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 2015
From: HEAD OF FINANCIAL SERVICES		
Date: 28 OCTOBER 2015	Ref: PH/JQ/Q2	

1. Introduction

1.1 The purpose of this report is to inform on the quarterly activity (1 July 2015 to 30 September 2015) 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 2015/2016 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 2015/2016 reflects the key requirements of the Council's 2015/2016 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 2015/2016 investment strategy.

3. Quarterly Activity

3.1 Summary Position

3.1.1 The net overall borrowing position to 30 September 2015 is £707.9m, this representing a reduction of almost £2.7m from the position at the 30 June 2015 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 £508.7m which represented a fall of £6.2m 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 adopted in light of interest rate expectations, management of carrying costs and the availability of short term borrowing at attractive rates.

3.3.2 As mentioned previously, during the quarter, additional short term borrowing was undertaken, this totaled £51.0m with £22.0m of this being used to replace borrowing falling due for repayment with an additional £29.0m also being undertaken to maintain cash balances at appropriate levels to manage the associated investment, interest and liquidity risk. There was also an increase of £0.1m in the municipal bank balances available to the Council on a temporary borrowing basis at the 30 September 2015.

3.3.3 During the quarter, £1.7m 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 £132.7m at 30 September 2015.

3.3.4 In 2015/16 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 2015/2016, short-term investments of £164.6m in total were undertaken with approximately £153.8m of short-term investments maturing, the net effect of these transactions being an increase of £10.8m in investment balances as shown in column 6 of the attached appendix 1.

3.4.2 At the end of the quarter the bank overdraft including cash in transit totaled £2.7m, a decrease of almost £6.1m compared to the total held at the end of the previous quarter. The bank overdraft at the 30 September 2015 comprises £2.3m of net BACS receipts/payments outstanding due for clearance within 3 days of the quarter end date and cheques unpresented of £1.0m, partly offset by balance of £0.6m 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 The Treasury Management team continues to take a prudent approach to investing surplus funds in line with the approved 2015/2016 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 2015 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 the second half of 2016 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 0.49% 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, continuing concerns exist about the eurozone and Chinese stock markets plus the timing of anticipated UK and US monetary policy tightening with an expected rise in the US Federal Reserve rate in September failing to materialise. The current volatility in the demand for 'safe haven' UK gilts is expected to continue over the coming months.

3.5.4 These sporadic movements in supply and demand for UK gilts heavily influencing 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.

3.5.5 As in previous quarters this volatility within the current economic environment manifested itself in fluctuations in the PWLB rates as opposed to the short term interest rates. For example the PWLB 10 year borrowing rate was 3.26% in the first fortnight of July, averaging 2.98% throughout the quarter, falling to 2.76% by the end of quarter.

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. 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 25 February 2015, approved a report titled, "Treasury Management Strategy 2015/2016 and Treasury and Prudential Indicators 2015/2016 to 2017/2018". 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 2015/2016 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 lower than anticipated due to a number of projects within the 2015/2016 capital programme being carried forward into 2016/2017. This is monitored in detail as part of the Council's capital programme reporting mechanisms. The reduction in expenditure resulting in a reduced borrowing requirement with a reduction in the useable capital grants available in 15/16 partly offset by an increase in capital contributions from revenue sources.

(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 2015. 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 2015/2016, 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 £0.67m in total external interest payments compared to the prudential estimates for 2015/2016 with yields from investing surplus balances in 2015/2016 expected to be £0.03m higher due to the average level of cash balances held to date being higher than anticipated.

(vi) This one off saving totaling £0.7m 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 25 February 2015. 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 2015, 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, 2015

APPENDIX 1

	BALANCE 30-June-15 (1)	DEBT RESTRUCTURING EARLY REDEMPTION (2)	REFINANCING (3)	NEW BORROWING (4)	PRINCIPAL REPAYMENTS (5)	NET CASH MOVEMENTS (6)	BALANCE 30-September-15 (7)
LONG-TERM LOANS							
PWLB	404,426,986	0	0	0	(6,197,111)	(6,197,111)	398,229,875
MONEY MARKET LOANS	93,000,000	0	0	0	0	0	93,000,000
MUNICIPAL BANK	17,500,000	0	0	0	0	0	17,500,000
	514,926,986	0	0	0	(6,197,111)	(6,197,111)	508,729,875
SHORT-TERM LOANS							
TEMPORARY	64,000,000	0	0	51,000,000	(29,000,000)	22,000,000	86,000,000
MUNICIPAL BANK	25,902,702	0	0	108,652	0	108,652	26,011,354
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
	89,908,982	0	0	51,108,652	(29,000,000)	22,108,652	112,017,634
LONG -TERM LIABILITIES							
FINANCE LEASE OBLIGATIONS	4,080,609	0	0	0	(436,757)	(436,757)	3,643,852
PPP LONG TERM LIABILITY	130,324,750	0	0	0	(1,229,250)	(1,229,250)	129,095,500
	134,405,359	0	0	0	(1,666,007)	(1,666,007)	132,739,352
TOTAL EXTERNAL DEBT	**739,241,328**	**0**	**0**	**51,108,652**	**(36,863,118)**	**14,245,534**	**753,486,862**
INVESTMENTS							
SOUTHWEST HUBCO	823,533	0	0	0	0	4,801	828,334
BANKS & OTHER FINANCIAL INSTITUTIONS	36,683,975	0	0	0	0	10,835,025	47,519,000
BANK OVERDRAFT INCL CASH IN TRANSIT	(8,821,087)	0	0	0	0	6,078,714	(2,742,373)
CASH & CASH EQUIVALENTS	**28,686,421**	**0**	**0**	**0**	**0**	**16,918,540**	**45,604,961**
NET BORROWING	**710,554,907**	**0**	**0**	**51,108,652**	**(36,863,118)**	**(2,673,006)**	**707,881,901**

Prudential Code for Capital Finance in Local Authorities

1. Capital Expenditure, Capital Financing Requirement and Prudential Margin

(a) Capital Expenditure

	Initial Estimate 2015/2016 (£m)	Projected Outturn 2015/2016 (£m)
Total Spend	156.1	123.6
Financed By:		
Borrowing	74.2	44.8
Capital Receipts	6.4	6.2
Cash Grants	50.9	44.1
Capital from Current Revenue	24.6	28.5

(b) Prudential Margin Calculation

	Initial Estimate 2015/2016 (£m)	Projected Outturn 2015/2016 (£m)
Capital Financing Requirement	917.5	885.3
Gross Borrowing	803.3	792.3
Prudential Margin	114.2	93.0

2) Authorised Limit and Operational Boundary

	Initial Authorised Limit 2015/2016 (£m)	Initial Operational Boundary 2015/2016 (£m)	Maximum Borrowing Level Q2 2015/2016 (£m)
Borrowing	750.0	740.0	625.6
Other Long-term Liabilities	135.0	135.0	134.4
Totals	885.0	875.0	760.0

3. Treasury Management Indicators

a) Interest Rate Exposures

	Upper Limits 2015/2016 (%)	Position as at 30/09/15 (£000s)
Fixed Interest Rates	110.00%	78.51%
Variable Interest Rates	30.00%	21.49%

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

	Initial Estimate 2015/2016 (£000s)	Projected Outturn 2015/2016	Variance (£000s)	%tage
Interest Payable on Fixed Rate Debt	22.10	21.35	-0.75	-3.38%
Interest Payable on Variable Rate Debt	6.00	6.08	0.08	1.26%
Total External Interest Payments	**28.10**	**27.43**	**-0.67**	**-2.39%**
External Interest Receivable	0.20	0.23	0.03	15.00%
Net Loan External Interest Charges	**27.90**	**27.20**	**-0.70**	**-4.52%**

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%	30.00%
Lower Limit maturing :Fixed Rate Debt	0.00%	0.00%	5.00%	5.00%	5.00%	10.00%	10.00%
Maturity structure at the start of Q2	3.27%	3.37%	9.81%	22.13%	14.07%	35.14%	12.21%
Maturity structure at the end of Q2	2.19%	5.75%	11.24%	20.10%	13.90%	36.16%	10.66%