

Report to Audit Committee

Agenda
Item:

A.5

Meeting Date: 26 September 2018
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework YES
Public / Private Public

Title: TREASURY MANAGEMENT: APRIL TO JUNE 2018
Report of: CHIEF FINANCE OFFICER
Report Number: RD20/18

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the first quarter of 2018/19, was received by the Executive on 20 August 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

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That the report be noted.

Tracking

Executive:	20 August 2018
Audit Committee:	26 September 2018
Council:	Not applicable

Report to Executive

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Budget Framework YES
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Title: TREASURY MANAGEMENT: APRIL TO JUNE 2018
Report of: CHIEF FINANCE OFFICER
Report Number: RD20/18

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 June 2018.

Tracking

Executive:	20 August 2018
Audit Committee:	26 September 2018
Council:	Not applicable

1. BACKGROUND

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 2018– June 2018

- **Appendix A1** – Treasury Transactions April to June 2018
- **Appendix A2** – Investment Transactions April to June 2018
- **Appendix A3** – Outstanding Investments at June 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 The Council's Treasury Management function is responsible for investing the Council's surplus cash balances and managing cash flows appropriately. The Treasury Management Strategy Statement and the Treasury Management Practices are completed and approved in line with the CIPFA Code and include appropriate mechanisms for dealing with the Council's investments and borrowing needs.

3. CONSULTATION

3.1 Audit Committee will consider the report on 26 September 2018

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

4.1 That this report is received and the Prudential Indicators noted as at the end of June 2018.

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

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

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Appendices attached to report:	Appendix A1 – Treasury Transactions
	Appendix A2 – Investment Transactions
	Appendix A3 – Outstanding Investments
	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

Legal – The Council has a fiduciary duty to manage its finances properly and the proper reporting of the budget monitoring, including Treasury Management, is part of this process.

Finance – Included in the report

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

Information Governance – No implications

TREASURY TRANSACTIONS
APRIL to JUNE 2018

1. LOANS (DEBT)1.1 Transactions April to June 2018

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0	0.00	0	0.00
Local Bonds	0	0.00	0	0.00
Short Term Loans	0	0.00	0	0.00
Overnight Borrowing	0	0.00	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. There have been no transactions in the period.

3.1 Loans (Debt) Outstanding at end of June 2018

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

1.3 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at end June 2018	0	0	12,800
			12,800

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	42,305,000	0.40-0.9250	35,275,000	0.40-0.6750
	42,305,000		35,275,000	

A full schedule of investment transactions is set out in Appendix A2. Appendix A3 shows outstanding investments at end of June 2018. The weighted average return achieved on all investments as at the end of June was 1.40% (0.69% excluding Property Fund). The Bank Base rate was increased on 2nd August to 0.75% (from 0.50%) and counterparties are currently updating their investment returns. These will start to be realised when any new investments are subsequently placed.

3 REVENUES COLLECTED

To: June 2018		Collected £	% of Amount Collectable %
2018/19	Council Tax NNDR	17,467,897 14,038,501	29.07 31.21
Total		31,506,398	29.98
2017/18	Council Tax NNDR	16,544,313 14,090,447	29.11 31.65
Total		30,634,760	30.23
2016/17	Council Tax NNDR	15,271,971 13,975,280	29.05 30.82
Total		29,247,251	29.87

4 BANK BALANCE

At end of June 2018, £945,462.42 in hand.

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

5 PERFORMANCE ON TREASURY MANAGEMENT BUDGET TO END OF JUNE 2018

April – June 2018

	Profiled Budget £000	Actual £000	Variance £000
Interest Receivable	(87)	(60)	27
Interest Payable	190	189	(1)
Less Rechargeable	0	0	0
	190	189	(1)
Principal Repaid (MRP)	0	0	0
Debt Management	13	14	1
NET BALANCE	116	143	27

The estimate column is the profiled budget to end of June 2018.

Interest receivable is lower than anticipated due to lower than expected investment returns.

The dividends received from the property fund have maintained an income of approximately £37,000 per quarter. The yield to the end of June was 4.47%. The valuation of the investment at the end of June was £3,401,158.

APPENDIX A2

INVESTMENT TRANSACTIONS APRIL TO JUNE 2018

INVESTMENTS MADE		INVESTMENTS REPAID	
	£		£
Handelsbanken	3,830,000.00	HSBC	430,000.00
HSBC	2,500,000.00	Goldman Sachs	1,000,000.00
HSBC	750,000.00	HSBC	200,000.00
HSBC	350,000.00	HSBC	1,270,000.00
HSBC	300,000.00	HSBC	1,360,000.00
HSBC	1,100,000.00	Handelsbanken	900,000.00
Goldman Sachs	1,000,000.00	HSBC	2,100,000.00
Federated Investors	2,050,000.00	Bank of Scotland	1,000,000.00
HSBC	360,000.00	Federated Investors	1,500,000.00
Federated Investors	1,950,000.00	Handelsbanken	3,100,000.00
Bank of Scotland	1,000,000.00	HSBC	200,000.00
Federated Investors	1,500,000.00	HSBC	50,000.00
Handelsbanken	4,000,000.00	HSBC	3,350,000.00
HSBC	600,000.00	HSBC	200,000.00
HSBC	400,000.00	Handelsbanken	1,500,000.00
HSBC	1,100,000.00	Federated Investors	2,100,000.00
HSBC	400,000.00	Handelsbanken	2,500,000.00
HSBC	900,000.00	HSBC	1,000,000.00
Bank of Scotland	1,000,000.00	HSBC	650,000.00
HSBC	400,000.00	HSBC	2,675,000.00
HSBC	6,000,000.00	HSBC	400,000.00
Federated Investors	2,100,000.00	Standard Life	100,000.00
Standard Chartered	1,000,000.00	HSBC	2,850,000.00
Standard Life	3,000,000.00	Standard Life	1,500,000.00
HSBC	225,000.00	Standard Life	1,000,000.00
Standard Chartered	1,000,000.00	Standard Life	1,200,000.00
Standard Life	1,000,000.00	HSBC	1,140,000.00
HSBC	750,000.00		
HSBC	600,000.00		
HSBC	350,000.00		
HSBC	390,000.00		
HSBC	400,000.00		
TOTAL	42,305,000		35,275,000
		Bfwd	11,053,234
		Paid	42,305,000
		Repaid	35,275,000
		Total	18,083,234
		CCLA	17,924
		Total	18,101,158

Outstanding Investments as at 30 June 2018

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Days to maturity at execution	Total Interest Expected (£)
Y	MMF Standard Life	200,000	0.48%		MMF		0
Y	MMF Federated Investors	4,000,000	0.53%		MMF		
R	Goldman Sachs International Bank	1,000,000	0.69%	01/02/2018	27/07/2018	176	3,327
R	Goldman Sachs International Bank	1,000,000	0.83%	23/02/2018	31/08/2018	189	4,298
R	Goldman Sachs International Bank	1,000,000	0.95%	29/03/2018	28/09/2018	183	4,763
O	Bank of Scotland	1,000,000	0.70%		Call95		
O	Bank of Scotland	1,500,000	0.70%		Call95		
O	Bank of Scotland	1,000,000	0.70%		Call95		
R	Goldman Sachs International Bank	1,000,000	0.93%	13/04/2018	15/10/2018	185	4,714
O	Bank of Scotland	1,000,000	0.75%	15/05/2018	19/11/2018	188	3,863
R	Standard Chartered	1,000,000	0.67%	05/06/2018	21/12/2018	199	3,653
R	Standard Chartered	1,000,000	0.66%	14/06/2018	19/12/2018	188	3,399
	Total Investments	£14,700,000	0.69%			187	£28,017

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Initial Market Value (£)	Unrealised Growth (£)	% Growth
CCLA Property Fund	3,401,158	4.47%	31/07/2014	3,000,000	2,836,896	401,158	13.4%

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

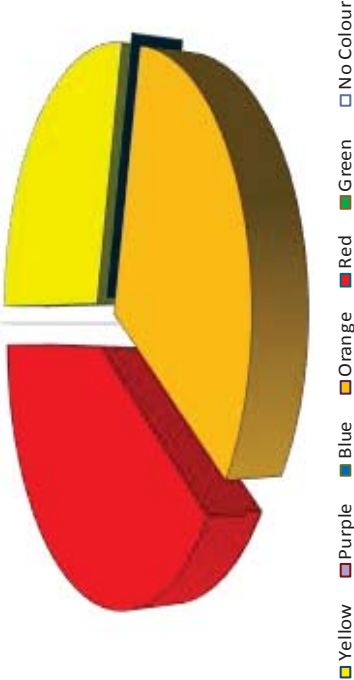
N.B Interest is recognised in the appropriate financial year in which it is due.

Investment Summary

% 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 Execution WAM at Execution
Yellow	28.57%	4,200,000	100.00%	4,200,000	28.57%	0.53%	0	0.53%	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0.00%	0	0
Blue	0.00%	-	0.00%	-	0.00%	0.00%	0	0.00%	0	0
Orange	30.61%	4,500,000	77.78%	3,500,000	23.81%	0.71%	105	0.71%	105	116
Red	40.82%	6,000,000	0.00%	-	0.00%	0.79%	105	0.79%	105	187
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0.00%	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0.00%	0	0
100.00%		14,700,000	52.38%	7,700,000	52.38%	0.69%	75	0.69%	75	112

Link's Suggested Criteria	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 Suggested Lending Criteria



Risk Score for Colour (1 = Low, 7 = High)		Jun-18	Mar-18	Dec-17	Sep-17
1	0.3	0.3	0.0	0.2	0.3
2	0.0	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0	0.0
4	1.2	1.2	1.9	1.7	0.1
5	2.0	2.0	2.6	2.0	3.3
6	0.0	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0	0.0
3.6		4.5	3.9	3.7	3.7

Normal' Risk Score

3.5

3.5

3.5

3.5

3.5

3.5

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 2018/19 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 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 £
(i) Capital Expenditure	4,032,600	9,326,600
(ii) Financing Costs Total Financing Costs	1,086,000	974,000
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	12,581,000	12,581,000
(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.	8.63%	7.74%
(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.	(1.93)	1.78
(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.		

	2018/19 Original Estimate £	2018/19 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.	13,557,000	n/a

(b) Prudence and Sustainability

	2018/19 Original £
(i) New Borrowing to Date No Long Term Borrowing has been taken in 2018/19 to date	0
(ii) Percentage of Fixed Rate Long Term Borrowing at June 2018	100%
(iii) Percentage of Variable Rate Long Term Borrowing at June 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%
(iv) Minimum Level of Investments Classified as Specified Level of Specified Investments as at June 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%

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 20 AUGUST 2018

EX.79/18 TREASURY MANAGEMENT: APRIL TO JUNE 2018
(Non Key Decision)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

The Leader presented report RD.20/18, the purpose of which was to inform Members of various Treasury Management issues.

He indicated that Appendix A set out the Schedule of Treasury Transactions for the period April 2018 to June 2018, whilst Appendix B discussed the Prudential Code and Prudential Indicators for 2018/19.

The Leader formally moved, and the Communities, Health and Wellbeing Portfolio Holder formally seconded that the Executive receive the report and note the Prudential Indicators as at the end of June 2018.

Summary of options rejected None

DECISION

That Report RD.20/18 be received and the Prudential Indicators noted as at the end of June 2018.

Reasons for Decision

To inform the Executive of various Treasury Management issues