

To: POLICY & RESOURCES (FINANCE & CUSTOMER SERVICES) SUB-COMMITTEE		Subject: TREASURY MANAGEMENT MONITORING REPORT PERIOD 1 OCTOBER TO 31 DECEMBER 2013
From: HEAD OF FINANCIAL SERVICES		
Date: 3 FEBRUARY 2014	Ref: PH/JQ/Q3	

1.0 Introduction

1.1 The purpose of this report is to inform on the quarterly activity (1 October 2013 to 31 December 2013) of the Council's loans and investment portfolios.

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 third 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 terms of investment activity, this is conducted in accordance within the approved 2013/2014 investment strategy.

3.0 Quarterly Activity

3.1 Summary Position

3.1.1 The net overall borrowing position to 31 December 2013 is £695.7m, this representing a decrease of £46.2m from the position at the 30 September 2013 with a detailed breakdown of the net cash movement shown in column (6) within Appendix 1.

3.1.2 The primary reason for this reduction in net overall borrowing is due to a capital receipt of £45.0m in relation to the North Lanarkshire Properties LLP transaction. This resulting in an increase of £38.2m in cash and cash equivalents which are offset against the total external debt and a reduction in temporary borrowing requirements as short term borrowing transactions in terms of cash received and cash repaid resulted in an overall reduction of £6.0m by the end of the period with principal repayments of £0.8m and £1.2m on maturing long term loans and finance leases respectively.

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 £548.5m which represented a fall of £0.8m 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, management of carrying costs and the availability of short term borrowing at attractive rates. It is anticipated that no new long term borrowing will be required in 2013/2014 due to the capital receipt of £45.0m in relation to the North Lanarkshire Properties LLP transaction. This is in line with the Council's approach in maintaining cash balances at appropriate levels managing the associated investment, interest and liquidity risk.
- 3.3.2 At 31 December 2013, short-term loans amounted to £72.5m, a reduction of £6.0m 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 £41.5m in terms of cash received and £49.0m in cash repaid which resulted in an overall reduction of £7.5m by the end of the period. The period of borrowing up to 3 months, with the balance of £1.5m representing an increase in the municipal bank balances available to the Council on a temporary borrowing basis at the 31 December 2013.
- 3.3.3 During the quarter £1.2m 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 £144.5m at 31 December 2013.
- 3.3.4 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 has received confirmation of the certainty rate approval and will utilise this facility in the future when undertaking new long term borrowing from the PWLB.

3.4 Short Term Investments

- 3.4.1 In the third quarter of 2013/2014, positive cashflows enabled short-term investments of £214.0m to be undertaken. During the same period, approximately £176.0m of short-term investments matured, the net effect of these transactions being an increase of £38.0m in investment balances.
- 3.4.2 To effectively manage the £45.0m capital receipt received in relation to the North Lanarkshire Properties LLP transaction, a new call account was set up, a certificate of deposit was purchased from Standard Chartered (highly rated) and monies were invested with another local authority at attractive rates with an investment period up to 3 months. This was necessary as the existing instant access and call accounts were up to their approved time and money limits.
- 3.4.3 At the end of the quarter the bank overdraft including cash in transit totaled £3.1m, remaining at similar levels held at the end of the previous quarter. The bank overdraft at the 31 December 2013 comprises £2.6m of net BACS receipts/payments outstanding due for clearance within 3 days of the quarter end date and cheques unrepresented of £1.1m, partly offset by balance of £0.6m of cash in transit.
- 3.4.4 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.
- 3.4.5 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.

3.4.6 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 third quarter of 2013, at each of its meetings in October, November and December 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.

3.5.3 During the quarter medium to longer term interest rates fluctuated, for example the PWLB 10 year borrowing rate being 3.55% at the end of October, rising to a high of 4.10% towards the end of December before settling at 4.08%, averaging levels of 3.80% 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. Despite this increase, the level of borrowing required to meet the capital programme is expected to be lower than anticipated as the increased expenditure will be met from higher than expected capital grants, capital receipts 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 31 December 2013. Gross borrowing undertaken is lower as the current year capital financing requirement to date has been funded primarily using internal cash balances and reserves which is likely to continue in the short term. 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 third quarter of 2013/2014, the actual levels remained below the limits for the fixed and variable interest rate exposure limits.
 - (iv) Indicator 3(b) highlights a one off reduction of £3.0m 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.
 - (v) 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 31 December 2013, including the positive performance against the key prudential indicators.



Head of Financial Services

Members seeking further information on the contents of this report are asked to contact Joseph Quinn, Finance Manager (Systems and Treasury Management) on telephone number 01698 302061.

LOANS , LONG TERM LIABILITIES & INVESTMENTS AS AT 31 DECEMBER, 2013

APPENDIX 1

	BALANCE 01-Oct 13 (1)	DEBT RESTRUCTURING		NEW BORROWING/ (INVESTMENTS) (4)	(PRINCIPAL REPAYMENTS)/ INVESTMENTS MATURING (5)	NET CASH MOVEMENTS (6)	BALANCE 31-December-13 (7)
		EARLY REDEMPTION (2)	REFINANCING (3)				
<u>LONG-TERM LOANS</u>							
PWLB	432,811,907	0	0	0	(833,694)	(833,694)	431,978,213
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
	549,311,907	0	0	0	(833,694)	(833,694)	548,478,213
<u>SHORT-TERM LOANS</u>							
TEMPORARY	59,000,000	0	0	41,500,000	(49,000,000)	(7,500,000)	51,500,000
MUNICIPAL BANK	19,507,923	0	0	0	0	1,469,100	20,977,023
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
	78,514,203	0	0	41,500,000	(49,000,000)	(6,030,900)	72,483,303
<u>LONG -TERM LIABILITIES</u>							
FINANCE LEASE OBLIGATIONS	7,483,653	0	0	0	(160,782)	(160,782)	7,322,871
PPP LONG TERM LIABILITY	138,225,000	0	0	0	(1,014,500)	(1,014,500)	137,210,500
	145,708,653	0	0	0	(1,175,282)	(1,175,282)	144,533,371
<u>TOTAL EXTERNAL DEBT</u>	773,534,763	0	0	41,500,000	(51,008,976)	(8,039,876)	765,494,887
<u>INVESTMENTS</u>							
BANKS & OTHER FINANCIAL INSTITUTIONS	34,768,000	0	0	214,019,600	(175,858,000)	38,161,600	72,929,600
BANK OVERDRAFT INCL CASH IN TRANSIT	(3,159,749)	0	0	0	0	44,876	(3,114,873)
<u>CASH & CASH EQUIVALENTS</u>	31,608,251	0	0	214,019,600	(175,858,000)	38,206,476	69,814,727
<u>NET BORROWING</u>	741,926,512	0	0	255,519,600	(226,866,976)	(46,246,352)	695,680,160

Prudential Code for Capital Finance in Local Authorities

1. Capital Expenditure, Capital Financing Requirement and Prudential Margin

(a) Capital Expenditure	<u>Initial Estimate</u> <u>2013/2014</u> <u>(£000s)</u>	<u>Projected Outturn</u> <u>2013/2014 at</u> <u>Q3 (£000s)</u>
Total Spend	88,928	94,654
Financed By:		
Borrowing	36,131	33,357
Capital Receipts	5,083	6,565
Cash Grants	26,173	29,690
Capital from Current Revenue	21,541	25,042

(b) Prudential Margin Calculation	<u>Initial Estimate</u> <u>2013/2014</u> <u>(£000s)</u>	<u>Projected Outturn</u> <u>2013/2014 at</u> <u>Q3 (£000s)</u>
Capital Financing Requirement	896,415	884,525
Gross Borrowing	817,073	745,743
Prudential Margin	79,342	138,782

2) Authorised Limit and Operational Boundary	<u>Initial Authorised Limit</u> <u>2013/2014</u> <u>(£m)</u>	<u>Initial Operational Boundary</u> <u>2013/2014</u> <u>(£m)</u>	<u>Maximum Borrowing Level Q3</u> <u>2013/2014</u> <u>(£m)</u>
Borrowing	730.0	700.0	634.0
Other Long-term Liabilities	153.0	153.0	145.7
Totals	883.0	853.0	779.7

3. Treasury Management Indicators

a) Interest Rate Exposures	<u>Upper Limits</u> <u>2013/2014</u> <u>(%)</u>	<u>Position as at 30/12/13</u> <u>(£000s)</u>
Fixed Interest Rates	110.00%	79.98%
Variable Interest Rates	30.00%	20.02%

b) Interest Payments & Income due on Loans Outstanding/Funds Invested	<u>Initial Estimate</u> <u>2013/2014</u> <u>(£000s)</u>	<u>Projected Outturn</u> <u>2013/2014 at</u> <u>Q3 (£000s)</u>	<u>Variance</u> <u>(£000s)</u>	<u>%age</u>
Interest Payable on Fixed Rate Debt	26.7	23.7	-3.0	-11.38%
Interest Payable on Variable Rate Debt	6.1	6.1	0.0	0.00%
Total External Interest Payments	32.8	29.7	-3.1	-9.35%
External Interest Receivable	-0.2	-0.2	0.0	0.00%
Net Loan External Interest Charges	32.6	29.6	-3.0	-9.33%

c) Maturity Structure of Borrowing	<u><12months</u>	<u>12 months to 2 years</u>	<u>2 to 5 years</u>	<u>5 to 10 years</u>	<u>10 to 20 years</u>	<u>20 to 40 years</u>	<u>>40 years</u>
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 Q3	2.65%	4.47%	10.25%	21.41%	13.66%	29.75%	17.82%
Maturity structure at the end of Q3	3.66%	3.69%	9.94%	21.35%	13.69%	29.81%	17.85%