North Lanarkshire Council
Report

Finance & Resources Committee

☐ approval ☒ noting **Ref** JQ/EK **Date** 12/03/20

Treasury Management Monitoring Report for quarter ended 31 December 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 31 December 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 December 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.

1.2 The Treasury activity undertaken in the third 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.

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2. Report

2.1 Summary Position

2.1.1 The net overall borrowing position to 31 December 2019 is £836.1m, this is a reduction of £7.8m from the position at the 30 September 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 £918.8m which represented an increase of £11.4m. This was partially due to an increase in net long term borrowing of £10.2m, with new PWLB loans totalling £20.0m and energy efficiency loans of £1.0m being sourced, offset by £10.8m of PWLB debt falling due for repayment within the quarter. There was also a reduction of almost £0.5m in the municipal bank balances available to the Council. In addition, temporary borrowing activity resulted in a net increase of £3.0m as £53.0m of new temporary borrowing was partially offset by £50.0m which fell due for repayment.

2.2.2 Lease payments under existing finance lease and PPP obligations of £1.3m also fell due for repayment during the quarter, with long term liabilities amounting to £179.6m at 31 December 2019.

2.2.3 Linked to the turbulence associated with Brexit which resulted in a General Election on 12 December 2019, PWLB interest rates continued to move downwards to historically low levels, during this quarter. Pro-actively managing its borrowing activity, the Council sourced £20.0m of loans from the PWLB on the 8th October 2019, £10.0m of which at an average rate of 1.06% and £10.0m at an average rate of 1.21%, repayable over 15 and 20 year periods respectively. The loans are 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.

2.2.4 During the quarter the Council also took advantage of an interest free energy efficiency loan available from Salix Finance Ltd of £1.0m over a period of 4 years.

2.2.5 The approach to borrowing continues in line with the approved strategy, with the Council sourcing long-term borrowing, taking advantage of temporary (short-term) borrowing at attractive rates and use of internal cash balances 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 reflects interest rate forecasts, the management of carrying costs and the retention of cash balances at appropriate levels whilst 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) (0.20%) 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. If successful the Council, will receive a further discount of 0.20% on future borrowing of up to £8.3m, available for financial years 2021/22 (£4.0m), 2022/23 (£3.0m) and 23/24 (£1.3m), respectively.

2.2.7 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 was increased by an additional 100bps (1%) above gilts.

2.2.8 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 third quarter of 2019/20, there was an increase of £19.2m in cash and cash equivalents with £5.7m in relation to an increase in short term investments held, with approximately £185.0m of short-term investments maturing and met by new short-term investments of £190.7m, as shown within column 6 of the attached Appendix 1.

2.4.2 The increase in balance of funds available for investment is a result of long term borrowing being undertaken, demonstrating 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 £2.3m which is a positive cash position compared to the position at the end of the previous quarter. The £13.6m net cash movements reflect the Council festive period closedown as no BACS payment runs fell due for clearance at the quarter end date. The balance at 31 December 2019 comprised £2.3m of net BACS receipts outstanding due for clearance within 3 days of the quarter end date, and a balance of £0.3m of cash in transit, partially offset by cheques unpresented of £0.2m.

2.4.4 In line with the approved strategy to manage liquidity, the Council maintained a minimum balance of £3.0m available on an overnight basis (instant access), ensuring a prudent level of funds is maintained to meet all service objectives.

2.4.5 During the quarter there has been no significant uplift in average short term interest 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 During the quarter the Bank of England announced its latest stress tests results for the main seven UK banking groups. There was no change to the Councils counterparty list as all seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

2.4.8 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

2.4.9 During the quarter the £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.

2.4.10 In addition, a repayment of £0.034m 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 October, November and December 2019. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. As a result during the third quarter there continued to be very little movement in the short term 7 day LIBID rate, around the 0.69% mark.

2.5.2 Politics continued to play a major role in financial markets over the period as the UK's progress negotiating its exit from the European Union together with its future trading arrangements has driven volatility, particularly in foreign exchange markets. Following the General Election in December, the new government achieved Brexit on 31st January 2020, but the subsequent limited Brexit transitionary period, which the government is seeking to enforce, will result in continuing economic uncertainty.

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 significant increase in long term rates, with the PWLB 10 year borrowing rate increasing from 1.50% at the start of the quarter but closing at 2.87%. This increase primarily as a result of the action taken on 9 October 2019, per paragraph 2.2.6 above. There was a 1.48% spread between the highest and lowest interest rate available throughout the quarter which were 1.39% and 2.87% respectively, averaging 2.58% 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 the 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 and managed under the terms of reference of the Strategic Capital Delivery Group. 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 £33.2m reflecting the reduced capital expenditure. The forecast level of borrowing also reflects the decision to transfer capital receipts (excluding HRA) to the Capital Fund and a reduction in capital grants and external contributions applied of £2.9m, partially offset by an increase of £0.2m in contributions from revenue to capital.

(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 December 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 31 December 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 £1.2m 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 £1.5m is projected, £0.9m for General Fund and £0.6m 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 £0.3m in capital advances due for repayment by services from their revenue resources which is split £0.2m for the General Fund and £0.1m 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.

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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 Equality Impact Assessments to note.

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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.

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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 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.

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6. Supporting documents

6.1 Appendix 1: Loans, Long term Liabilities & Investments as at 31 December 2019

6.2 Appendix 2: Summary of Treasury and Prudential Indicators as at quarter ended 31 December 2019

Elaine Kemp
Head of Financial Solutions

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

Appendix 1

	BALANCE 1-October-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 31-December-19 (7)
LONG-TERM LOANS							
PWLB	469,773,098	0	0	20,000,000	(10,750,000)	9,250,000	479,023,098
MONEY MARKET LOANS	92,000,000	0	0	0	0	0	92,000,000
ENERGY EFFICIENCY LOAN	783,339	0	0	1,000,000	(35,506)	964,494	1,747,833
	562,556,437	0	0	21,000,000	(10,785,506)	10,214,494	572,770,931
SHORT-TERM LOANS							
TEMPORARY	141,500,000	0	0	53,000,000	(50,000,000)	3,000,000	144,500,000
MUNICIPAL BANK	22,442,949	0	0	0	(503,045)	(503,045)	21,939,904
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
	163,949,229	0	0	53,000,000	(50,503,045)	2,496,955	166,446,184
LONG -TERM LIABILITIES							
FINANCE LEASE OBLIGATIONS	2,078,148	0	0	0	0	0	2,078,148
LONG TERM LIABILITY	178,810,550	0	0	0	(1,261,500)	(1,261,500)	177,549,050
	180,888,698	0	0	0	(1,261,500)	(1,261,500)	179,627,198
TOTAL EXTERNAL DEBT	**907,394,364**	**0**	**0**	**74,000,000**	**(62,550,051)**	**11,449,949**	**918,844,313**
INVESTMENTS							
THIRD PARTY ADVANCES	1,961,006	0	0	0	(30,545)	(30,545)	1,930,461
BANKS & OTHER FINANCIAL INSTITUTIONS	72,810,234	0	0	0	0	5,680,576	78,490,811
BANK OVERDRAFT INCL CASH IN TRANSIT	(11,252,464)	0	0	0	0	13,576,760	2,324,296
CASH & CASH EQUIVALENTS	**63,518,776**	**0**	**0**	**0**	**(30,545)**	**19,226,791**	**82,745,567**
NET BORROWING	**843,875,587**	**0**	**0**	**74,000,000**	**62,519,506**	**(7,776,842)**	**836,098,745**

Summary of Treasury and Prudential Indicators as at quarter ended 31 December 2019 **Appendix 2**

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	168.4
Total spend : Credit Arrangement	60.0	60.0
Total Capital Investment	**268.5**	**228.4**
Financed By:		
Borrowing	101.5	68.3
Capital receipts	4.5	0.8
Capital receipts transfer to Capital Fund	0.0	-0.5
Capital Grants & Other External Contributions	75.4	72.5
Capital from Current Revenue	27.1	27.3
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	1,040.0
Gross Borrowing	990.1	920.3
Prudential Margin	94.4	119.7

2. Authorised Limit and Operational Boundary

	Initial Authorised Limit 2019/2020 (£m)	Initial Operational Boundary 2019/2020 (£m)	Maximum Borrowing Level Q3 2019/2020 (£m)
Borrowing	950.0	940.0	744.4
Other Long-term Liabilities	210.0	205.0	177.5
Totals	1,160.0	1,145.0	921.9

3. Treasury Management Indicators

a) Interest Rate Exposures on External Interest Payments

	Position as at 31/12/2019 (£m)	%
External Interest Payable on Fixed Rate Loan Debt	21.52	89.1%
External Interest Payable on Variable Rate Loan Debt	2.64	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	27.6	1.4	4.8%
Loans Fund Expenses	0.3	0.4	-0.1	-25.4%
Total Loans Interest Payments & Expenses	**29.3**	**28.0**	**1.3**	**4.5%**
Loans Funds Investment Income	-0.3	-0.5	0.2	-61.1%
Total Loans Fund Interest Payments Investment Income & Expenses	**29.0**	**27.5**	**1.5**	**5.2%**
Allocated as follows :				
Loans Fund Interest Payments Investment Income & Expenses:General Fund	18.7	17.8	0.9	4.7%
Loans Fund Interest Payments Investment Income & Expenses:HRA	10.3	9.7	0.6	6.2%
Capital Advances Repayments - General Fund	23.4	23.6	-0.2	-1.1%
Capital Advances Repayments - HRA	7.8	7.9	-0.1	-1.1%
Total Capital Advances	**31.2**	**31.5**	**-0.3**	**-0.8%**
Total Loan Charges	**60.2**	**59.0**	**1.2**	2.1%

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 Q3	8.9%	6.5%	15.7%	12.9%	20.4%	29.1%	6.4%
Maturity structure at the end of Q3	7.3%	8.9%	14.0%	13.6%	21.3%	28.6%	6.3%