December 2016. The borrowing requirement takes into account the anticipated approved capital programmes (not approved until February 2017), the estimated slippage for 2016/17 and any projects which may be rescheduled to 2017/18. 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 2017/18 Interim Strategy report to the November Executive advised Members that the revised long term borrowing requirement was c£38.4m. This figure was revised further to £35.4m in the Capital Programmes Update 2017/18 reported to the Executive on 13 February 2018. The actual borrowing requirement against this revised forecast is as detailed below:

	2017/18 Revised Estimate £'m	**2017/18 Actual £'m**	**2017/18 Variance £'m**
Capital Programme (net of receipts and including TIF)	25.0	19.9	**(5.1)**
Service Payments	(13.6)	(15.0)	1.4
Replacement of Short Term Loans Maturing	24.0	24.0	-
Total Longer Term Borrowing Requirement	**35.4**	**28.9**	**(3.7)**

4.2.3 The long term borrowing requirement for Capital Programme purposes is £5.1m less than reported to the February Executive. This reduction is analysed below:

		2017/18 Actual £'m
February Executive - Forecast borrowing required for Capital Programme (net of receipts & including TIF)		25.0
Adjustments:		
Slippage General Fund Capital Programme	(3.0)	
Additional General Fund Revenue Contributions	(1.1)	
Additional Housing Revenue Contribution	(1.0)	(5.1)
Actual Borrowing Requirement for Capital Programme (net of receipts & including TIF)		**19.9**

4.2.4 Slippage on the General Capital Programme has increased by a further c£3m. Discussions have taken place with Internal Audit and the 2018/19 Audit Plan now includes a review of the Capital Programmes. This review will examine the reasons for slippage and ascertain to what extent it can be avoided and better managed. The findings of this review will be reported to Members in due course.

4.2.5 Revenue Contributions of £1.1m for the General Fund Capital Programme included contributions mainly for Council of the Future projects, Vehicle Replacement and various Capital works across the School estate. This additional contribution is also detailed in the Financial Outturn 2017/18 report which is a separate agenda item at this meeting. Housing also increased Revenue Contributions by £1m to supplement grant funding and other Capital resources within the Housing Capital Programme.

4.2.6 The slippage in the General Fund programme forms part of the 2018/19 borrowing requirement included in the 2018/19 Treasury Management Strategy which was reported to Members at the May Council meeting.

4.2.7 The Service Payments noted in paragraph 4.2.2 were £1.4m higher than previously advised to Members. The additional £1.4m of debt repayment is made up of additional voluntary repayments as detailed below:

TIF – £0.5m
Non Domestic Rates Income for 2017/18 was c£0.5m greater than TIF Capital expenditure and annual loan charges for 2017/18. As allowed for in the TIF scheme, this excess was therefore applied to pay off prior year debt.

General Fund – £0.9m
The Projected Financial Position 2017/18, reported to the January Executive, advised of a projected saving in loan charges because of a reduction in borrowing for 2016/17. Members were also advised of the potential to use

any saving for the early repayment of debt. As detailed in paragraph 4.2.2, there is also a reduction in external borrowing for 2017/18. As a result of reduced borrowing, the overall reduction in loan charges equates to c£0.9m. This has been applied to pay off debt in order to reduce loan charges which will impact on future Revenue Budgets.

4.2.8 Borrowing undertaken during 2017/18 is as detailed below:

	Short Term £'m	**Long Term £'m**	**Total £'m**
Borrowing at 01/04/17	24.0	212.6	236.6
Maturing in Year	(24.0)	-	(24.0)
Borrowing in Year	28.5	4.0	32.5
Borrowing at 31/03/18	**28.5**	**216.6**	**245.1**

4.2.9 As detailed in the table at paragraph 4.2.2, the actual borrowing requirement for 2017/18 was £28.9m, however £32.5m of borrowing was undertaken. Previous Strategy reports have noted the Council's under-borrowed position and stated that borrowing beyond that required to fund the Capital Programmes, may still be undertaken regardless of slippage. This additional borrowing of £3.6m, the impact of which has already been factored into the Revenue Budget, will therefore help reduce the Council's under-borrowed position. The level of long term borrowing undertaken is within the limits approved in the Strategy and remains within the prudential indicator limits approved by Members.

4.2.10 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. Borrowing undertaken during 2017/18 was on both a short term and long term basis because of the relative interest rates prevailing at the time.

4.2.11 The Strategy noted that the Council has £13m 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.

4.2.12 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.

4.2.13 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 2017/18. 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 £36.4m of investments as at 31 March 2018, £10.4m of which was available on instant access in three UK Banks, £0.04m in Money Market Funds, £16m on short term deposit with two UK Banks and £10m 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 maturing short term debt, 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 2018. This confirms that the Council's treasury operations were operating well within the set parameters during financial year 2017/18.

4.5 Benchmarking

4.5.1 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 2018. The data includes information for 31 out of 32 Scottish Authorities and Falkirk is positioned 17 out of 31, so relatively average in terms of investment levels.

4.6 Banking Contract

4.6.1 As advised to Members in November 2017, the Council's Banking contract was retendered during 2017/18 with an effective start date of 1 April 2018. A full OJEU tender process was undertaken and bids were received from the Council's current bank, Clydesdale Bank and the Royal Bank of Scotland. The successful bidder was the Royal Bank of Scotland and the migration of banking services from Clydesdale Bank to the Royal Bank of Scotland commenced in January 2018. It is envisaged that the full migration of services will be completed early in 2018/19, with the Clydesdale bank accounts remaining open for a number of months to capture any residual transactions.

4.7 Prudential Code

4.7.1 Members were previously advised that CIPFA was reviewing its Prudential Code and capital framework. As a result of this review, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revised Codes were issued in December 2017, however, CIPFA has issued a statement that accepts that issuing these revised Codes so late in the 2018/19 budget cycle, will make it difficult for most authorities to fully implement by 1 April 2018. Accordingly full implementation is not expected until 2019/20.

4.8 Markets in Financial Instruments Directive II (MiFID II)

4.8.1 As previously advised to Members, the Markets in Financial Instruments Directive II (MiFID II) came into effect in January 2018 and was implemented by the Financial Conduct Authority (FCA). Under the Directive, local authorities are required to "opt up" to professional client status, in order to continue their treasury management activities with banks and other financial institutions. Falkirk Council has successfully completed this process and continues to interact with banks and financial institutions as part of its treasury management function.

4.9 Member Training

4.9.1 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.

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 2018/19 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 2018/19, 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 2017/18 Treasury Management Strategy and interim Strategy Review report, have been met in relation to both borrowing and investment.

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Director of Corporate & Housing Services

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Appendices
Appendix 1 – Treasury Management Prudential Indicators
Appendix 2 – Investment Levels at 31 March 2018

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.

	2017/18	
	UPPER LIMIT	**POSITION (31/03/18)**
Fixed Interest Rates	100%	100%
Variable Interest Rates	40%	0%

2. MATURITY STRUCTURE ON FIXED INTEREST RATE BORROWING 2017/18

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

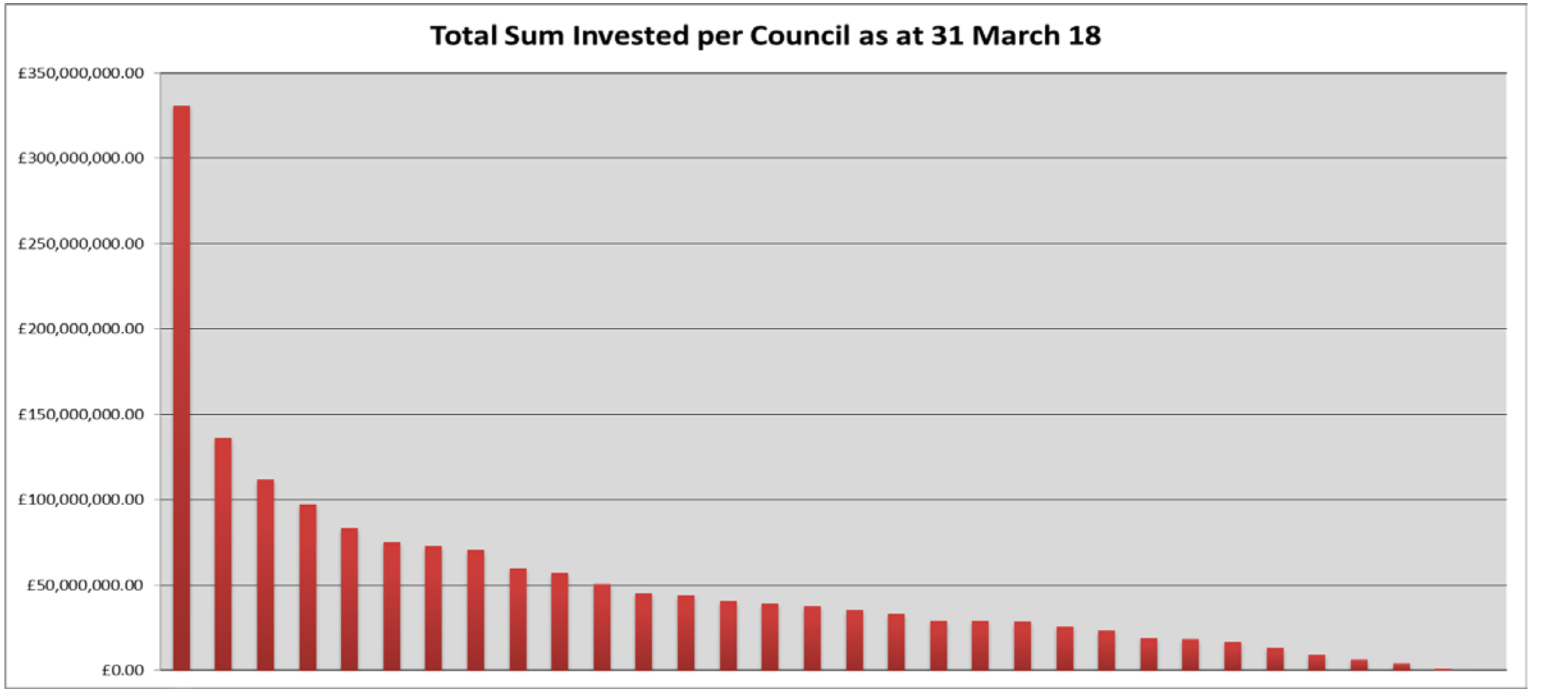
	Lower %	**Upper %**	**Position (31/03/18) %**
Under 12 months	0	20	12.1
12 months – 2 years	0	20	1.0
2 years – 5 years	0	30	6.9
5 years – 10 years	0	30	25.9
10 years – 20 years	0	40	13.2
20 years – 30 years	0	40	6.1
30 years – 40 years	0	40	29.1
40 years – 50 years	0	40	5.7
			100.0%

3. PRINCIPAL SUM INVESTED > 364 DAYS

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

Summary of Scottish Local Authoristy Total Investments Outstanding as at 31 March 18 **APPENDIX 2**

By Council	Total Sum Investment
Misc 1	£331,070,608.03
Misc 27	£136,224,078.65
Misc 3	£112,014,000.00
Misc 4	£97,451,000.00
Misc 5	£83,471,000.00
Misc 11	£74,914,000.00
Misc 28	£73,011,219.73
Misc 8	£70,524,700.00
Misc 12	£59,920,000.00
Misc 10	£57,333,661.00
Misc 14	£50,732,514.00
Misc 2	£44,980,000.00
Misc 16	£44,338,069.88
Misc 6	£40,734,291.24
Misc 17	£39,158,187.00
Misc 9	£37,585,692.11
Misc 18	£36,458,471.88
Misc 13	£33,395,617.98
Misc 7	£29,115,000.00
Misc 21	£28,865,611.64
Misc 15	£28,699,335.99
Misc 20	£26,000,000.00
Misc 19	£23,409,796.51
Misc 22	£18,800,000.00
Misc 31	£18,500,000.00
Misc 30	£16,721,912.42
Misc 25	£13,560,000.00
Misc 23	£9,246,799.42
Misc 32	£6,400,000.00
Misc 24	£4,200,000.00
Misc 29	£711,172.70
Misc 26	£0.00



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