

Report to Audit Committee

Agenda
Item:

A.7

Meeting Date: 19 March 2018
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public / Private: Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2017
Report of: CHIEF FINANCE OFFICER
Report Number: RD45/17

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the third quarter of 2017/18 was received by the Executive on 12 February 2018. 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.

Report to Executive

Agenda
Item:

Meeting Date: 12th February 2018
 Portfolio: Finance, Governance and Resources
 Key Decision: No
 Within Policy and Budget Framework YES
 Public / Private Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2017
 Report of: CHIEF FINANCE OFFICER
 Report Number: RD45/17

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 2017.

Tracking

Executive:	12 February 2018
Scrutiny:	n/a
Audit Committee:	19 March 2018
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 October 2017 –December 2017

- **Appendix A1** – Treasury Transactions October to December 2017
- **Appendix A2** – Investment Transactions October to December 2017
- **Appendix A3** – Outstanding Investments at December 2017

(ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2017/18:

- **Appendix B1** – Prudential Code background
- **Appendix B2** – Prudential Indicators

2. CONSULTATION

2.1 Consultation to Date.
None.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 That this report be received and the Prudential Indicators noted as at the end of December 2017.

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.

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**Appendices
attached to report:**

**Appendix A1 – Treasury Transactions October to December
2017**

**Appendix A2 – Investment Transactions October to December
2017**

Appendix A3 – Outstanding Investments at December 2017

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
OCTOBER 2017 to DECEMBER 2017

1. LOANS (DEBT)

1.1 Transactions October to December 2017

	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 2017

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	12,800
	15,012,800

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at 31 December 2017 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	12,800
			12,800

1.5 Interest Rates

Link Asset Services are not currently forecasting an interest rate rise until March 2019 with rates set to remain at 0.50% until then.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	39,140,000	0.15-0.67	37,240,000	0.15-0.72
	39,140,000		37,240,000	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short term investments at 31 December 2017.

3 REVENUES COLLECTED

To: 31 December 2017		Collected £	% of Amount Collectable %
2017/18	Council Tax NNDR	48,562,878 37,443,264	84.88 84.75
Total		86,006,142	84.82
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

4 BANK BALANCE

At 31 December 2017 £255,104.36 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 2017

April –December 2017

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(197)	(164)	33
Interest Payable	850	848	(2)
Less Rechargeable	0	0	0
	850	848	(2)
Principal Repaid	187	147	(40)
Debt Management	13	13	0
NET BALANCE	853	844	(9)

The estimate column is the profiled budget to 31 December 2017.

Interest receivable is below budgeted projections due to lower average cash balances than expected whilst settlement of insurance claims is finalised and due to the up-front payment of pensions made in April 2017. Average investment returns have not risen in line with the recent increase in bank base rate which also impacts on the returns being achieved. The CCLA property investment saw another increase in the capital value for the quarter, and has recovered the small downturn in value experienced around the Brexit vote. Dividends remain at 4.58%.

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS OCTOBER TO DECEMBER 2017

INVESTMENTS MADE		INVESTMENTS REPAYD	
	£		£
Handelsbanken	3,750,000.00	HSBC	240,000.00
HSBC	2,200,000.00	HSBC	1,450,000.00
HSBC	1,180,000.00	HSBC	630,000.00
Bank of Scotland	1,500,000.00	Bank of Scotland	1,500,000.00
Goldman Sachs	1,000,000.00	Goldman Sachs	1,000,000.00
HSBC	2,940,000.00	HSBC	1,900,000.00
Handelsbanken	2,650,000.00	HSBC	120,000.00
HSBC	4,000,000.00	HSBC	300,000.00
Standard Life	3,000,000.00	Handelsbanken	2,650,000.00
Bank of Scotland	1,000,000.00	HSBC	1,680,000.00
Bank of Scotland	1,000,000.00	Standard Chartered	2,000,000.00
Handelsbanken	2,000,000.00	Standard Chartered	3,000,000.00
Standard chartered	2,000,000.00	Handelsbanken	1,400,000.00
Standard Life	1,500,000.00	Handelsbanken	1,500,000.00
HSBC	300,000.00	Handelsbanken	500,000.00
HSBC	350,000.00	Handelsbanken	200,000.00
Federated Investors	3,900,000.00	Handelsbanken	400,000.00
HSBC	2,300,000.00	Federated Investors	2,500,000.00
Federated Investors	1,100,000.00	Standard Life	1,500,000.00
Handelsbanken	1,000,000.00	Federated Investors	1,500,000.00
HSBC	470,000.00	HSBC	2,900,000.00
		HSBC	50,000.00
		Federated Investors	1,000,000.00
		Federated Investors	1,450,000.00
		Handelsbanken	1,000,000.00
		HSBC	3,750,000.00
		HSBC	1,120,000.00
TOTAL	39,140,000		37,240,000
		Bfwd	15,979,873
		Paid	39,140,000
		Repaid	37,240,000
		Total	17,879,873
		CCLA Growth/(Reduction)	122,330
		Total	18,002,203

Outstanding Investments as at 31 December 2017

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	2,550,000	0.39%					0
O	HSBC Bank Plc	1,600,000	0.40%	29/12/2017	02/01/2018	2	4	70
R	Goldman Sachs	1,000,000	0.58%	01/08/2017	01/02/2018	32	184	2,924
R	Goldman Sachs	1,000,000	0.54%	16/08/2017	16/02/2018	47	184	2,722
R	Standard Chartered Bank	2,000,000	0.41%	15/11/2017	23/02/2018	54	100	2,247
O	Bank of Scotland PLC	1,000,000	0.56%	06/11/2017	19/03/2018	78	133	2,041
O	Bank of Scotland PLC	1,000,000	0.38%	20/09/2017	21/03/2018	80	182	1,895
R	Goldman Sachs	1,000,000	0.69%	29/09/2017	29/03/2018	88	181	3,422
O	Bank of Scotland PLC	1,500,000	0.31%	13/10/2017	29/03/2018	88	167	2,128
R	Goldman Sachs	1,000,000	0.68%	13/10/2017	13/04/2018	103	182	3,391
O	Bank of Scotland PLC	1,000,000	0.64%	06/11/2017	27/04/2018	117	172	3,016
	Total Investments	£14,650,000	0.48%			69	149	£23,854

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) ¹	Initial Market Value (£)	Unrealised Growth (£)
CCLA Property Fund	3,352,203	4.58%	31/07/2014	3,000,000	(163,104)	2,836,896	352,203

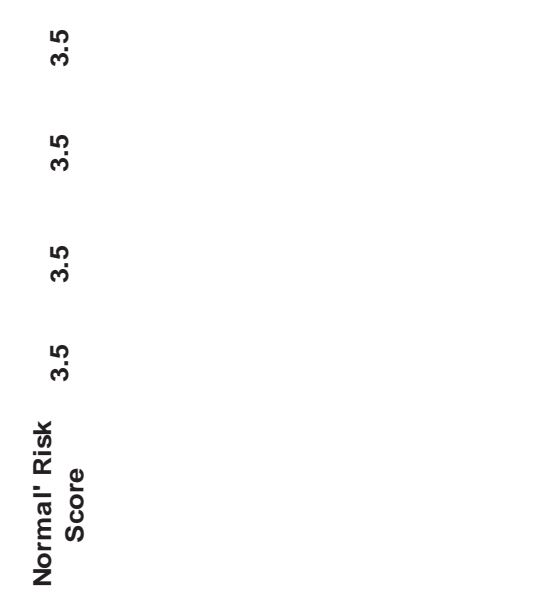
1. Entry Costs were charged against Treasury Management Budget in 2014/15

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 Link 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.

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	Weighted Average Rate of Return	Weighted Average Days to Maturity	Weighted Average Days to Maturity from Execution
Yellow	17.41%	2,550,000	100.00%	2,550,000	17.41%	0.39%	0	0	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0	0	0
Blue	0.00%	-	0.00%	-	0.00%	0.00%	0	0	0	0
Orange	41.64%	6,100,000	0.00%	-	0.00%	0.44%	67	122	0	0
Red	40.96%	6,000,000	0.00%	-	0.00%	0.55%	63	155	0	0
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0	0	0
	100.0%	14,650,000	17.41%	2,550,000	17.41%	0.48%	54	114		

Normal' Risk
Score



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 2017/18 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 2017/18 to date as detailed in the Treasury Management Strategy Statement for 2017/18.

(a) Affordability

	2017/18 Original Estimate £	2017/18 Revised Estimate £
(i) Capital Expenditure	3,182,000	9,618,500
(ii) Financing Costs Total Financing Costs	1,244,000	1,223,000
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	12,047,000	12,047,000
(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.	10.33%	10.15%
(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.	(1.36)	3.00
(vi) Authorised Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities	37,600,000	37,600,000
	15,012,800	15,012,800
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.		

	2017/18 Original Estimate £	2017/18 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 15,012,800	32,600,000 15,012,800
(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.	12,645,000	15,706,000

(b) Prudence and Sustainability

	2017/18 Original £
(i) New Borrowing to Date No Long Term Borrowing has been taken in 2017/18 to date	0
(ii) Percentage of Fixed Rate Long Term Borrowing at December 2017	100%
(iii) Percentage of Variable Rate Long Term Borrowing at December 2017 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 2017 As part of the Investment Strategy for 2017/18, 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 12 FEBRUARY 2018

EX.16/18 TREASURY MANAGEMENT OCTOBER – DECEMBER 2017
(Non Key Decision)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder submitted report RD.45/17 providing the regular quarterly report on Treasury Transactions, including the requirements of the Prudential Code.

Appendix 1 recorded that interest receivable was below budgeted projections due to lower average cash balances than expected whilst settlement of insurance claims was finalised and due to the up-front payment of pensions made in April 2017. Average investment returns had not risen in line with the recent increase in bank base rate which also impacted upon the returns being achieved. The CCLA property investment saw another increase in the capital value for the quarter, and had recovered the small downturn in value experienced following the Brexit vote. Dividends remained at 4.58%.

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

Summary of options rejected none

DECISION

That Report RD.45/17 be received and the Prudential Indicators noted as at the end of December 2017.

Reasons for Decision

To advise Members of the Council's Treasury Transactions