

The background of the slide features the coat of arms of the Government of Nunavut. It is a shield divided into four quadrants. The top-left quadrant shows a stylized yellow sun with rays. The top-right quadrant depicts a white caribou head with large antlers. The bottom-left quadrant contains a white sailing ship on wavy lines representing water. The bottom-right quadrant shows a white eagle with its wings spread. Above the shield is a crown with four points, each topped with a white flower. A white banner at the bottom of the shield contains the text "ANE FOR A'".

Agenda Item 5

**Referral from Executive - Treasury
Management Interim Review 2022/23**

Falkirk Council

Title: Referral from Executive - Treasury Management Interim Review 2022/23

Meeting: Falkirk Council

Date: 14 December 2022

Submitted By: Director of Transformation, Communities & Corporate Services

1. Purpose of Report

- 1.1 The purpose of this report is to refer the Treasury Management Interim Review 2022/23 to Council for consideration.
- 1.2 This report supports the Council Plan enabler of Financial Sustainability.

2. Recommendation

- 2.1 **Council is invited to consider the Treasury Management Interim Review 2022/23.**

3. Background

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

4. Consideration

- 4.1 The Interim Review for 2022/23 was considered by the Executive on 4 October 2022. 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 for this report which is for information.

Sustainability/Environmental Impact

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

7. Conclusions

- 7.1 The Treasury Management Interim Review 2022/23 was considered by the Executive on 4 October 2022 and is now before Council for consideration.

Director of Transformation, Communities & Corporate Services

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Date: 02 December 2022

Appendix

- 1) Report to the Executive – 4 October 2022.

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

Falkirk Council

Title: Treasury Management – Interim Review 2022/23
Meeting: Executive
Date: 4 October 2022
Submitted By: Director of Transformation, Communities & Corporate Services

1. Purpose of Report

- 1.1 As part of the Treasury Management Code of Practice, reporting requirements make provision for an interim review of the Treasury Management function to be considered by the appropriate Committee and full Council.
- 1.2 The Treasury Management function covers two broad areas:
- Managing the day to day cashflow of the Council by investing surplus monies in secure counterparties and/or borrowing to deal with the timing of cashflows, and
 - Funding the Council's Capital Programme, ensuring borrowing needs are met through either long term or short term loans or by using cash surpluses.
- 1.3 This report sets out a summary of the factors affecting both these areas, as well as a position statement on the Council's Treasury Management activities at the half year point.

2. Recommendations

2.1 The Executive is asked to:

- (1) Note the progress of the Council's Treasury Management Strategy for 2022/23.**
- (2) Note the reduction in the long term borrowing requirement for 2022/23.**
- (3) Refer the report to Council for consideration.**

3. Background

- 3.1 This report is one of three Treasury Management reports to Members during the course of the year. The Treasury Management Strategy report is usually approved by the Executive before approval by Council. However, due to the Local Government elections in May 2022, the number of meetings was restricted. As a result, the Treasury Management Strategy for 2022/23 was submitted to full Council only and approved in March 2022.
- 3.2 The purpose of the interim review is to provide:
- An economic update of the first half of 2022/23
 - A review of the Council's borrowing activity
 - A review of the Council's investment activity
 - An update on the Council's capital expenditure and prudential indicators
 - A review of compliance with Treasury and Prudential limits.
- 3.3 There will be a final annual review report to the Executive in June 2023, following the financial year end.

4. Considerations

4.1 Economic and Interest Rate Outlook

- 4.1.1 The Bank of England Monetary Policy Committee (MPC) met in August 2022 and voted by an 8-1 majority to increase Bank Rate by 0.5% to 1.75%, pushing borrowing costs to their highest in 13 years. The aim of this is to try and tackle the soaring inflation which is impacting on all aspects of daily life.
- 4.1.2 Gross Domestic Product (GDP) growth is slowing in the UK and there is deterioration in the outlook for activity not only in the UK but the rest of Europe. The UK is projected to enter recession from the last quarter of 2022. Real household income is expected to fall sharply in 2022 and 2023 and consumption growth is expected to turn negative (i.e. people will stop/reduce spending significantly).
- 4.1.3 In the 12 months to August 2022, inflation dipped to 9.9% from 10.1% in July, mainly due to falling fuel prices. However prices, in particular food prices, continue to rise at a fast rate. This position is not therefore expected to impact on the MPC who are expected to increase interest rates again on 22 September. It is unclear if this will be a 0.5% or 0.75% increase.
- 4.1.4 MPC forecasts that inflation will slow next year and be close to 2% in around two years. The MPC policy is to see inflation at a sustainable 2% level. Link Asset Services, the Council's Treasury Advisors, forecast the first decrease in the bank rate around December 2023.

4.1.5 UK gilt yields have increased significantly during August and September 2022 (10 year gilt yields have increased at the fastest pace in 20 years). This is important because PWLB fixed interest borrowing rates are based on gilt yields and these yields can be affected by both national and global markets. The current forecast from Link Asset Services shows a rise of PWLB interest rates, reducing during 2024/25.

4.1.6 The latest interest rate forecast as supplied by Link Asset Services, is as follows:

AVERAGE ANNUAL %							
Year	Bank Rate	MONEY RATES		PUBLIC WORKS LOAN BOARD RATES (PWLB)			
		3 Months	1 Year	5 Year	10 Year	25 Year	50 Year
2022/23	2.30	2.50	3.20	2.80	3.00	3.40	3.10
2023/24	2.60	2.60	2.95	3.10	3.30	3.50	3.20
2024/25	2.30	2.25	2.25	2.90	3.00	3.30	3.00

4.2 Borrowing Strategy

4.2.1 The borrowing function within Treasury considers:

- The timing of cashflows
- The capital expenditure forecasts
- How capital expenditure will be financed
- The impact of this on the need to borrow and on prudential indicators
- Ensuring this remains within the limits in place for borrowing activity

4.2.2 The 2022/23 Treasury Strategy set out the projected borrowing requirement for the year. This figure takes into account estimated borrowing for Capital Programme purposes, plus TIF borrowing and replacement of any short term or long term loans. This figure is reduced by the service repayment of debt. As such it will inevitably change as the year progresses.

4.2.3 The Capital Programme report, on the August Executive agenda provided a forecast for capital expenditure. The forecast position, as projected by Services, is summarised below:

	Total Capital Spend Forecast £m	To be met from Borrowing £m
General Fund	44.856	16.809
Housing Revenue Account (HRA)	60.638	42.592
Total	105.494	59.401

- 4.2.4 There is a further requirement for borrowing of c£2.9m for the Tax Incremental Financing Project (TIF). That borrowing will be financed from additional non domestic rates income.
- 4.2.5 Details of the budgeted long term borrowing requirement and updated forecast borrowing requirement are shown below:

	2022/23 Budget	2022/23 Revised Estimate	2022/23 Movement
	£'m	£'m	£'m
Capital Programmes (net of receipts)	92.3	62.3	(30.0)
Service Payments	(9.3)	(9.0)	0.3
Long Term Loans Maturing In Year	11.0	11.0	-
Short Term Loans Maturing In Year	40.0	40.0	-
Total Longer Term Borrowing Requirement	134.0	104.3	(29.7)

- 4.2.6 The reduction in borrowing for the capital programme is primarily due to the detailed review of the Capital Programme carried out through the Strategic Asset Modernisation Board (SAMB). The SAMB reviewed the Programme to ensure that a realistic, deliverable Programme was in place (in particular taking account of any adjustments as a result of the 2021/22 outturn). This work reflected the recommendations of the Best Value Assurance report and subsequent action plan.
- 4.2.7 Part of the treasury function is to determine the best options for borrowing for the Capital Programme. To date, in 2022/23, the Council has had a surplus of cash. However, some forward placed borrowing has been arranged throughout the year to try and take advantage of interest rates. This borrowing has been on a short term basis.
- 4.2.8 The Council is expected to require further borrowing in December 2022. As always, consideration will be given to the range of borrowing options available to the Council. The decision to borrow on a long or short term basis will be based on prevailing and projected interest rates available and the balance of borrowing periods across the loans portfolio. At this stage, long term borrowing remains much more expensive than short term borrowing although the difference is reducing.
- 4.2.9 The Strategy Report noted that the Council has four Market Loans valued at £26m in totality. There is potential for two of these Market Loans, up to a value of £13m, to be repaid during the year should any of the lenders invoke a rate change clause as per their contracts. This has not occurred. These Market Loans are held with Dexia Credit (£8m) and Just Retirement Ltd (£5m). The remaining two Market Loans (£13m) are held with Barclays Bank and as previously advised Barclays have waived their right to change the applicable interest rate of these loans. Given the current level of interest rates, the risk of early repayment of any of the remaining loans is assessed as low.

4.2.10 The current climate of low interest rates means that there are no benefits in carrying out debt rescheduling and therefore no debt rescheduling has been undertaken in 2022/23. It is considered unlikely that any debt rescheduling will be undertaken in the short term.

4.3 Investment Strategy

4.3.1 Members are reminded that the primary objectives of the Council's investment strategy remain:

- Security of capital
- Liquidity
- Yield

4.3.2 The most important of these is security – i.e. ensuring any funds we invest are returned.

4.3.3 As interest rates have risen, there has been some improvement in expected yields on investments, although they remain relatively low. The Council's money market funds continue to offer the best return, ranging from 1.53% to 1.69% at the time of writing.

4.3.4 The Council held £104.9m of investments as at 31 August 2022. Details are as follows:

Institution	Investment £'m	Maturity
UK Banks	33.9	Instant Access
UK Bank	-	35 day Notice Account
Money Market Funds	40.0	Instant Access
Building Societies	31.0	1 – 3 month deposits
Local Authorities	-	
Total Investments	104.9	

4.3.5 The high level of cash balances, as shown in the table above, means that on occasion it can be difficult to place the funds in alignment with the counterparty limits. The recommended limit for the Council's account with Royal Bank of Scotland was breached for a two day period in August this year. This breach was agreed in advance, given the relatively low risk and the cashflow projections showing that it would be for a short period. However, we will work with our Treasury Advisors to look at further counterparty options to avoid a similar position in future.

4.3.6 The Council's credit and counterparty policies together with the specific counterparties that the Council engages with in terms of investments, are detailed in Appendix 1. As the Council moves into a borrowing position towards the end of the financial year, the counterparties will be sufficient to allow officers to manage the Council's investments. However, options will be considered alongside our Treasury Advisors.

4.4 Treasury Management Prudential Indicators

4.4.1 Financing of the Capital Programme is one of the primary functions of Treasury Management which in turn is managed by a series of Treasury Management prudential indicators.

4.4.2 The purpose of these 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. The budgeted Treasury indicators and the position as at 31 August 2022, are noted below:

	Position	2022/23	2022/23
1) MATURITY STRUCTURE	31/08/22	LOWER	UPPER
	%	%	%
Fixed Interest Rate Borrowing 2022/23:			
Under 12 months	18	0	35
12 months – 2 years	8	0	20
2 years – 5 years	16	0	20
5 years – 10 years	10	0	30
10 years – 20 years	7	0	30
20 years – 30 years	12	0	30
30 years – 40 years	16	0	30
40 years – 50 years	13	0	40
Variable Interest Rate Borrowing 2022/23:			
Under 12 months	0	0	5
12 months – 2 years	0	0	5
2 years – 5 years	0	0	5
5 years – 10 years	0	0	5
10 years – 20 years	0	0	5
20 years – 30 years	0	0	5
30 years – 40 years	0	0	5
40 years – 50 years	0	0	5
2) MAXIMUM PRINCIPAL SUMS INVESTED > 365 DAYS			
The Council does not place investment for periods longer than 365 days.			

4.5 Treasury Management Advisers

4.5.1 The Council has a two year contract with Link Asset Services effective from 1 April 2021 to 31 March 2023. The contract is subject to regular review and comprises:

- Technical support on treasury and capital finance issues
- Economic and interest rate analysis
- Advice on debt rescheduling
- Borrowing and investment advice on interest rates, timing and financial instruments
- Credit ratings/market information service accessing the three main credit rating agencies

4.5.2 It is important to recognise under the terms of the contract, that regardless of the input from Link, the final decision on treasury matters always rests with the Council.

4.6 Member Training

4.6.1 The Investment Regulations provide for increased scrutiny by Members of Treasury Management issues. A training session on Treasury Management was held on 19 August 2022 and was well attended. Further training sessions will be arranged as necessary to ensure that Members are fully aware of their scrutiny role for Treasury Management activities. In the meantime, officers will continue to provide support and advice as required.

4.7 Benchmarking

4.7.1 It was recognised by Members that benchmarking information will vary across Authorities 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 Scottish Local Authorities as at 31 July 2022 (these figures are provided by an external source and this is the latest data available). The data includes information for 31 out of 32 Scottish Authorities and Falkirk Council is positioned 13 out of 31 (last year Falkirk was 17 out of 31).

5. Consultation

5.1 There is no requirement to carry out a consultation based on the report recommendations.

6. Implications

Financial

- 6.1 Assumptions made on both borrowing and investment are an integral part of the Revenue Budget setting process. As such the Revenue Budget and Capital Programmes for both General Fund and Housing reflect the financial consequences of the proposed Borrowing and Investment Strategies within this report.

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 The Council has ready access to cash through borrowing in the money market and the PWLB. The risks associated with this are the interest rates that the Council will have to pay to access this money. There are a number of risks which could impact on PWLB rates moving forward, arising from both national and global issues.
- 6.5 Although interest rate assumptions are considered after discussion with the Council's Treasury Advisors, there is always the risk that they could change, which would impact on the level of interest payable by the Council. The Council's prudent approach to Treasury Management aims to mitigate the Council's risk.

Equalities

- 6.6 An equality and poverty impact assessment is not required.

Sustainability/Environmental Impact

- 6.7 A sustainable assessment is not required.

7. Conclusion

- 7.1 The volatility in the economy translates to uncertainty in prevailing interest rates. In terms of borrowing, the short term interest rates continue to remain low relative to the long term PWLB rates. For investments, it is highly unlikely that significant yields will be achieved, albeit interest rates on investments are better than they have been for a number of years. As always, security of funds remains the driving principal.
- 7.2 Given the borrowing requirement the Council must remain vigilant to the factors affecting the movement in rates and work closely with the treasury advisers to ensure that any borrowing is undertaken at the most advantageous rate possible.

Director of Transformation, Communities and Corporate Services

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Date: 20 September 2022

Appendices

Appendix 1 – Credit and Counterparty Policies

Appendix 2 – Investment Levels at 31 July 2022

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

CREDIT AND COUNTERPARTY POLICIES

Criteria to be used for creating/managing approved counterparty lists/limits.

- Chief Finance Officer in conjunction with the Treasury Management advisers, will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct a lending list comprising period, type, sector and specific counterparty limits.
- To qualify for use, a counterparty must meet the minimum rating criteria with at least one of the three credit rating agencies.
- The Council will also have regard to additional operational market information such as negative rating watches/outflows before selecting the relevant counterparties.
- The Council's approved counterparty list will extend to selected counterparties from the following sectors:

UK Banks

Overseas Banks (but with UK authorisation) Minimum Sovereign rating of AA

Building Societies

UK Local Authorities

UK Government

Money Market Funds

- The minimum level of credit rating for an approved counterparty per Fitch or equivalent ratings will be as undernoted, with particular reference to the short term rating but having regard to the long term rating.

SHORT TERM	F1	Indicates the strongest capacity for timely payment of financial commitments within a 12 month timeframe
LONG TERM	A-	High Credit Quality. A low expectation of credit risk with a strong capacity for timely payment of financial commitments

- The Council's own banker (Royal Bank of Scotland) will continue to be used for investment purposes even if the bank falls below the above criteria, because it is part nationalised. Balances will also be held on a Call basis too. Investments will be restricted to the ring fenced bank – Royal Bank of Scotland Plc.
- Investments in Nat West, which is also part nationalised with the Royal Bank of Scotland, can be included if they continue to be part nationalised

or if they meet the ratings above. Investments will be restricted to the ring fenced bank – National Westminster Bank Plc.

- The maximum period for investments will be 1 year unless an alternative period is recorded against a specific counterparty.
- The maximum value for any one investment transaction will be £10 million unless a lesser amount is recorded against a specific counterparty.

Full individual listings of counterparties and their limits are shown below.

APPROVED COUNTERPARTIES AND COUNTERPARTY LIMITS

Investments in the form of Temporary Deposits may be placed with the institutions noted below subject to the limit per institution indicated.

<u>UK BANKS</u>		
<u>INSTITUTIONS</u>	<u>LIMIT</u>	<u>MAX PERIOD</u>
Royal Bank of Scotland *		
The Royal Bank of Scotland	£10m	1 year
National Westminster Bank Plc	£10m	1 year
* A maximum combined monetary limit of	£10m	
Santander UK Plc	£10m	1 year
Barclays Bank UK Plc	£10m	1 year
HSBC UK Bank Plc	£10m	1 year
Standard Chartered	£10m	1 year
SMBC Bank International Plc	£10m	1 year
Lloyds Banking Group *		
Lloyds Bank Plc	£10m	1 year
Bank of Scotland Plc	£10m	1 year
* A maximum combined monetary limit of	£10m	
Goldman Sachs International Bank	£10m	1 year
Handelsbanken Plc	£10m	1 year
<u>BUILDING SOCIETIES</u>		
Nationwide	£7m	1 year
Coventry	£7m	1 year
Leeds	£7m	6 months
Yorkshire	£7m	6 months
Skipton	£7m	6 months
<u>UK LOCAL AUTHORITIES</u>	£10m per LA	1 year
<u>UK GOVERNMENT</u>	Unlimited	6 months
<u>MONEY MARKET FUNDS</u>	£10m per fund	Call

By Council	Total Sum Investment
Misc 1	£574,683,063.06
Misc 4	£355,690,000.00
Misc 2	£319,958,000.00
Misc 3	£261,550,000.00
Misc 9	£243,135,129.30
Misc 7	£175,545,000.00
Misc 28	£164,124,381.63
Misc 11	£113,870,000.00
Misc 5	£108,500,000.00
Misc 8	£101,137,000.00
Misc 29	£100,056,797.07
Misc 14	£92,542,892.05
Misc 18	£83,003,112.00
Misc 10	£82,334,104.54
Misc 12	£80,972,672.97
Misc 17	£77,213,160.00
Misc 16	£73,430,000.00
Misc 23	£68,655,585.00
Misc 30	£51,200,000.00
Misc 13	£50,514,712.09
Misc 21	£47,516,389.04
Misc 20	£47,444,111.33
Misc 24	£43,195,693.84
Misc 22	£38,704,000.00
Misc 25	£37,800,000.00
Misc 6	£29,900,000.00
Misc 31	£27,000,000.00
Misc 27	£25,673,297.99
Misc 15	£16,414,836.64
Misc 19	£10,076,991.00
Misc 32	£7,500,000.00
Misc 26	£0.00

£2,859,784,502.81

