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 2014
From: HEAD OF FINANCIAL SERVICES		
Date: 29 OCTOBER 2014	Ref: PH/JQ/Q2	

1. Introduction

1.1 The purpose of this report is to inform on the quarterly activity (1 July 2014 to 30 September 2014) 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 2014/2015 Treasury Management Strategy and the Prudential and Treasury indicators for the remainder of this financial year.

2. 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 2014/2015 reflects the key requirements of the Council's 2014/2015 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 2014/2015 investment strategy.

3. Quarterly Activity

3.1 Summary Position

3.1.1 The net overall borrowing position to 30 September 2014 is £660.8m, this representing an increase of £2.2m from the position at the 30 June 2014 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 £538.3m which represented a fall of £4.5m 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 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 adopted in light of interest rate expectations, management of carrying costs and the availability of short term borrowing at attractive rates.

3.3.2 At the end of the quarter, cash balances remained healthy and the Council was able to repay all £20.0m of temporary loans held without having to source replacement funds in the market. There was an increase of £0.6m reflecting the movement in the municipal bank balances available to the Council on a temporary borrowing basis at the 30 September 2014.

3.3.3 Additional borrowing if required in the remainder of the year will be undertaken in line with the Council's approach to maintaining cash balances at appropriate levels managing the associated investment, interest and liquidity risk.

3.3.4 During the quarter, £1.5m 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 £139.2m at 30 September 2014.

3.3.5 As in 2013/14 the Council has made an application 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 which if successful will provide the Council with an opportunity to borrow if required from the PWLB at more beneficial rates.

3.4 Short Term Investments

3.4.1 In the second quarter of 2014/2015, positive cashflows enabled short-term investments of £130.3m to be undertaken. During the same period, approximately £159.5m of short-term investments matured, the net effect of these transactions being a decrease of £29.2m in investment balances. This reduction in funds available for investment anticipated as the Council continues to use internal cash balances to meet the principal repayments, daily revenue account requirements and the capital financing requirement, in lieu of future borrowing for capital purposes.

3.4.2 At the end of the quarter the bank overdraft including cash in transit totaled £3.8m, a decrease of almost £1.5m compared to the total held at the end of the previous quarter. The bank overdraft at the 30 September 2014 comprises £3.5m 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 With the availability of the Funding for Lending scheme by the Government average short term rates continue to offer minimal returns with this scheme also skewing 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 Over the coming months the UK will implement the final bail-in provisions of the EU Bank Recovery and Resolution Directive to commence in January 2015. The credit rating agencies stated that they plan to review the EU Banks ratings in line with each country's implementation of the directive. The Council will monitor and assess the impact of this review and manage its investment strategy accordingly.

3.4.6 The Treasury Management team continues to take a prudent approach to investing surplus funds in line with the approved 2014/2015 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 At each of its meetings in July, August and September 2014 the Monetary Policy Committee (MPC) decided to retain the Bank of England base rate at 0.50%.The minutes of the meetings re-iterating that when the bank rate begins to rise it is expected to do so gradually and remain below average historical levels for some time to come. Market rates currently imply that the timing of a bank rate rise is now likely to be in July 2015 at the earliest.

3.5.2 Following a similar pattern to the previous quarter, there continued to be very little movement in the short term 7 day LIBID rate, around the 0.48% mark with the rate expected to remain on hold over the next few months as the aforementioned Funding for Lending scheme continues to skew the market as credit is readily available.

3.5.3 Whilst the UK economic recovery appears more sustainable, in recent weeks there has been mounting evidence of a loss of momentum in the global economy and in particular the euro area. Growth appears to have stalled, including Germany, amidst increasing concerns over the inflation rates remaining very low with, as a result, the flight of investment funds to safe haven UK gilts intensifying.

3.5.4 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. eurozone.

3.5.5 As a consequence during the second quarter there was more volatility in the medium to longer term interest rates than shown in the preceding quarter with the average spread between the highest and lowest range available during the quarter being 0.5%. For example the PWLB 10 year borrowing rate was 3.86% in the first week of July, falling to a low of 3.36% at the end of August before settling at 3.46%, with an average level of 3.59% throughout the period.

3.5.6 The Treasury Management Section will continue to monitor financial and economic policy and their impact upon the Council's investment and borrowing activity.

4. <u>The Prudential Code for Capital Finance in Local Authorities</u>

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 26 February 2014, approved a report titled, "Treasury Management Strategy 2014/2015 and Treasury and Prudential Indicators 2014/2015 to 2016/2017". 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 2014/2015 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 higher than anticipated due to a number of projects within the 2013/2014 capital programme being carried forward into 2014/2015. This is monitored in detail as part of the Council's capital programme reporting mechanisms. The increased expenditure being met from additional capital grants and capital contributions from revenue sources with a minimal increase in the level of borrowing required.

(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 2014. The timing and profile of external borrowing to replenish cash reserves and balances 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 2014/2015, 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 £1.5m in total external interest payments compared to the prudential estimates for 2014/2015 with yields from investing surplus balances in 2014/2015 expected to be £0.1m higher due to the average level of cash balances held to date and anticipated in the coming months.

(vi) This one off saving totaling £1.6m in net loan external interest charges reflects the cashflow management techniques adopted, directing the timing of new borrowing, managing investment security, liquidity and interest rate risk and the identification of short term borrowing opportunities.

(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 26 February 2014. 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. Recommendation

5.1 It is recommended that Committee:

(i) Notes the treasury management activity for the quarter ended 30 September 2014, 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 30 SEPTEMBER, 2014

APPENDIX 1

	BALANCE 01-July 14 (1)	DEBT RESTRUCTURING EARLY REDEMPTION (2)	REFINANCING (3)	NEW BORROWING/ (INVESTMENTS) (4)	(PRINCIPAL REPAYMENTS)/ INVESTMENTS MATURING (5)	NET CASH MOVEMENTS (6)	BALANCE 30-Sept-14 (7)
LONG-TERM LOANS							
PWLB	426,355,209	0	0	0	(4,548,735)	(4,548,735)	421,806,474
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
	542,855,209	0	0	0	(4,548,735)	(4,548,735)	538,306,474
SHORT-TERM LOANS							
TEMPORARY	20,000,000	0	0	0	(20,000,000)	(20,000,000)	0
MUNICIPAL BANK	25,661,332	0	0	0	0	600,326	26,261,658
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
	45,667,612	0	0	0	(20,000,000)	(19,399,674)	26,267,938
LONG -TERM LIABILITIES							
FINANCE LEASE OBLIGATIONS	5,760,294	0	0	0	(384,308)	(384,308)	5,375,986
PPP LONG TERM LIABILITY	135,035,500	0	0	0	(1,160,500)	(1,160,500)	133,875,000
	140,795,794	0	0	0	(1,544,808)	(1,544,808)	139,250,986
TOTAL EXTERNAL DEBT	**729,318,615**	**0**	**0**	**0**	**(26,093,543)**	**(25,493,217)**	**703,825,398**
INVESTMENTS							
BANKS & OTHER FINANCIAL INSTITUTIONS	76,034,000	0	0	0	0	(29,162,000)	46,872,000
BANK OVERDRAFT INCL CASH IN TRANSIT	(5,286,824)	0	0	0	0	1,451,352	(3,835,472)
CASH & CASH EQUIVALENTS	**70,747,176**	**0**	**0**	**0**	**0**	**(27,710,648)**	**43,036,528**
NET BORROWING	**658,571,439**	**0**	**0**	**0**	**(26,093,543)**	**2,217,431**	**660,788,870**

Prudential Code for Capital Finance in Local Authorities

1. Capital Expenditure, Capital Financing Requirement and Prudential Margin

(a) Capital Expenditure

	Initial Estimate 2014/2015 (£m)	Projected Outturn 2014/2015 (£m)
Total Spend	110.8	118.3
Financed By:		
Borrowing	43.3	43.8
Capital Receipts	6.7	6.7
Cash Grants	37.7	40.9
Capital from Current Revenue	23.1	26.9

(b) Prudential Margin Calculation

	Initial Estimate 2014/2015 (£m)	Projected Outturn 2014/2015 (£m)
Capital Financing Requirement	891.6	884.2
Gross Borrowing	772.9	771.7
Prudential Margin	118.7	112.5

2) Authorised Limit and Operational Boundary

	Initial Authorised Limit 2014/2015 (£m)	Initial Operational Boundary 2014/2015 (£m)	Maximum Borrowing Level Q2 2014/2015 (£m)
Borrowing	770.0	700.0	589.7
Other Long-term Liabilities	150.0	150.0	140.8
Totals	920.0	850.0	730.5

3. Treasury Management Indicators

a) Interest Rate Exposures

	Upper Limits 2014/2015 (%)	Position as at 30/09/14 (£000s)
Fixed Interest Rates	110.00%	78.73%
Variable Interest Rates	30.00%	21.27%

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

	Initial Estimate 2014/2015 (£000s)	Projected Outturn 2014/2015	Variance (£000s)	%tage
Interest Payable on Fixed Rate Debt	24.10	22.89	-1.21	-5.02%
Interest Payable on Variable Rate Debt	6.50	6.18	-0.32	-4.88%
Total External Interest Payments	**30.60**	**29.07**	**-1.53**	**-4.99%**
External Interest Receivable	0.15	0.25	0.10	66.67%
Net Loan External Interest Charges	**30.45**	**28.82**	**-1.63**	**-7.34%**

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	4.13%	3.13%	9.18%	22.70%	12.53%	30.95%	17.37%
Maturity structure at the end of Q2	4.59%	2.09%	10.61%	22.80%	11.05%	31.30%	17.56%