North Lanarkshire Council
Report

Finance and Resources Committee

☐ approval ☒ noting **Ref** PH/JQ **Date** 13 February 2019

Treasury Management Monitoring Report for quarter ended 31 December 2018

From Paul Hughes, Head of Financial Solutions

Email hughesp@northlan.gov.uk **Telephone** 01698 302275

Executive Summary

This report fulfils the key requirements of the Council's reporting procedures for Treasury Management in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. It informs on the quarterly Treasury Management activity for the period 1 October 2018 to 31 December 2018 and compliance with the mandatory treasury and prudential indicators.

Recommendations

It is recommended that Committee note the Treasury Management Activity for the quarter ended 31 December 2018 including the positive performance against the key treasury and prudential indicators.

Supporting Documents

Council business plan to 2020	Improve the council's resource base
Appendix 1	Loans, Long term Liabilities & Investments at 31 December 2018
Appendix 2	Summary of Treasury and Prudential Indicators as at quarter ended 31 December 2018

1. Background

1.1 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 ongoing basis. The Council fulfils these obligations in part by the preparation of a Treasury Management Monitoring report produced on a quarterly basis contained herein encompassing a mid-year review.

1.2 The Treasury activity undertaken in the third quarter of 2018/2019 reflects the key requirements of the Council's 2018/2019 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 2018/2019 investment strategy.

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2. Report

2.1 Summary Position

2.1.1 The net overall borrowing position to 31 December 2018 is £766.2m, this representing an increase of £24.7m from the position at the 30 September 2018 with a detailed breakdown of the net cash movement shown in column (6) within Appendix 1.

2.2 Borrowing

2.2.1 At the end of the quarter, total external debt amounted to £829.3m which represented an increase of £56.0m. This was due to additional net long term borrowing of £24.5m being undertaken, with new PWLB loans totalling £30.0m offset by £5.5m falling due within the quarter, lease payments of £1.2m under finance lease and PPP obligations being made, a reduction of almost £10.8m in the municipal bank balances available to the Council. An additional £43.5m of net short term borrowing as outlined in section 2.2.3 below was also undertaken.

2.2.2 During the quarter under review the Council identified an opportunity to undertake long-term borrowing, in line with approved borrowing strategy. PWLB interest rates moved downward to the lowest levels they had been in the last 12 months, linked closely to the turbulence in the external environment due to the Brexit uncertainty related to the withdrawal agreement. The Council therefore sourced £30.0m of loans from the PWLB on the 11 December 2018 on an equal instalment payment (EIP) basis at 2.08% over 20 years, the EIP terms providing a smoother debt maturity profile spreading the refinancing risk. The interest rate achieved was below budgeted levels anticipated.

2.2.3 Prior to undertaking the long-term borrowing, the Treasury Management team identified that cash balances were required to be replenished in light of anticipated cashflow commitments plus long and short term debt maturing. As a result there was an increase of £43.5m in the level of short term borrowing. This comprised £73.5m of short term borrowing falling due for repayment with £117.0m being sourced to meet these repayments and to maintain cash liquidity at prudent levels.

2.2.4 In addition there was material movement in the level of municipal bank balances available to the Council at the end of the quarter, as in December the Prudential Regulation Authority advised credit unions that they should no longer invest in Municipal banks as it was illegal under their constitution. This source of borrowing was replaced by short term borrowing attributing contributing towards the £43.5m increase in short term borrowing per above.

2.2.5 During the quarter the approach to borrowing was in line with the approved strategy, the Council sourcing long-term borrowing, taking advantage of temporary (short-term) borrowing at attractive rates and 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. 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.

2.2.6 In September 2018, the Council 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".

2.2.7 During the previous quarter an application was also made to the PWLB to receive a further discount of 0.20% on future borrowing with a quota of £5m potentially available to the Council at this reduced rate known as the infrastructure rate.

2.2.8 The Council has received confirmation of the certainty rate which will provide the Council with an opportunity to borrow if required from the PWLB at more beneficial rates and still await the result of the infrastructure rate application.

2.3 Debt Restructuring

2.3.1 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.

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

2.4 Investments

2.4.1 In the third quarter of 2018/2019, cash management enabled short-term investments of £226.5m to be undertaken with approximately £201.1m of short-term investments maturing, the net effect of these transactions being an increase of £25.4m in investment balances as shown within column 6 of the attached Appendix 1.

2.4.2 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.

2.4.3 Cash in transit and BACS receipts outstanding exceeded the BACS debits outstanding and cheques unpresented at the quarter end date. This has a positive impact upon projected cash balances with a net movement of almost £6.0m from an overdrawn position of £4.3m at the beginning of the quarter to a credit balance of almost £1.7m at 31 December 2019.

2.4.4 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.

2.4.5 Whilst there was the uplift in average short term rates to reflect the increase in the Bank Rate on the 2 August by 0.25% to 0.75%, short term investments continue to offer minimal returns with no noticeable difference 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.

2.4.6 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.

2.4.7 The Treasury Management team continues to take a prudent approach to investing surplus funds in line with the approved 2018/2019 Investment Strategy the primary principle governing Council investment criteria being the security of the investment followed by ensuring sufficient liquidity in its investments.

Non Treasury Management Investments

2.4.8 During the quarter £0.3m invested with Hub South West in connection with the Cumbernauld Academy DBFM relating to the facility currently held in the form of a bridging loan facility earned interest of £0.003m.This was capitalised per the terms of the loan agreement and increased the balance of third party advances.

2.5 Interest Rate Movements

2.5.1 During the quarter under review, the Bank Rate remained unchanged at 0.75%.

2.5.2 The UK economic environment remains relatively soft, despite seemingly strong labour market data. The economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a “no deal” Brexit still hangs over economic activity. As such, the risks to interest rate forecasts are considered firmly to the downside.

2.5.3 There has been very little movement in the short term 7 day LIBOR rate. Prior to the rise in the Bank rate there had been very little movement around the 0.71% mark.

2.5.4 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.

2.5.5 During the quarter under review, there was minor uplift in long term rates, with the PWLB 10 year borrowing rate having a 0.50% spread between the highest and lowest interest rate available throughout the quarter which were 2.70% and 2.20% respectively, averaging 2.42% throughout the quarter.

2.5.6 Although the lower long term borrowing rates in their own right appear attractive as demonstrated earlier within the borrowing section, the underlying strategy being adopted still supports the Council’s approach utilising internal balances and accessing shorter term borrowing at attractive rates.

2.5.7 The Treasury Management Section monitor the monetary and economic policies and their impact upon the Council’s investment and borrowing activity.

2.6 The Prudential Code for Capital Finance in Local Authorities

2.6.1 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.

2.6.2 Committee, at its meeting on 26 February 2018, approved a report titled, “Treasury Management Strategy 2018/2019 and Treasury and Prudential Indicators 2018/2019 to 2020/2021”. 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 2018/2019 to date is detailed within Appendix 2.

2.6.3 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 projects within the 2017/2018 capital programme not being completed by the financial year end and being carried forward into 2018/2019 plus acceleration of future year planned projects. This is monitored in detail as part of the Council's capital programme reporting mechanisms.

(ii) At the end of the third quarter of 2018/2019 the mix of resources used to finance the capital expenditure varied from the initial estimates. As the level of capital expenditure is higher by £4.3m this contributes towards the anticipated level of in-year borrowing being £10.4m higher. The balance of additional borrowing arises due to lower capital grants and contributions plus capital receipts being transferred to the Capital fund as opposed to meeting existing in year capital obligations, with a £2.0m increase in capital contributions from revenue.

(iii) 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 2018. The timing and profile of external borrowing to replenish cash reserves and balances are being managed giving full consideration to liquidity, interest rate and refinancing risk whilst minimising the potential carrying costs.

(iv) 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.

(v) Indicator 3(a) highlights the proportion of external interest payable by the Council which is fixed and external interest payable which may vary over the term of the borrowing and which exposes the Council to the effects of interest rate changes. At the 31 December 2018 the level of borrowing subject to variability is deemed to be within acceptable levels.

(vi) Indicator 3(b) highlights a projected loan charge saving of almost £7.4m compared to the prudential estimates for 2018/2019 taking into account both the treasury management activity and the annuity based loans fund accounting requirements.

(vii) A treasury management saving of £1.230m is projected, £0.740m for General Fund and £0.490m for HRA. The savings having been partly offset by £0.380m of additional interest payable on revenue balances comprising credits to the Council (£0.250m), HRA (£0.045m) and other Miscellaneous Funds (£0.075m). This overall saving reflecting 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. This resulting in reduced loans fund interest payments and expenses.

(viii) Per the annuity based loans fund accounting requirements the schedule for capital advances repayment has been re-calculated to reflect the savings in interest payments and the impact on the loans fund interest annuity rate. Due to the intricacies of the annuity accounting model this results in a net decrease of £1.53m in capital advances due for repayment by services from their revenue resources split £1.44m General Fund and £0.09m HRA. The primary reason for this decrease being the capital advances made in 2017/18 were lower than anticipated per the projected levels in February 2018, further offset by, the average capital repayment profile over the asset life, being longer than anticipated for assets acquired during 2017/18.

(ix) The Council has also accrued an additional net saving of £4.61m in loan charges in relation to the Schools & Centre 21 build programme, reflecting resources being put in place ahead of expenditure commitments. These resources set-aside to provide funding assistance to this programme going forward, as opposed to increasing the 2018/19 one off resources available for consideration, as part of the budget setting process.

(x) 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.

3. Equality and Diversity

3.1 Fairer Scotland

There are no specific impacts on Fairer Scotland.

3.2 Equality Impact Assessment

There are no specific impacts on Fairer Scotland.

4. Implications

4.1 Financial Impact

None identified.

4.2 HR/Policy/Legislative Impact

None identified.

4.3 Environmental Impact

None identified.

4.4 Risk Impact

None identified.

5. Measures of success

5.1 Overall the approach adopted by the Council’s Treasury Management team during the quarter under review met the key requirements of the 2018/2019 Treasury Management Strategy. Prudential indicators have remained in accordance with those approved by Committee on 26 February 2018. 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.

Paul Hughes
Head of Financial Solutions

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

LOANS , LONG TERM LIABILITIES & INVESTMENTS AS AT 31 DECEMBER, 2018

Appendix 1

	BALANCE 1-October-18 (1)	DEBT RESTRUCTURING EARLY REDEMPTION (2)	REFINANCING (3)	NEW BORROWING / LONG-TERM LIABILITIES (4)	PRINCIPAL REPAYMENTS (5)	NET CASH MOVEMENTS (6)	BALANCE 31-December-18 (7)
LONG-TERM LOANS							
PWLB	345,602,048	0	0	30,000,000	(5,456,539)	24,543,461	370,145,509
MONEY MARKET LOANS	83,000,000	0	0	0	0	0	83,000,000
ENERGY EFFICIENCY LOAN	338,296			0	11	11	338,306.75
	428,940,344	0	0	30,000,000	(5,456,528)	24,543,472	453,483,816
SHORT-TERM LOANS							
TEMPORARY	155,500,000	0	0	117,000,000	(73,500,000)	43,500,000	199,000,000
MUNICIPAL BANK	39,314,591	0	0	0	(10,796,334)	(10,796,334)	28,518,257
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
	194,820,871	0	0	117,000,000	(84,296,334)	32,703,666	227,524,537
LONG -TERM LIABILITIES							
FINANCE LEASE OBLIGATIONS	2,243,820	0	0	0	0	0	2,243,820
PPP LONG TERM LIABILITY	147,232,618	0	0	0	(1,206,000)	(1,206,000)	146,026,618
	149,476,438	0	0	0	(1,206,000)	(1,206,000)	148,270,438
TOTAL EXTERNAL DEBT	**773,237,653**	**0**	**0**	**147,000,000**	**(90,958,862)**	**56,041,138**	**829,278,791**
INVESTMENTS							
THIRD PARTY ADVANCES	2,026,288	0	0	0	0	2,879	2,029,167
BANKS & OTHER FINANCIAL INSTITUTIONS	33,960,970	0	0	0	0	25,404,450	59,365,420
BANK OVERDRAFT INCL CASH IN TRANSIT	(4,297,103)	0	0	0	0	5,962,392	1,665,289
CASH & CASH EQUIVALENTS	**31,690,155**	**0**	**0**	**0**	**0**	**31,369,721**	**63,059,876**
NET BORROWING	**741,547,498**	**0**	**0**	**147,000,000**	**90,958,862**	**24,671,417**	**766,218,915**

Summary of Treasury and Prudential Indicators as at quarter ended 31 December 2018 Appendix 2

1. Capital Expenditure, Capital Financing Requirement and Prudential Margin

(a) Capital Expenditure

	Initial Estimate 2018/2019 (£m)	Projected Outturn 2018/2019 (£m)
Total spend : Capital Expenditure	165.5	169.8
Total Capital Investment	**165.5**	**169.8**
Financed By:		
Borrowing	87.2	97.6
Capital receipts	6.1	1.6
Capital Grants & Other External Contributions	44.3	40.7
Capital from Current Revenue	27.9	29.9

(b) Prudential Margin Calculation

	Initial Estimate 2018/2019 (£m)	Projected Outturn 2018/2019 (£m)
Capital Financing Requirement	957.6	960.6
Gross Borrowing	868.0	855.6
Prudential Margin	89.6	105.0

2. Authorised Limit and Operational Boundary

	Initial Authorised Limit 2018/2019 (£m)	Initial Operational Boundary 2018/2019 (£m)	Maximum Borrowing Level Q3 2018/2019 (£m)
Borrowing	850.0	830.0	690.5
Other Long-term Liabilities	190.0	190.0	149.5
Totals	1,040.0	1,020.0	840.0

3. Treasury Management Indicators

a) Interest Rate Exposures on External Interest Payments

	Position as at 31/12/2018 (£m)	%
External Interest Payable on Fixed Rate Loan Debt	21.0	87.96%
External Interest Payable on Variable Rate Loan Debt	2.9	12.04%

b) Loans Fund Revenue Account

	Initial Estimate 2018/2019 (£m)	Projected Outturn 2018/2019 (£m)	Variance (£m)	%tage
Loans Fund Interest Payments	27.78	26.73	-1.05	-3.79%
Loans Fund Expenses	0.33	0.33	0.00	0.00%
Total Loans Interest Payments & Expenses	**28.11**	**27.06**	**-1.05**	**-3.75%**
Loans Funds Investment Income	-0.12	-0.30	-0.18	150.00%
Total Loans Fund Interest Payments Investment Income & Expenses	**27.99**	**26.76**	**-1.23**	**-4.41%**
Allocated as follows :				
Loans Fund Interest Payments Investment Income & Expenses :General Fund	18.64	17.91	-0.73	-3.91%
Loans Fund Interest Payments Investment Income & Expenses : HRA	9.35	8.86	-0.49	-5.28%
Capital Advances Repayments - General Fund	23.21	21.77	-1.44	-6.20%
Capital Advances Repayments - HRA	7.79	7.70	-0.09	-1.20%
Total Capital Advances	**31.00**	**29.47**	**-1.53**	**-4.94%**
Schools & Centres 21 Resource	**4.61**	**0.00**	**-4.61**	-100.00%
Total Loan Charges	**63.60**	**56.23**	**-7.37**	**-11.60%**

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 & Variable Rate Debt	20.00%	15.00%	20.00%	30.00%	30.00%	40.00%	30.00%
Lower Limit maturing :Fixed & Variable Rate Debt	0.00%	0.00%	5.00%	5.00%	5.00%	10.00%	5.00%
Maturity structure at the start of Q3	3.24%	8.70%	18.45%	10.38%	12.68%	35.88%	10.68%
Maturity structure at the end of Q3	5.44%	4.96%	20.89%	9.99%	18.12%	33.31%	7.28%