North Lanarkshire Council
Report

Finance & Resources Committee

☐ approval ☒ noting **Ref** JQ/EK **Date** 03/09/20

Treasury Management Annual Activity Report – 2019/2020

From	Elaine Kemp, Head of Financial Solutions		
Email	quinnj@northlan.gov.uk	**Telephone**	Joseph Quinn, Finance Manager

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 in that it:

- Outlines the treasury management activity undertaken during 2019/2020 and the resulting impact on the Council's borrowing and investment strategy.
- Reports on the Council's performance in complying with the mandatory prudential indicators.
- Provides a detailed summary of the Council's performance, making reference to those targets and prudential indicators set at the start of the year within the approved strategy.

Recommendations

It is recommended that Committee note the Treasury Management Activity undertaken during 2019/2020 and its resulting impact on the Council's borrowing and investment strategy set out within Appendix 1 to this report.

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 is required to meet a number of key reporting requirements 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.

1.2 This report fulfils one of these requirements, outlining the treasury management activity undertaken during 2019/2020 and the resulting impact on the Council's borrowing and investment strategy and the Council's performance in complying with the mandatory treasury and prudential indicators.

2. Report

2.1 The Treasury Management Strategy Statement 2019/2020 approved by Committee on 13 March 2019, set out the Treasury Management policies, practices and activities to be undertaken by the Treasury Management function during 2019/2020.

2.2 Appendix 1 provides a detailed summary of the Council's performance, referencing those targets and prudential indicators set at the start of the year within the approved strategy.

2.3 It focuses on the key areas of Treasury Management activity during 2019/2020 including:

- External Borrowing
- Interest Rates & Payments
- Debt Maturity Profile
- Investment Performance
- Sources of Borrowing
- Leasing
- Regulatory Framework , Risk and Performance

2.4 The Council's Treasury Management activity continued to be managed in the light of the market conditions, to take advantage of lower interest rates for borrowing, while minimising the level of investment balances held, with the Council's average loans pool rate falling from 3.54% to 3.43%.

3. Equality and Diversity

3.1 **Fairer Scotland Duty**
N/A

3.2 **Equality Impact Assessment**
N/A

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.

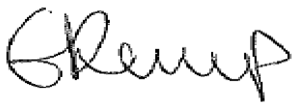
4.4.2 To minimise risk this report has been prepared by service based Financial Solutions personnel in consultation with budget managers, in accordance with Financial Regulations.

5. Measures of success

5.1 Overall the approach adopted by the Council's Treasury Management team met the key requirements of the 2019/2020 Treasury Management Strategy.

6. Supporting documents

6.1 Appendix 1: Treasury Management Annual Activity Report 2019/2020.



Elaine Kemp
Head of Financial Solutions

Appendix 1

Treasury Management Annual Activity Report 2019/2020

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Treasury Management Annual Activity Report 2019/2020

1. Introduction

1.1 Treasury Management deals with the borrowing and investment activity of the Council, and is an integral part of the Council's Financial Strategy. It seeks to ensure that both capital borrowing requirements and day to day revenue transactions are fully funded. Its importance has increased as a result of the additional freedoms provided by the Prudential Code.

1.2 The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice. Revised editions of the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice were issued in December 2017. In accordance with the Council's financial regulations, the Council adopts the fully revised CIPFA "Treasury Management in the Public Services" Code of Practice (the Code) including the key principles and the Treasury Management Policy statement.

1.3 Within the Council, the Audit and Scrutiny Panel ensures the effective scrutiny of the treasury management strategy and policies, while the Finance and Resources Committee remains responsible for the development of the Strategy, its implementation and monitoring. The Council also promotes members' responsibility in this area, requiring greater member scrutiny of treasury management activity. A training session was provided in February 2020 which covered the role of members, the work of the Treasury Management team, the Codes of Practice and the Treasury Management Strategy which was well received by those who attended.

1.4 The Code of Practice requires the Council to produce reports on its Treasury Management policies, practices and activities, including, as a minimum, an annual strategic plan at the beginning of the financial year, a mid-year review, followed by an annual report on the measurement of success at the year-end. To ensure compliance with the Code of Practice, Treasury Management procedures are continually reviewed with any amendments reported to Committee as appropriate. Prudential arrangements and treasury management performance information is submitted to Committee on a quarterly basis.

2. Background

2.1 The Council has adopted the CIPFA Code of Practice in Treasury Management and operates its treasury services to mitigate the effect of possible risk in this function, while undertaking borrowing and investment activities that are prudent, affordable and sustainable.

2.2 As noted in 1.4 above, the Code of Practice requires the Council to produce reports on its Treasury Management policies, practices and activities on a regular and ongoing basis. This includes the preparation of an annual activity report providing a detailed summary of the Council's performance, making reference to those targets, limits and indicators set at the start of the year within the approved strategy.

2.3 In accordance with the Council's Treasury Management policy, the report focuses on activities undertaken during the year in the following key areas:-

- External Borrowing
- Interest Rates
- Interest Payments
- Debt Maturity Profile
- Sources of Borrowing
- Debt Rescheduling
- Temporary Investments
- Leasing
- Compliance with the Prudential Code
- Regulatory Framework, Risk and Performance

3. Borrowing Requirement 2019/2020

Capital Borrowing Requirement

3.1 The Strategy Statement for 2019/2020, approved by the Finance & Resources Committee on 13 March 2019, indicated a capital programme of £268.5m comprising capital expenditure of £208.5m and 60.0m of capital expenditure under credit arrangements. The programme was budgeted to be funded by external grants and capital receipts of £107.0m, resulting in an anticipated capital financing requirement of £161.5m.

3.2 The actual total investment in council assets during 2019/2020, amounted to £199.8m, which included capital expenditure under credit arrangements of £45.1m, which was partially funded by grants and receipts of £89.6m, resulting in a capital financing requirement totalling £110.2m to support this capital investment, which is £51.3m less than the initial estimate.

3.3 Members have received reports throughout the year advising them of anticipated variations to the capital expenditure programmes and resource levels.

3.4 As highlighted in Table 3 included within Section 9 which outlines the Prudential Code for Capital Finance requirements, the resource mix to finance the 2019/2020 capital expenditure programme varied from the original estimate, due to a decrease in useable capital grants, and capital receipts available in 2019/2020 and a small increase in capital contributions from revenue sources when compared to initial estimates. Information is provided to members regularly throughout the financial year as part of on-going capital monitoring procedures.

Capital Financing Requirement 2019/2020

3.5 The 2019/2020 capital financing requirement of £110.2m was funded primarily from long term borrowing from the Public Works Loan Board (PWLB) and local authority loans, supported by a combination of internal balances/reserves and short term borrowing. A full summary is provided within Section 7 Sources of Borrowing.

4. Economic Background & Interest Rates 2019/2020

4.1 The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

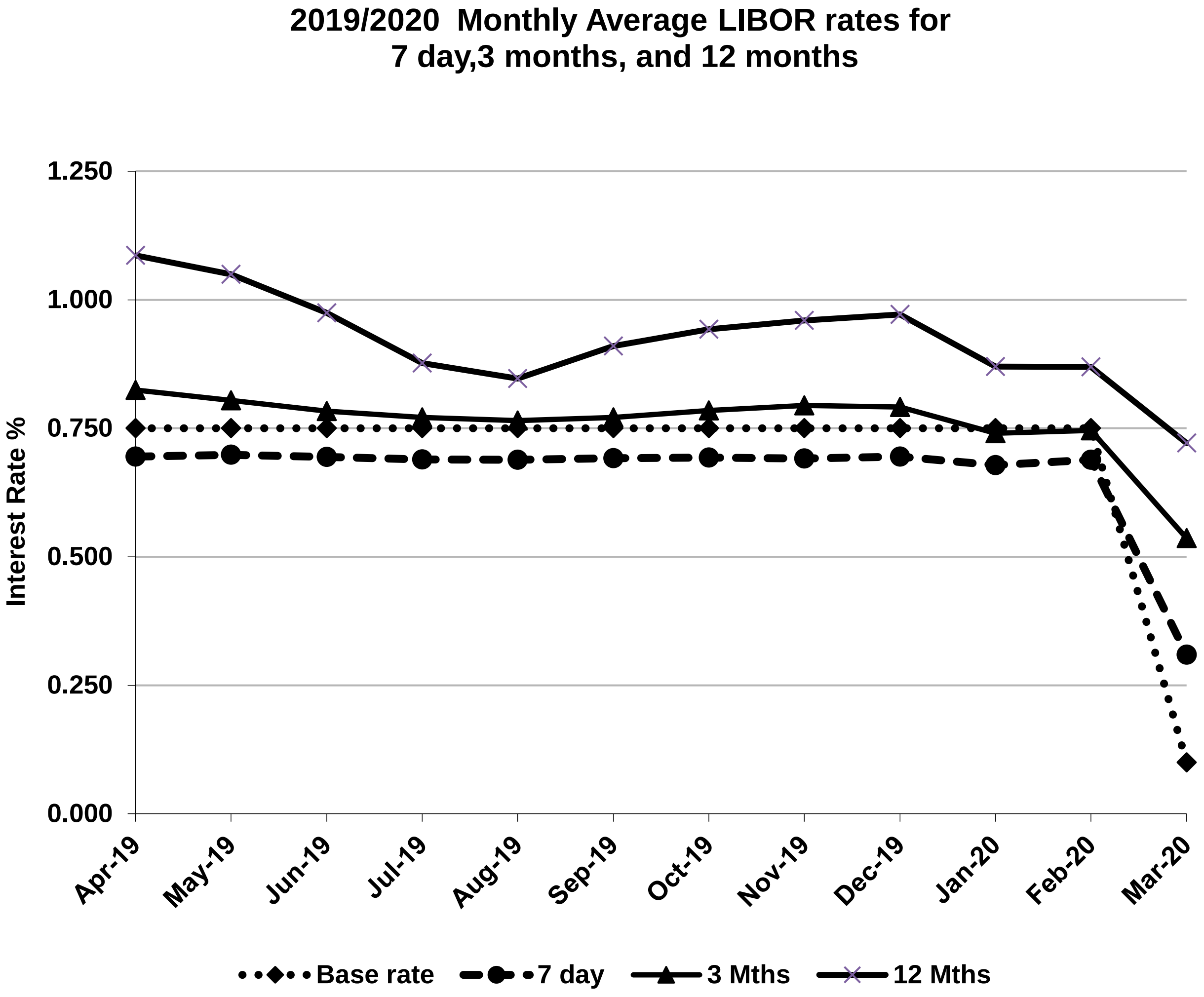
4.2 The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% year on year in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

4.3 Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting falls in financial markets not seen since the Global Financial Crisis.

4.4 In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

4.5 The Bank of England, which had held policy rates steady at 0.75% throughout 2019/20, in March cut rates to 0.25% and then swiftly thereafter brought them down further to the record low of 0.10%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

4.6 Until the pandemic related reduction of interest rates to 0.25% in March 2020, the short term Libor borrowing rates remained relatively stable, with a sharp drop linked to the 0.50% base rate reduction in March 2020, illustrated in the graph below. The fluctuation in the short term borrowing rates payable by the Council for temporary funds (less than 1 year) is influenced by the prevailing Libor rates, the margin representing the relative supply and demand on any given day for local authority to local authority borrowing, and the term of borrowing profiled to the Council's cashflow requirements.



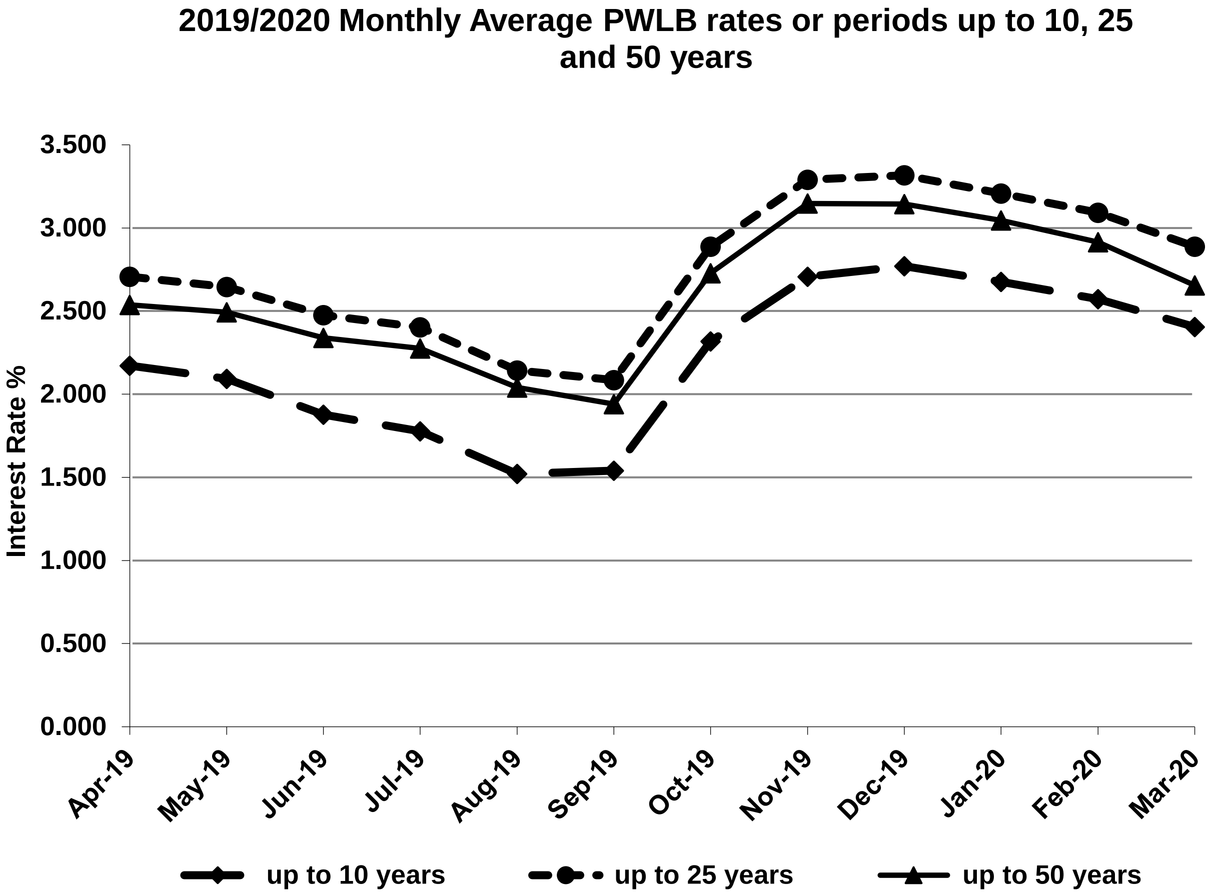
4.7 The change in the perception as to how the economy is progressing is more readily explained by an analysis of the fluctuations in the PWLB medium to long term rates. See graph below.

4.8 The graph below provides an illustration of the impact of the economic outlook, geo-political factors and consumer demand, as shown by movements in the average monthly PWLB interest rates for borrowing up to 10 years, 25 years and 50 years during 2019/2020. In the earlier part of the year the interest rate were on a downward trajectory primarily due to the uncertainty surrounding the Brexit negotiations.

4.9 The sporadic movements in supply and demand for UK gilts heavily influence the gilt prices and yields, with the corresponding PWLB interest rates moving in the same direction. Longer term economic prospects generally influence movements in PWLB rates, with the on-going uncertainty regarding the Brexit deal throughout the year resulting in a flight to quality, increasing the demand for gilts and a reduction in yields.

4.10 The spread between the highest and lowest daily interest rates payable for PWLB 10, 25 and 50 year borrowing periods throughout 2019/2020 were almost 1.63% for the 10 year range, 1.55% for 25 year range with greatest volatility of 1.52% for the 50 year range.

4.11 The upward curve in the second part of the year was a direct result of a decision taken on 9 October 2019 by the PWLB. As HM Treasury was concerned about the overall level of local authority debt Councils were notified of a change to the interest rate terms on offer, whereby the margin that applies to new loans from the PWLB was increased by an additional 100bps (1%) above gilts.



5. Interest Payments 2019/2020

5.1 The Council made interest payments in 2019/20 of £27.7m (£26.4m in 2018/2019). This includes both the external and internal elements of interest payable and the annual write-off associated with premiums and discounts. This increase of £1.3m from 2018/2019 levels represents the additional borrowing cost to meet the in-year capital financing requirement and refinancing long term debt maturing. This reflecting the borrowing strategy adopted in 2019/2020, which is complimented by efficient cashflow management and balance sheet analysis, and ensures the nature and timing of new borrowing remains efficient and effective, achieving value for money.

5.2 The Council's average cost of servicing its debt and investment portfolio has fallen consistently over the last ten years with the weighted average loans fund pool rate for 2019/2020 being 3.45%, a decrease of 0.09% when compared to the average rate of 3.54% for 2018/2019.

5.3 Given the term structure of interest rates prevailing throughout the year, the borrowing strategy adopted minimised carrying costs (see paragraph 9.14 below), whilst managing liquidity. It is pleasing to report a continuing downward movement in the weighted average loans fund pool rate of the Council's loan portfolio, manifesting itself in debt costs being retained at prudent levels despite the significant increase in prudential borrowing in recent years.

6. Debt Maturity Profile

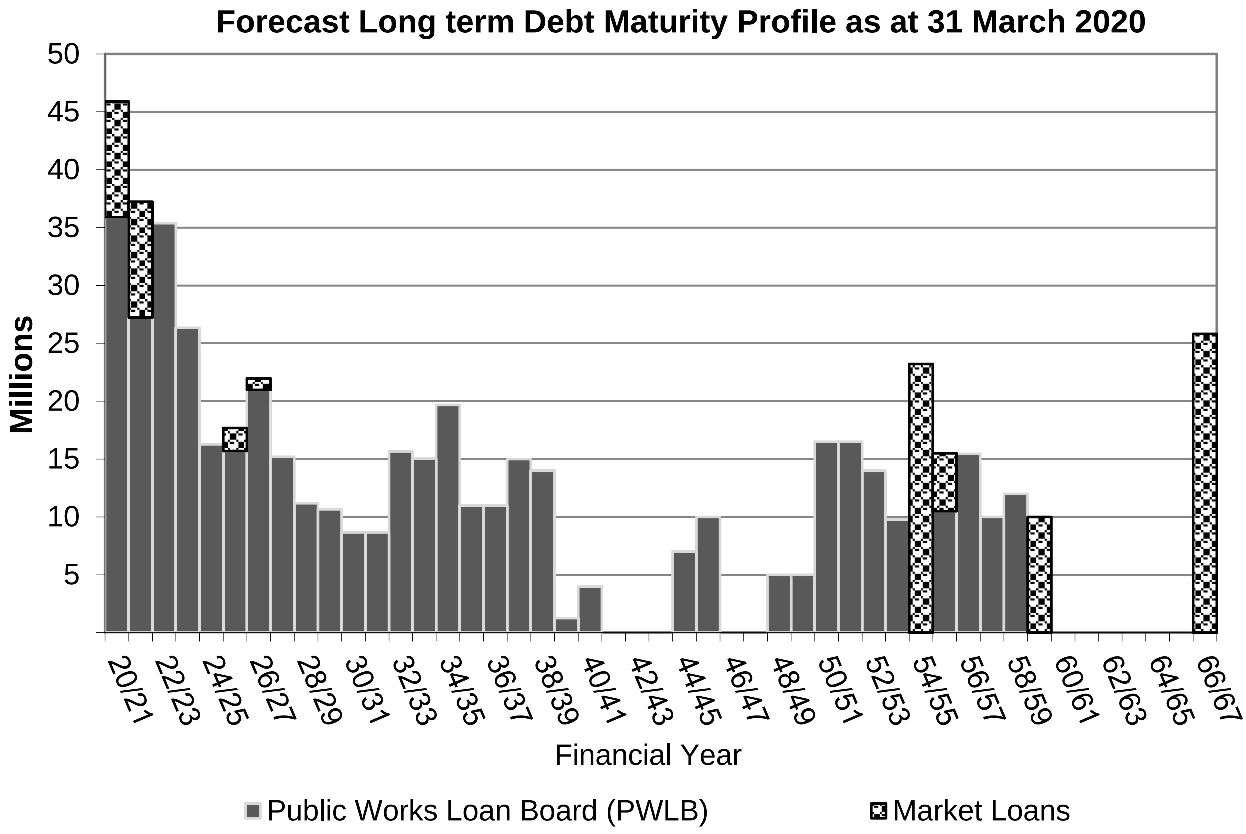
6.1 Debt maturity profiles are continually monitored in the management of Treasury Management risk and in particular refinancing, liquidity and interest rate risk.

6.2 A summary of the current debt maturity profile is contained in Table 1 below.

Maturity Profile	2019/2020			2018/2019	
	£m	%		£m	%
Temporary Borrowing < 1yr	200.4	26.38%		180.4	26.03%
Long term borrowing:					
Maturing in less than 1 Year	46.1	6.07%		32.9	4.75%
Maturing in 1 - 2 Years	37.5	4.94%		31.4	4.53%
Maturing in 2 - 5 Years	78.7	10.36%		95.3	13.74%
Maturing in 5 - 10 Years	77.2	10.16%		59.9	8.64%
Maturing in 10 - 20 Years	120.0	15.80%		93.6	13.50%
Maturing in 20 - 40 Years	173.9	22.89%		163.9	23.64%
Maturing in more than 40 Years	25.8	3.40%		35.8	5.17%
	759.6	**100.00%**		**693.2**	**100.00%**

Table 1

6.3 A graphical presentation of the current debt maturity profile on an annual basis is shown below.



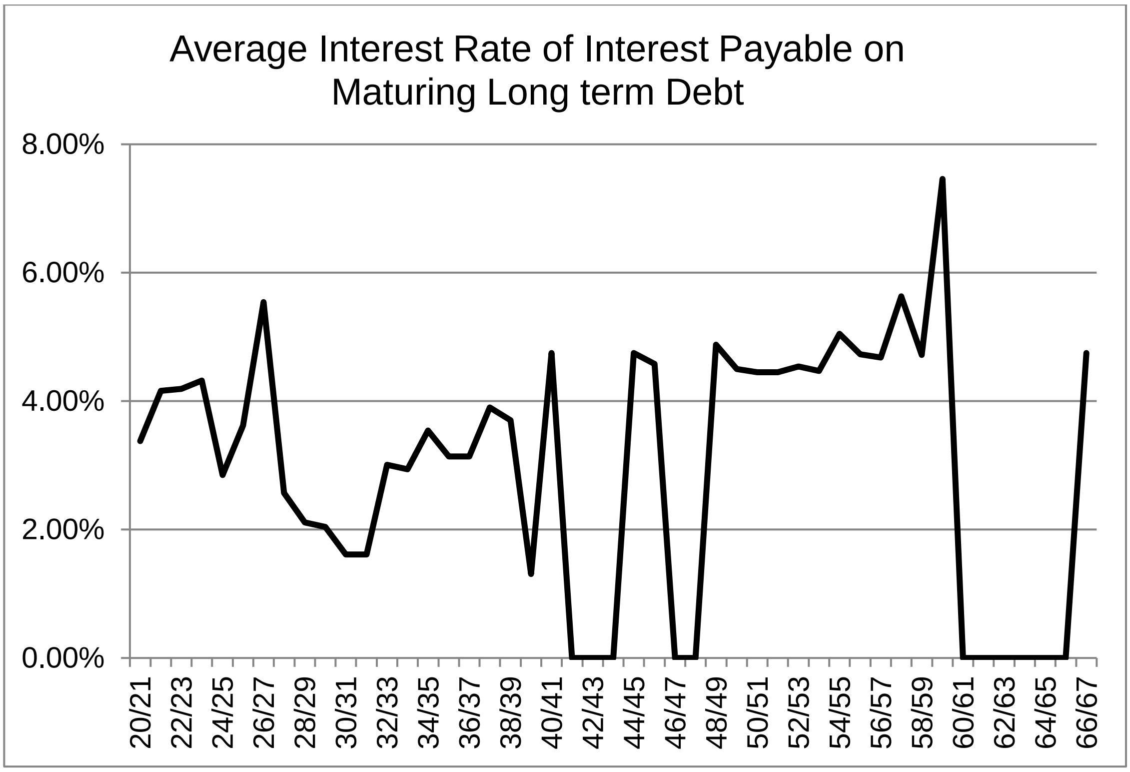
6.4 It should be noted that the maturity profile includes variable rate debt which can be repaid in whole or part at any time up until the maturity date without penalty, further increasing the flexibility within the repayment profile. It is currently assumed this debt will be held to maturity, subject to certain conditions.

6.5 The graph highlights that for the period 2028/2029 until 2031/2032, the average debt maturing is lower than earlier years, and after these periods and in a number of latter years there is little or no debt due to be repaid. This may offer opportunities for sourcing debt within this maturity spectrum as part of future capital financing or debt restructuring/replacement strategies, dependent upon interest rates and in compliance with the overall Treasury Management strategy.

6.6 The graphical presentation of the debt maturity profile excludes short term borrowing which was originally sourced to be repaid within 12 months (temporary borrowing < 1 yr) per Table 1 above. It also includes principal outstanding for LOBO (Lender's Option Borrower's Option) loans based on their maturity date as opposed to the potential maturity date in the year where options or calls exist. A LOBO is called when the lender exercises its right to amend the interest rate on the loan at which point the Council can accept the revised terms or reject them and repay the loan.

6.7 At 31 March 2020 the Council had an exposure of £23.0m to LOBO loans, all of which have call dates falling within less than one year, with interest rates payable ranging from 5.89% to 10.937%. With £20.0m of these loans having an average interest rate of 6.60% with the remaining balance of £6.0m, taken out in the mid 1980's to early 1990's, having average interest rates of 10.78%. Based on the current and the forecast interest rates the likelihood of these loans being called has been assessed as minimal. In the event that the call option were to be exercised, the default position will be the repayment of the LOBO without penalty with the associated treasury management risks (refinancing/interest rate/liquidity) managed in line with the borrowing strategy for other maturing debt.

6.8 The graphical presentation below provides a further analysis of the average annual rate of interest payable on maturing long term debt. This analysis highlighting opportunities for savings in interest costs over the coming years, as the refinancing strategy adopted, will look to replace these loans at lower average interest rates than the historic interest rates currently being paid on the respective debt reaching maturity. In the years where no loans fall due for repayment this shows as 0.00% within the graph below.



7. Sources of Borrowing

7.1 At the 31 March 2020 the Council's total external debt, defined as actual gross borrowing (excluding interest accrued) plus obligations outstanding in respect of finance leases and PPP liabilities had risen from £839.9m to £945.2m, an increase of £105.3m as shown in Table 2 below.

Sources of Finance	2019/2020			2018/2019	
	£m	%		£m	%
Public Works Loan Board	470.5	61.9%		419.0	60.4%
Money Market Loans	77.0	10.1%		83.0	12.0%
Other Local Authorities	10.0	1.3%		10.0	1.5%
Temporary Borrowing	178.5	23.6%		152.0	22.0%
Energy Efficiency Loan – Salix	1.7	0.2%		0.8	0.1%
Municipal Bank	21.9	2.9%		28.4	4.0%
Total Debt Outstanding	**759.6**	**100.0%**		**693.2**	**100.00%**
Finance Lease Liabilities	2.1	1.1%		2.2	1.5%
PPP Liabilities	183.5	98.9%		144.5	98.5%
Total Long-term Liabilities	**185.6**	**100.0%**		**146.7**	**100.0%**
Total External Debt	**945.2**			**839.9**	**100.0%**
Annual Movement	**+105.3**				

Table 2

7.2 The increase in external debt is primarily due to new long term borrowing of £80.0m from the PWLB as the Council identified borrowing available at attractive interest rates. This borrowing being offset by repayments of principal for PWLB of £28.5m and market loans totalling £6.0m falling due for repayment in 2019/2020 per the terms of the original loan agreements. This new borrowing supplemented by an increase of £26.5m in temporary borrowing with transactional activity in terms of temporary borrowing being £574.0m in total, comprising £299.0m of cash received and £272.5m of cash being repaid during 2019/2020.

7.3 The Council also received an energy efficiency loan from Salix on an interest free basis of £1.0m repayable over 8 years in December 2019 offset by £0.1m of repayments which fell due in 2019/20 in respect of existing Salix loans.

7.4 There was also a decrease of £6.5m in the municipal bank balances available to the Council on a temporary borrowing basis at the end of the financial year. This was primarily a result of the Bank of England instructing credit unions to withdraw their funds from the bank in December 2018 resulting in withdrawals, which continued to impact in the early part of 2019/20.

7.5 In 2019/20 there was an increase in long term liabilities of £38.9m which was due to a

- new long term liability of £35.733m in relation to the addition to the Council's school portfolio as the Cumbernauld Academy Design, Build, Finance and Maintain (DBFM) project in partnership with Hub SW Cumbernauld DBFM Co Ltd. Phase 1 and Phase 2a was completed in July 2019 and February 2020.

- new long term liability of £9.342m in relation to the Council's 40% share in the contract for waste recycling which utilises the waste materials recovery facility at Bargeddie with residual waste then processed at a thermal treatment in Dunbar. This accounted for as a service concession arrangement which commenced in January 2020.

7.6 The 2019/20 increase in long term liabilities is partially offset by principal repayments in respect of the finance lease liabilities for buildings, vehicles, plant and equipment and PPP liabilities totalling £6.2m.

7.7 The above approach to borrowing in 2019/2020 was underpinned by:

- interest rate expectations;
- the management of carrying costs;
- the spend profile of the Capital Programme; and
- managing reserves and balances at prudent levels in lieu of external borrowing.

8. Debt Rescheduling

8.1 Debt rescheduling is defined as the reorganisation of existing debt in such a way as to amend the debt repayment profile of the authority, reduce the principal sum borrowed, alter the degree of volatility of the debt or vary the interest charge payable.

8.2 During 2019/2020, the economic climate in relation to our financial targets and Treasury Management strategy was monitored. The interest rates prevailing throughout the period resulted in no beneficial opportunities for debt restructuring/rescheduling of the PWLB debt portfolio.

8.3 A decision taken by the PWLB in October 2010 to increase interest rates, by an average of 0.90% above UK Government gilts, across the whole maturity spectrum for new PWLB fixed and variable rate loans from 1 year up to 50 years continues to significantly limit opportunities. This was further exacerbated on 9 October 2019, when as mentioned above, the Council was notified of a change to the interest rate terms on offer from the PWLB whereby the margin that applies to new loans from the PWLB was increased by an additional 100bps (1%) above gilts.

9. The Prudential Code for Capital Finance

Prudential Indicators

9.1 Following the introduction of the Local Government in Scotland Act 2003 and the Prudential Code for Capital Finance in Local Authorities, the Treasury Management Strategy Statement 2019/2020 detailed the mandatory prudential indicators, essential for ensuring that the Council's capital programmes were affordable, prudent and sustainable.

9.2 The Council approved a variety of indicators, including revised estimates for the financial years 2019/2020 through to 2021/2022. The total capital investment in 2019/2020 was £199.8m. A summary as to how this was financed is provided in Table 3 below.

Capital Expenditure	**2019/2020 Initial Estimate (£m)**	**2019/2020 Revised Estimate (£m)**	**2019/2020 Actual (£m)**	**Variance (£m)**
Expenditure on assets	208.5	168.4	154.7	13.7
Credit Arrangements	60.0	59.5	45.1	14.4
Total Capital Investment	**268.5**	**227.9**	**199.8**	**28.1**
Financed by				
Borrowing	101.5	69.9	65.1	(4.8)

Capital receipts	4.5	0.3	0.5	0.2
Grants & External Contributions	75.4	70.9	61.6	(9.3)
CFCR	27.1	27.3	27.5	0.2
Credit Arrangements	60.0	59.5	45.1	(14.4)

Table 3

9.3 The Capital Financing Requirement (CFR) which is a measure of the Council's underlying borrowing need, comprising borrowing and credit arrangements, was £19.2m less than anticipated as at 31 March 2020, as shown in Table 4. The CFR is split between General Services and HRA which reflects actual debt outstanding as at 31 March 2020.

Capital Financing Requirement	**31 March 2020 Initial Estimate (£m)**	**31 March 2020 Revised Estimate (£m)**	**31 March 2020 Actual (£m)**	**Variance (£m)**
General Services	723.2	714.8	696.1	18.7
HRA	361.3	326.7	326.2	0.5
Total CFR	**1,084.5**	**1,041.5**	**1,022.3**	**19.2**

Table 4

9.4 This reflects the 2019/2020 reduced borrowing requirement of £19.2m per Table 3 above which comprises the reduced borrowing for capital expenditure on assets of £4.8m and £14.4m in relation to financing under a credit arrangement.

9.5 Per Table 5 below, the external debt position of the Council at the 31 March 2020 was £24.6m higher than expected. Total debt outstanding was £38.6m higher as additional temporary borrowing of £40.2m was actioned as the Council mitigated potential liquidity risks due to the Covid19 pandemic by increasing cash balances, this was partly offset by Public Works Loan Board balances outstanding being £1.5m lower at the financial year end and a reduction of £0.1m in relation to municipal bank balances.

9.6 This increase in debt outstanding was offset by total long term liabilities being £14.0m less than the revised estimate. The revised estimate assumed the Council would account for a 100% share in relation to the waste materials recovery facility at Bargeddie, which commenced in 2020, as opposed to 40% share per the inter authority agreement.

Sources of Finance	**31 March 2020 Initial Estimate**	**31 March 2020 Revised Estimate**	**31 March 2020 Actual**	**Variance**
	£m	**£m**	**£m**	**£m**
Public Works Loan Board	505.2	472.0	470.5	1.5
Money Market Loans	77.0	77.0	77.0	-
Other Local Authority	10.0	10.0	10.0	-
Energy Efficiency Loan –Salix	1.4	1.7	1.7	-
Municipal Bank	26.2	22.0	21.9	0.1
Temporary Borrowing	170.0	138.3	178.5	(40.2)
Total Debt Outstanding	**789.8**	**721.0**	**759.6**	**(38.6)**
Finance Lease Liabilities	2.1	2.1	2.1	-
PPP Liabilities	198.2	197.6	183.5	14.0
Total Long-term Liabilities	**200.3**	**199.7**	**185.6**	**14.0**

Total External Debt	**990.1**	**920.7**	**945.2**	**(24.6)**

Table 5

9.7 As a result of the movements in the capital financing requirement and the external debt position described above, there is a healthy prudential margin of £77.1m (the need to borrow versus actual borrowing) at the end of 2019/2020, as shown in Table 6 below. This is consistent with the Council approach to use internal reserves and balances to fund the cumulative capital financing position at the 31 March 2020 as an alternative to undertaking additional external borrowing.

	31 March 2020 Initial Estimate (£m)	**31 March 2020 Revised Estimate (£m)**	**31 March 2020 Actual (£m)**
Total CFR	1,084.5	1,041.5	1,022.3
Total External Debt	990.1	920.7	945.2
Prudential Margin	**94.4**	**120.8**	**77.1**

Table 6

9.8 Table 7 below shows the ratio of capital financing costs to total income for General Services and HRA were lower than anticipated due to the profile for interest and principal repayments on borrowings and long term liabilities being lower than anticipated. This reflecting the efficient management of investment and borrowing activity demonstrated throughout this report.

Proportion of Financing Costs/Income	**31 March 2020 Initial Estimate**	**31 March 2020 Actual**
General Services	7.77%	7.45%
HRA	14.55%	12.93%

Table 7

9.9 The Authorised Limit is the 'Affordable Borrowing Limit' required by S35 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the Operational Boundary are acceptable subject to the Authorised Limit not being breached.

9.10 Table 8 below shows in 2019/2020 the Council has maintained its gross borrowing and its long term liabilities within the Authorised Limit and Operational Boundary.

	Approved Limit 2019/2020 (£M)	**Maximum held per 2019/2020 Activity (£M)**	**Limit Breached (Yes/No)**
Authorised Limit : Borrowing	950.0	770.6	No
: Long-term Liabilities	210.0	185.6	No
Operational Boundary : Borrowing	940.0	770.6	No
: Long-term Liabilities	205.0	185.6	No

Total Gross Borrowing at 31.03.2020	759.6
Total Long term Liabilities at 31.03.2020	185.6
External Debt at 31.03.2020	945.2

Table 8

9.11 The external debt includes both the actual gross borrowing and long-term liabilities held at a specific point in time (i.e. 31 March 2020).

Treasury Management Indicators

9.12 The Council approved a variety of Treasury Management indicators for the financial years 2019/2020 through to 2021/2022. Tables 9 and 10 below provide a comparison of the estimated and actual 2019/2020 Treasury Management indicators.

Interest Category	**Estimate 2019/2020 (£m)**	**Actual 2019/2020 (£m)**	**Variance (£m)**	**%**
Interest payable on Fixed Rate Debt	23.6	22.1	1.5	6.4%
Interest payable on Variable Rate Debt	2.6	2.6	-	-
Total External Interest Payments	**26.2**	**24.7**	**1.5**	**5.7%**
Interest Receivable Funds Invested	(0.3)	(0.5)	0.2	66.6%
Net Loan External Interest Charges	**25.9**	**24.2**	**1.7**	**6.6%**

Table 9

9.13 Table 9 above provides prudential information in respect of external payments due and income receivable only as these are under the direct control of the Treasury Management section. In 2019/2020 there was a one off reduction of £1.7m in net loan external interest payments compared to initial estimates for 2019/2020. This favourable variance was achieved due to the borrowing strategy adopted to meet the General Services and HRA Capital Programme.

9.14 This interest saving represents the difference between the estimated new long term borrowing costs based on an average interest rate of 3.00%, compared to the actual lower average interest rate attained for long term borrowing of approximately 1.60%. This interest saving also attributable to a marginally lower interest rate incurred for temporary borrowing of 0.88% compared to an estimated interest rate of 1.00%. This differential is generally known as the 'carrying cost'. This interest saving reduced partially by the timing of the new borrowing within the year being earlier compared to the estimated profiling.

9.15 Table 10 below provides a summary of the Capital Financing charges for both General Fund and HRA in respect of the loans fund which includes;

- external payments due and income receivable per Table 9 above
- the annual premium/discount written off for historic rescheduling/refinancing
- the internal interest payable on revenue balances
- the capital advance repayments made in the year

Capital Financing Charges	**Initial Estimate 2019/2020 (£m)**	**Final Outturn 2019/2020 (£m)**	**Variance (£m)**	**%**

Loans Fund Interest Payments	29.0	27.8	1.2	4.1%
Loans Fund Expenses	0.3	0.4	(0.1)	(33.0%)
Total Loans Interest Payments & Expenses	**29.3**	**28.2**	**1.1**	**3.75%**
Loans Funds Investment Income	(0.3)	(0.5)	0.2	66.0%
Total Loans Fund Interest Payments Investment Income & Expenses	**29.0**	**27.7**	**1.3**	**4.5%**
Loans Fund Advances Repayments	**31.2**	**31.4**	**(0.2)**	**(0.1%)**
Total Loans Fund Charges	**60.2**	**59.1**	**1.1**	**1.8%**

Table 10

9.16 The table above highlights a loan charge saving of £1.1m compared to the prudential estimates for 2019/2020 taking into account both the treasury management activity, the annuity based loans fund accounting requirements and payments in respect of long term liabilities.

9.17 Overall a treasury management saving of £1.3m was achieved 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.

9.18 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 corresponding reduction in the loans fund interest annuity rate. Due to the intricacies of the annuity accounting model this results in an increases of £0.2m in capital advances due for repayment by services from their revenue resources.

9.19 The Council sets interest rate exposure limits to manage the Council’s exposure to the effects of interest rate changes by limiting the amount of total loans whose interest rate is not fixed. Table 11 shows the interest exposure at 31 March 2020. During 2019/2020 at no point were the limits breached with the average levels being below the limits for fixed rate exposure.

Maturity Structure of Borrowing	<12m	12m to 2yrs	2 to 5yrs	5 to 10yrs	10 to 20yrs	20 to 40yrs	>40 yrs
Upper Limit on Fixed Rate debt	15.0%	15.0%	25.0%	30.0%	35.0%	45.0%	30.0%
Lower Limit on Fixed Rate debt	0.0%	0.0%	5.0%	5.0%	5.0%	10.0%	0.0%
2019/2020 Average Profile	7.5%	6.9%	16.2%	12.8%	19.9%	30.3%	6.4%
Maturity Structure at 31/03/2020	8.2%	6.7%	14.1%	13.8%	21.5%	31.1%	4.6%

Table 11

10. Temporary Funds Investment Performance

10.1 During 2019/2020 the primary principle governing Council investment criteria was the security of the investment. After this, the Council ensured that it held sufficient liquidity in its investments, carefully selecting the maximum periods for which funds could prudently be committed whilst also applying the Council’s prudential and treasury management indicators covering the maximum principal sums invested.

10.2 The Council complied fully with the ratings criteria outlined within the 2019/2020 Treasury Management Strategy, minimising risk in this area by adopting a Lowest Common Denominator (LCD) approach having a criteria-based counterparty list. This restricted the Council to only using those counterparties that met a pre-determined credit-rating level, to which monetary limits were applied. This meant that the counterparty had to meet all the relevant rating requirements being assessed by its weakest set of ratings, rather than the strongest.

10.3 Throughout 2019/2020 the Council continued to utilise the research of the world's foremost providers of independent credit ratings (Fitch, Moodys and Standard & Poors). The ratings provided by these bodies define the likelihood of an investor such as the Council receiving their money back on the terms in which it was invested.

10.4 The credit ratings of counterparties were monitored regularly. The Council receives credit rating information from Arlingclose (the Council's advisors) as and when ratings change and the counterparties are checked promptly. If a ratings change results in a counterparty failing to meet the Council's strict criteria they are removed immediately from the list. Similarly if a counterparty rating is updated and they meet the Council's strict criteria they would be added to the list.

10.5 To supplement credit rating information the Council used other operational market information in line with good practice identified within the Code of Practice this includes:

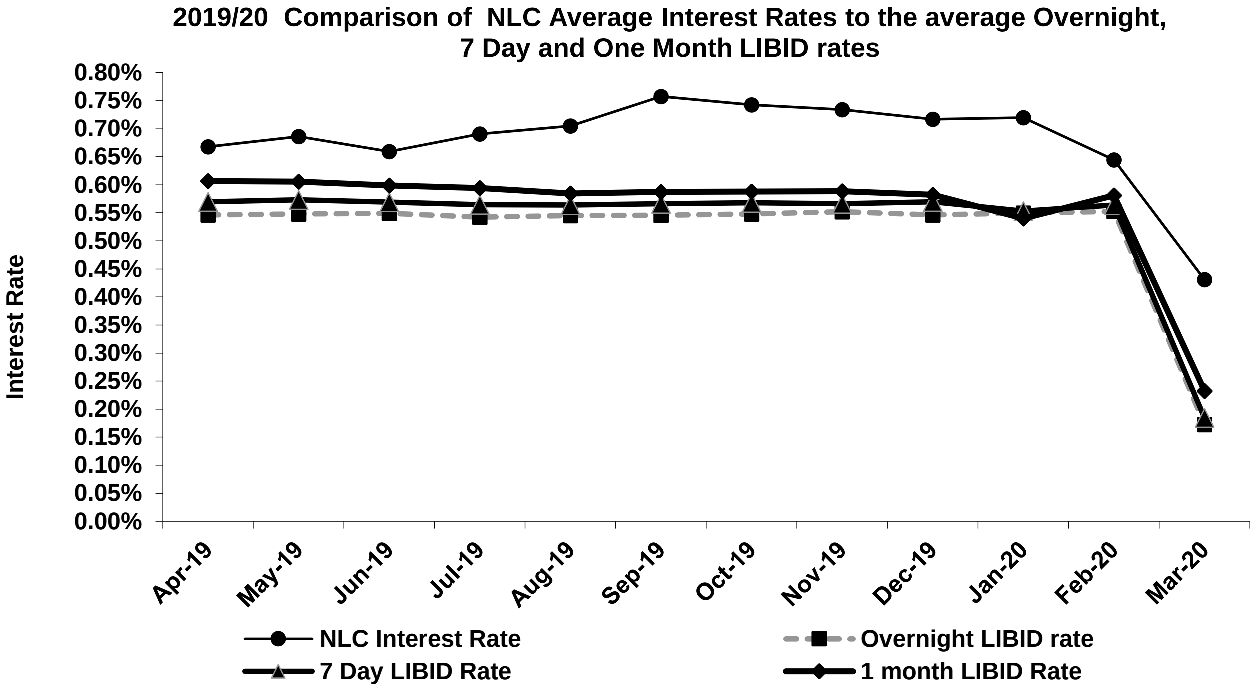
- Credit Default swap prices
- Quality financial press
- Share prices
- Government support status
- Annual Reports
- Statements to the market

10.6 In 2019/2020 the Council's borrowing strategy assisted in minimising counterparty exposure to the financial markets, the Council strategically deciding the timing of temporary borrowing and the postponement of longer term borrowing, taking into account the levels of liquidity in conjunction with efficient cashflow management techniques and balance sheet analysis.

10.7 The approved 2019/2020 Treasury Management Strategy enabled investment activity for a period up to a maximum limit of 364 days and for certain types of investment up to 30 years, for permitted investments per the investment strategy. In 'normal' market circumstances the Council, would identify its liquidity requirements and the core funds within its daily balances that could be locked in over a longer period, thus achieving the optimum performance, spreading investment periods and security of return, subject to the overriding credit counterparty security.

10.8 During 2019/2020, the Council, restricted its maximum investment periods to approximately three months, with in reality this period being even shorter. In terms of investment types the Council primarily deposited funds in call, instant access accounts and money market funds, dealing directly with approved UK financial institutions. These accounts offered greater liquidity whereby the Council is allowed instant access whilst still being offered attractive interest rates.

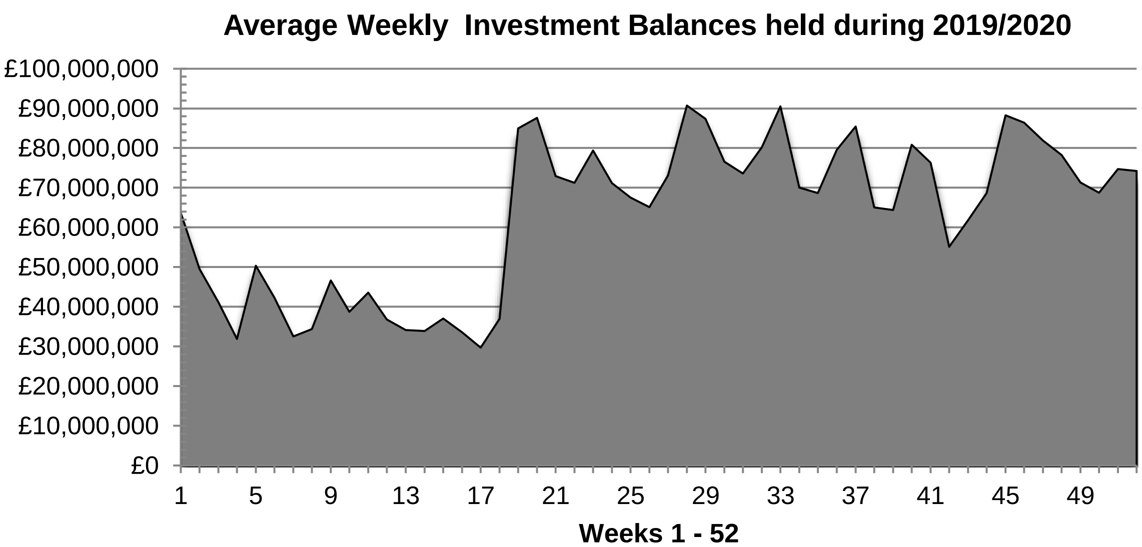
10.9 A comparison of North Lanarkshire Council investment performance for the period April 2019 to March 2020 is shown in the graph below.



10.10 The Council demonstrated good performance levels in investment activity during the year. The investment rate achieved from investing surplus funds was consistently higher than the London Inter-bank Bid Rate (LIBID) overnight, 7 day and 1 month rates deemed to be reliable benchmarks for assessing performance on temporary investments.

10.11 During 2019/2020, positive cashflows enabled short-term investments in total of £877.1m to be undertaken whilst during the same period, £867.1m of short-term investments matured representing over £1.744 billion in investment activity.

10.12 The graph below shows the average level of investment balances held throughout 2019/2020, managed on a weekly basis in accordance with the investment strategy, adhering to the underlying principle of security liquidity and yield supported by robust cashflow management.



10.13 Investment balance levels, forming part of the cash and cash equivalents, are influenced by a number of factors. Liquidity is monitored in conjunction with the Councils cashflow management reporting system, to manage and forecast future cash balances available to support the investment and borrowing strategy.

10.14 The Council prides itself on its cashflow management approach with receipts and payments data recorded daily with forecasts of cash balances readily available. The cashflow incorporating actual and estimated diary entries for a number of variables including:

- Payments to Suppliers
- Staff Salaries & Wages
- General Government Grants
- Precept Payments
- Loan Repayments and Interest
- Sales Fees & Charges
- House Rents
- Council Tax
- DWP Payments

10.15 At 31 March 2020, the total balance of cash and cash equivalents amounted to approximately £61.9m, an increase of £4.0m from last year's position. A detailed breakdown is provided below in Table 12, elements of which have been referenced throughout this report. The table excludes transactions in relation to new credit arrangements as no immediate cash implications.

Cash and Cash Equivalents at 31/03/2019	**£57.9m**	
2019/2020 Borrowing for Capital Expenditure purposes	(£65.1m)	Cash Outflow
Repayments of Maturing Long term debt	(£34.6m)	Cash Outflow
Finance Lease Principal repayments	(£6.2m)	Cash Outflow
Scheduled principal repayments from service departments	£37.6m	Cash Inflow
New Long term borrowing	£81.0m	Cash Inflow
Increase in Temporary borrowing (<1yr)	£26.5m	Cash Inflow
Decrease in NL Municipal Bank Balances	(£6.5m)	Cash Outflow
Decreases in Revenue Reserves & Cash Balances	(£28.7m)	Cash Outflow
Cash and Cash Equivalents at 31/03/2020	**£61.9m**	
Movement in year	**+£4.0m**	

Table 12

10.16 Cash and cash equivalents are represented by cash in hand and deposits held with financial institutions repayable without penalty on notice of not more than 24 hours including call accounts and money market funds. This also includes investments that mature in three months or less from the date of acquisition provided they are assessed as readily convertible to known amounts of cash with an insignificant risk of a change in value. The Council's bank overdraft is also included as this is treated as an integral part of the council's day to day cash management procedures.

11. Leasing

11.1 During 2019/20 the Council used external borrowing to fund its vehicle requirements with no vehicles plant and equipment being acquired under operational leasing agreements in 2019/20.

11.2 At 31 March 2020, the Council is committed to making minimum lease payments of approximately £2.9m under finance leases with £0.3m due in the next 12 months. These payments comprise settlement of the long-term liability for the interest in the asset and the finance costs that will be payable by the Council in future years while the liability remains outstanding.

11.3 During the year, the Council, for the remaining operating leases for vehicles and equipment, made actual payments of £3.2m, met from the revenue budget.

12. Soft Loans

12.1 Within the Council's 2019/2020 annual accounts, the Council has recorded amounts receivable of £2.035m from service users receiving Social Care for which a charging order has been placed on the recipient's property as a method of recovering the debt. Further advances of £0.02m in relation to a one off loan granted under the Council's Capital Leverage Fund has also been recorded as debt outstanding.

12.2 For these amounts payable the Council is charging interest at less than the market rate applicable for similar advances and as such these balances are notionally recognised as soft loans. However, on grounds of materiality, no adjustment for loss of interest has been made to the balances reported within the annual accounts.

12.3 During 2019/2020 the Council advanced a soft loan of £0.804m to one its subsidiaries, North Lanarkshire Leisure Ltd and adjusted the amount advanced by £0.108m to reflect the notional loss with an amount credited for notional interest due in 2019/2020 of £0.030m within the Comprehensive Income and Expenditure Account. The notional loss of £0.108m, represents the difference between the loan amount and the fair value of the soft loan granted and is shown within the long term investments on the Balance Sheet. Following these accounting adjustments the Council has recognised balances of £0.13m and £0.45m within its short term and long term debtors at the 31 March 2020.

13. Financial Guarantee

13.1 In 2013/2014 the Council agreed to provide North Lanarkshire Properties LLP (NLP LLP) with a financial guarantee, underwriting the debt service costs of the NLP LLP loan of £45.0m to the lender, up to a limit of 80% of the total debt service costs. The Council considers the likelihood of the guarantee being called as minimal. However the Council, in recognition of this financial guarantee made an initial provision of £1.1m which is assessed annually with a prudent provision being £0.359m at 31 March 2020.

13.2 The financial impact upon the Council of providing this guarantee is negated as the Council has agreed with the NLP LLP that a premium is payable to the Council for providing this guarantee, paid in annual instalments, on a fair value basis, over the term of the loan. The Council has therefore included a long term debtor of £0.253m and a short term debtor of £0.106m totalling £0.359m within the Balance Sheet to reflect this arrangement.

14. Treasury Management Advisory Service

14.1 During 2019/2020 the Council in line with the recommendations of the CIPFA Code of Practice for Treasury Management continued to use Arlingclose Ltd to provide, as required, additional specialist skills and resources in managing the Council's loan debt and investment portfolio including strategic, economic advice and assistance with the investment policy.

14.2 In 2019/2020 the Council retendered for the Treasury Management Advisory service as the existing contract terminated on 31 March 2020 and following this exercise Arlingclose Ltd were successful and re-appointed for a period of 3 years with the option of a one year extension.

15. Policy on Repayment of Loans Fund Advances 2019/2020

15.1 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 within Regulation 13 require the Council to make a loans fund advance equal to the amount of capital expenditure that the Council has determined will be financed by borrowing. The timing of the borrowing being in accordance with treasury management principles with the timing not informing when a loans funds advance has been made. The Capital Expenditure definition being that adopted by proper accounting practice, the statutory control framework and the Prudential Code.

15.2 The statutory guidance requires the Council to approve a policy on loans fund repayments each year and the Council adopted the following options for calculating prudent repayments in

2019/20.

15.3 For pre-existing Loans Fund advances made up to 31st March 2016 and for the most part capital expenditure plans for the period up to and including the 31 March 2020, the Council continued to use Option 1 the Statutory Method. This approach taking into account the 5-year transitional period from 31/3/2016 to 31/3/2021 available within the new guidance, during which the current methodology may continue to be selected. The repayment of Loans Fund advances therefore being equal to the annual amount determined in accordance with Schedule 3 of the Local Government (Scotland) Act 1975.

15.4 During 2019/20 the Council undertook a review of the loans fund advances annuity models and a review of the initial asset lives adopted and determined it would be prudent to adopt Option 3: Asset Life Method, the Council will apply this option accordingly for 2020/2021.This approach allows a retrospective review for 'prudent repayment' of all historic loans fund advances outstanding at 31 March 2020 with no distinction made between debt held prior to 31 March 2016 and since the prudent repayment methodology was introduced on 1 April 2016. This approach will be implemented from 2020/21 onwards with a further review of the loans fund to be carried out during 2020/21 in conjunction with Treasury specialists to investigate the potential impact of any further opportunities.

16. Regulatory Framework, Risk and Performance

16.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance.

16.2 The Local Government in Scotland Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits on this activity. The Act permits Scottish Ministers to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2019/2020).

16.3 Statutory Instrument (SSI) 29 2003 develops the controls and powers within the Act. The SSI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities. It also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

16.4 The Council continues to meet the conditions to opt up to professional status and has done so in order to maintain this MiFID II status. The Council's ability to opt up is due to it having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience and the expertise, experience and knowledge to make investment decisions and understand the risks involved. This status allows the Authority to access a greater range of products including money market funds, pooled funds, treasury bills, bonds and shares.

16.5 The Council has complied with all of the above relevant statutory and regulatory requirements. This limits the levels of risk associated with its treasury management activities. In particular, its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low risk approach.

16.6 The Council is aware of the risks of passive management of the treasury portfolio and has proactively managed its treasury management position. The Council has continued to monitor movements in interest rates and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are mainly fixed. Shorter-term rates and likely future movements in these rates predominantly determine the Council's investment return. Since these returns can be volatile, accurately forecasting future returns can be difficult and the treasury management section monitor and manage the surplus balances available for investment by efficient cashflow and liquidity management.

16.7 Overall the approach adopted by the Council's Treasury Management section throughout the year under review met the key requirements of the 2019/2020 Treasury Management Strategy with the performance and results described above demonstrating the effectiveness of the Council's Treasury Management activity.