CARLISLE CITY COUNCIL
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Report to Audit Committee	Agenda Item: A.5

Meeting Date:	15 March 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Within Policy and Budget Framework	Yes
Public / Private	Public

Title:	TREASURY MANAGEMENT OCTOBER – DECEMBER 2020
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD58/20 (amended)

Purpose / Summary:
This report provides the regular quarterly summary of Treasury Management transactions for the third quarter of 2020/21 and was received by the Executive on 8 February 2021. The Audit Committee is invited to make any observations on treasury matters which took place during this quarter.

The Committee is asked to note that since the report was considered by Executive, CIPFA have issued two consultations on the Treasury Management Code of Practice and the Prudential Code. Further details of these consultations are outlined in paragraph 1 below, prior to the quarterly monitoring progress report. Any feedback received following the consultation process will be reported to a future committee.

Recommendations:
The Audit Committee is asked:

- To note, and make any observations on, the quarterly position on treasury management activities and transactions which have taken place; and
- To note the two open consultations on Treasury Management and the Prudential Code and delegate responsibility for responding to these to the Corporate Director of Finance & Resources, following consultation with the Chair of the Audit Committee and the Portfolio Holder for Finance, Governance and Resources.

Tracking

Executive:	**8 February 2021**

1.0 **CIPFA CONSULTATIONS**

1.1 On 1st February 2021 CIPFA released two consultation documents setting out their proposed changes to the current versions of the Treasury Management Code (previously updated in 2018) and the Prudential Code (previously updated in 2017). Both consultations are due to close on 12th April and the Council is currently assessing the implications of the consultations and will respond with its views by the deadline.

1.2 Treasury Management Code Consultation

The key changes impact on Treasury Management Practices (TMP's) which outline how a treasury function should operate. The TMP's affected by the consultation are:

- TMP10 – Training and Qualifications;
- TMP12 – Corporate Governance; and
- TMP13 – A new TMP covering Environmental, Social and Governance Management

There is also a proposed change to the Treasury Management indicators for the maturity structure of borrowing.

1.2.1 **TMP10 – Training and Qualifications**

It is proposed to strengthen the requirements of TMP10, that requires an organisation to recognise the importance of all staff and council members having the required skills and knowledge to be able to undertake their duties and responsibilities. Any training that is required should now be specified in the TMP.

It is therefore proposed to amend the TMP as follows:

> *The responsible officer will recommend and implement the necessary arrangements*, ***including the specification of the expertise, knowledge and skills required by each role/member of staff.***

This will also require a knowledge and skills schedule to be produced and recorded that would include:

- The aims and objectives of the knowledge and skills schedule.
- Relevant legislation, guidance and other specifications (e.g. MIFID II, CIPFA Treasury Management Code of Practice, statutory investment guidance issued by government) that must be understood and complied with to ensure that staff or board/council members are able to fulfil their roles.
- The staff/role or board/council members to whom the policy applies.
- The relevant competencies for each role.

- How the training will be delivered, e.g. in house training, external courses (specifying the type course followed), the need for formal qualifications), this would include induction requirements.
- How the regularly the training will need to be provided.
- How the training will be recorded.
- How the knowledge or skills will be monitored, including gaps is training or requisite knowledge will be determined.
- How, where and when reports will be provided on the monitoring and review of the requirements of the knowledge and skills schedule.

1.2.2 **TMP12 - Local Authority Treasury Management Governance**

CIPFA considers that corporate governance issues arising from more complex treasury management functions and decisions, and corporate responsibilities arising from MiFID II (Markets in Financial Instruments Directive), and TMP12 may need to be broadened.

This applies as numerous local authorities have taken up the option of a professional client status allowing them to trade in more complex investment instruments.

1.2.3 **TMP13 – Environmental, Social and Governance Risk Management (ESG Risk Management)**

Local authority and other public sector stakeholders are increasingly interested in environmental and social issues. Substantial numbers (around 75%) of local authorities have declared climate emergencies. Similarly, recent events have meant that social issues such as diversity and modern slavery have also increased the need for social awareness and demonstration of this awareness in local authority policies. More financial investments and institutions offer incentives for green criteria. Local authorities and their stakeholders are increasingly aware of the importance of these issues and the significance that investing in these areas will have.

The risks associated with environmental, social and governance (ESG) related investments must be understood and managed by local authorities; for example, these include climate and carbon related risks and might for example focus on high energy sectors. Building ESG risk management into treasury management is an essential part of future proofing its processes and supporting social and environmental change.

CIPFA considers that it is timely therefore to introduce a new treasury management practice into the Code which will establish, implement, and monitor the arrangements for the identification, management and control of ESG risks.

1.3 Prudential Code Consultation

The Prudential Code outlines the requirements for local authorities who are required by regulation to have regard to the Code when carrying out their duties under Part 1 of the Local Government Act 2003. The key objectives of the Code are to ensure, within a clear framework, that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

The revisions to the Code set out in the consultation come as a result of continuing commercial activity by a few local authorities, particularly the purchase of commercial property. The Public Accounts Committee recommended that the Code therefore be reviewed.

In total there are 16 questions asked by the consultation.

1.3.1 **Borrowing in Advance of Need**

In the last five years there has been an increasing trend for authorities to purchase property solely to make an investment return. Particular concerns arise when these investments have been financed from borrowing especially where this does not accord with paragraph 45 of the Prudential Framework, which states that "Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".

The consultation therefore asks for views on amending this paragraph.

1.3.2 **Objectives of the Code**

There has been a substantial increase in commercial investment in recent years and it is vital that this investment is consistent with the principles in this Code and the prudential and statutory framework in which local authorities operate.

CIPFA is clear that its statement within the Prudential Code i.e. that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed must be adhered to and has issued guidance in its publication Prudential Property Investment. Paragraph 25 of the Code already sets out that commercial activity should be proportional to overall resources.

However, CIPFA is of the view that to emphasise the importance of proportionality for capital expenditure generally and for commercial investment particularly that this should be explicitly included in the objectives of the Prudential Code. Note that these have been included on a principles' basis and subject to these principles being agreed more detail will be provided in the updated Prudential Code.

1.3.3 **Scope and Status of the Prudential Code**

The consultation asks for views on extending the status of the Code from the Executive Summary to be included in the overall Code itself.

1.3.4 **Capital Strategy**

The consultation seeks views on augmenting the original section regarding commercial activities to include a requirement to assess affordability and detailing financial and other risks of undertaking commercial activities.

1.3.5 **Prudential Indicators**

The prudential indicators in the Prudential Code are designed to demonstrate how a local authority is achieving the objectives of the Prudential Code. Prudential indicators required by the Prudential Code are intended to support and record local decision-making in a manner that is publicly accountable on a local and a national basis. The Code suggests that the indicators are not designed to be comparative performance indicators (though obviously they provide internal comparisons for the authority itself). It is important though that the indicators should not solely record local decision making but should support the decisions made throughout local authorities' capital planning processes.

The consultation therefore seeks views on the:

- number and usefulness of the indicators used in the prudential code,
- where they might be reduced if they are not considered useful,
- where new indicators might be needed to support decision making,
- where more explanation or description might be needed in the prudential code to ensure that local authorities understand what they measure and why they are included.

2.0 Council Response

2.1 The Council is considering the consultations and will respond by the closing deadline. We will also take views from our Treasury advisors, Link, who will also be responding to the consultation. The details of the final response will be reported to the Audit Committee at their next meeting.

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# Report to Executive	Agenda Item:

Meeting Date:	8 February 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	TREASURY MANAGEMENT OCTOBER – DECEMBER 2020
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD 58/20

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 2020.

Tracking

Executive:	**08 February 2021**
Audit Committee:	**15 March 2021**
Council:	**Not applicable**

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 to October - December 2020

- **Appendix A1 –** Treasury Transactions October to December 2020
- **Appendix A2 –** Investment Transactions October to December 2020
- **Appendix A3 –** Outstanding Investments at December 2020

(ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2020/21:

- **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 approach to minimise this.

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 2020.

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.

Contact Officer: **Emma Gillespie** **Ext: 7289**

Appendices attached to report:	**Appendix A1 – Treasury Transactions October to December 2020** **Appendix A2 – Investment Transactions October to December 2020** **Appendix A3 – Outstanding Investments at December 2020** **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.

Property Services – Not applicable

Finance – Included in the report

Equality - This report raises no explicit issues relating to the public sector Equality Duty

Information Governance – No implications

APPENDIX A1

TREASURY TRANSACTIONS

OCTOBER 2020 to DECEMBER 2020

1. LOANS (DEBT)

1.1 Transactions October to December 2020

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

This provides a summary of any loans that have been raised or repaid, analysed by type, since the previous report. Procedures, adopted to map the cash flow more accurately, ensure better forecasting and limits the amount of short term/overnight borrowing which may be required.

1.2 Loans (Debt) Outstanding at December 2020

	£
P.W.L.B.	8,775,000
P.W.L.B.	4,750,000
Short Term Loans	12,800
	13,537,800

1.3 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Other £	Total £
Short Term Debt at end of December 2020	475,000	0	12,800	**487,800**

1.4 Interest Rates

Link Group forecast that bank rate will remain the same at 0.1% throughout 2021.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	20,250,000	0.01 - 0.10	18,250,000	0.10 - 1.10
	20,250,000		**18,250,000**	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short term investments at 31 December 2020.

3 REVENUES COLLECTED

To: 31 December 2020		Collected £	% of Amount Collectable %
2020/21	Council Tax	55,482,133	83.13
	NNDR	17,181,774	77.31
Total		**72,663,907**	**81.68**
2019/20	Council Tax	54,392,007	84.83
	NNDR	36,575,629	82.38
Total		**90,967,636**	**83.83**
2018/19	Council Tax	51,260,075	84.80
	NNDR	37,853,369	84.22
Total		**89,113,444**	**84.55**

Collection levels have been fairly stable in each of the past three years; however, the impact of COVID-19 has had an impact on the revenues received in 2020/21 especially in relation to NNDR. Normal debt recovery procedures have re-commenced whilst still providing support to rate payers and safeguarding the Council's cash position.

4 BANK BALANCE

At 31 December 2020 £977,047.62 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 2020

April –December 2020

	Profiled Budget £000	Actual £000	Variance £000
Interest Receivable	(199)	(224)	(25)
Interest Payable	751	282	(469)
Less Rechargeable	0	0	0
	751	**282**	**(469)**
Principal Repaid (MRP)	0	0	0
Debt Management	12	13	1
NET BALANCE	**564**	**71**	**(493)**

The profiled budget is to 31 December 2020.

Interest receivable is ahead of expectations due to higher than forecast average cash balances even though interest rates have fallen to 0.1%. However, it is expected this position will worsen during the remainder of the financial year as cash balances reduce and investments on call deposits mature and funds are reinvested at an expected lower return.

Interest payable is lower than expected as no new borrowing has been undertaken in this financial year.

The CCLA property investment saw a slight decrease in the capital value to the end of December. Dividends and yield levels are currently 4.49%.

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS OCTOBER TO DECEMBER 2020

INVESTMENTS MADE			INVESTMENTS REPAID	
	£			£
HSBC	6,000,000.00		HSBC	250,000.00
HSBC	3,000,000.00		HSBC	1,000,000.00
HSBC	4,000,000.00		Handelsbanken	4,000,000.00
HSBC	5,000,000.00		HSBC	6,000,000.00
HSBC	2,250,000.00		Bank of Scotland	2,000,000.00
			Bank of Scotland	2,000,000.00
			HSBC	3,000,000.00
TOTAL	**20,250,000**			**18,250,000**
			Bfwd	20,175,093
			Paid	20,250,000
			Repaid	18,250,000
			Total	**22,175,093**
			CCLA Change	**46,042**
			Total	**22,221,135**

APPENDIX A3

Outstanding Investments as at 31 December 2020

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 (UK)	4,000,000	0.01%		MMF			
O	HSBC UK	9,000,000	0.10%		Call31			
O	HSBC UK	1,000,000	0.01%		Call1			
R	Santander UK	2,000,000	0.58%		Call180			
R	Santander UK	3,000,000	0.58%		Call180			
	Total Investments	**£19,000,000**	**0.20%**					**£0**

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) [1]	Initial Market Value (£)	Unrealised Growth (£)
CCLA Property Fund	**3,221,135**	**4.49%**	31/07/2014	3,000,000	(163,104)	2,836,896	**221,135**

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, 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.

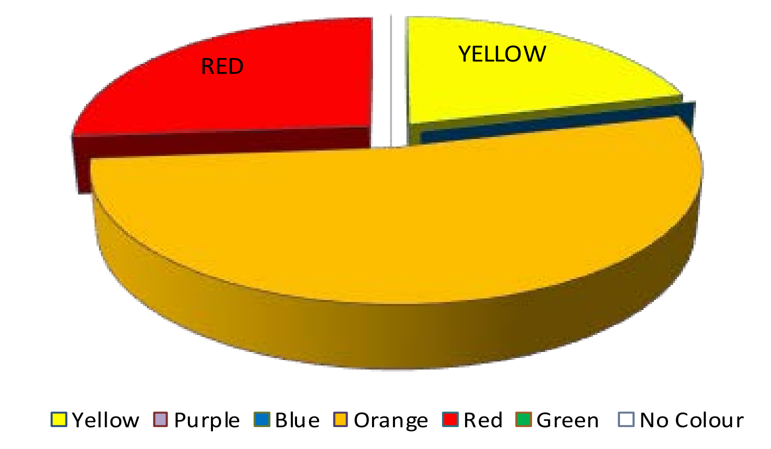
Investment Summary Sheet

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	Weighted Average Rate of Return WARoR	Weighted Average Days to Maturity WAM	Weighted Average Dats to Maturity from Execution WAM at Execution
Yellow	21.05%	4,000,000	100.00%	4,000,000	21.05%	0.01%	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	52.63%	10,000,000	100.00%	10,000,000	52.63%	0.09%	28	28
Red	26.32%	5,000,000	100.00%	5,000,000	26.32%	0.58%	180	180
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	100.0%	**19,000,000**	**100.00%**	**19,000,000**	**100.00%**	**0.20%**	**62**	**62**

Risk Score for Colour (1 = Low, 7 = High)	Dec 2020	Sep 2020	Jun 2020	Mar 2020
1	0.2	0.2	0.04	0.0
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	2.1	1.9	2.7	2.8
5	1.3	1.5	1.4	1.1
6	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0
	3.6	**3.6**	**4.1**	**3.9**
Normal' Risk Score	**3.5**	**3.5**	**3.5**	**3.5**

	LInk'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

Portfolio Composition by Link's Suggested Lending Criteria



APPENDIX B1

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. 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'. 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.

APPENDIX B2

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 2020/21 to date as detailed in the Treasury Management Strategy Statement for 2020/21.

(a) Affordability

	2020/21 Original Estimate £	2020/21 Revised Estimate £
(i) Capital Expenditure	29,915,800	20,400,400
(ii) Financing Costs		
Total Financing Costs	1,241,500	386,700
(iii) Net Revenue Stream		
Funding from Govt Grants/Local Taxpayers	13,386,000	13,386,000
(iv) Ratio of Financing Costs to Net Revenue Stream	9.27%	2.89%
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.		
(v) Incremental Impact on Council Tax	8.39	7.45
This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.		
(vi) Authorised Borrowing Limit	44,100,000	44,100,000
Maximum Level of Borrowing and Other Long term Liabilities	34,081,000	34,381,000
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.		

	2020/21 Original Estimate £	2020/21 Revised Estimate £
(vii) Operational Borrowing Limit	39,100,000	39,100,000
Maximum Level of Borrowing and Other Long term Liabilities	34,081,000	34,081,000
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.		
(viii) Capital Financing Requirement (CFR)	38,793,000	24,676,000
As at 31 March		
The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.		

(b) Prudence and Sustainability

	2020/21 Original £
(i) New Borrowing to Date	0
Long Term Borrowing has been taken in 2020/21 to date	0
(ii) Percentage of Fixed Rate Long Term Borrowing	
at December 2020	100%
(iii) Percentage of Variable Rate Long Term Borrowing	
at December 2020	0%
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.	
(iv) Minimum Level of Investments Classified as Specified	50.00%
Level of Specified Investments as at December 2020	100.00%
As part of the Capital Investment Strategy for 2020/21, 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.	

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 8 FEBRUARY 2021

EX.26/21 TREASURY MANAGEMENT OCTOBER – DECEMBER 2020
(Non Key Decision)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

The Deputy Leader submitted report RD.58/20 providing the regular quarterly report on Treasury Transactions, including the requirements of the Prudential Code.

The Deputy Leader moved, and the Leader seconded, the recommendation.

Summary of options rejected none

DECISION

That Report RD.58/20 be received, and the Prudential Indicators noted as at the end of December 2020.

Reasons for Decision

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