

Report to Executive

Agenda
Item:

A.8

Meeting Date: 2 February 2015
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework YES
Public / Private Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2014
Report of: DIRECTOR OF RESOURCES
Report Number: RD59/14

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 2014.

Tracking

Executive:	2 February 2015
Overview and Scrutiny:	n/a
Audit Committee:	13 April 2015
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 April 2014 –September 2014

- **Appendix A1** – Treasury Transactions April to December 2014
- **Appendix A2** – Investment Transactions April to December 2014
- **Appendix A3** – Outstanding Investments at Deember 2014

(ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2014/15:

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

2. CONSULTATION

2.1 Consultation to Date.
None.

2.2 Consultation proposed.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 That this report be received and the Prudential Indicators noted as at the end of December 2014.

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 April to December 2014	
attached to report:	Appendix A2 – Investment Transactions April to December 2014	
	Appendix A3 – Outstanding Investments at December 2014	
	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:

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.

Local Environment – not applicable

Resources – Contained within the report

TREASURY TRANSACTIONS
APRIL 2014 to DECEMBER 2014

1. LOANS (DEBT)1.1 Transactions July to December 2014

	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 2014

	£
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 31 December 2014 (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 not forecasting an interest rate rise until Quarter 2 of 2015.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	28,405,000	0.41-0.70	30,315,000	0.41-0.61
	28,405,000		30,315,000	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short term investments at 31 December 2014.

3 REVENUES COLLECTED

To: 31 December 2014		Collected £	% of Amount Collectable %
2014/15	Council Tax	42,667,002	85.54
	NNDR	36,289,726	85.48
Total		78,956,729	85.52
2013/14	Council Tax	41,942,702	85.69
	NNDR	37,373,230	88.84
Total		79,315,932	87.14
2012/13	Council Tax	40,986,514	86.03
	NNDR	35,343,358	86.36
Total		76,329,872	86.18

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

4 BANK BALANCE

At 31 December 2014 £906,890.21 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 2014
 April –December 2014

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(170)	(194)	(24)
Interest Payable	850	848	(2)
Less Rechargeable	(7)	(7)	0
	843	841	(2)
Principal Repaid	0	0	0
Debt Management	15	12	(3)
NET BALANCE	688	659	(29)

The estimate column is the profiled budget to 31 December 2014.

Interest receivable is falling behind budgeted projections due to average investment returns being lower than those anticipated when the budget was set. Although bank base rates have remained at 0.50%, investment rates have continued to fall due to banks being able to access capital from the Bank of England that has meant they do not need to offer higher rates to attract investment from the financial markets. To counteract this, £3million was placed in the CCLA property Fund at the end of July and interest from this fund will start to appear through quarter 3. At the end of December the fund is attracting a yield of 4.72%.

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS JULY TO DECEMBER 2014

INVESTMENTS MADE			INVESTMENTS REPAYD	
	£			£
HSBC	2,860,000.00		HSBC	500,000.00
Ignis	3,000,000.00		Ignis	3,000,000.00
Ignis	750,000.00		Ignis	135,000.00
HSBC	985,000.00		HSBC	3,050,000.00
HSBC	2,105,000.00		Ignis	615,000.00
Ignis	3,350,000.00		HSBC	40,000.00
Ignis	450,000.00		Ignis	1,150,000.00
Handelsbanken	3,400,000.00		Ignis	800,000.00
Nationwide	1,000,000.00		Nationwide	1,000,000.00
Nationwide	1,000,000.00		Ignis	250,000.00
HSBC	2,935,000.00		Handelsbanken	3,400,000.00
Ignis	2,150,000.00		HSBC	115,000.00
Ignis	350,000.00		Ignis	1,600,000.00
Nationwide	1,000,000.00		HSBC	2,620,000.00
Ignis	2,070,000.00		Nationwide	1,000,000.00
Nationwide	1,000,000.00		HSBC	200,000.00
			Nationwide	1,000,000.00
			Ignis	1,170,000.00
			Ignis	3,400,000.00
			HSBC	3,970,000.00
			Nationwide	1,000,000.00
			HSBC	300,000.00
TOTAL	28,405,000			30,315,000
			Bfwd	22,490,000
			Paid	28,405,000
			Repaid	30,315,000
			Total	20,580,000

Outstanding Investments as at 31 December 2014

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
O	HSBC	1,730,000	0.50%	Call				0
	Bank of Scotland	1,000,000	0.98%	03/01/2014	05/01/2015	5	367	9,854
	Barclays Bank	1,000,000	0.72%	04/04/2014	05/01/2015	5	276	5,444
	Bank of Scotland	1,000,000	0.95%	14/02/2014	13/02/2015	44	364	9,474
	Barclays Bank	1,000,000	0.74%	30/05/2014	27/02/2015	58	273	5,535
	Barclays Bank	1,000,000	0.75%	02/07/2014	02/03/2015	61	243	4,993
	Bank of Scotland	2,000,000	1.10%	28/03/2014	27/03/2015	86	364	21,940
	Bank of Scotland	1,000,000	0.95%	31/03/2014	30/03/2015	89	364	9,474
	Bank of Scotland	1,000,000	0.95%	10/04/2014	09/04/2015	99	364	9,474
	Nationwide building Society	1,000,000	0.66%	17/11/2014	18/05/2015	138	182	3,291
	Nationwide building Society	1,000,000	0.60%	22/12/2014	22/05/2015	142	151	2,482
	Bank of Scotland	1,000,000	0.95%	30/05/2014	28/05/2015	148	363	9,448
	Barclays Bank	1,000,000	0.82%	26/09/2014	26/06/2015	177	273	6,133
	Nationwide building Society	1,000,000	0.70%	02/12/2014	26/06/2015	177	206	3,951
	Nationwide building Society	1,000,000	0.76%	28/11/2014	24/07/2015	205	238	4,956
	Bank of Scotland	1,000,000	0.95%	01/08/2014	31/07/2015	212	364	9,474
	Total Investments	£17,730,000	0.82%			110	293	£115,922

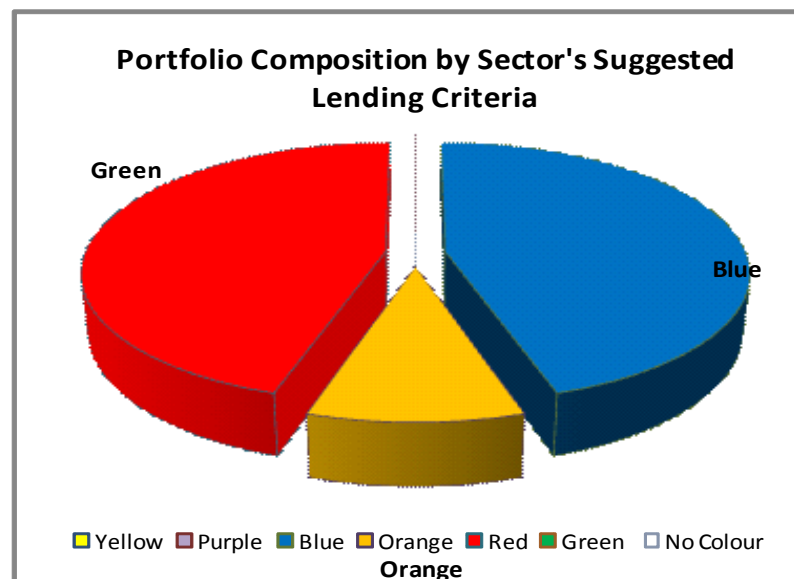
N.B Interest is recognised in the appropriate financial year in which it is due.

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

						Weighted Average Rate of Return	Weighted Average Days to Maturity	Weighted Average Dats 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	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Blue	45.12%	8,000,000	0.00%	-	0.00%	0.99%	96	364
Orange	9.76%	1,730,000	100.00%	1,730,000	9.76%	0.50%	0	0
Red	45.12%	8,000,000	0.00%	-	0.00%	0.72%	120	230
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	100.00%	17,730,000	9.76%	1,730,000	9.76%	0.82%	98	268

	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



Risk Score for Colour (1 = Low, 7 = High)	Dec 2014	Sep 2014	Jun 2014	Dec 2013
1	0	0	0	0
2	0	0	0	0
3	1.4	1.3	1.8	2.5
4	0.4	0.4	0.5	0.0
5	2.3	2.1	1.3	0
6	0.0	0.0	0.0	0.9
7	0	0	0	0.0
	4.0	3.8	3.6	3.5

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 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 2014/15 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 2014/15 to date as detailed in the Treasury Management Strategy Statement for 2014/15.

(a) Affordability

	2014/15 Original Estimate £	2014/15 Revised Estimate £
(i) Capital Expenditure	9,716,100	7,961,200
(ii) Financing Costs Total Financing Costs	1,521,567	1,521,567
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	13,090,000	13,090,000
(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.	11.62%	11.62%
(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.	12.73	12.73
(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.		

	2014/15 Original Estimate £	2014/15 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.	7,586,000	n/a

(b) Prudence and Sustainability

	2014/15 Original £
(i) New Borrowing to Date No Long Term Borrowing has been taken in 2014/15 to date	0
(ii) Percentage of Fixed Rate Long Term Borrowing at December 2014	100%
(iii) Percentage of Variable Rate Long Term Borrowing at December 2014 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 2014 As part of the Investment Strategy for 2014/15, 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%