

# Report to Executive

Agenda  
Item:  
  
**A.7**

Meeting Date: 11<sup>th</sup> February 2019  
Portfolio: Finance, Governance and Resources  
Key Decision: No  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2018  
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES  
Report Number: RD37/18

## 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 2018.

## Tracking

Executive:	<b>11 February 2019</b>
Scrutiny:	n/a
Audit Committee:	<b>18 March 2019</b>
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 2018 –December 2018

- **Appendix A1** – Treasury Transactions October to December 2018
- **Appendix A2** – Investment Transactions October to December 2018
- **Appendix A3** – Outstanding Investments at December 2018

(ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2018/19:

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

## **2. RISKS**

2.1 Treasury Management considers risks associated with investments with counterparties however the Treasury Management strategy statement outlines the risk management approaches taken to minimise these.

## **3. CONSULTATION**

3.1 Consultation to Date.  
None.

## **4. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

4.1 That this report be received, and the Prudential Indicators noted as at the end of December 2018.

## **5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES**

5.1 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  
2018**

**Appendix A2 – Investment Transactions October to December  
2018**

**Appendix A3 – Outstanding Investments at December 2018**

**Appendix B1 – Prudential Code background**

**Appendix B2 – Prudential Indicators**

**Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:**

- **None**

**CORPORATE IMPLICATIONS:**

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

**FINANCE** – Contained within the report

**EQUALITY** – This report raises no explicit issues relating to the public-sector Equality Duty.

**INFORMATION GOVERNANCE** – There are no information governance implications.

TREASURY TRANSACTIONS  
OCTOBER 2018 to DECEMBER 2018

1. LOANS (DEBT)

1.1 Transactions October to December 2018

	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
	<b>0</b>		<b>0</b>	

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 2018

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	12,800
	<b>15,012,800</b>

1.3 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at 31 December 2018 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	12,800
			<b>12,800</b>

1.4 Interest Rates

Link Asset Services are forecasting an interest rate rise to 1.00% in the second quarter of 2019 however Link and other economists are maintaining a watching

brief on their forecasts which may need revision depending upon the outcome of Brexit.

## 2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	36,750,000	0.65-1.15	32,650,000	0.65-0.9250
	<b>36,750,000</b>		<b>32,650,000</b>	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short-term investments at 31 December 2018.

## 3 REVENUES COLLECTED

To: 31 December 2018		Collected £	% of Amount Collectable %
2018/19	Council Tax	51,260,075	84.80
	NNDR	37,853,369	84.22
<b>Total</b>		<b>89,113,444</b>	<b>84.55</b>
2017/18	Council Tax	48,562,878	84.88
	NNDR	37,443,264	84.75
<b>Total</b>		<b>86,006,142</b>	<b>84.82</b>
2016/17	Council Tax	45,151,091	84.54
	NNDR	38,154,069	84.22
<b>Total</b>		<b>83,305,160</b>	<b>84.39</b>

## 4 BANK BALANCE

At 31 December 2018 £1,015,084.52 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 2018  
 April –December 2018

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(259)	(221)	38
Interest Payable	850	848	(2)
Less Rechargeable	0	0	0
	<b>850</b>	<b>848</b>	<b>(2)</b>
Principal Repaid	112	21	(91)
Debt Management	13	14	1
<b>NET BALANCE</b>	<b>716</b>	<b>662</b>	<b>(54)</b>

The estimate column is the profiled budget to 31 December 2018.

Interest receivable is slightly below expectations due to lower than forecast average cash balances and a lower rate of return being achieved on treasury investments when compared to when the budgets were set. The CCLA property investment saw an increase in the capital value to the end of December. Dividends and yield remain at over 4.21%.

# APPENDIX A2

## SHORT TERM INVESTMENT TRANSACTIONS OCTOBER TO DECEMBER 2018

INVESTMENTS MADE		INVESTMENTS REPAYD	
	£		£
HSBC	5,000,000.00	HSBC	200,000.00
Barclays	1,000,000.00	HSBC	1,150,000.00
HSBC	500,000.00	Goldman Sachs	1,000,000.00
HSBC	500,000.00	HSBC	2,800,000.00
Federated Investors	600,000.00	HSBC	3,600,000.00
HSBC	1,350,000.00	Nationwide	1,000,000.00
Goldman Sachs	1,000,000.00	HSBC	170,000.00
Barclays	1,500,000.00	Bank of Scotland	2,000,000.00
HSBC	700,000.00	HSBC	1,600,000.00
HSBC	470,000.00	HSBC	80,000.00
HSBC	4,200,000.00	HSBC	3,000,000.00
Santander	2,000,000.00	Bank of Scotland	1,000,000.00
Bank of Scotland	2,000,000.00	HSBC	350,000.00
HSBC	250,000.00	HSBC	210,000.00
HSBC	250,000.00	Federated Investors	1,000,000.00
HSBC	450,000.00	HSBC	3,190,000.00
HSBC	1,800,000.00	HSBC	1,550,000.00
HSBC	130,000.00	HSBC	200,000.00
Bank of Scotland	1,000,000.00	HSBC	1,500,000.00
HSBC	350,000.00	Standard Chartered	1,000,000.00
HSBC	400,000.00	Federated Investors	550,000.00
Federated Investors	1,000,000.00	HSBC	4,500,000.00
HSBC	4,900,000.00	Standard Chartered	1,000,000.00
HSBC	430,000.00		
HSBC	290,000.00		
HSBC	230,000.00		
HSBC	1,900,000.00		
Santander	1,000,000.00		
<b>TOTAL</b>	<b>36,750,000</b>		<b>32,650,000</b>
		Bfwd	22,801,158
		Paid	36,750,000
		Repaid	32,650,000
		<b>Total</b>	<b>26,901,158</b>
		<b>CCLA Growth/(Reduction)</b>	<b>55,116</b>
		<b>Total</b>	<b>26,956,274</b>

### Outstanding Investments as at 31 December 2018

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	4,000,000	0.76%					0
O	Bank of Scotland PLC	1,000,000	0.75%	02/07/2018	02/01/2019	2	184	3,781
R	Standard Chartered Bank	1,000,000	0.65%	02/07/2018	02/01/2019	2	184	3,277
R	Goldman Sachs	1,000,000	0.91%	27/07/2018	25/01/2019	25	182	4,538
R	Goldman Sachs	2,000,000	0.90%	01/08/2018	31/01/2019	31	183	9,025
R	Goldman Sachs	1,000,000	0.88%	31/08/2018	28/02/2019	59	181	4,364
R	Goldman Sachs	1,000,000	0.83%	28/09/2018	29/03/2019	88	182	4,139
R	Barclays Bank	1,000,000	0.79%	01/10/2018	29/03/2019	88	179	3,874
R	Santander UK PLC	1,000,000	0.90%	18/12/2018	29/03/2019	88	101	2,490
O	Bank of Scotland PLC	2,000,000	0.95%		Call95			
R	Goldman Sachs	1,000,000	0.85%	15/10/2018	12/04/2019	102	179	4,168
R	Barclays Bank	1,500,000	0.78%	16/10/2018	12/04/2019	102	178	5,706
R	Santander UK PLC	2,000,000	1.00%	01/11/2018	29/04/2019	119	179	9,808
O	Bank of Scotland PLC	1,000,000	1.00%	19/11/2018	20/05/2019	140	182	4,986
R	Santander UK PLC	1,000,000	1.00%	21/12/2018	19/06/2019	170	180	4,932
O	Bank of Scotland PLC	2,000,000	1.15%	01/11/2018	05/11/2019	309	369	23,252
<b>Total Investments</b>		<b>£23,500,000</b>	<b>0.88%</b>			<b>95</b>	<b>189</b>	<b>£88,339</b>
								Unrealised Growth (£)
	Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) <sup>1</sup>	Initial Market Value (£)	
	CCLA Property Fund	3,456,274	4.21%	31/07/2014	3,000,000	(163,104)	2,836,896	456,274

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.

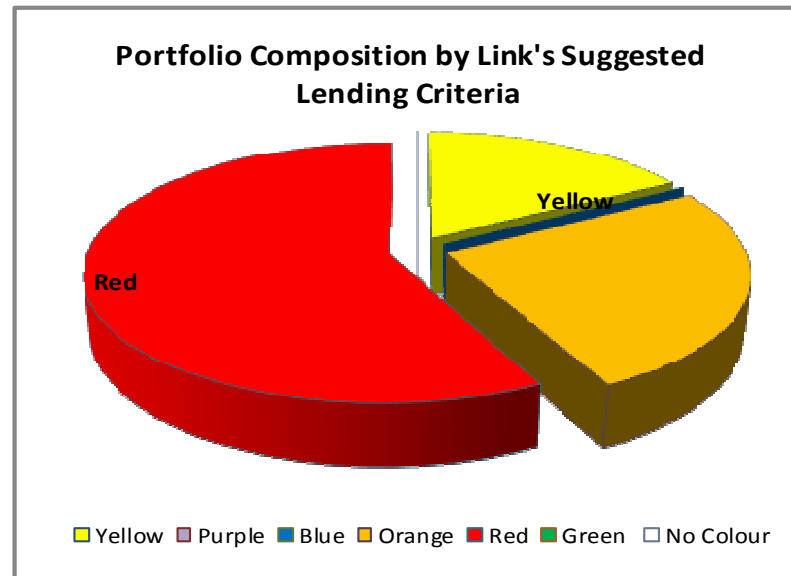


## Investment Summary Sheet

						Weighted Average Rate of Return	Weighted Average Days to Maturity	Weighted Average Days to Maturity from Execution
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution
Yellow	17.02%	4,000,000	100.00%	4,000,000	17.02%	0.76%	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	25.53%	6,000,000	33.33%	2,000,000	8.51%	0.99%	158	216
Red	57.45%	13,500,000	0.00%	-	0.00%	87.00%	80	175
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	<b>100.0%</b>	<b>23,500,000</b>	<b>25.53%</b>	<b>6,000,000</b>	<b>25.53%</b>	<b>0.88%</b>	<b>86</b>	<b>155</b>

Risk Score for Colour (1 = Low, 7 = High)	Dec 2018	Sep 2018	Jun 2018	Mar 2018
1	0.2	0.2	0.3	0.0
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	1.0	1.2	1.2	1.9
5	2.9	2.6	2.0	2.6
6	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0
	<b>4.1</b>	<b>4.0</b>	<b>3.5</b>	<b>4.5</b>

	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	3.5	3.5	3.5	3.5
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### 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 Prudential Code any local authority borrowing was essentially based upon a government 'permission to borrow'. This was deemed to be supported borrowing as credit limits were supported through funding from Revenue Support Grant. Following the introduction of the Prudential Code in 2003, the permission to borrow was essentially withdrawn and Councils were given greater freedom to borrow so

long as they 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 2018/19 to date as detailed in the Treasury Management Strategy Statement for 2018/19.

**(a) Affordability**

	2018-19 Original Estimate £	2018-19 Revised Estimate £
<b>(i) Capital Expenditure</b>	4,032,600	9,309,200
<b>(ii) Financing Costs</b> Total Financing Costs	1,086,000	994,600
<b>(iii) Net Revenue Stream</b> Funding from Govt Grants/Local Taxpayers	12,581,000	12,581,000
<b>(iv) Ratio of Financing Costs to Net Revenue Stream</b> 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.	8.63%	7.91%
<b>(v) Incremental Impact on Council Tax</b> This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.	(1.93)	3.43
<b>(vi) Authorised Borrowing Limit</b> 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.		

	2018/19 Original Estimate £	2018/19 Revised Estimate £
<b>(vii) Operational Borrowing Limit</b> 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
<b>(viii) Capital Financing Requirement (CFR)</b> As at 31 March The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.	13,557,000	16,463,000

**(b) Prudence and Sustainability**

	2018/19 Original £
<b>(i) New Borrowing to Date</b> No Long Term Borrowing has been taken in 2018/19 to date	0
<b>(ii) Percentage of Fixed Rate Long Term Borrowing</b> at December 2018	100%
<b>(iii) Percentage of Variable Rate Long Term Borrowing</b> at December 2018 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%
<b>(iv) Minimum Level of Investments Classified as Specified</b> Level of Specified Investments as at December 2018  As part of the Investment Strategy for 2018/19, 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%