North Lanarkshire Council Report

Finance & Resources Committee

☐ approval ☒ noting **Ref** JQ/EK **Date** 06/11/19

Treasury Management Monitoring Report for quarter ended 30 September 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 April 2019 to 30 September 2019 and compliance with the mandatory treasury and prudential indicators encompassing a mid-year review and compliance with the mandatory treasury and prudential indicators.

Recommendations

It is recommended that Committee note the Treasury Management Activity for the quarter ended 30 September 2019 including the positive performance against the key treasury and prudential indicators.

The Plan for North Lanarkshire

Priority	Improve North Lanarkshire's resource base
Ambition statement	(25) Ensure intelligent use of data and information to support fully evidence based decision making and future planning

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 second quarter of 2019/20 reflects the key requirements of the Council's 2019/20 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 2019/20 investment strategy.

2. Report

2.1 Summary Position

2.1.1 The net overall borrowing position to 30 September 2019 is £843.8m, this representing an increase of £38.4m from the position at the 30 June 2019 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 £907.4m which represented an increase of £85.2m. This was partially due to an increase in net long term borrowing of £50.5m, with new PWLB loans totalling £60.0m undertaken, offset by £8.5m of PWLB debt and £1.0m of Money Market loans falling due for repayment within the quarter. There was also a small reduction of almost £0.7m in the municipal bank balances available to the Council and whilst there was temporary borrowing activity, there was no movement overall in the opening and closing balance as temporary loans were repaid of £69.5m which were matched by new temporary loans of an equivalent amount.

2.2.2 Another significant contributory factor to the £85.2m increase in total external debt was the increase in long term liabilities. In July 2019 Cumbernauld Academy was opened which was financed under a Subhubco/DBFM structure in conjunction with the private sector and the Scottish Futures Trust. This will be accounted for by the Council as credit arrangement and treated as a long term liability under the Prudential Code arrangements and £36.9m has therefore been included within the balances for long term liabilities at 30 September 2019.

2.2.3 There was also £1.5m in lease payments under existing finance lease and PPP obligations that fell due for repayment under the leasing arrangements in place, with long term liabilities amounting to £180.9m at 30 September 2019.

2.2.4 During the quarter PWLB interest rates moved downward to the lowest levels they had been in the previous 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 £60.0m of loans from the PWLB in 2 tranches, £40m on the 6 August 2019 at an average rate of 1.33% and £20m at an average rate of 1.23% on the 27 September 2019, both loans repayable over a 15 to 20 year time horizon. All loans repayable on an equal instalment basis, providing a smoother debt maturity profile and spreading the refinancing risk. The interest rate achieved was below budgeted levels anticipated.

2.2.5 Throughout this monitoring period 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 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 2019, 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. This will continue to provide the Council with an opportunity to borrow from the PWLB at more beneficial rates until October 2020 and beyond subject to a further successful application.

2.2.7 The Council, following a successful application to the PWLB, will receive a further discount of 0.20% on future borrowing of up to £8.3m. This reduced rate known as the infrastructure rate, is available for financial years 2021/22 (£4.0m), 2022/23 (£3.0m) and 23/24 (£1.3m).

2.2.8 However on 9 October 2019, the Council was notified of a change to the interest rate terms on offer from the PWLB. Prior to the announcement PWLB lending was generally available at 80bps (0.80%) above UK gilt prices. Following this action, the margin that applies to new loans from the PWLB has been increased by an additional 100bps (1%) above gilts.

2.2.9 In the light of the increased PWLB interest rates on offer and the potential uplift of borrowing costs and impact on capital investment plans, the Council will review its current borrowing strategy looking to mitigate the immediate impact. This may include, reviewing short term borrowing approach and consideration of alternative funding sources available from banks, pension funds and other institutional investors as their terms may now become more attractive to the Council.

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 At the end of the second quarter of 2019/20, there was an increase of £46.8m in cash and cash equivalents with £42.8m in relation to an increase in short term investments held, with approximately £241.0m of short-term investments maturing being met by new short-term investments of £283.8, as shown within column 6 of the attached Appendix 1.

2.4.2 The increase in balance of funds available for investment resulting from the long term borrowing being undertaken and 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 totalled £11.3m. The bank overdraft at 30 September 2019 comprised £11.1m of net BACS receipts/payments outstanding due for clearance within 3 days of the quarter end date and cheques unpresented of £0.5m, offset by an equivalent balance of £0.3m 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 During the quarter there has been no significant uplift in average short term rates and they 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 2019/20 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 £0.005m, 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.

2.4.10 In addition, a repayment of £0.033m was made in respect of the third party advance of £0.805m, made in 2018/19 to NLL Ltd, to provide cashflow support. This advance will be repaid over 5 years and permissible under the approved Treasury Management Investment Strategy.

2.5 Interest Rate Movements

2.5.1 During the quarter under review, the Bank Rate remained at 0.75%.This rate was unchanged following the monthly meetings of the Monetary Policy Committee (MPC) in July, August, and September 2019. As a result during the second quarter there continued to be very little movement in the short term 7 day LIBID rate, around the 0.69% mark. The deterioration in global activity and sentiment confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.

2.5.2 With politics, both home and abroad, continuing to be a big driver of financial markets over the last quarter and the deterioration in the wider economic environment, compounded by Brexit-related uncertainty, the speech by the Bank of England Governor Mark Carney during the quarter, in early July, signalled a major shift to the Bank's rhetoric. This has increased the possibility of interest rate cuts, rather the Bank's erstwhile 'gradual and limited' rate hike guidance.

2.5.3 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.

2.5.4 During the quarter under review, there was a reduction in long term rates, with the PWLB 10 year borrowing rate having a 0.55% spread between the highest and lowest interest rate available throughout the quarter which were 1.88% and 1.33% respectively, averaging 1.62% throughout the quarter.

2.5.5 The Treasury Management Section will continue to monitor financial and economic policy 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 13 March 2019, approved a report titled, "Treasury Management Strategy 2019/2020 and Treasury and Prudential Indicators 2019/2020 to 2021/2022". 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 2019/20 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 due to a reprofiling of projects within the 2019/20 capital programme since the TM strategy was approved in February 2019. This is monitored in detail as part of the Council's capital programme reporting mechanisms. Similarly the mix of resources used to finance the capital expenditure in 2019/20 is expected to vary from the initial estimates. The anticipated level of in-year borrowing is anticipated to be lower by £13.2m reflecting the reduced capital expenditure with the level of borrowing also adjusted to reflect the decision to transfer £3.2m of capital receipts to the Capital Fund and lower capital grants and external contributions of £0.8m.

(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 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.

(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) 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 30 September 2019 the level of borrowing subject to variability is deemed to be within acceptable levels.

(v) Indicator 3(b) highlights a projected loan charge saving of almost £1.29m compared to the prudential estimates for 2019/20. This projection taking into account both the treasury management activity and the annuity based loans fund accounting requirements.

(vi) A treasury management saving of £1.64m is projected, £0.95m for General Fund and £0.69m for HRA. This 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.

(vii) 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 increase of £0.35m in capital advances due for repayment by services from their revenue resources which is split £0.25m for the General Fund and £0.10m for HRA. The primary reason for this increase, being the average capital repayment profile over the asset life, being shorter than anticipated for assets acquired during 2018/19.

(viii) 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 Equality Impact Assessments to note.

4. Implications

4.1 Financial Impact
The financial impact is contained within the body of the report.

4.2 HR/Policy/Legislative Impact
There are no HR/Policy/Legislative impacts.

4.3 Environmental Impact

There are no environmental impacts.

4.4 Risk Impact

4.4.1 All activities undertaken by the Council are subject to risk, and in acknowledging the Council's approved Risk Management Strategy (September 2012), Services manage these as part of their overall corporate and service planning processes. The current economic climate, in particular, has the potential to impact upon the Council's ability to provide quality services within approved budget levels.

4.4.2 To minimise risk this report has been prepared by service based Financial Solutions personnel in consultation with budget managers, in accordance with Financial Regulations.

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 2019/20 Treasury Management Strategy. Prudential indicators have remained in accordance with those approved by Committee on 13 March 2019. 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.

6. Supporting documents

6.1 Appendix 1: Loans, Long term Liabilities & Investments as at 30 September 2019

6.2 Appendix 2: Summary of Treasury and Prudential Indicators as at quarter ended 30 September 2019

Elaine Kemp
Head of Financial Solutions

LOANS , LONG TERM LIABILITIES & INVESTMENTS AS AT 30 SEPTEMBER 2019

Appendix 1

	BALANCE 1-July-19 (1)	DEBT RESTRUCTURING: EARLY REDEMPTION (2)	DEBT RESTRUCTURING: REFINANCING (3)	NEW BORROWING / LONG-TERM LIABILITIES (4)	PRINCIPAL REPAYMENTS (5)	NET CASH MOVEMENTS (6)	BALANCE 30-September-19 (7)
LONG-TERM LOANS							
PWLB	418,261,741	0	0	60,000,000	(8,488,644)	51,511,356	469,773,098
MONEY MARKET LOANS	93,000,000	0	0	0	(1,000,000)	(1,000,000)	92,000,000
ENERGY EFFICIENCY LOAN	809,362	0	0	0	(26,023)	(26,023)	783,339
	512,071,103	0	0	60,000,000	(9,514,666)	50,485,334	562,556,437
SHORT-TERM LOANS							
TEMPORARY	141,500,000	0	0	69,500,000	(69,500,000)	0	141,500,000
MUNICIPAL BANK	23,181,573	0	0	0	(738,624)	(738,624)	22,442,949
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
	164,687,853	0	0	69,500,000	(70,238,624)	(738,624)	163,949,229
LONG -TERM LIABILITIES							
FINANCE LEASE OBLIGATIONS	2,078,148	0	0	0	0	0	2,078,148
LONG TERM LIABILITY	143,366,080	0	0	36,909,000	(1,464,530)	35,444,470	178,810,550
	145,444,228	0	0	36,909,000	(1,464,530)	35,444,470	180,888,698
TOTAL EXTERNAL DEBT	**822,203,184**	**0**	**0**	**166,409,000**	**(81,217,820)**	**85,191,180**	**907,394,364**
INVESTMENTS							
THIRD PARTY ADVANCES	1,996,444	0	0	0	(35,438)	(35,438)	1,961,006
BANKS & OTHER FINANCIAL INSTITUTIONS	29,946,139	0	0	0	0	42,864,095	72,810,234
BANK OVERDRAFT INCL CASH IN TRANSIT	(15,216,911)	0	0	0	0	3,964,447	(11,252,464)
CASH & CASH EQUIVALENTS	**16,725,672**	**0**	**0**	**0**	**(35,438)**	**46,793,104**	**63,518,776**
NET BORROWING	**805,477,512**	**0**	**0**	**166,409,000**	**81,182,382**	**38,398,075**	**843,875,587**

Summary of Treasury and Prudential Indicators as at quarter ended 30 September 2019

1. Capital Expenditure, Capital Financing Requirement and Prudential Margin

(a) Capital Expenditure

	Initial Estimate 2019/2020 (£m)	Projected Outturn 2019/2020 (£m)
Total spend : Capital Expenditure	208.5	190.0
Total spend : Credit Arrangement	60.0	60.0
Total Capital Investment	**268.5**	**250.0**
Financed By:		
Borrowing	101.5	88.3
Capital receipts	4.5	3.2
Capital receipts transfer to Capital Fund	0.0	-3.2
Capital Grants & Other External Contributions	75.4	74.6
Capital from Current Revenue	27.1	27.1
Credit Arrangement	60.0	60.0

(b) Prudential Margin Calculation

	Initial Estimate 2019/2020 (£m)	Projected Outturn 2019/2020 (£m)
Capital Financing Requirement	1,084.5	1,060.2
Gross Borrowing	990.1	937.9
Prudential Margin	94.4	122.3

2. Authorised Limit and Operational Boundary

	Initial Authorised Limit 2019/2020 (£m)	Initial Operational Boundary 2019/2020 (£m)	Maximum Borrowing Level Q2 2019/2020 (£m)
Borrowing	950.0	940.0	733.2
Other Long-term Liabilities	210.0	205.0	178.8
Totals	1,160.0	1,145.0	912.1

3. Treasury Management Indicators

a) Interest Rate Exposures on External Interest Payments

	Position as at 30/09/2019 (£m)	%
External Interest Payable on Fixed Rate Loan Debt	21.50	89.1%
External Interest Payable on Variable Rate Loan Debt	2.60	10.9%

b) Loans Fund Revenue Account

	Initial Estimate 2019/2020 (£m)	Projected Outturn 2019/2020 (£m)	Variance (£m)	%tage
Loans Fund Interest Payments	29.0	27.5	1.5	5.3%
Loans Fund Expenses	0.3	0.4	-0.1	-21.2%
Total Loans Interest Payments & Expenses	**29.3**	**27.9**	**1.4**	**4.6%**
Loans Funds Investment Income	-0.3	-0.4	0.1	-38.1%
Total Loans Fund Interest Payments Investment Income & Expenses	**29.0**	**27.5**	**1.5**	**5.1%**
Allocated as follows :				
Loans Fund Interest Payments Investment Income & Expenses : General Fund	18.7	17.8	0.9	4.9%
Loans Fund Interest Payments Investment Income & Expenses : HRA	10.3	9.6	0.7	6.4%
Capital Advances Repayments - General Fund	23.4	23.6	-0.2	-0.7%
Capital Advances Repayments - HRA	7.8	7.9	-0.1	-1.2%
Total Capital Advances	**31.2**	**31.5**	**-0.3**	**-0.9%**
Total Loan Charges	**60.2**	**59.0**	**1.2**	2.0%

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	20.0%	15.0%	25.0%	30.0%	35.0%	45.0%	30.0%
Lower Limit maturing :Fixed & Variable Rate Debt	0.0%	0.0%	5.0%	5.0%	5.0%	10.0%	5.0%
Maturity structure at the start of Q2	6.7%	5.8%	18.6%	11.7%	18.1%	32.0%	7.0%
Maturity structure at the end of Q2	8.9%	6.5%	15.7%	12.9%	20.4%	29.1%	6.4%