North Lanarkshire Council Report

Finance & Resources Committee

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

Treasury Management Monitoring Report for quarter ended 30 June 2020

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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 2020 to 30 June 2020 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 June 2020 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 first quarter of 2020/21 reflects the key requirements of the Council's 2020/21 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 2020/21 investment strategy.

2. Report

2.1 Summary Position

2.1.1 The net overall borrowing position to 30 June 2020 is £863.2m, this is a reduction of £21.0m from the position at the 31 March 2020 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 £921.4m which represented a reduction of £23.8m. This was mainly due to a reduction in net long term borrowing of £2.8m, with new Money Market loans totalling £5.0m being sourced, offset by £7.7m of PWLB debt and £0.1m of energy efficiency loans falling due for repayment within the quarter. There was also an increase in £0.1m in the municipal bank balances available to the Council. In addition, temporary borrowing activity resulted in a net decrease of £19.5m as £68.5m fell due for repayment which was partially offset by £49.0m of new temporary borrowing.

2.2.2 Lease payments under existing finance lease and PPP obligations of £1.6m also fell due for repayment during the quarter, with long term liabilities amounting to £183.9m at 30 June 2020.

2.2.3 During the quarter, long term market funding totalling £5.0m was taken at a beneficial interest rate of 0.90% compared to an equivalent PWLB two year maturity loan on the transaction date of 1.79%. The approach to borrowing is anticipated to continue 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.

2.2.4 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. The Council was also successful in its bid to access the infrastructure rate and 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.

2.3 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 first quarter of 2020/21, there was a decrease of £2.9m in cash and cash equivalents with £10.2m in relation to a decrease in short term investments held, offset by a reduction in the bank overdraft incl cash in transit by £7.3m.

2.4.2 The decrease of £10.2m in the short term investments held is primarily a result of using surplus cash to repay maturing temporary borrowing as opposed to re-investing with approximately £270.8m of short-term investments maturing and new short-term investments of £260.6m being undertaken, as shown within column 6 of the attached Appendix 1.

2.4.3 At the quarter end, the bank overdraft including cash in transit was £6.4m which is a £7.3m reduction compared to the position at the end of the previous quarter, which had included a BACS payroll run falling due for clearance at the previous quarter end date. The balance at 30 June 2020 comprised £6.3m of net BACS payments outstanding due for clearance within 3 days of the quarter end date, a balance of £0.3m of cash in transit, partially offset by cheques unpresented of £0.4m.

2.4.4 During the quarter the Council temporarily, increased for a short period, its minimum balance held to £20m of cash available at short notice, to manage potential liquidity issues arising due to the pandemic. In line with the approved strategy to manage liquidity, the Council would normally maintain 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 was a significant downturn in average short term interest rates linked to the reduction in the Bank of England Base Rate (see Interest Rates Movements section below) to mitigate the impact of the pandemic. As a result investments are now offering historically low returns with indications that the market may soon move into negative interest rate territory. There remains 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. Despite this, the Council will endeavour to achieve good performance levels in investment activity, striving to regularly outperform the 7 day and 1 month LIBID (London Inter-bank Bid Rate) rate.

2.4.6 Overall the Treasury Management team continues to take a prudent approach to investing surplus funds in line with the approved 2020/21 Investment Strategy. The primary principle governing Council investment criteria being the security of the investment followed by ensuring sufficient liquidity in its investments. This approach aligned to the prudent management of liquidity to meet current commitments and future cash demands based on the latest cashflow projections.

Non Treasury Management Investments

2.4.7 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 £0.007m. This was capitalised per the terms of the loan agreement and increased the balance of third party advances.

2.4.8 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 The Bank of England, which had held the Bank base rate steady at 0.75% throughout 2019/20, in March cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.10%.There were no further changes to this rate during the quarter under review. The UK's exit from the European Union took a back seat during the first quarter of 2020/21 as the global economic impact from coronavirus took centre stage. Part of the measures taken to stop the spread of the pandemic included the government implementing a nationwide lockdown in late March which effectively shut down almost the entire UK economy. These measures continued throughout most of the quarter with only some easing of restrictions at the end of May and into June.

2.5.2 Linked to the reduction in Bank base rate, during the first quarter, short term interest rates continued to prevail at historically low levels, the short term 7 day LIBID rate, around the 0.08% mark from 0.12% at the beginning of the quarter to 0.05% at the end, which twelve months previously peaked at 0.70% for the equivalent quarter in 2019/20. The reduction in short interest rates may manifest itself in reduced temporary borrowing costs for the Council partially offset by reduced investment income earned on surplus balances

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. Given the on-going uncertainty regarding the pandemic and Brexit there was a flight to quality during the first quarter, increasing the demand for gilts and a reduction in yields.

2.5.4 This resulted in a decrease in long term rates, with the PWLB 10 year borrowing rate decreasing from 2.30% at the start of the quarter but closing at 2.18%. There was a 0.23% spread between the highest and lowest interest rate available throughout the quarter which were 2.39% and 2.16% respectively, averaging 2.27% 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 12 March 2020, approved a report titled, "Treasury Management Strategy 2020/2021 and Treasury and Prudential Indicators 2020/2021 to 2022/2023". 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 2020/21 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 by £62.4m. This is partially due to the decisions taken by the Strategic Capital Delivery Group at its meeting on the 15 July 2020 to restrict the General Fund capital programme for 2020/21 to essential and legally committed expenditure only, reducing spend by approximately £20.7m. This reduction partially offset by capital expenditure carried forward from 2019/20 of £6.0m and an increase in external funded projects totalling £7.3m.

(ii) There is also a projected reduction of capital investment of £41.5m, for the HRA Mainstream programme and New Build programme, compared to the estimates set in February 2020. This is due to delays within the programme primarily as the result of issues with Scottish Water and the impact of the pandemic.

(iii) Due to the pandemic the implementation of IFRS16 Lease Accounting has been postponed until 1 April 2021. As a result of this, a restatement of existing liabilities for operating leases to the credit arrangement category will not be applied in 2020/21, therefore the spend and associated financing under credit arrangements will be £13.5m lower than anticipated.

(iv) The mix of resources used to finance the capital expenditure in 2020/21 is expected to vary from the initial estimates. The anticipated level of in-year borrowing is anticipated to be lower by £43.3m reflecting the reduced capital expenditure. The forecast level of borrowing also reflects a reduction in net capital grants and external contributions available of £5.6m, due to a reduction in government grants of £13.3m in relation to HRA projects offset by additional grants and contributions of £7.7m for the General Fund programme.

(v) 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 June 2020. 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.

(vi) 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.

(vii) 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 June 2020 the level of borrowing subject to variability is deemed to be within acceptable levels.

(viii) Indicator 3(b) highlights a projected loan charge saving of £1.3m compared to the prudential estimates for 2020/21. This projection taking into account both the treasury management activity, the annuity based loans fund accounting requirements and rescheduling of capital plans to manage the financial risks as a result of the pandemic.

(ix) A treasury management saving of £0.3m is projected, £0.2m for General Fund and £0.1m 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. During the quarter there has been a significant reduction in short term borrowing and investment rates which may accrue the Council further treasury savings as the financial year progresses, subject to uncertainty surrounding the continuing impact of the pandemic and Brexit.

(x) 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 overall in no change in capital advances due for repayment by services from their revenue resources, however this comprises a £0.1m increase for the General Fund matched by a reduction of £0.1m for HRA. The primary reason for any differences, being the average capital repayment profile over the asset life being shorter/longer than anticipated for assets acquired during 2019/20 and changes to the loans fund annuity rate.

(xi) The Council has also accrued an additional net saving of £1.0m in loan charges in relation to the Ambition projects including the Community Investment Fund reflecting resources being put in place ahead of expenditure commitments. These resources set-aside to provide funding assistance to this programme going forward, as opposed to increasing the 2020/21 one off resources available for consideration, as part of the budget setting process. The aforementioned reductions in capital plans and subsequent rescheduling of planned capital expenditure as a result of the pandemic also contribute to this one off saving in 2020/21 loans fund charges.

(xii) In 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, and therefore the Council is applying this option accordingly for 2020/2021 which is reflected in the above projections. A further review of the loans fund is currently on-going to investigate the potential impact of any further opportunities.

(xiii) 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.

2.7 **Treasury Management Advisory Service**

2.7.1 During the quarter, the Council in line with the recommendations of the CIPFA Code of Practice for Treasury Management finalised the re-tendering process for the Treasury Management Advisory contract from 1 July 2020 for a period of 3 years with the option to extend for an additional period not exceeding one year. This arrangement providing additional specialist skills and resources in managing the Council’s loan debt and investment portfolio including strategic and economic advice and assistance with investment policy and security. Following the tender process Arlingclose Limited were re-appointed at an annual cost of approximately £18.2k which will be charged to the Loans Fund Revenue Account which is saving of approximately £0.2k annually compared to the terms of previous contract.

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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.

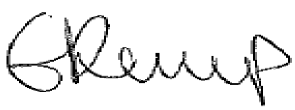
5. Measures of success

5.1 Overall the approach adopted by the Council's Treasury Management team during the quarter under review met the key requirements of the 2020/21 Treasury Management Strategy. Prudential indicators have remained in accordance with those approved by Committee on 12 March 2020. 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 June 2020

6.2 Appendix 2: Summary of Treasury and Prudential Indicators as at quarter ended 30 June 2020



Elaine Kemp
Head of Financial Solutions

LOANS , LONG TERM LIABILITIES & INVESTMENTS AS AT 30 JUNE 2020

Appendix 1

	BALANCE 1-April-20 (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-June-20 (7)
LONG-TERM LOANS							
PWLB	470,485,735	0	0	0	(7,736,416)	(7,736,416)	462,749,319
MONEY MARKET LOANS	87,000,000	0	0	5,000,000	0	5,000,000	92,000,000
ENERGY EFFICIENCY LOAN	1,721,810	0	0	0	(98,006)	(98,006)	1,623,804
	559,207,545	0	0	5,000,000	(7,834,422)	(2,834,422)	556,373,122
SHORT-TERM LOANS							
TEMPORARY	178,500,000	0	0	49,000,000	(68,500,000)	(19,500,000)	159,000,000
MUNICIPAL BANK	21,978,833	0	0	0	137,050	137,050	22,115,883
INTERNAL LOANS	6,280	0	0	0	0	0	6,280
	200,485,113	0	0	49,000,000	(68,362,950)	(19,362,950)	181,122,163
LONG -TERM LIABILITIES							
FINANCE LEASE OBLIGATIONS	2,078,148	0	0	0	(177,424)	(177,424)	1,900,723
LONG TERM LIABILITY	183,486,197	0	0	0	(1,456,948)	(1,456,948)	182,029,250
	185,564,345	0	0	0	(1,634,372)	(1,634,372)	183,929,973
TOTAL EXTERNAL DEBT	**945,257,003**	**0**	**0**	**54,000,000**	**(77,831,744)**	**(23,831,744)**	**921,425,259**
INVESTMENTS							
THIRD PARTY ADVANCES	1,899,563	0	0	0	(26,422)	(26,422)	1,873,140
BANKS & OTHER FINANCIAL INSTITUTIONS	72,978,678	0	0	0	0	(10,168,542)	62,810,136
BANK OVERDRAFT INCL CASH IN TRANSIT	(13,780,735)	0	0	0	0	7,326,648	(6,454,087)
CASH & CASH EQUIVALENTS	**61,097,506**	**0**	**0**	**0**	**(26,422)**	**(2,868,316)**	**58,229,190**
NET BORROWING	**884,159,497**	**0**	**0**	**54,000,000**	**77,805,322**	**(20,963,428)**	**863,196,070**

Summary of Treasury and Prudential Indicators as at quarter ended 30 June 2020 **Appendix 2**

1. Capital Expenditure, Capital Financing Requirement and Prudential Margin

(a) Capital Expenditure

	Initial Estimate 2020/2021 (£m)	Projected Outturn 2020/2021 (£m)
Total spend : Capital Expenditure	213.7	164.8
Total spend : Credit Arrangement	14.5	1.0
Total Capital Investment	**228.2**	**165.8**
Financed By:		
Borrowing	117.0	73.7
Capital receipts	4.1	2.1
Capital receipts transfer to Capital Fund	-4.1	-2.1
Capital Grants & Other External Contributions	69.6	64.0
Capital from Current Revenue	27.1	27.1
Credit Arrangement	14.5	1.0

(b) Prudential Margin Calculation

	Initial Estimate 2020/2021 (£m)	Projected Outturn 2020/2021 (£m)
Capital Financing Requirement	1,133.9	1,059.9
Gross Borrowing	1,017.8	990.1
Prudential Margin	116.1	69.8

2. Authorised Limit and Operational Boundary

	Initial Authorised Limit 2020/2021 (£m)	Initial Operational Boundary 2020/2021 (£m)	Maximum Borrowing Level Q1 2020/2021 (£m)
Borrowing	1,000.0	990.0	772.5
Other Long-term Liabilities	210.0	225.0	185.6
Totals	1,210.0	1,215.0	958.0

3. Treasury Management Indicators

a) Interest Rate Exposures on External Interest Payments

	Position as at 30/06/2020 (£m)	%
External Interest Payable on Fixed Rate Loan Debt	21.95	92.7%
External Interest Payable on Variable Rate Loan Debt	1.74	7.3%

b) Loans Fund Revenue Account

	Initial Estimate 2020/2021 (£m)	Projected Outturn 2020/2021 (£m)	Variance £m)	%tage
Loans Fund Interest Payments	27.7	27.1	0.6	2.1%
Loans Fund Expenses	0.3	0.5	-0.2	-51.5%
Total Loans Interest Payments & Expenses	**28.0**	**27.6**	**0.4**	**1.4%**
Loans Funds Investment Income	-0.3	-0.2	-0.1	27.7%
Total Loans Fund Interest Payments Investment Income & Expenses	**27.7**	**27.4**	**0.3**	**1.2%**
Allocated as follows :				
Loans Fund Interest Payments Investment Income & Expenses:General Fund	17.1	16.9	0.2	1.2%
Loans Fund Interest Payments Investment Income & Expenses:HRA	10.6	10.5	0.1	0.5%
Capital Advances Repayments - General Fund	20.5	20.4	0.1	0.5%
Capital Advances Repayments - HRA	9.0	9.1	-0.1	-0.9%
Total Capital Advances	**29.5**	**29.5**	**0**	**0.0%**
Capital Budget Reprofiling:General Fund	1.0	0.0	1.0	100.0%
Total Loan Charges	**58.2**	**56.9**	**1.3**	2.3%

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%	10.0%
Maturity structure at the start of Q1	8.3%	6.7%	14.1%	13.8%	21.5%	31.1%	4.6%
Maturity structure at the end of Q1	8.9%	8.8%	11.2%	13.8%	21.3%	31.3%	4.6%