North Lanarkshire Council Report

Finance and Resources Committee

☐ approval ☒ noting **Ref** EK/JQ **Date** 29/05/19

Treasury Management Monitoring Report for quarter ended 31 March 2019

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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 January 2019 to 31 March 2019 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 March 2019 including the positive performance against the key treasury and prudential indicators.

Supporting Documents

The plan for North Lanarkshire	Improve North Lanarkshire Council's resource base
Appendix 1	Loans, Long term Liabilities & Investments at 31 March 2019
Appendix 2	Summary of Treasury and Prudential Indicators as at quarter ended 31 March 2019

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.

1.2 The Treasury activity undertaken in the final 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.

1.3 As the financial year end final accounting processes are completed, the net overall borrowing position and the prudential indicators reported below may be subject to minor change. Any subsequent amendments will be incorporated within the Annual Treasury Management Activity Report for 2018/2019 submitted to Committee later in the year.

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2. Report

2.1 Summary Position

2.1.1 The net overall borrowing position to 31 March 2019 is £779.1m, this representing an increase of £12.9m from the position at the 31 December 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 £839.8m which represented an increase of £10.5m. This was due to additional net long term borrowing of £59.3m being undertaken, comprising PWLB loans of £50.0m and market loans of £10m at attractive interest rates plus additional funds sourced of £0.5m via energy efficiency loans.

2.2.2 This increase being offset by £1.1m of PWLB debt falling due for repayments, lease payments made of £1.6m under finance lease and PPP obligations and a reduction of almost £0.25m in the municipal bank balances available to the Council. As a result of the increased borrowing of a long term nature this resulted in a net reduction of £47.0m in short term borrowing levels as outlined in section 2.2.6 below.

2.2.3 Similar to the previous quarter, PWLB interest rates continued to move downward to historically low levels in recent times and the Council identified an opportunity to undertake long-term borrowing, in line with approved borrowing strategy. This linked closely to the turbulence in the external environment due to the Brexit uncertainty related to the withdrawal agreement.

2.2.4 The Council sourcing £30.0m of PWLB loans on the 4 February 2019 on an equal instalment payment (EIP) basis at 2.07% over 20 years with a further £20.0m sourced on the 27 March 2019 at 1.88% on a similar basis. The EIP terms providing a smoother debt maturity profile spreading the refinancing risk. The interest rate achieved was below budgeted levels anticipated.

2.2.5 During the quarter the Council also took advantage of an interest free energy efficiency loan available from Salix Finance Ltd of £497k with the loan being for a period of 4 years. Other long term market funding totalling £10.0m was also taken at a beneficial interest rate of 1.25% compared to an equivalent PWLB two year maturity loan on the transaction date of 1.58%.

2.2.6 Given the additional long term borrowing undertaken and cash balances throughout the quarter remaining prudent, short borrowing of £82.0m falling due for repayment was partly funded by replacement short term borrowing of £35.0m resulting in a net reduction in short term borrowing of £47.0m at the quarter end.

2.2.7 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.

2.2.8 In September 2018, the Council made a successful 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.

2.2.9 During the quarter the Council received notification that its application to the PWLB to receive a further discount of 0.20% on future borrowing of up to £8.3m had been successful, with the reduced rate known as the infrastructure rate, available for financial years 2021/22 (£4.0m),2022/23 (£3.0m) and 23/24 (£1.3m).

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 final quarter of 2018/2019, cash management enabled short-term investments of £216.5m to be undertaken with approximately £212.8m of short-term investments maturing, the net effect of these transactions being an increase of £3.7m 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 At the end of the quarter the bank overdraft including cash in transit was £4.4m, an increase of almost £6.1m compared to the total held at the end of the previous quarter which was a credit balance of £1.7m.The bank overdraft at the 31 March 2019 comprising £5.7m of net BACS receipts /payments outstanding due for clearance within 3 days of the quarter end date, cheques unpresented of £0.3m offset by balance of £1.6m of cash in transit.

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.

2.4.9 This was offset by a re-imbursement of £0.006m, in respect of the £0.9m invested with Hub South West in connection with the Greenfaulds High School DBFM. Per the terms of the subordinated debt agreement, repayments of both principal and interest are received half yearly on March and September on an annuity basis.

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 6 month delay to Brexit has removed the near term risk of a no-deal situation but the potential for divergent paths for UK monetary policy beyond October remains. The timing of the new leave date and expectation that Brexit negotiations are likely to continue until that date suggest that any increase in Bank Rate will be beyond this date.

2.5.3 There has been very little movement in the short term 7 day LIBOR rate averaging just below 0.70% throughout the quarter.

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 significant variability in long term rates, 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 2.70% and 2.00% respectively, averaging 2.34% throughout the quarter.

2.5.6 As mentioned previously PWLB interest rates continued to move downward to historically low levels in recent times. This linked closely to the turbulence in the external environment due to the Brexit uncertainty related to the withdrawal agreement.

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 lower than anticipated. This represents the net effect of projects within the 2017/2018 capital programme not being completed by the financial year end and being carried forward into 2018/2019, the acceleration of future year planned projects to 2018/19 and the reprofiling of 18/19 planned projects to future years. This is monitored in detail as part of the Council's capital programme reporting mechanisms.

(ii) At the end of the final quarter of 2018/2019 the mix of resources used to finance the capital expenditure varied from the initial estimates. Although the level of capital expenditure is lower by £3.6m the level of in-year borrowing has risen by £3.7m. The balance of additional borrowing arises primarily due to £4.0m of capital receipts being transferred to the Capital fund as opposed to meeting existing in year capital obligations, and a reduction of £5.8m in capital grants and other external contributions expected to be applied in 2018/19, partially offset by a £3.0m 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 March 2019. 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 March 2019 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 £7.5m 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 £1.430m is projected, £0.86m for General Fund and £0.570m for HRA. The savings having been partly offset by £0.333m of additional interest payable on revenue balances comprising credits to the Council (£0.040m), HRA (£0.080m) and other Miscellaneous Funds (£0.213m). 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 £1.47m in capital advances due for repayment by services from their revenue resources split £1.40m General Fund and £0.07m 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.

(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.

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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.

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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.

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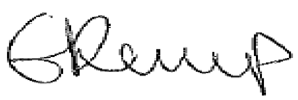
5. Measures of success

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.



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LOANS , LONG TERM LIABILITIES & INVESTMENTS AS AT 31 MARCH 2019

Appendix 1

		DEBT RESTRUCTURING					
	BALANCE 1-January-19 (1)	EARLY REDEMPTION (2)	REFINANCING (3)	NEW BORROWING / LONG-TERM LIABILITIES (4)	PRINCIPAL REPAYMENTS (5)	NET CASH MOVEMENTS (6)	BALANCE 31-March-19 (7)
LONG-TERM LOANS							
PWLB	370,145,509	0	0	50,000,000	(1,133,770)	48,866,230	419,011,739
MONEY MARKET LOANS	83,000,000	0	0	10,000,000	0	10,000,000	93,000,000
ENERGY EFFICIENCY LOAN	338,296	0	0	497,089	(26,023)	471,066	809,362
	453,483,805	0	0	60,497,089	(1,159,792)	59,337,297	512,821,101
SHORT-TERM LOANS							
TEMPORARY	199,000,000	0	0	35,000,000	(82,000,000)	(47,000,000)	152,000,000
MUNICIPAL BANK	28,518,257	0	0	0	(244,257)	(244,257)	28,273,999
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
	227,524,537	0	0	35,000,000	(82,244,257)	(47,244,257)	180,280,279
LONG -TERM LIABILITIES							
FINANCE LEASE OBLIGATIONS	2,243,820	0	0	0	0	0	2,243,820
PPP LONG TERM LIABILITY	146,026,618	0	0	0	(1,578,519)	(1,578,519)	144,448,099
	148,270,438	0	0	0	(1,578,519)	(1,578,519)	146,691,919
TOTAL EXTERNAL DEBT	**829,278,780**	**0**	**0**	**95,497,089**	**(84,982,568)**	**10,514,521**	**839,793,300**
INVESTMENTS							
THIRD PARTY ADVANCES	2,029,167	0	0	0	(2,776)	(2,776)	2,026,391
BANKS & OTHER FINANCIAL INSTITUTIONS	59,365,420	0	0	0	0	3,697,890	63,063,310
BANK OVERDRAFT INCL CASH IN TRANSIT	1,665,289	0	0	0	0	(6,038,975)	(4,373,686)
CASH & CASH EQUIVALENTS	**63,059,876**	**0**	**0**	**0**	**(2,776)**	**(2,343,861)**	**60,716,015**
NET BORROWING	**766,218,904**	**0**	**0**	**95,497,089**	**84,979,792**	**12,858,382**	**779,077,286**

Summary of Treasury and Prudential Indicators as at quarter ended 31 March 2019 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	161.9
Total Capital Investment	**165.5**	**161.9**
Financed By:		
Borrowing	87.2	90.9
Capital receipts	6.1	5.6
Capital receipts transfer to Capital Fund	-	-4.0
Capital Grants & Other External Contributions	44.3	38.5
Capital from Current Revenue	27.9	30.9

(b) Prudential Margin Calculation

	Initial Estimate 2018/2019 (£m)	Projected Outturn 2018/2019 (£m)
Capital Financing Requirement	957.6	953.8
Gross Borrowing	868.0	839.8
Prudential Margin	89.6	114.0

2. Authorised Limit and Operational Boundary

	Initial Authorised Limit 2018/2019 (£m)	Initial Operational Boundary 2018/2019 (£m)	Maximum Borrowing Level Q4 2018/2019 (£m)
Borrowing	850.0	830.0	703.1
Other Long-term Liabilities	190.0	190.0	148.3
Totals	1,040.0	1,020.0	851.4

3. Treasury Management Indicators

a) Interest Rate Exposures on External Interest Payments

	Position as at 31/03/2019 (£m)	%
External Interest Payable on Fixed Rate Loan Debt	20.7	87.59%
External Interest Payable on Variable Rate Loan Debt	2.9	12.41%

b) Loans Fund Revenue Account

	Initial Estimate 2018/2019 (£m)	Projected Outturn 2018/2019 (£m)	Variance (£m)	%tage
Loans Fund Interest Payments	27.78	26.49	-1.29	-4.64%
Loans Fund Expenses	0.33	0.41	0.08	24.24%
Total Loans Interest Payments & Expenses	**28.11**	**26.90**	**-1.21**	**-4.30%**
Loans Funds Investment Income	-0.12	-0.34	-0.22	183.33%
Total Loans Fund Interest Payments Investment Income & Expenses	**27.99**	**26.56**	**-1.43**	**-5.10%**
Allocated as follows :				
Loans Fund Interest Payments Investment Income & Expenses :General Fund	18.64	17.78	-0.86	-4.61%
Loans Fund Interest Payments Investment Income & Expenses : HRA	9.35	8.78	-0.57	-6.08%
Capital Advances Repayments - General Fund	23.21	21.81	-1.40	-6.01%
Capital Advances Repayments - HRA	7.79	7.72	-0.07	-0.92%
Total Capital Advances	**31.00**	**29.53**	**-1.47**	**-4.73%**
Schools & Centres 21 Resource	**4.61**	**0.00**	**-4.61**	-100.00%
Total Loan Charges	**63.60**	**56.10**	**-7.50**	**-11.80%**

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 Q4	5.84%	5.22%	19.35%	9.37%	16.19%	36.14%	7.89%
Maturity structure at the end of Q4	6.41%	6.11%	18.59%	11.69%	18.26%	31.96%	6.98%