AGENDA ITEM No. 9

NORTH LANARKSHIRE COUNCIL

REPORT

To: POLICY & RESOURCES (FINANCE & CUSTOMER SERVICES) SUB-COMMITTEE		Subject: TREASURY MANAGEMENT MONITORING REPORT PERIOD 1 OCTOBER TO 31 DECEMBER 2007
From: HEAD OF FINANCIAL SERVICES		
Date: 15 February 2008	Ref: PH/JQ/Q3	

1.0 Introduction

1.1 The purpose of this report is to inform on the quarterly activity (1 October 2007 to 31 December 2007) of the Council's loans and investment portfolios.

2.0 Background

2.1 The Council continues to manage its treasury activities in line with the CIPFA Code 'Treasury Management in the Public Services'. The Code requires the Council to produces reports on its Treasury Management policies, practices and activities on a regular and on-going basis. The Council fulfils these obligations in part by the preparation of a Treasury Management Monitoring report produced on a quarterly basis contained herein.

2.2 The Treasury activity undertaken in the third quarter of 2007/2008 reflects the key requirements of the Council's 2007/2008 Treasury Management Strategy, with the Public Works Loan Board and Long-term Money Market being the prime source of long-term funds. In addition, long term variable rate loans or temporary loans have not exceeded 25% of total borrowing. In terms of investment activity, all temporary lending is conducted with approved financial institutions.

3.0 Quarterly Activity

3.1 Summary Position

3.1.1 The net overall borrowing position to 31 December 2007 is shown in Appendix 1. The balance of £401m represents an increase of £10m from the position at 1 October 2007 and can be attributed to several factors.

3.1.2 The primary factor is a fall of £8.9m in the level of investment balances at the end of the quarter, which is normally offset against the total loans outstanding. Surplus balances previously accumulated as a result of positive cash-flow in earlier periods are now being used to meet the daily revenue account requirements. These internal balances also source the capital financing requirement as an alternative to borrowing for capital purposes.

3.1.3 There was also an increase of £2.8m in the bank overdraft held as the level of BACS payments outstanding and the level of cheques unpresented has risen.

3.1.4 These increases were partially offset by a significant decrease of £1.7m in North Lanarkshire Municipal Bank deposits utilised by the Council.

3.2 **Debt Restructuring**

3.2.1 During the quarter under review, in conjunction with our Treasury advisors, we monitored the economic climate in relation to our financial targets and Treasury Management strategy, and concluded that there were no opportunities to undertake any debt restructuring/rescheduling exercises.

3.2.2 A key change in the options for borrowing and rescheduling occurred on 1 November 2007 when the PWLB changed its interest rate structure to a more sensitive pricing method and also increased the relative cost of repaying debt. It is now operating a separate rate structure for new borrowing and a lower set of rates applicable for repayments and the calculation of premium and discounts on early redemption of loans. The differences ranging from between 25 basis points for 1 year and 45 basis points for 50 years. This will prompt a more cautionary approach to both borrowing and rescheduling. This is likely to have a significant impact on the number of attractive rescheduling opportunities available to the Council in the near future as the PWLB assess and review the impact of the changes imposed.

3.2.3 Further reports regarding future activity will be presented to Committee as appropriate.

3.3 **Borrowing**

3.3.1 There was no long-term borrowing undertaken during the quarter.

3.3.2 As at 31 December 2007, short-term borrowing amounted to £24.6m, which represented an increase of almost £1.1m.This increase is accounted for by a rise of £2.8m in the bank overdraft offset by a reduction of £1.7m in North Lanarkshire Municipal Bank deposits at the end of the quarter as described above.

3.3.3 During the normal course of business, day to day cash flow needs are examined and this resulted in cash movements both in terms of cash received and cash repaid amounting to £0.785m. The maximum period of any individual borrowing during the quarter was two nights only.

3.4 **Short Term Investments**

3.4.1 In the third quarter of 2007/2008, positive cashflows enabled short-term investments of £186.0m to be undertaken. During the same period, approximately £194.9m of short-term investments carried forward from prior periods matured.

3.4.2 The net effect of these transactions was a reduction of £8.9m in investment balances as highlighted in paragraph 3.1.2.

3.5 **Interest Rate Movements**

3.5.1 Longer term PWLB rates (25 year loans) fell during the quarter, settling at 4.63% by the end of December representing a fall of 0.37% over the quarter. Market rates were reduced by 0.05% over the same period, finishing at 6.20%. The average rate generally available during the quarter being 5.95%.

3.5.2 At its most recent meeting in February 2008, the Monetary Policy Committee (MPC) meeting reduced the Bank of England base rate by 0.25%. Since the end of September 2007 the rate has fallen by 0.50% with the rate now set at 5.25%. This declining trend is due to mounting evidence of decelerating economic activity providing scope for some relaxation of monetary policy.

3.5.3 The slowdown in the housing market, the tightening of credit conditions and the very heavy indebtedness of the household sector is set to undermine consumer spending growth.

3.5.4 The Treasury Management Section will continue to monitor interest rate movements and their impact upon the Council's investment and borrowing activity.

4.0 **The Prudential Code for Capital Finance in Local Authorities**

4.1 The Local Government in Scotland Act 2003 requires the Council to undertake its Treasury activities with regard to the Prudential Code for Capital Finance in Local Authorities.

4.2 Committee, at its meeting on 23 January 2007, approved a report titled, "Treasury Management Strategy 2007/2008 and Prudential Indicators 2007/2008 to 2009/2010". This report detailed a variety of mandatory and local indicators aimed at assisting members to determine that proposed capital investment levels and treasury management decisions satisfied the key requirements of affordability, prudence and sustainability. Performance against key prudential indicators for 2007/2008 is detailed within Appendix 2.

4.3 Committee will wish to note the following salient points:-

(i) Indicator 1(a) illustrates that investment on capital expenditure is projected to be higher than that initially estimated. This will be financed from additional cash grants and capital contributions from revenue although capital receipts previously anticipated in 2007/2008 will not be received until early 2008/2009. Therefore the previously reported reduction in the estimated borrowing requirement for 2007/2008 will not be as high. Capital expenditure levels are monitored in detail as part of the Council's capital programme reporting mechanisms.

(ii) The Prudential Code requires the Council's capital investments to be affordable and prudent. To demonstrate this, a Prudential Margin (the need to borrow versus actual borrowing) is calculated. Indicator 1(b) demonstrates a healthy prudential margin at 31 December 2007. This is primarily due to projected surplus cashflows held throughout the year being higher than anticipated, thus reducing the net borrowing requirement.

(iii)Indicator 2 illustrates that both the authorised and operational borrowing limit have not been exceeded, with the maximum borrowing undertaken within the period being well below the approved boundaries.

(iv)Indicator 3(a) sets upper limits on the Council's exposure to the effects of interest rate changes by limiting the amount of total loans whose interest rate is not fixed. At the end of the third quarter of 2007/2008 the actual levels are projected to be above the limits for the fixed rate exposure limits at the end of 2007/2008. However this is due to increase in the short term investment income and does not indicate increased risk exposure. In calculating this indicator, the fixed interest costs are divided by the total net interest costs for both variable and fixed interest cost which are significantly lower than anticipated per reasons as described in part (v).

(v) Indicator 3(b) highlights a projected reduction of £2.2m in net loan interest payments compared to initial estimates for 2007/2008. Total interest payments are expected to show a favourable variance of £0.6m, primarily due to the early redemption of market loans, and the finalisation of new accounting arrangements confirming that amounts included in the budget for 2007/2008 should now be excluded from the total interest calculation. These savings have been partly offset by a predicted increase in interest payable on revenue balances. In addition, the level of interest receivable on funds invested is now expected to exceed budget by approximately £1.6m. This is a result of the increase in yields attainable reflecting increased base rates until December 2007 and higher average surplus cashflows available for investment.

(vi) Indicator 3(c) relates to the level of fixed debt due to mature within time periods. the level of debt maturing remains within the upper limits set for each category at the beginning of the financial year.

4.4 Generally, the provisional prudential indicators are in accordance with those approved by committee on 23 January 2007. The projected outturn illustrates a healthy prudential margin and borrowing levels that are below sustainable limits ensuring that the higher projected capital investment levels are affordable and sustainable.

5.0 **Recommendation**

5.1 It is recommended that Committee:

(a) Notes the treasury management activity for the quarter ended 31 December 2007 and the positive performance against key prudential indicators.

Head of Financial Services

For further information please contact Joseph Quinn, Treasury Manager on tel ext 2061.

LOANS & INVESTMENTS AS AT 31 DECEMBER, 2007

APPENDIX 1

	BALANCE 01-Oct-07	DEBT RESTRUCTURING EARLY REDEMPTION	DEBT RESTRUCTURING REFINANCING	NEW BORROWING	PRINCIPAL REPAYMENTS	NET CASH MOVEMENTS	BALANCE 31-Dec-07
LONG-TERM LOANS							
PWLB	322,743,828	0	0	0	(18,105)	0	322,725,723
MONEY MARKET LOANS	94,000,000	0	0	0	0	0	94,000,000
MUNICIPAL BANK	10,000,000	0	0	0	0	0	10,000,000
COVENANTS	2,892,599	0	0	0	0	0	2,892,599
OTHER LOCAL AUTHORITIES	274,032	0	0	0	(68,508)	0	205,524
	429,910,459	0	0	0	(86,613)	0	429,823,846
SHORT-TERM LOANS							
TEMPORARY	0	0	0	785,000	(785,000)	0	0
MUNICIPAL BANK	18,011,620	0	0	0	(1,735,417)	0	16,276,203
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
BANK OVERDRAFT	5,609,241	0	0	2,760,271	0	0	8,369,511
	23,627,141	0	0	3,545,271	(2,520,417)	0	24,651,994
TOTAL LOANS OUTSTANDING	**453,537,600**	**0**	**0**	**3,545,271**	**(2,607,030)**	**0**	**454,475,840**
INVESTMENTS							
CASH IN HAND	1,310,625	0	0	0	(129,850)	0	1,180,775
OUTSIDE AGENCIES	60,600,000	0	0	0	0	(8,700,000)	51,900,000
CLYDESDALE BANK - TELEBANK INVESTMENT A/C	190,000	0	0	0	(65,000)	0	125,000
TOTAL INVESTMENTS O/STANDING	**62,100,625**	**0**	**0**	**0**	**(194,850)**	**(8,700,000)**	**53,205,775**
NET BORROWING	**391,436,975**	**0**	**0**	**3,545,271**	**(2,412,180)**	**8,700,000**	**401,270,065**

Prudential Code for Capital Finance in Local Authorities

1. Capital Expenditure, Capital Financing Requirement and Prudential Margin

(a)

Capital Expenditure	Initial Estimate 2007/2008 (£000s)	Projected Outturn 2007/2008 (£000s)
Total Spend	103,543	112,729
Financed By:		
Borrowing	44,538	42,119
Capital Receipts	35,339	29,030
Cash Grants	13,211	26,289
Capital from Current Revenue	10,455	15,291

(b)

Prudential Margin Calculation	Initial Estimate 2007/2008 (£000s)	Position as at 31/12/07 (£000s)	Projected Outturn 2007/2008 (£000s)
Capital Financing Requirement	465,205	455,606	455,606
Net Borrowing requirement	450,908	401,270	413,766
Prudential Margin	14,297	54,336	41,840

2. Authorised Limit and Operational Boundary

	Authorised Limit 2007/2008 (£m)	Operational Boundary 2007/2008 (£m)	Maximum Borrowing Level Q3 2007/2008 (£m)
Borrowing	529.00	489.00	448.50
Other Long-term Liabilities	1.00	1.00	0.20
Totals	530.00	490.00	448.70

3. Treasury Management Indicators

(a) Interest Rate Exposures

	Upper Limits 2007/2008 (£m)	Projected Outturn as at Q3 2007/2008
Fixed Interest Rates	110%	111.37%
Variable Interest Rates	25%	-11.37%

(b) Interest Payments and Income due on Loans Outstanding/Funds Invested

	Initial Estimate 2007/2008 (£000s)	Projected Outturn as at Q3 2007/2008	Variance (£000s)	%tage
Interest Payable on Fixed Rate Debt	31,309	30,634	-675	-2.16%
Interest Payable on Variable Rate Debt	726	740	14	1.86%
Total Interest Payments	**32,035**	**31,374**	**-661**	**-2.06%**
Interest Receivable on Funds Invested	-2,307	-3,867	-1,560	67.64%
Net Loan Interest Payments Due	**29,728**	**27,507**	**-2,221**	**-7.47%**

(c) Maturity Structure of Borrowing

	<12months	12 months to 2 years	2 to 5 years	5 to 10 years	>10 years
Upper Limit maturing	5.00%	5.00%	10.00%	25.00%	90.00%
Current Maturity structure	0.22%	0.18%	0.99%	16.85%	81.76%