

To: POLICY & RESOURCES (FINANCE & CUSTOMER SERVICES) SUB-COMMITTEE		Subject: TREASURY MANAGEMENT MONITORING REPORT PERIOD 1 JANUARY TO 31 MARCH 2016
From: HEAD OF BUSINESS FOR FINANCIAL SOLUTIONS		
Date: 2 MAY 2016	Ref: PH/JQ/Q4	

**1. Introduction**

1.1 The purpose of this report is to inform on the quarterly activity (1 January 2016 to 31 March 2016) of the Council's loans and investment portfolios.

**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 final 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 31 March 2016 is £714.6m, this representing an increase of £9.3m from the position at the 31 December 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 £494.3m which represented a fall of £17.6m. The main reason for the decrease being long term mortgages held with North Lanarkshire Municipal Bank totaling £17.5m, reverted to short term (temporary borrowing) loans on 31 March 2016. This change matched by a corresponding increase in short term loans as shown within Appendix 1.

3.3.2 Overall temporary borrowing (< 1yr) increasing by almost £20.3m with a total of almost £121.3m outstanding at the end of the period. Notwithstanding the conversion of the North Lanarkshire Municipal bank mortgages, there was an increase of £1.9m in other temporary borrowing, with a further increase of £0.9m in the municipal bank balances available to the Council on a temporary borrowing basis at the end of the quarter.

- 3.3.3 These additional cash advances ensuring liquidity was available, to meet current and future revenue account requirements. These monies also funding principal repayments of £0.1m in respect of long term PWLB debt and lease payments of £1.7m under finance lease and PPP obligations during the quarter.
- 3.3.4 During 2015/16 the approach to borrowing was in line with the approved strategy , with internal cash balances primarily being used to meet the principal repayments, daily revenue account requirements and the capital financing requirement, in lieu of future borrowing for capital purposes whilst also taking advantage of temporary borrowing at attractive rates. The strategy adopted reflecting interest rate forecasts, the management of carrying costs and the retention of cash balances at appropriate levels managing the associated investment, interest and liquidity risk.
- 3.3.5 In October 2015, the Council was notified that it was successful in its 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. This will continue to provide the Council with an opportunity to borrow if required from the PWLB at more beneficial rates until October 2016 and beyond subject to a further successful application.

### **3.4 Short Term Investments**

- 3.4.1 In the final quarter of 2015/2016, cash management enabled short-term investments of £170.0m to be undertaken with approximately £174.7m of short-term investments maturing, the net effect of these transactions being a reduction of £4.7m in investment balances as shown within column 6 of the attached appendix 1.
- 3.4.2 This balance of funds available for investment reflecting the prudent management of liquidity, to meet current commitments and future cash demands, based on the latest cashflow projections, with cash balances held being invested securely in line with Councils investment strategy.
- 3.4.3 At the end of the quarter the bank overdraft including cash in transit totaled £3.6m. The bank overdraft at the 31 March 2016 comprises £4.5m of net BACS receipts/payments outstanding due for clearance within 3 days of the quarter end date and cheques unrepresented of £0.8m, partly offset by balance of £1.7m 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 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.
- 3.4.6 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 January, February and March 2016 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 final quarter 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 0.48% 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, despite growth projections being downgraded, continuing concerns exist about the eurozone and Chinese stock markets. There was also continuing volatility in the demand for 'safe haven' UK gilts as the uncertainty over the result of the 'Brexit' referendum gathers pace.
- 3.5.4 Sporadic movements in supply and demand for UK gilts heavily influence 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 During the quarter under review, per the previous commentary the movement in long term rates was more volatile compared to the previous quarter, with the PWLB 10 year borrowing rate having a 0.70% spread between the highest and lowest interest rate available throughout the quarter which were 3.00% and 2.30% respectively, averaging 2.60% throughout the quarter, rising to 2.50% by the end of March.
- 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, offset by an increase in capital contributions from revenue sources and capital receipts.
  - (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 March 2016. The timing and profile of external borrowing to replenish cash reserves and balances having been managed giving full consideration to liquidity, interest rate and refinancing risk whilst minimising the 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 final 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 £1.12m 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 £0.05m higher due to the average level of cash balances held during the year being higher than anticipated.
  - (vi) This one off saving totaling £1.17m 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 As the year-end final accounting processes are completed, the net overall borrowing position and the prudential indicators reported above may be subject to minor change. Any subsequent amendments will be incorporated within the Annual Treasury Management Activity Report for 2015/2016 submitted to Committee later in the year.
- 4.5 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 31 March 2016, including the positive performance against the key prudential indicators.



### **HEAD OF BUSINESS FOR FINANCIAL SOLUTIONS**

*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 MARCH, 2016**

APPENDIX 1

	BALANCE 1-January-16 (1)	DEBT RESTRUCTURING		NEW BORROWING (4)	PRINCIPAL REPAYMENTS (5)	NET CASH MOVEMENTS (6)	BALANCE 31-March-16 (7)
		EARLY REDEMPTION (2)	REFINANCING (3)				
<b><u>LONG-TERM LOANS</u></b>							
PWLB	396,434,578	0	0	0	(93,895)	(93,895)	396,340,683
MONEY MARKET LOANS	98,000,000	0	0	0	0	0	98,000,000
MUNICIPAL BANK	17,500,000	0	0	0	(17,500,000)	(17,500,000)	0
	<b>511,934,578</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(17,593,895)</b>	<b>(17,593,895)</b>	<b>494,340,683</b>
<b><u>SHORT-TERM LOANS</u></b>							
TEMPORARY	75,340,000	0	0	35,000,000	(33,140,000)	1,860,000	77,200,000
MUNICIPAL BANK	25,714,290	0	0	17,500,000	0	18,423,024	44,137,314
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
	<b>101,060,570</b>	<b>0</b>	<b>0</b>	<b>52,500,000</b>	<b>(33,140,000)</b>	<b>20,283,024</b>	<b>121,343,594</b>
<b><u>LONG -TERM LIABILITIES</u></b>							
FINANCE LEASE OBLIGATIONS	3,643,852	0	0	0	(467,149)	(466,849)	3,177,003
PPP LONG TERM LIABILITY	127,866,250	0	0	0	(1,229,250)	(1,229,250)	126,637,000
	<b>131,510,102</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,696,399)</b>	<b>(1,696,099)</b>	<b>129,814,003</b>
<b><u>TOTAL EXTERNAL DEBT</u></b>	<b>744,505,251</b>	<b>0</b>	<b>0</b>	<b>52,500,000</b>	<b>(52,430,294)</b>	<b>993,030</b>	<b>745,498,280</b>
<b><u>INVESTMENTS</u></b>							
SOUTHWEST HUBCO	831,532	0	0	1,741	0	1,741	833,273
BANKS & OTHER FINANCIAL INSTITUTIONS	38,420,000	0	0	0	0	(4,720,000)	33,700,000
BANK OVERDRAFT INCL CASH IN TRANSIT	3,942	0	0	0	0	(3,613,672)	(3,609,730)
<b><u>CASH &amp; CASH EQUIVALENTS</u></b>	<b>39,255,474</b>	<b>0</b>	<b>0</b>	<b>1,741</b>	<b>0</b>	<b>(8,331,931)</b>	<b>30,923,543</b>
<b><u>NET BORROWING</u></b>	<b>705,249,777</b>	<b>0</b>	<b>0</b>	<b>52,501,741</b>	<b>(52,430,294)</b>	<b>9,324,961</b>	<b>714,574,737</b>

**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>Projected Outturn</u>
	<u>2015/2016</u>	<u>2015/2016</u>
	<u>(£m)</u>	<u>(£m)</u>
Total Spend	156.1	119.6
Financed By:		
Borrowing	74.2	32.6
Capital Receipts	6.4	9.1
Cash Grants	50.9	46.5
Capital from Current Revenue	24.6	31.4

(b) Prudential Margin Calculation	<u>Initial Estimate</u>	<u>Projected Outturn</u>
	<u>2015/2016</u>	<u>2015/2016</u>
	<u>(£m)</u>	<u>(£m)</u>
Capital Financing Requirement	917.5	867.8
Gross Borrowing	803.3	745.5
Prudential Margin	114.2	122.3

2) Authorised Limit and Operational Boundary	<u>Initial Authorised Limit</u>	<u>Initial Operational Boundary</u>	<u>Maximum Borrowing Level Q4</u>
	<u>2015/2016</u>	<u>2015/2016</u>	<u>2015/2016</u>
	<u>(£m)</u>	<u>(£m)</u>	<u>(£m)</u>
Borrowing	750.0	740.0	627.1
Other Long-term Liabilities	135.0	135.0	131.5
Totals	885.0	875.0	758.6

**3. Treasury Management Indicators**

(a) Interest Rate Exposures	<u>Upper Limits</u>	<u>Position as</u>
	<u>2015/2016</u>	<u>at 31/03/16</u>
	<u>(%)</u>	<u>(£000s)</u>
Fixed Interest Rates	110.00%	78.06%
Variable Interest Rates	30.00%	21.94%

(b) Interest Payments & Income due on Loans Outstanding/Funds Invested	<u>Initial Estimate</u>	<u>Projected Outturn</u>	<u>Variance</u>	<u>%age</u>
	<u>2015/2016</u>	<u>2015/2016</u>		
	<u>(£000s)</u>	<u>£000s</u>	<u>(£000s)</u>	
Interest Payable on Fixed Rate Debt	22.10	20.87	-1.23	-5.56%
Interest Payable on Variable Rate Debt	6.00	6.11	0.11	1.88%
<b>Total External Interest Payments</b>	<b>28.10</b>	<b>26.98</b>	<b>-1.12</b>	<b>-3.97%</b>
External Interest Receivable	0.20	0.25	0.05	22.57%
<b>Net Loan External Interest Charges</b>	<b>27.90</b>	<b>26.73</b>	<b>-1.17</b>	<b>-4.20%</b>

(c) Maturity Structure of Borrowing	<u>&lt;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>&gt;40 years</u>
	Upper Limit maturing :Fixed Rate Debt	15.00%	15.00%	20.00%	30.00%	30.00%	40.00%
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 Q4	3.45%	4.08%	11.28%	20.19%	13.97%	36.32%	10.71%
Maturity structure at the end of Q4	4.16%	3.82%	11.09%	19.92%	13.97%	36.33%	10.71%