AGENDA ITEM No. 4

NORTH LANARKSHIRE COUNCIL REPORT

To: POLICY & RESOURCES (FINANCE & CUSTOMER SERVICES) SUB-COMMITTEE	Subject: TREASURY MANAGEMENT MONITORING REPORT PERIOD 1 JULY TO 30 SEPTEMBER 2013
From: HEAD OF FINANCIAL SERVICES	
Date: 25 OCTOBER 2013 / Ref: PH/JQ/Q2	

1.0 Introduction

1.1 The purpose of this report is to inform on the quarterly activity (1 July 2013 to 30 September 2013) of the Council's loans and investment portfolios encompassing a mid year review of treasury activity for the first six months and a brief summary of the 2013/2014 Treasury Management Strategy and the Prudential and Treasury indicators for the remainder of this financial year.

2.0 Background

2.1 The Council manages its treasury activities in line with the CIPFA Code "Treasury Management in the Public Services'. The Code requires the Council to produce 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 second quarter of 2013/2014 reflects the key requirements of the Council's 2013/2014 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 30 September 2013 is £741.9m, this representing a decrease of £4.6m from the position at the 30 June 2013 with a detailed breakdown of the net cash movement shown in column (6) within Appendix 1.

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. The interest rates prevailing throughout the period resulted in no beneficial opportunities for debt restructuring/rescheduling of the PWLB debt portfolio arising.

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

3.3 Borrowing

3.3.1 At the end of the quarter, long term borrowing amounted to £549.3m which represented a fall of £10.1m as a result of PWLB long term loans falling due for repayment. During this quarter no long term borrowing was undertaken, with internal cash balances and short term borrowing being used to meet the principal repayments, daily revenue account requirements and the capital financing requirement, in lieu of future borrowing for capital purposes. This approach was adopted in light of interest rate expectations, the management of carrying costs and the availability of short term borrowing up to 364 days at attractive rates.

3.3.2 At 30 September 2013, short-term loans amounted to £78.5m, an increase of almost £6.7m since the start of the quarter. During the normal course of business, day to day cash flow needs were monitored and this resulted in the short term borrowing transactions totaling £20.0m in terms of cash received and £16.0m in cash repaid which resulted in an overall increase of £4.0m by the end of the period. The period of borrowing up to 364 days, with the Council's liquidity and interest rate risk being managed effectively. The balance of £2.7m represents an increase in the municipal bank balances available to the Council on a temporary borrowing basis at the 30 September 2013.

3.3.3 The Council is due to receive a large capital payment of £45.0m in relation to the Commercial Property LLP transaction, this inflow of funds will be managed in accordance with Councils Treasury Management Strategy for investment and borrowing activity.

3.3.4 During the quarter £1.4m in lease payments under finance lease and PPP obligations fell due for repayment under the leasing arrangements in place, with long term liabilities amounting to £145.7m at 30 September 2013.

3.3.5 As in 20012/13 the Council made an application on the 16 September 2013 to the PWLB to access the certainty rate which allows a 20 basis point (bps) (0.2%) discount on loans from the Public Works Loan Board (PWLB) under the prudential borrowing regime for those principal local authorities providing improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The Council awaits confirmation of the certainty rate approval.

3.4 Short Term Investments

3.4.1 In the second quarter of 2013/2014, positive cashflows enabled short-term investments of £178.8m to be undertaken. During the same period, approximately £181.1m of short-term investments matured, the net effect of these transactions being a decrease of £2.3m in investment balances.

3.4.2 At the end of the quarter the bank overdraft including cash in transit totaled £3.2m, representing a net reduction of almost £2.2m, this being offset against the total investment balances to determine net funds invested on a cash and cash equivalent basis. The bank overdraft at the 30 September 2013 comprises £2.9m of net BACS receipts/payments outstanding due for clearance within 3 days of the quarter end date and cheques unpresented of £1.1m, partly offset by balance of £0.8m of cash in transit.

3.4.3 The Council in line with the approved strategy to manage liquidity maintained a minimum balance of £3.0m available on an overnight basis (instant access) ensuring that the Council maintained the necessary prudent level of funds to meet all service objectives.

3.4.4 Since the introduction of the Funding for Lending scheme by the Government in July 2012 average short term rates have fallen considerably. This scheme has skewed the relationship between the 7 day and 1 month LIBID (London Inter-bank Bid Rate) rate and generally available investment rates offered by financial institutions and money market funds. The Council continues to demonstrate good performance levels in investment activity, and continues to regularly outperform the 7 day and 1 month LIBID (London Inter-bank Bid Rate) rate.

3.4.5 The Treasury Management team continues to take a prudent approach to investing surplus funds in line with the approved 2013/2014 Investment Strategy the primary principle governing Council investment criteria being the security of the investment followed by ensuring sufficient liquidity in its investments.

3.5 Interest Rate Movements

3.5.1 In the second quarter of 2013, at each of its meetings in July, August and September the Monetary Policy Committee (MPC) decided to retain the Bank of England base rate at 0.50%.

3.5.2 Following a similar pattern to the previous quarter, the short term 7 day LIBID rate remained stable around the 0.48% mark with the rate expected to remain on hold for a considerable time as expectations of a continued recovery in the economy remain tentative. Whilst this current economic uncertainty exists and the fragility of the banking sector remains, day to day investment activity is within the short term horizon (less than 3 months).

3.5.3 Whilst longer term interest rates fluctuated over the quarter, the closing rates were almost equivalent to the opening rates, for example the PWLB 25 year borrowing rate by the end of September had risen marginally from 4.44% to 4.45% being as high as 4.68% in mid September, as low as 4.39% in mid July, averaging levels of 4.52% throughout the quarter. The sporadic movements in supply and demand for UK gilts heavily influences the gilt prices and yields, with corresponding movements up or down in the PWLB interest rates reflecting the perception of improved stability or increased uncertainty in other non UK financial markets respectively e.g. US markets and eurozone.

3.5.4 The Treasury Management Section will continue to monitor financial and economic policy 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 27 February 2013, approved a report titled, "Treasury Management Strategy 2013/2014 and Treasury and Prudential Indicators 2013/2014 to 2015/2016". 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 2013/2014 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 anticipated to be higher than expected primarily due to slippage as a result of a delay in the commencement of a number of projects within the 2012/2013 capital programme, carried forward into 2013/2014. This is monitored in detail as part of the Council's capital programme reporting mechanisms. This will result in an increase in the level of borrowing required to meet the capital programme partially offset by higher than anticipated capital grants and capital contributions from revenue sources. The projected outturn figures also reflect the latest spend profile for the Education SC21 project in 2013/2014.

(ii) The Prudential Code requires the Council's capital investment 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 the 30 September 2013. Gross borrowing undertaken is lower at this point as the current year capital financing requirement to date has been funded primarily using internal cash balances and reserves. The timing and profile of future external borrowing will be managed giving full consideration to liquidity, interest rate and refinancing risk whilst minimising potential carrying costs.

(iii) Indicator 2 illustrates that both the overall authorised and operational borrowing limits for borrowing and long term liabilities 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 setting limits for each category of debt held (fixed or variable rate) which subsequently limits the Council's interest payable that is fixed or variable. During the second quarter of 2013/2014, the actual levels remained below the limits for the fixed and variable interest rate exposure limits.

(v) Indicator 3(b) highlights a one off reduction of £2.9m in total external interest payments compared to the prudential estimates for 2013/2014 reflecting lower external debt levels carried forward from 2012/2013. In addition the strategy adopted in respect of the timing of new borrowing, managing investment security, liquidity and interest rate risk, given the current balances and reserves held and short term borrowing opportunities mentioned previously has contributed to the savings to date.

(vi) Yields from investing surplus balances in 2013/2014 are expected to be on target despite the impact of the governments funding for lending scheme mentioned previously primarily due to average cash balances held being greater than expected.

(vii) 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 The prudential indicators have remained in accordance with those approved by Committee on 27 February 2013. The projected final outturn illustrates a healthy prudential margin and borrowing levels that are below sustainable limits, ensuring that the projected capital investment levels remain affordable and sustainable.

5.0 Recommendation

5.1 It is recommended that Committee:

(i) Notes the treasury management activity for the quarter ended 30 September 2013, including the positive performance against the key prudential indicators.

Head of Financial Services

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

LOANS , LONG TERM LIABILITIES & INVESTMENTS AS AT 30 SEPTEMBER, 2013

APPENDIX 1

		DEBT RESTRUCTURING					
	BALANCE 01-July 13 (1)	EARLY REDEMPTION (2)	REFINANCING (3)	NEW BORROWING/ (INVESTMENTS) (4)	(PRINCIPAL REPAYMENTS)/ INVESTMENTS MATURING (5)	NET CASH MOVEMENTS (6)	BALANCE 30-September-13 (7)
LONG-TERM LOANS							
PWLB	442,938,425	0	0	0	(10,126,518)	(10,126,518)	432,811,907
MONEY MARKET LOANS	99,000,000	0	0	0	0	0	99,000,000
MUNICIPAL BANK	17,500,000	0	0	0	0	0	17,500,000
	559,438,425	0	0	0	(10,126,518)	(10,126,518)	549,311,907
SHORT-TERM LOANS							
TEMPORARY	55,000,000	0	0	20,000,000	(16,000,000)	4,000,000	59,000,000
MUNICIPAL BANK	16,811,603	0	0	2,696,320	0	2,696,320	19,507,923
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
	71,817,883	0	0	22,696,320	(16,000,000)	6,696,320	78,514,203
24 **NG -TERM LIABILITIES**							
FINANCE LEASE OBLIGATIONS	7,822,905	0	0	0	(339,252)	(339,252)	7,483,653
PPP LONG TERM LIABILITY	139,239,500	0	0	0	(1,014,500)	(1,014,500)	138,225,000
	147,062,405	0	0	0	(1,353,752)	(1,353,752)	145,708,653
TOTAL EXTERNAL DEBT	**778,318,713**	**0**	**0**	**22,696,320**	**(27,480,270)**	**(4,783,950)**	**773,534,763**
INVESTMENTS							
BANKS & OTHER FINANCIAL INSTITUTIONS	37,094,000	0	0	178,737,070	(181,063,070)	(2,326,000)	34,768,000
BANK OVERDRAFT INCL CASH IN TRANSIT	(5,321,974)	0	0	0	0	2,162,225	(3,159,749)
CASH & CASH EQUIVALENTS	**31,772,026**	**0**	**0**	**178,737,070**	**(181,063,070)**	**(163,775)**	**31,608,251**
NET BORROWING	**746,546,687**	**0**	**0**	**201,433,390**	**(208,543,340)**	**(4,620,175)**	**741,926,512**

Prudential Code for Capital Finance in Local Authorities

1. Capital Expenditure, Capital Financing Requirement and Prudential Margin

(a) Capital Expenditure

	Initial Estimate 2013/2014 (£000s)	Projected Outturn 2013/2014 at Q2 (£000s)
Total Spend	88,928	97,168
Financed By:		
Borrowing	36,131	38,656
Capital Receipts	5,083	5,151
Cash Grants	26,173	28,987
Capital from Current Revenue	21,541	24,374

(b) Prudential Margin Calculation

	Initial Estimate 2013/2014 (£000s)	Projected Outturn 2013/2014 at Q2 (£000s)
Capital Financing Requirement	896,415	889,824
Gross Borrowing	817,073	787,880
Prudential Margin	79,342	101,944

2) Authorised Limit and Operational Boundary

	Initial Authorised Limit 2013/2014 (£m)	Initial Operational Boundary 2013/2014 (£m)	Maximum Borrowing Level Q2 2013/2014 (£m)
Borrowing	730.0	700.0	632.8
Other Long-term Liabilities	153.0	153.0	147.1
Totals	883.0	853.0	779.9

3. Treasury Management Indicators

a) Interest Rate Exposures

	Upper Limits 2013/2014 (%)	Position as at 30/09/13 (£000s)
Fixed Interest Rates	110.00%	80.41%
Variable Interest Rates	30.00%	19.59%

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

	Initial Estimate 2013/2014 (£000s)	Projected Outturn 2013/2014 at Q2 (£000s)	Variance (£000s)	%tage
Interest Payable on Fixed Rate Debt	26.7	24.0	-2.7	-9.93%
Interest Payable on Variable Rate Debt	6.1	5.9	-0.2	0.00%
Total External Interest Payments	**32.8**	**29.9**	**-2.9**	**-8.82%**
External Interest Receivable	-0.2	-0.2	0.0	0.00%
Net Loan External Interest Charges	**32.6**	**29.7**	**-2.9**	**-8.79%**

c) Maturity Structure of Borrowing

	<12months	12 months to 2 years	2 to 5 years	5 to 10 years	10 to 20 years	20 to 40 years	>40 years
Upper Limit maturing :Fixed Rate Debt	15.00%	15.00%	20.00%	30.00%	30.00%	40.00%	40.00%
Lower Limit maturing :Fixed Rate Debt	0.00%	0.00%	0.00%	5.00%	5.00%	10.00%	10.00%
Maturity structure at the start of Q2	1.58%	4.07%	9.75%	21.20%	15.84%	28.12%	19.44%
Maturity structure at the end of Q2	2.65%	4.47%	10.25%	21.41%	13.66%	29.75%	17.82%