

Report to Audit Committee

Agenda
Item:

A.8

Meeting Date: 16 March 2017
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework Yes
Public / Private Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2016
Report of: CHIEF FINANCE OFFICER
Report Number: RD56/16

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the third quarter of 2016/17 was received by the Executive on 13 February 2017. The Audit Committee is invited to make any observations on treasury matters which took place during this quarter although it will be noted from the report that this was a relatively quiet period in treasury terms. The Committee is otherwise asked to note the report.

Recommendations:

That the report be noted.

Tracking

Executive:	13 February 2017
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Report to Executive

Agenda
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Meeting Date: 13 February 2017
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework YES
Public / Private Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2016
Report of: CHIEF FINANCE OFFICER
Report Number: RD56/16

Purpose / Summary:

This report provides the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code.

Recommendations:

That this report be received and the Prudential Indicators noted as at the end of December 2016.

Tracking

Executive:	13 February 2017
Overview and Scrutiny:	n/a
Audit Committee:	16 March 2017
Council:	n/a

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 schedule of Treasury Transactions for the period April 2016 –December 2016
 - **Appendix A1** – Treasury Transactions April to December 2016
 - **Appendix A2** – Investment Transactions April to December 2016
 - **Appendix A3** – Outstanding Investments at December 2016
- (ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2016/17:
 - **Appendix B1** – Prudential Code background
 - **Appendix B2** – Prudential Indicators

2. CONSULTATION

2.1 Consultation to Date.
None.

2.2 Consultation proposed.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 That this report be received and the Prudential Indicators noted as at the end of December 2016.

4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

4.1 To ensure that the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

Contact Officer:	Steven Tickner	Ext: 7280
Appendices	Appendix A1 – Treasury Transactions April to December 2016	
attached to report:	Appendix A2 – Investment Transactions April to December 2016	
	Appendix A3 – Outstanding Investments at December 2016	
	Appendix B1 – Prudential Code background	
	Appendix B2 – Prudential Indicators	

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:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Economic Development – not applicable

Governance & Regulatory Services – The Council has a fiduciary duty to manage its finances properly and the proper reporting of budget monitoring is part of this process.

Community Services – not applicable

Corporate Support & Resources – Contained within the report

TREASURY TRANSACTIONS
APRIL 2016 to DECEMBER 2016

1. LOANS (DEBT)

1.1 Transactions July to December 2016

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0		0	0
Local Bonds	0		0	0
Short Term Loans	0		0	0.00
Overnight Borrowing	0		0	0.00
	0		0	

This provides a summary of any loans that have been raised or repaid, analysed by type, since the previous report. New procedures have been put in place to map the cash flow more accurately to enable better forecasting and to limit the amount of short term/overnight borrowing which may be required.

1.2 Loans (Debt) Outstanding at December 2016

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	13,300
	15,013,300

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at 31 December 2016 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	13,300
			13,300

1.5 Interest Rates

Capita are not currently forecasting an interest rate rise until Quarter 2 of 2019 with rates set to remain at 0.25% until then.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	37,415,000	0.20-0.65	35,550,000	0.20-0.80
	37,415,000		35,550,000	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short term investments at 31 December 2016.

Members should note that the holdings with the Lloyds/Bank of Scotland Group, as at December 2016, stands at £8million, which is in line with the Council's approved counterparty limits for government backed banks (namely the Lloyds/Bank of Scotland Group and the RBS Group); however the UK Government has been selling their holdings in the Lloyds group on a regular basis, currently standing at approximately 8% and deemed, therefore, as not having a substantial UK government backing (assumed to be 20%). Whilst recognising that the Lloyds/Bank of Scotland Group is still one of the highest UK rated institutions and the investments are secure, the rationale for having an £8million limit with the Group is no longer applicable and for this reason the Council is reducing its holdings. The counterparty limits have been revised, and set at £6million for appropriately rated UK Banks and Building Societies, within the 2017/18 Treasury Management Strategy which was considered by full Council on 7th February 2017.

3 REVENUES COLLECTED

To: 31 December 2016		Collected £	% of Amount Collectable %
2016/17	Council Tax NNDR	45,151,091 38,154,069	84.54 84.22
Total		83,305,160	84.39
2015/16	Council Tax NNDR	43,957,155 36,268,454	85.12 82.58
Total		80,225,609	83.95
2014/15	Council Tax NNDR	42,667,002 36,289,726	85.54 85.48
Total		78,956,729	85.52

4 BANK BALANCE

At 31 December 2016 £954,411.25 in hand.

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

5 PERFORMANCE ON TREASURY MANAGEMENT TRANSACTIONS TO DECEMBER 2016

April –December 2016

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(192)	(215)	(23)
Interest Payable	850	848	(2)
Less Rechargeable	0	0	0
	850	848	(2)
Principal Repaid	673	516	(157)
Debt Management	15	12	(3)
NET BALANCE	1,346	1,161	(185)

The estimate column is the profiled budget to 31 December 2016.

Interest receivable is still exceeding budgeted projections even though average investment returns have fallen slightly against that forecast when the budget was set. This fall in returns is partly due to the reduction in bank base rates to 0.25% although investment rates have not yet seen the same 0.25% reduction. The CCLA property investment saw a decrease in the capital value earlier in the year, but has steadied since in the second and third quarters with the valuation starting to increase once again in December. Dividends remain at over 4.77%

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS OCTOBER TO DECEMBER 2016

INVESTMENTS MADE		INVESTMENTS REPAID	
	£		£
HSBC	1,965,000.00	Bank of Scotland	2,000,000.00
Federated Investors	3,100,000.00	Barclays	1,000,000.00
Bank Of Scotland	2,000,000.00	Bank of Scotland	1,000,000.00
Barclays	1,000,000.00	Federated Investors	100,000.00
Federated Investors	700,000.00	Federated Investors	1,500,000.00
Bank Of Scotland	1,000,000.00	Federated Investors	700,000.00
Bank Of Scotland	1,500,000.00	Bank of Scotland	1,500,000.00
Federated Investors	2,500,000.00	Federated Investors	2,200,000.00
Standard Life	3,700,000.00	HSBC	2,905,000.00
Federated Investors	2,200,000.00	HSBC	550,000.00
Handelsbanken	1,650,000.00	HSBC	950,000.00
Nationwide	1,000,000.00	HSBC	200,000.00
Nationwide	1,000,000.00	HSBC	1,395,000.00
Barclays	1,000,000.00	Handelsbanken	1,100,000.00
Bank Of Scotland	1,000,000.00	Nationwide	1,000,000.00
Standard Life	4,000,000.00	Nationwide	1,000,000.00
Handelsbanken	2,600,000.00	Handelsbanken	150,000.00
Standard Chartered	3,500,000.00	Standard Life	3,700,000.00
Nationwide	1,000,000.00	Handelsbanken	400,000.00
Nationwide	1,000,000.00	Barclays	1,000,000.00
		Bank of Scotland	1,000,000.00
		Handelsbanken	1,400,000.00
		Standard Life	2,750,000.00
		Nationwide	1,000,000.00
		Nationwide	1,000,000.00
		Standard Life	1,250,000.00
		Handelsbanken	1,200,000.00
		Federated Investors	1,000,000.00
TOTAL	37,415,000		35,550,000
		Bfwd	23,197,659
		Paid	37,415,000
		Repaid	35,550,000
		Total	25,062,659
		CCLA Growth/(Reduction)	40,552
		Total	25,103,211

Outstanding Investments as at 31 December 2016

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
Y	MMF Federated Investors	2,400,000	0.31%					0
R	Barclays Bank PLC	1,000,000	0.59%	29/06/2016	03/01/2017	3	188	3,039
R	Bank of Scotland PLC	1,000,000	0.80%	04/04/2016	04/01/2017	4	275	6,027
R	Barclays Bank PLC	1,000,000	0.51%	05/07/2016	05/01/2017	5	184	2,571
R	Bank of Scotland PLC	1,000,000	0.55%	07/10/2016	07/02/2017	38	123	1,853
G	Standard Chartered Bank	3,500,000	0.38%	16/12/2016	16/02/2017	47	62	2,259
R	Barclays Bank PLC	1,000,000	0.38%	05/10/2016	16/03/2017	75	162	1,687
R	Nationwide Building Society	1,000,000	0.27%	22/12/2016	17/03/2017	76	85	629
R	Bank of Scotland PLC	2,000,000	0.62%	03/10/2016	20/03/2017	79	168	5,707
R	Nationwide Building Society	1,000,000	0.28%	21/12/2016	21/03/2017	80	90	690
R	Bank of Scotland PLC	1,500,000	0.65%	30/09/2016	30/03/2017	89	181	4,835
R	Nationwide Building Society	1,000,000	0.33%	23/11/2016	31/03/2017	90	128	1,157
R	Bank of Scotland PLC	1,500,000	0.65%	14/10/2016	13/04/2017	103	181	4,835
R	Nationwide Building Society	1,000,000	0.42%	21/11/2016	19/05/2017	139	179	2,060
R	Bank of Scotland PLC	1,000,000	0.60%	30/11/2016	30/05/2017	150	181	2,975
R	Barclays Bank PLC	1,000,000	0.47%	28/11/2016	31/05/2017	151	184	2,369
	Total Investments	£21,900,000	0.48%			75	158	£42,695
Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) ¹	Initial Market Value (£)	Unrealised Growth (£)	
CCLA Property Fund	3,203,211	4.77%	31/07/2014	3,000,000	(163,104)	2,836,896	203,211	

1. Entry Costs were charged against Treasury Management Budget in 2014/15

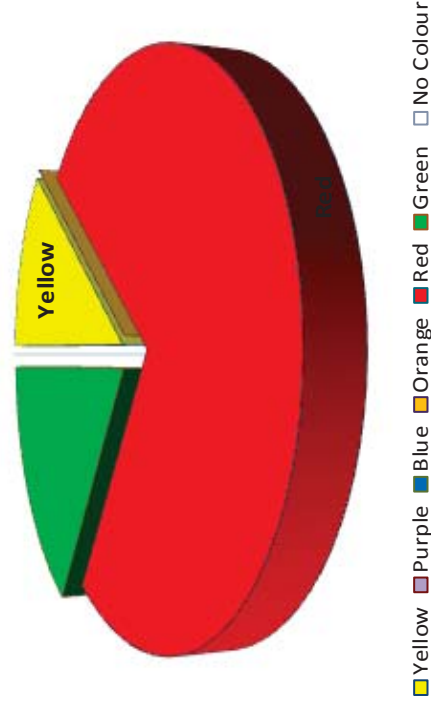
N.B Interest is recognised in the appropriate financial year in which it is due.

The category colour represents the duration of investment recommended by Capita Asset Services, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investment Summary Sheet

Call Options									
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	Weighted			Execution WAM at Execution
						Average Rate of Return	Average Days to Maturity	Average Days to Maturity from Execution	
Yellow	10.96%	2,400,000	100.00%	2,400,000	10.96%	0.31%	0	0	
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0	
Blue	0.00%	-	0.00%	-	0.00%	0.00%	0	0	
Orange	0.00%	-	0.00%	-	0.00%	0.00%	0	0	
Red	73.06%	16,000,000	0.00%	-	0.00%	0.52%	78	166	
Green	15.98%	3,500,000	0.00%	-	0.00%	0.38%	47	62	
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0	
	100.00%	21,900,000	23.88%	2,400,000	10.96%	0.48%	75	132	

	Sector's Suggested Criteria
Y	Up to 5 Years
P	Up to 2 Years
B	Up to 1 Year
O	Up to 1 Year
R	Up to 6 months
G	Up to 3 months
N/C	No Colour



Normal' Risk Score

Risk Score for Colour (1 = Low, 7 = High)						
	Dec 16	Sep 16	Jun 16	Mar 16		
1	0.1	0.0	0.3	0.2		
2	0.0	0.0	0.0	0.0		
3	0.0	0.0	0.0	0.0		
4	0.0	0.8	0.0	0.2		
5	3.7	4.0	0.9	4		
6	1.0	0.0	3.2	0.0		
7	0.0	0.0	0.0	0.0		
	4.7	4.8	4.4	4.2		

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 B2 sets out the latest performance indicators for the current year.

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 that its capital borrowing would be limited to its level of supported borrowing. In 2016/17 this is estimated to be Nil.
- 3.3 However, 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.
- 3.4 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 2016/17 to date as detailed in the Treasury Management Strategy Statement for 2016/17.

(a) Affordability

	2016/17 Original Estimate £	2016/17 Revised Estimate £
(i) Capital Expenditure	4,595,000	12,547,900
(ii) Financing Costs Total Financing Costs	1,736,000	1,579,000
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	12,235,000	12,235,000
(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.	14.19%	12.91%
(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.	20.91	16.06
(vi) Authorised Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities	37,600,000	37,600,000
	15,013,300	15,013,300
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.		

	2016/17 Original Estimate £	2016/17 Revised 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 15,013,300	32,600,000 15,013,300
(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.	10,800,000	13,741,000

(b) Prudence and Sustainability

	2016/17 Original £
(i) New Borrowing to Date No Long Term Borrowing has been taken in 2016/17 to date	0
(ii) Percentage of Fixed Rate Long Term Borrowing at December 2016	100%
(iii) Percentage of Variable Rate Long Term Borrowing at December 2016 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 December 2016 As part of the Investment Strategy for 2016/17, 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% 100.00%

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 13 FEBRUARY 2017

EX.19/17 TREASURY MANAGEMENT OCTOBER – DECEMBER 2016
(Non Key Decision)

Portfolio Finance, Governance and Resources

Relevant Overview and Scrutiny Panel Resources

Subject Matter

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder submitted report RD.56/16 providing the regular quarterly report on Treasury Transactions, including the requirements of the Prudential Code.

Appendix A1 to the report recorded that the holdings with the Lloyds/Bank of Scotland Group, as at December 2016, stood at £8million, which was in line with the Council's approved counterparty limits for government backed banks (namely the Lloyds/Bank of Scotland Group and the RBS Group). However, the UK Government had been selling their holdings in the Lloyds group on a regular basis, currently standing at approximately 8% and deemed, therefore, as not having a substantial UK government backing (assumed to be 20%). Whilst recognising that the Lloyds/Bank of Scotland Group was still one of the highest UK rated institutions and the investments were secure, the rationale for having an £8million limit with the Group was no longer applicable and for that reason the Council was reducing its holdings. The counterparty limits had been revised, and set at £6million for appropriately rated UK Banks and Building Societies, within the 2017/18 Treasury Management Strategy which was considered by full Council on 7 February 2017.

In conclusion the Deputy Leader, and Finance, Governance and Resources Portfolio Holder moved the recommendation which was duly seconded by the Leader.

Summary of options rejected None

DECISION

That Report RD.56/16 be received and the Prudential Indicators noted as at the end of December 2016.

Reasons for Decision

To advise Members of the Council's Treasury Transactions