

REPORT TO EXECUTIVE

PORTFOLIO AREA : GOVERNANCE AND RESOURCES

Date of Meeting: 22 November 2010

Public

Key Decision: Yes

Recorded in Forward Plan: Yes

Inside Policy Framework

Title: TREASURY MANAGEMENT JULY – SEPTEMBER 2010 AND
FORECASTS FOR 2011/12 to 2015/16

Report of: Assistant Director (Resources)

Report reference: RD55/10

Summary:

This report provides the regular quarterly report on Treasury Transactions together with an interim report on Treasury Management as required under the Financial Procedure Rules.

The report also discusses the City Council's Treasury Management estimates for 2011/12 with projections to 2015/16. Also included is information regarding the requirements of the Prudential Code on local authority capital finance.

Recommendations:

That this report be received and that the projections for 2011/12 to 2015/16 be incorporated into the budget reports elsewhere on the agenda.

Contact Officer: Steven Tickner

Ext: 7280

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: The Prudential Code on Local Authority borrowing including related guidance notes; Financial Services working papers.

CITY OF CARLISLE

To: The Executive
22 November 2010

RD55/10

TREASURY TRANSACTIONS 2010/11

1. INTRODUCTION

1.1 The purpose of this report is to inform Members on various Treasury Management issues. The report is set out as follows:

- (i) **Appendix A** sets out the interim report on Treasury Management activities in 2010/11.
- (ii) **Appendix B** sets out the schedule of Treasury Transactions for the period 1 July 2010 – 30 September 2010:
 - **Appendix B1** – Treasury Transactions July to September 2010
 - **Appendix B2** – Investment Transactions July to September 2010
 - **Appendix B3** – Outstanding Investments at 30 September 2010
- (iii) **Appendix C** discusses the Prudential Code and Prudential Indicators for 2010/11:
 - **Appendix C1 – Prudential Code background**
 - **Appendix C2 – Prudential Indicators**
- (iv) **Appendix D** sets out the base Treasury Management estimates for 2011/12 with projections to 2015/16 which are included as budget pressures elsewhere on the agenda.

2. CONSULTATION

2.1 Consultation to Date.
None.

2.2 Consultation proposed.
The Resources Overview and Scrutiny Panel and the Audit Committee will consider this report as part of the budget process.

3. RECOMMENDATIONS

- 3.1 That this report be received and that the projections for 2011/12 to 2015/16 be incorporated into the budget reports elsewhere on the agenda.

4. REASONS FOR RECOMMENDATIONS

- 4.1 As per the report.

5. IMPLICATIONS

- Staffing/Resources – Not applicable.
- Financial – Included within the report.
- Legal – Not applicable.
- Corporate – Not applicable.
- Risk Management – Risk management lies at the heart of effective treasury management.
- Equality Issues – Not applicable.
- Environmental – Not applicable.
- Crime and Disorder – Not applicable.

6. IMPACT ASSESSMENTS

Does the change have an impact on the following?

Equality Impact Screening	Impact Yes/No?	Is the impact positive or negative?
Does the policy/service impact on the following?		
Age	No	N/A
Disability	No	N/A
Race	No	N/A
Gender/ Transgender	No	N/A
Sexual Orientation	No	N/A
Religion or belief	No	N/A
Human Rights	No	N/A
Social exclusion	No	N/A
Health inequalities	No	N/A
Rurality	No	N/A

If you consider there is either no impact or no negative impact, please give reasons:

This report summarises Treasury Transactions for Quarter 2 2010/11 and estimates for Treasury Management for the period 2011/12 to 2015/16

If an equality Impact is necessary, please contact the P&P team.

PETER MASON
Assistant Director (Resources)

Contact Officer: Steven Tickner

Ext 7280

TREASURY MANAGEMENT 2009/10

1. INTRODUCTION

- 1.1 The purpose of this report is to provide an interim report on Treasury Management in 2010/11 as recommended by the CIPFA Code of Practice on Treasury Management. This requirement is also enshrined within the Council's constitution. A final and more detailed report will be submitted after the end of the financial year.

2 MONEY MARKET CONDITIONS

- 2.1 The financial year began with bank base rate remaining fixed at 0.50%. This is the lowest rate in the history of the Bank of England and is a consequence of the global financial crisis that began in the summer of 2007 and whose effects are still very much in evidence.
- 2.2 Looking ahead into 2011 and beyond, official interest rates are expected, in the view of our treasury advisers (Sector) to begin to rise by the end of next year but to only reach 2% by the end of 2012. This is of course only one view and others make the case for a continuation of bank rate at 0.50% for at least two more years. The outlook for interest rates is, however, constantly monitored as part of the Council's treasury function. The assumptions underlying the treasury forecasts for next year and beyond can therefore be revised further on in the budget cycle if economic conditions so warrant.

3. LONG TERM FUNDING

- 3.1 The City Council has not undertaken any long term external borrowing for several years. This year the City Council has again received a capital grant in place of its former borrowing allocation to fund capital expenditure. Any capital expenditure not funded from this source can be financed by a mixture of specific capital grants and contributions and the authority's stock of capital receipts. At this stage, however, prudential borrowing will also be retained as an option, both in this financial year and in 2011/12.

4. INVESTMENT TRANSACTIONS

- 4.1 The City Council continues to be a lender in the short term money market, with a total of outstanding investments of over £25m at the end of September. Banks and building societies remains the favoured counterparties subject to their being on the authority's approved counter party list. Council policy, in line with custom and practice over many years, has been to confine investments to UK based institutions and this remains a cornerstone of the authority's investment policy. In other respects, judgments on suitable counterparties are made using a mixture of

information from credit ratings, advice from the Council's treasury consultants (Sector) and market intelligence.

- 4.2 The investment interest estimates for 2010/11 were framed on the assumption that short term investments would yield an average of 1.75% which allowed for the fact that some investments placed at a higher rate last year have continued to roll forward into this financial year. The latest projections indicate that the authority's average yield will be nearer to 1.55% by the year end. Money market conditions this year have been, however, difficult for all authorities with short term investments and most will be suffering shortfalls on their investment interest forecasts.

5. DEBT RESCHEDULING

The authority's long term loans portfolio now consists almost entirely of the £15m stock issue placed in 1995 and not due to mature until 2020. The possibility of making a premature repayment of the stock issue is kept under regular review in conjunction with the Council's treasury advisers. A report outlining the current options will be prepared later this month for further consideration during the budget cycle.

6. PRUDENTIAL CODE

- 6.1 The Prudential Code came into full operation on 1 April 2004. The most important effect of the Code was to abolish most detailed central government control of local authority borrowing, a principle that has been a cornerstone of local government finance for over a century. Instead, local authorities must follow the principles laid down in the Code and they will be expected to comply with its requirements. These cover not just borrowing but any decision that determines whether the capital investment plans of local authorities are affordable, prudent and sustainable. Appendices C1 and C2 set out more detail on the Code including the prudential indicators.

7. CONCLUSIONS

- 7.1 The main feature of treasury management this year has been the low level of official interest rates which have necessarily impacted upon authorities' investment returns. While these and other steps have been taken to revive the economy, not just in the UK but throughout the globe, the economic recovery remains fragile. The recession is, of course, affecting the authority in a variety of ways of which the effect on short term interest rates is just one aspect. There are likely to be substantial cuts in local authority funding next year, and until short term interest rates begin to rise, the capacity for the treasury function to improve the council's financial position is likely to be limited.

TREASURY TRANSACTIONS
1 APRIL 2010 to 30 SEPTEMBER 2010

1. LOANS (DEBT)

1.1 Transactions 1 July to 30 September 2010

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0		0	0
Local Bonds	0		0	0
Short Term Loans	0		0	0.00
Overnight Borrowing	3,710,000	0.55-.055	4,505,000	0.50 - 0.52
	3,710,000		4,505,000	

This provides a summary of any loans that have been raised or repaid, analysed by type, since the previous report. Overnight borrowing was raised at the end of August and September to cover short term cash flow until direct debits were collected on the 1st of the month. New procedures have been put in place to map the cash flow more accurately on a spreadsheet to enable better forecasting and to limit the amount of short term/overnight borrowing is needed.

1.2 Bond Transactions

Period: July 2010 to September 2010

Bonds Repaid: £0 Balance remaining: £0

All of the Council bonds were repaid in May 2010, after the Council was approached by the Bond holders with favourable repayment terms. This section will therefore be deleted from future monitoring reports.

1.2 Loans (Debt) Outstanding at 30 September 2010

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	14,800
Overnight Borrowing	730,000
	15,744,800

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
01 October 10	0	730,000	730,000
Short Term Debt at 30 September 2010	0	0	14,800
			744,800

Shown here is a calendar of future loan repayments which can be a useful aid to cash flow management. Following the repayment of the City Council's remaining PWLB debt in July 2004, no major debt repayments can be anticipated for some time. The Council had £730,000 borrowed overnight at 30 September and this was repaid in full on 1 October 2010 when direct debits were received.

1.5 Interest Rates

Date	PWLB Maturity		
	1 Year %	10 Years %	25 Years %
06 July 2010	0.68	3.54	4.23
13 July 2010	0.67	3.53	4.29
20 July 2010	0.72	3.56	4.33
27 July 2010	0.85	3.68	4.47
03 August 2010	0.73	3.54	4.38
10 August 2010	0.74	3.46	4.31
17 August 2010	0.70	3.29	4.15
24 August 2010	0.61	3.15	4.05
31 August 2010	0.64	3.06	3.92
07 September 2010	0.64	3.16	4.05
14 September 2010	0.67	3.31	4.20
21 September 2010	0.69	3.36	4.24
28 September 2010	0.65	3.17	4.03

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	22,620,000	0.35-2.50	23,620,000	0.35-3.00
	22,620,000		23,620,000	

A full schedule of investment transactions is set out in Appendix B2. Appendix B3 shows outstanding investments at 30 September 2010.

3 REVENUES COLLECTED

To: 30 June 2010		Collected £	% of Amount Collectable %
2010/11	Council Tax NNDR	27,326,116 21,962,403	57.70 61.20
Total		49,288,519	59.23
2009/10	Council Tax NNDR	26,748,333 21,118,052	57.60 59.80
Total		47,866,385	58.60
2008/09	Council Tax NNDR	26,071,994 21,326,883	57.60 61.00
Total		47,398,877	59.10

Collection levels have been fairly stable in each of the past three years.

4 BANK BALANCE

At 30 September 2010 £906,477 in hand.

This simply records the Council's bank balance at the end of the last day covered by the report.

5 PERFORMANCE ON TREASURY MANAGEMENT TRANSACTIONS TO SEPTEMBER 2010

April – September 2010

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(257)	(197)	60
Interest Payable	193	197	4
Less Rechargeable	(7)	(7)	0
	186	190	4
Principal Repaid	141	184	43
Debt Management	14	14	0
NET BALANCE	84	191	107

The estimate column is the profiled budget to 30 September 2010.

Current money rates are now below the level anticipated at the time of the budget although this factor has been somewhat mitigated through cash balances being generally higher than forecast. Overall, final investment interest for the year is likely to fall short of the original budget (£513,000) due to investment rates not increasing as expected when the budget was set. The position will be monitored closely throughout the year.

Most other budget heads are performing very much in line with the original estimate. There will, however, be an overspend on the principal repaid figure (the minimum revenue provision - MRP) due to the capital programme in 2009/10 utilising more capital receipts than expected. This meant that the Capital Financing Requirement increased by more than expected and therefore the MRP required has increased. Any overspend will need to be addressed as part of the 2011/12 budget process with revisions made as necessary for the 2010/11 revised budgets.

APPENDIX B2

INVESTMENT TRANSACTIONS 1 JULY 2010 TO 30 SEPTEMBER 2010

INVESTMENTS MADE		INVESTMENTS REPAID	
	£		£
Coventry B.Soc	1,250,000.00	Coventry B.Soc	1,250,000.00
Bank of Scotland	1,000,000.00	Coventry B.Soc	340,000.00
Coventry B.Soc	470,000.00	Coventry B.Soc	1,000,000.00
Coventry B.Soc	500,000.00	Coventry B.Soc	600,000.00
Coventry B.Soc	1,200,000.00	Coventry B.Soc	750,000.00
Coventry B.Soc	600,000.00	Coventry B.Soc	130,000.00
Coventry B.Soc	750,000.00	Coventry B.Soc	500,000.00
Cater Allen	1,000,000.00	Cumberland B Soc	1,000,000.00
Nationwide B.Soc	1,000,000.00	Cater Allen	1,000,000.00
Cumberland B.Soc	1,000,000.00	Coventry B.Soc	1,200,000.00
Coventry B.Soc	1,000,000.00	Bank of Scotland	1,000,000.00
Coventry B.Soc	750,000.00	Coventry B.Soc	750,000.00
Bank of Scotland	1,000,000.00	Coventry B.Soc	950,000.00
Coventry B.Soc	1,700,000.00	Coventry B.Soc	150,000.00
Ulster Bank	1,000,000.00	Coventry B.Soc	600,000.00
Coventry B.Soc	1,000,000.00	Barclays	1,000,000.00
Cumberland B.Soc	1,000,000.00	Cumberland B Soc	1,000,000.00
Cater Allen	1,000,000.00	Coventry B.Soc	1,000,000.00
Coventry B.Soc	550,000.00	Cater Allen	1,000,000.00
Coventry B.Soc	1,000,000.00	Coventry B.Soc	400,000.00
Bank of Scotland	1,000,000.00	Coventry B.Soc	150,000.00
Coventry B.Soc	1,000,000.00	Nationwide B.Soc	1,000,000.00
Coventry B.Soc	850,000.00	Coventry B.Soc	150,000.00
Cater Allen	1,000,000.00	Coventry B.Soc	290,000.00
		Coventry B.Soc	1,000,000.00
		Bank of Scotland	1,000,000.00
		Coventry B.Soc	410,000.00
		Cumberland B Soc	1,000,000.00
		Clydesdale Bank	1,000,000.00
		Coventry B.Soc	1,000,000.00
		Cater Allen	1,000,000.00
TOTAL	22,620,000		23,620,000
		Bfwd	26,000,000
		Paid	22,620,000
		Repaid	23,620,000
		Total	25,000,000

APPENDIX B3
OUTSTANDING INVESTMENTS AS AT 30 SEPTEMBER 2010

DATE	BORROWER	AMOUNT	TERMS	RATE %
14/05/2009	Barclays Bank	£1,000,000	13 May 2011	2.4800
02/07/2009	Royal Bank of Scotland	£1,000,000	05 January 2011	2.0100
02/11/2009	Clydesdale Bank	£1,000,000	27 October 2010	1.2000
16/11/2009	Clydesdale Bank	£1,000,000	16 November 2010	1.2500
01/12/2009	Ulster Bank Ltd	£1,000,000	30 November 2010	1.3000
11/12/2009	Ulster Bank Ltd	£1,000,000	10 December 2010	1.2700
14/01/2010	Bank of Scotland (inc HBOS)	£1,000,000	13 January 2011	1.8200
21/01/2010	Ulster Bank Ltd	£1,000,000	20 January 2011	1.2500
09/04/2010	Bank of Scotland (inc HBOS)	£1,000,000	08 April 2011	1.9000
19/04/2010	Cumberland B.Soc	£1,000,000	27 October 2010	1.2500
04/05/2010	Clydesdale Bank	£1,000,000	25 March 2011	1.1500
17/05/2010	Leeds	£1,000,000	13 May 2011	1.2500
27/05/2010	Bank of Scotland (inc HBOS)	£1,000,000	27 May 2011	1.8400
04/06/2010	Barclays Bank	£1,000,000	01 June 2012	1.7500
09/06/2010	Nationwide	£1,000,000	25 March 2011	1.1700
16/06/2010	Barclays Bank	£1,000,000	15 June 2012	1.9000
05/07/2010	Bank of Scotland (inc HBOS)	£1,000,000	05 January 2011	1.2600
02/08/2010	Cater Allen	£1,000,000	27 July 2011	2.5000
02/08/2010	Nationwide	£1,000,000	26 November 2010	0.7000
10/08/2010	Bank of Scotland (inc HBOS)	£1,000,000	10 February 2011	1.3000
16/08/2010	Ulster Bank Ltd	£1,000,000	16 December 2010	0.8500
01/09/2010	Cater Allen	£1,000,000	26 November 2010	0.6300
03/09/2010	Cater Allen	£1,000,000	02 September 2011	2.5000
14/09/2010	Coventry	£1,000,000	25 March 2011	1.0000
29/09/2010	Cater Allen	£1,000,000	27 September 2011	2.5000
	Total	£25,000,000	Weighted Average	1.52

THE PRUDENTIAL CODE AND PRUDENTIAL BORROWING

1. Introduction

- 1.1 The Local Government Act 2003 brought about a new borrowing system for local authorities known as the Prudential Code (the Code). This gives to Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.
- 1.2 The aim of the Code is to support local authorities when making capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.
- 1.3 The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate to demonstrate that they may not be. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

2. Prudential Indicators

- 2.1 To demonstrate that the Council has fulfilled these objectives, the Code sets out indicators that must be used. It is for the council to set any indicative limits or ratios. It is also important to note that these indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision making process.
- 2.2 Appendix C2 sets out the latest performance indicators for the current year together with the proposed indicators for 2011/12.

3. Supported and Unsupported (or Prudential) Borrowing

- 3.1 Local authorities have always funded a substantial element of their capital programme via borrowing. This continues to be the case but until the introduction of the Code any local authority borrowing was essentially based upon a government 'permission to borrow'. Differing types of government control operated over the years but since 1990 these had been termed credit approvals. The level of an authority's previous years' credit approvals is also included in the

revenue support grant (RSG) allocation so that ultimately any borrowing is 'supported' via RSG.

- 3.2 This element of supported borrowing is still part of the RSG system although the City Council has previously resolved for the time being that its capital borrowing would be limited to its level of supported borrowing. In 2011/12 this is estimated to be Nil. In 2010/11 the City Council received a capital grant in lieu of a borrowing allocation and it is anticipated that this policy will continue into the next financial year. Having said that, there may be circumstances in which the City Council will wish to undertake some prudential borrowing and the issues surrounding unsupported and supported borrowing are discussed below.
- 3.3 Authorities are permitted to borrow in excess of their supported borrowing allocation. This is referred to as prudential or unsupported borrowing. This can be undertaken so long as the Council can demonstrate that the revenue consequences of such borrowing (i.e. the cost of the debt) are sustainable, affordable and prudent in the medium to long term.

PRUDENTIAL INDICATORS

Central to the operation of the Prudential code is the compilation and monitoring of prudential indicators covering affordability, prudence, capital expenditure, and treasury management. Set out below are the indicators for 2010/11 to date as detailed in the Treasury Management Strategy Statement for 2010/11.

(a) Affordability

	2010/11 Revised £	2010/11 Estimate £
(i) Capital Expenditure	8,785,400	11,334,000
(ii) Financing Costs Total Financing Costs	950,000	989,000
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	17,047,000	17,047,000
(iv) Ratio of Financing Costs to Net Revenue Stream The figures monitor financing costs as a proportion of the total revenue stream from government grants and local taxpayers. The increase in the ratio of financing costs is mainly attributable to the forecast reduction in investment income.	5.57%	5.80%
(v) Incremental Impact on Council Tax This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.	N/A	6.08
(vi) Authorised Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities The authorised borrowing limit is determined by Council prior to the start of the financial year. The limit must not be altered without agreement by Council and should not be exceeded under any foreseeable circumstances.	37,600,000 15,744,800	37,600,000

	2010/11 Revised £	2010/11 Estimate £
(vii) Operational Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities The operational borrowing limit is also determined by Council prior to the start of the financial year. Unlike the authorised limit, it may be breached temporarily due to cashflow variations but it should not be exceeded on a regular basis.	32,600,000 15,744,800	32,600,000
(viii) Capital Financing Requirement (CFR) As at 31 March The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.	n/a	8,101,000

(b) Prudence and Sustainability

	2010/11 Estimate £
(i) New Borrowing to Date No Long Term Borrowing has been taken in 2010/11 to date	0
(ii) Percentage of Fixed Rate Long Term Borrowing at 30 September 2010	100%
(iii) Percentage of Variable Rate Long Term Borrowing at 30 September 2010 Prudent limits for both fixed and variable rate exposure have been set at 100%. This is due to the limited flexibility available to the authority in the context of its overall outstanding borrowing requirement.	0%
(iv) Minimum Level of Investments Classified as Specified Level of Specified Investments as at 30 September 2010 As part of the Investment Strategy for 2010/11, the Council set a minimum level of 50% for its specified as opposed to non specified investments. The two categories of investment were defined as part of the Strategy but for the City Council non specified investments will presently refer mainly to either investments of over one year in duration or investments placed with building societies that do not possess an appropriate credit rating. These tend to be the smaller building societies.	50.00% 74.00%

TREASURY AND DEBT MANAGEMENT BASE ESTIMATES

APPENDIX D

Set out below are the base treasury management estimates for 2010/11 and 2011/12 with projections to 2015/16

	2008/09 Actual	2009/10 Est	2009/10 Rev	2010/11 Est	2011/12 Est	2012/13 Est	2013/14 Est	2014/15 Est	2015/16 Est
	£	£	£	£	£	£	£	£	£
Interest Payable	1,326,293	1,326,500	1,322,900	1,322,700	1,323,300	1,323,400	1,323,500	1,323,300	1,323,300
Core MRP	0	161,300	76,000	184,000	365,000	561,000	365,000	365,000	365,000
Total MRP	0	161,300	76,000	184,000	365,000	561,000	365,000	365,000	365,000
Debt Management	39,665	40,900	40,900	69,200	44,500	46,000	47,500	49,000	49,000
Sub Total	1,365,958	1,528,700	1,439,800	1,575,900	1,732,800	1,930,400	1,736,000	1,737,300	1,737,300
Recharge - CCC	(31,571)	(31,000)	(31,000)	(29,000)	(27,000)	(25,000)	(23,000)	(21,000)	(21,000)
Total Expenditure	1,334,387	1,497,700	1,408,800	1,546,900	1,705,800	1,905,400	1,713,000	1,716,300	1,716,300
Interest Receivable	(1,948,003)	(870,000)	(824,000)	(513,700)	(431,000)	(688,000)	(894,000)	(1,148,000)	(1,376,000)
Other Int Recharged	3,573	5,000	1,000	2,000	3,000	3,000	3,000	3,000	3,000
Total Income	(1,944,430)	(865,000)	(823,000)	(511,700)	(428,000)	(685,000)	(891,000)	(1,145,000)	(1,373,000)
T M Net Exp	(610,043)	632,700	585,800	1,035,200	1,277,800	1,220,400	822,000	571,300	343,300
Current MTFP			633,300	962,400	927,600	812,500	649,600	649,600	(29,000)
Budget pressure/(saving)			(47,500)	72,800	350,200	407,900	172,400	(78,300)	372,300