

Report to Audit Committee

Agenda
Item:

A.7

Meeting Date: 22 December 2016
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public / Private: Public

Title: TREASURY MANAGEMENT SEPTEMBER 2016 AND FORECASTS FOR 2017/18 TO 2021/22
Report of: CHIEF FINANCE OFFICER
Report Number: RD34/16

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the second quarter of 2016/17 and budgetary projections for 2017/18 to 2021/22, was received by the Executive on 21 November 2016. 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:	22 December 2016
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Report to Executive

Agenda
Item:

Meeting Date: 21 November 2016
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD21/16
Within Policy and Budget Framework YES
Public / Private Public

Title: TREASURY MANAGEMENT SEPTEMBER 2016 AND FORECASTS FOR 2017/18 TO 2021/22
Report of: CHIEF FINANCE OFFICER
Report Number: RD34/16

Purpose / Summary:

This report provides the regular quarterly report on Treasury Transactions together with an interim report on Treasury Management as required under the Financial Procedure Rules.

The report also discusses the City Council's Treasury Management estimates for 2017/18 with projections to 2021/22. Also included is information regarding the requirements of the Prudential Code on local authority capital finance.

Recommendations:

That this report be received and that the projections for 2017/18 to 2020/21 be incorporated into the budget reports considered elsewhere on the agenda.

Tracking

Executive:	21 November 2016
Overview and Scrutiny:	6 December 2016
Audit Committee:	22 December 2016
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 to September 2016
 - **Appendix A1** – Treasury Transactions July to September 2016
 - **Appendix A2** – Investment Transactions July to September 2016
 - **Appendix A3** – Outstanding Investments at September 2016 and
- (ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2016/17:
 - **Appendix B1** – Prudential Code background
 - **Appendix B2** – Prudential Indicators
- (iii) **Appendix C** sets out the base Treasury Management estimates for 2017/18 with projections to 2021/22 which are included as potential budget pressures elsewhere on the agenda. Treasury Management projections are reviewed annually to ensure that current interest rate forecasts are updated and that current and future spending implications are built into the cash flow forecasts model. As interest rates are not forecast to rise in the medium term, revisions have been made to the interest achievable. Average cash balances will need to be amended to reflect revised forecasts for anticipated capital receipts, capital expenditure and use of revenue reserves and this will adjust the final pressure/saving requirement from treasury management.

2. CONSULTATION

2.1 Consultation to Date.
None.

2.2 Consultation proposed.
The Resources Overview and Scrutiny Panel and the Audit Committee will consider this report as part of the budget process.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 That this report be received and that the projections for 2017/18 to 2021/22 be incorporated into the budget reports elsewhere on the agenda.

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 July to September 2016	
attached to report:	Appendix A2 – Investment Transactions July to September 2016	
	Appendix A3 – Outstanding Investments at 30 September 2016	
	Appendix B1 – Prudential Code background	
	Appendix B2 – Prudential Indicators	
	Appendix C – Treasury Projections 2017/18 – 2021/22	

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:

Chief Executive's – not applicable

Deputy Chief Executive – not applicable

Economic Development – not applicable

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

Resources – Contained within the report

TREASURY TRANSACTIONS
JULY 2016 to SEPTEMBER 2016

1. LOANS (DEBT)1.1 Transactions July to September 2016

	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. 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 September 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 30 September 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 forecasting a further reduction in interest rates to 0.10% before the end of the year with rates not rising again until Quarter 2 of 2018.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	29,725,000	0.38 - 0.62	26,230,000	0.38 - 0.80
	29,725,000		26,230,000	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short term investments at 30 September 2016.

3 REVENUES COLLECTED

To: 30 September 2016		Collected £	% of Amount Collectable %
2016/17	Council Tax NNDR	29,944,677 26,320,394	56.27 57.94
Total		56,265,072	57.04
2015/16	Council Tax NNDR	29,418,449 25,123,526	56.99 57.30
Total		54,541,975	57.13
2014/15	Council Tax NNDR	28,505,557 24,614,168	57.14 57.76
Total		53,119,724	57.43

Collection levels have been fairly stable in each of the past three years.

4 BANK BALANCE

At 30 September 2016 £48,775.43 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 SEPTEMBER 2016
 April –September 2016

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(128)	(150)	(22)
Interest Payable	191	190	(1)
Less Rechargeable	0	0	0
	191	190	(1)
Principal Repaid	673	516	(157)
Debt Management	15	12	(3)
NET BALANCE	751	568	(183)

The estimate column is the profiled budget to 30 September 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 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 to the end of June, but has steadied since in the second quarter with the valuation remaining at a similar level. Dividends and yield remain at over 4.89%

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS JULY TO SEPTEMBER 2016

	£		£
Standard Life	2,000,000.00	Bank of Scotland	1,000,000.00
Federated Investors	3,750,000.00	Barclays	1,000,000.00
Bank of Scotland	1,000,000.00	Handelsbanken	2,050,000.00
Barclays	1,000,000.00	Handelsbanken	1,650,000.00
Handelsbanken	1,700,000.00	Federated Investors	145,000.00
Handelsbanken	2,100,000.00	Nationwide	1,000,000.00
Nationwide	1,000,000.00	Standard Life	2,290,000.00
Standard Life	4,000,000.00	Handelsbanken	100,000.00
Federated Investors	1,045,000.00	Federated Investors	900,000.00
Handelsbanken	680,000.00	Standard Life	115,000.00
Handelsbanken	2,170,000.00	Standard Life	165,000.00
Handelsbanken	1,150,000.00	Standard Life	1,700,000.00
HSBC	4,375,000.00	Standard Life	190,000.00
Federated Investors	1,375,000.00	Standard Life	1,830,000.00
HSBC	415,000.00	Federated Investors	1,325,000.00
HSBC	465,000.00	Handelsbanken	3,645,000.00
Bank of Scotland	1,500,000.00	Handelsbanken	355,000.00
		Federated Investors	50,000.00
		Federated Investors	1,165,000.00
		Federated Investors	1,105,000.00
		HSBC	1,220,000.00
		Federated Investors	1,730,000.00
		Bank of Scotland	1,500,000.00
TOTAL	29,725,000		26,230,000
		Bfwd	19,821,180
		Paid	29,725,000
		Repaid	26,230,000
		Total	23,316,180
		CCLA Change	-118,521
		Total	23,197,659

Outstanding Investments as at 30 September 2016

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
O	HSBC Bank Plc	4,035,000	0.40%					0
R	Bank of Scotland Plc	2,000,000	0.80%	01/04/2016	03/10/2016	3	185	8,110
R	Barclays Bank Plc	1,000,000	0.64%	05/04/2016	05/10/2016	5	183	3,209
R	Bank of Scotland Plc	1,000,000	0.80%	07/04/2016	07/10/2016	7	183	4,011
R	Bank of Scotland Plc	1,500,000	0.80%	15/04/2016	14/10/2016	14	182	5,984
R	Nationwide Building Society	1,000,000	0.71%	19/05/2016	21/11/2016	52	186	3,618
R	Nationwide Building Society	1,000,000	0.71%	24/05/2016	23/11/2016	54	183	3,560
R	Barclays Bank Plc	1,000,000	0.63%	27/05/2016	27/11/2016	58	184	3,176
R	Bank of Scotland Plc	1,000,000	0.80%	31/05/2016	30/11/2016	61	183	4,011
R	Nationwide Building Society	1,000,000	0.66%	21/06/2016	21/12/2016	82	183	3,309
R	Nationwide Building Society	1,000,000	0.46%	22/07/2016	22/12/2016	83	153	1,928
R	Barclays Bank Plc	1,000,000	0.59%	29/06/2016	03/01/2017	95	188	3,039
R	Bank of Scotland Plc	1,000,000	0.80%	04/04/2016	04/01/2017	96	275	6,027
R	Barclays Bank Plc	1,000,000	0.51%	05/07/2016	05/01/2017	97	184	2,571
R	Bank of Scotland Plc	1,500,000	0.65%	30/09/2016	30/03/2017	181	181	4,835
R							0	0
	Total Investments	£20,035,000	0.63%			63	176	£57,387

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) ¹	Initial Market Value (£)	Unrealised Growth (£)
CCLA Property Fund	3,162,659	4.89%	31/07/2014	3,000,000	(163,104)	2,836,896	162,659

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.

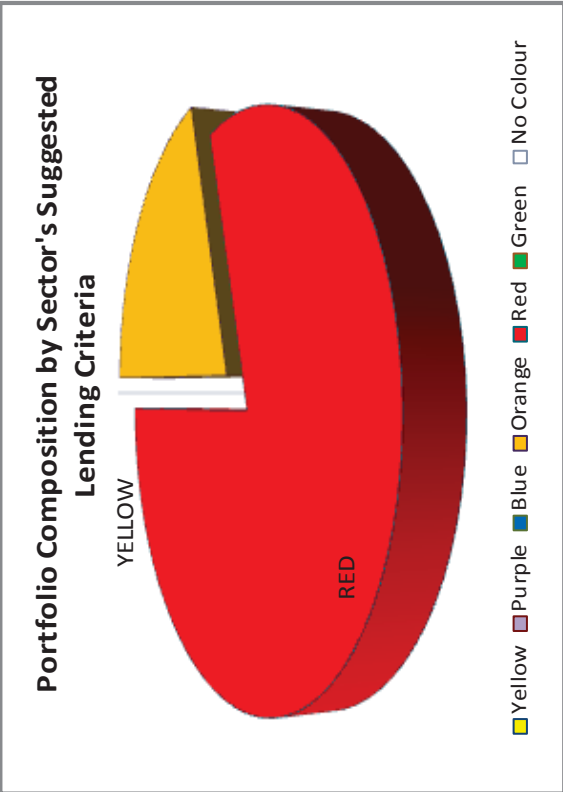
The category colour represents the duration of investment recommended by Sector, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investment Summary Sheet

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	Weighted Average Rate of Return	Weighted Average Days to Maturity	Weighted Average Maturity from Execution
Yellow	0.00%	-	0.00%	-	0.00%	0.00%	0	0.00%	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	20.14%	4,035,000	100.00%	4,035,000	20.14%	0.40%	0	0.40%	0	0
Red	79.86%	16,000,000	0.00%	-	0.00%	0.69%	62	0.69%	187	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%	20,035,000	23.88%	4,035,000	20.14%	0.63%	75	0.63%	132	132

	Risk Score for Colour (1 = Low, 7 = High)	Sep 2016	Jun 2016	Mar 2016	Sep 2015
1		0.0	0.3	0.2	0.3
2		0.0	0.0	0.0	0.0
3		0.0	0.0	0.0	0.0
4		0.8	0.0	0.2	0.0
5		4.0	0.9	3.8	3.5
6		0.0	3.2	0.0	0.0
7		0.0	0.0	0.0	0.0
		4.8	4.2	4.2	3.8

	Capita'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

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	10,440,000
(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	15,649,000

(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 September 2016	100%
(iii) Percentage of Variable Rate Long Term Borrowing at September 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 September 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%

TREASURY AND DEBT MANAGEMENT BASE ESTIMATES

APPENDIX C

Set out below are the base treasury management estimates for 2016/17 and 2017/18 with projections to 2021/22

TREASURY MANAGEMENT BUDGET									
Carlisle City Council		2016/17 Revised £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000		
Interest Payable		1,319	1,320	1,436	1,433	561	558		
Core MRP		516	554	474	623	579	525		
Principal Repayments		0	0	0	0	0	0		
Debt Management									
Sector		15	15	16	16	16	17		
Publications		1	1	1	1	1	1		
Recharge - Transferred Debt/bequests etc		(23)	(21)	(21)	(21)	(21)	(21)		
Total Expenditure		1,827	1,869	1,905	2,051	1,136	1,079		
Interest Receivable		(232)	(214)	(236)	(333)	(469)	(582)		
Other Interest Recharged		3	3	3	3	3	3		
Total Income		(229)	(211)	(233)	(330)	(466)	(579)		
Treasury Management Net Expenditure		1,598	1,658	1,672	1,721	669	500		
Council Resolution Budget 16/17		1,734	1,471	1,684	1,559	854	853		
Difference to Council Resolution Position		(136)	187	(12)	162	(185)	(353)		
Cumulative Difference to Council Resolution Position		(136)	51	40	202	17	(335)		

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 21 NOVEMBER 2016

**EX.105/16 TREASURY MANAGEMENT SEPTEMBER 2016 AND FORECASTS
FOR 2017/18 TO 2021/22**
(Key Decision – KD.21/16)

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.34/16 providing the regular quarterly report on Treasury Transactions, together with an interim report on Treasury Management as required under the Financial Procedure Rules. The report also discussed the City Council's Treasury Management estimates for 2017/18 with projections to 2021/22, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

Since interest rates were not forecast to rise in the medium term, revisions had been made to the interest achievable. Average cash balances would need to be amended to reflect revised forecasts for anticipated capital receipts, capital expenditure and use of revenue reserves and that would adjust the final pressure/saving requirement from treasury management. The base Treasury Management estimates for 2017/18 with projections for 2021/22 were set out at Appendix C.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder then formally moved the recommendation set out in the report, which was duly seconded by the Leader.

Summary of options rejected None

DECISION

That Report RD.34/16 be received and the projections for 2017/18 to 2021/22 be incorporated into the Budget reports considered elsewhere on the Agenda.

Reasons for Decision

To receive the report on Treasury Management and refer it as part of the budget process

EXCERPT FROM THE MINUTES OF THE RESOURCES OVERVIEW AND SCRUTINY PANEL HELD ON 6 DECEMBER 2016

ROSP.92/16 BUDGET 2017/18

(f) Treasury Management September 2016 and Forecasts for 2017/18 to 2021/22

The Chief Finance Officer submitted report RD.34/16 providing the regular quarterly report on Treasury Transactions, together with an interim report on Treasury Management as required under the Financial Procedure Rules. The report also discussed the City Council's Treasury Management estimates for 2017/18 with projections to 2021/22, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

Since interest rates were not forecast to rise in the medium term, revisions had been made to the interest achievable. Average cash balances would need to be amended to reflect revised forecasts for anticipated capital receipts, capital expenditure and use of revenue reserves and that would adjust the final pressure/saving requirement from treasury management. The base Treasury Management estimates for 2017/18 with projections for 2021/22 were set out at Appendix C.

The Executive had on 21 November 2016 (EX.104/16) received the report and resolved that Report RD.34/16 be received and the projections for 2017/18 to 2021/22 be incorporated into the Budget reports considered elsewhere on the Agenda.

RESOLVED – That the Treasury Management September 2016 and Forecasts for 2017/18 to 2021/22 (RD.34/16) be noted.