

REPORT TO EXECUTIVE

PORTFOLIO AREA : GOVERNANCE AND RESOURCES

Date of Meeting: 22 November 2011

Public

Key Decision: No

Recorded in Forward Plan:

No

Inside Policy Framework

Title: TREASURY MANAGEMENT JULY – SEPTEMBER 2011 AND FORECASTS FOR 2012/13 to 2016/17

Report of: Assistant Director (Resources)

Report reference: RD67/11

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 2012/13 with projections to 2016/17. 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 2012/13 to 2016/17 be incorporated into the budget reports elsewhere on the agenda.

Contact Officer: Steven Tickner

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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: The Prudential Code on Local Authority borrowing including related guidance notes; Financial Services working papers.

CITY OF CARLISLE

To: The Executive
22 November 2011

RD67/11

TREASURY TRANSACTIONS 2011/12

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 1 April 2011 – 30 September 2011

- **Appendix A1** – Treasury Transactions April to September 2011
- **Appendix A2** – Investment Transactions April to September 2011
- **Appendix A3** – Outstanding Investments at 30 September 2011 and

(ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2011/12:

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

(iii) **Appendix C** sets out the base Treasury Management estimates for 2012/13 with projections to 2016/17 which are included as budget pressures elsewhere on the agenda.

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. RECOMMENDATIONS

That this report be received and that the projections for 2012/13 to 2016/17 be incorporated into the budget reports elsewhere on the agenda.

4. REASONS FOR RECOMMENDATIONS

4.1 As per the report.

5. IMPLICATIONS

- Staffing/Resources – Not applicable.
- Financial – Included within the report.
- Legal – Not applicable.
- Corporate – Not applicable.
- Risk Management – Risk management lies at the heart of effective treasury management.
- Equality Issues – Not applicable.
- Environmental – Not applicable.
- Crime and Disorder – Not applicable.

6. IMPACT ASSESSMENTS

Does the change have an impact on the following?

Equality Impact Screening	Impact Yes/No?	Is the impact positive or negative?
Does the policy/service impact on the following?		
Age	No	N/A
Disability	No	N/A
Race	No	N/A
Gender/ Transgender	No	N/A
Sexual Orientation	No	N/A
Religion or belief	No	N/A
Human Rights	No	N/A
Social exclusion	No	N/A
Health inequalities	No	N/A
Rurality	No	N/A

If you consider there is either no impact or no negative impact, please give reasons:

This report summarises Treasury Transactions for Quarter 2 2011/12 and estimates for Treasury Management for the period 2012/13 to 2016/17

If an equality Impact is necessary, please contact the P&P team.

PETER MASON
Assistant Director (Resources)

Contact Officer: Steven Tickner

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TREASURY TRANSACTIONS
1 APRIL 2011 to 30 SEPTEMBER 2011

1. LOANS (DEBT)1.1 Transactions 1 April to 30 September 2011

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0		0	0
Local Bonds	0		0	0
Short Term Loans	0		0	0.00
Overnight Borrowing	5,005,000	0.30-0.60	5,005,000	0.30-0.60
	5,005,000		5,005,000	

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 30 September 2011

	£
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 2011	0	0	13,300
			13,300

1.5 Interest Rates

Sector is not forecasting an interest rate rise until Quarter 3 of 2013.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	24,581,000	0.74-1.65	27,801,000	0.74-2.50
	24,581,000		27,801,000	

A full schedule of investment transactions is set out in Appendix A2. Appendix A3 shows outstanding investments at 30 September 2011.

3 REVENUES COLLECTED

To: 30 September 2011		Collected £	% of Amount Collectable %
2011/12	Council Tax	27,331,978	57.60
	NNDR	23,320,145	60.62
Total		50,652,122	58.97
2010/11	Council Tax	27,326,116	57.70
	NNDR	21,962,403	61.20
Total		49,288,519	59.23
2009/10	Council Tax	26,748,333	57.60
	NNDR	21,118,052	59.80
Total		47,866,385	58.60

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

4 BANK BALANCE

At 30 September 2011, £62,542.82 in hand.

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

5 PERFORMANCE ON TREASURY MANAGEMENT TRANSACTIONS
TO 30 SEPTEMBER 2011
 April – 30 September 2011

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(127)	(192)	(65)
Interest Payable	192	190	(2)
Less Rechargeable	(7)	(7)	0
	185	183	(2)
Principal Repaid	221	278	57
Debt Management	14	14	0
NET BALANCE	293	283	(10)

The estimate column is the profiled budget to 30 September 2011.

Most budget heads are performing very much in line with the original estimate. There will, however, be an over spend on the principal repaid figure (the minimum revenue provision - MRP) due to the capital programme in 2010/11 utilising more capital receipts than expected. This was due to expected receipts from the asset review not being generated and disposals slipping into 2011/12. This meant that the Capital Financing Requirement increased by more than expected and therefore the MRP required has increased.

APPENDIX A2

INVESTMENT TRANSACTIONS 1 APRIL TO 30 SEPTEMBER 2011

INVESTMENTS MADE		INVESTMENTS REPAID	
	£		£
Bank of Scotland	1,000,000.00	Bank of New York(Prim	1,958,000.00
Bank of New York(Prim	525,000.00	Bank of Scotland	1,000,000.00
Bank of New York(Prim	2,063,000.00	Bank of New York(Prim	550,000.00
Bank of Scotland	770,000.00	Bank of New York(Prim	230,000.00
Bank of Scotland	816,000.00	Bank of New York(Prim	2,519,000.00
Bank of New York(Prim	3,300,000.00	Cater Allen	1,000,000.00
Santander	1,000,000.00	Bank of New York(Prim	701,000.00
Bank of New York(Prim	500,000.00	Bank of Scotland	839,000.00
Bank of New York(Prim	460,000.00	Bank of New York(Prim	1,000,000.00
Bank of New York(Prim	740,000.00	Cumberland B Soc	1,000,000.00
Coventry B Soc	1,700,000.00	Bank of New York(Prim	2,240,000.00
Cumberland B Soc	1,000,000.00	Bank of New York(Prim	1,230,000.00
Bank of Scotland	253,000.00	Bank of New York(Prim	224,000.00
Bank of New York(Prim	3,800,000.00	Bank of Scotland	2,000,000.00
Bank of New York(Prim	525,000.00	Bank of New York(Prim	150,000.00
Bank of Scotland	2,000,000.00	Cater Allen	1,000,000.00
Bank of New York(Prim	529,000.00	Bank of New York(Prim	680,000.00
Bank of Scotland	1,000,000.00	Bank of New York(Prim	330,000.00
Santander	1,000,000.00	Bank of New York(Prim	1,100,000.00
Bank of New York(Prim	600,000.00	Bank of Scotland	2,000,000.00
Santander	1,000,000.00	Bank of New York(Prim	2,590,000.00
		Cater Allen	1,000,000.00
		Leeds B Soc	1,000,000.00
		Bank of Scotland	1,000,000.00
		Bank of New York(Prim	460,000.00
TOTAL	24,581,000		
		Bfwd	24,370,000
		Paid	24,581,000
		Repaid	27,801,000
		Total	21,150,000

Outstanding Investments as at 30 September 2011

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
Y	Prime Rate	450,000	0.81%		MMF			
G	Barclays Bank	1,000,000	1.75%	04/06/2010	01/06/2012	245	728	34,904
G	Barclays Bank	1,000,000	1.90%	16/06/2010	15/06/2012	259	730	38,000
G	Cater Allen	1,000,000	2.50%	26/11/2010	25/11/2011	56	364	24,932
B	Ulster Bank Ltd	1,000,000	1.45%	30/11/2010	30/11/2011	61	365	14,500
G	Nationwide BS	1,000,000	1.35%	30/11/2010	30/11/2011	61	365	13,500
N/C	Coventry BS	1,000,000	1.35%	01/12/2010	01/12/2011	62	365	13,500
G	Clydesdale Bank	1,000,000	1.20%	01/12/2010	01/12/2011	62	365	12,000
B	Bank of Scotland	1,000,000	1.95%	05/01/2011	05/01/2012	97	365	19,500
B	Bank of Scotland	1,000,000	1.95%	13/01/2011	13/01/2012	105	365	19,500
B	Bank of Scotland	1,000,000	2.05%	24/03/2011	26/03/2012	178	368	20,668
B	Bank of Scotland	1,000,000	2.05%	29/03/2011	26/03/2012	178	363	20,388
B	Bank of Scotland	1,000,000	1.37%	08/04/2011	10/10/2011	10	185	6,944
N/C	Leeds BS	1,000,000	1.13%	12/04/2011	27/10/2011	27	198	6,130
N/C	Cumberland BS	1,000,000	1.22%	03/05/2011	03/11/2011	34	184	6,150
G	Santander	1,000,000	1.23%	01/08/2011	22/12/2011	83	143	4,819
N/C	Cumberland BS	1,000,000	0.72%	16/08/2011	27/10/2011	27	72	1,420
N/C	Coventry BS	1,700,000	0.82%	16/08/2011	25/11/2011	56	101	3,857
G	Santander	1,000,000	1.63%	27/09/2011	25/05/2012	238	241	10,762
B	Bank of Scotland	1,000,000	1.65%	27/09/2011	25/05/2012	238	241	10,895
G	Santander	1,000,000	1.48%	30/09/2011	26/03/2012	178	178	7,218
Total Investments		£21,150,000	1.50%			112.75	314.3	£289,587

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

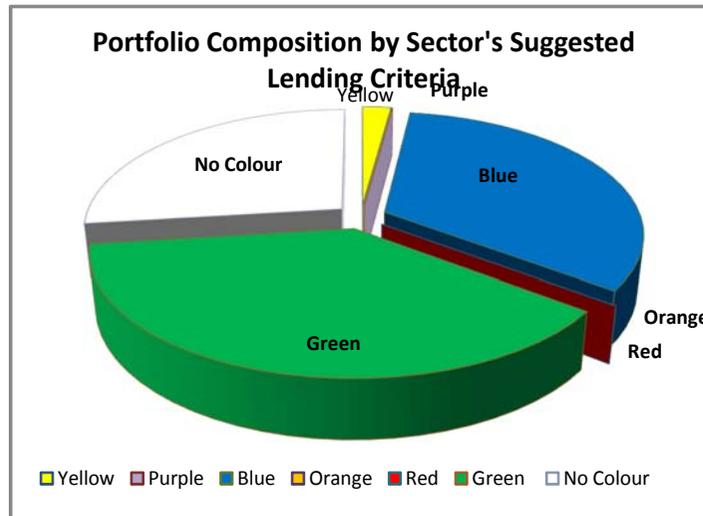
The category colour represents the duration of investment recommended by Sector, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investments 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 Days to Maturity from Execution WAM at Execution
Yellow	2.13%	450,000	100.00%	450,000	2.13%	0.81%		
Purple	0.00%	-	0.00%	-	0.00%	0.00%		
Blue	33.10%	7,000,000	0.00%	-	0.00%	1.78%	124	322
Orange	0.00%	-	0.00%	-	0.00%	0.00%		
Red	0.00%	-	0.00%	-		0.00%		
Green	37.83%	8,000,000	0.00%	-	0.00%	1.63%	148	389
No Colour	26.95%	5,700,000	0.00%	-	0.00%	1.05%	41	184
	100.00%	21,150,000	2.13%	450,000	2.13%	1.50%	104	298

Weighted Average Risk			
Risk Score for Colour (1 = Low, 7 = High)	September 2011	June 2011	March 2011
1	0.0	0.1	0.1
2	0.0	0.0	0.0
3	1.0	1.0	1.0
4	0.0	0.0	0.0
5	0.0	0.6	0.6
6	2.3	1.2	1.2
7	1.9	1.4	2.0
	5.2	4.4	4.9

	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	September 2011	June 2011	March 2011
	3.5	3.5	3.5

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. 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 2011/12 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 2011/12 to date as detailed in the Treasury Management Strategy Statement for 2011/12.

(a) Affordability

	2011/12 Original £	2011/12 Revised £
(i) Capital Expenditure	7,534,000	6,627,700
(ii) Financing Costs Total Financing Costs	1,290,000	1,346,300
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	13,904,000	13,904,000
(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.	9.28%	9.68%
(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.	N/A	6.08
(vi) Authorised Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities 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.	37,600,000 15,013,300	37,600,000

	2011/12 Original £	2011/12 Revised £
<p>(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.</p>	32,600,000 15,013,300	32,600,000
<p>(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.</p>	6,954,000	n/a

(b) Prudence and Sustainability

	2011/12 Original £
<p>(i) New Borrowing to Date No Long Term Borrowing has been taken in 2011/12 to date</p>	0
<p>(ii) Percentage of Fixed Rate Long Term Borrowing at 30 September 2011</p>	100%
<p>(iii) Percentage of Variable Rate Long Term Borrowing at 30 September 2011 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.</p>	0%
<p>(iv) Minimum Level of Investments Classified as Specified Level of Specified Investments as at 30 September 2011</p> <p>As part of the Investment Strategy for 2011/12, 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.</p>	50.00% 86.00%

TREASURY AND DEBT MANAGEMENT BASE ESTIMATES

APPENDIX C

Set out below are the base treasury management estimates for 2011/12 and 2012/13 with projections to 2016/17

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Est	Est	Est	Est	Est	Est
	£	£	£	£	£	£
Interest Payable	1,319,100	1,319,100	1,319,675	1,319,750	1,320,325	1,320,400
Core MRP	278,100	349,774	24,427	463,967	356,148	429,554
Debt Management	13,940	14,289	14,646	15,012	15,387	0
	27,300					
	500	500	500	500	500	500
Sub Total	1,638,940	1,683,663	1,359,248	1,799,229	1,692,360	1,750,454
Recharge - CCC	(27,000)	(25,000)	(23,000)	(21,000)	(21,000)	(21,000)
Total Expenditure	1,611,940	1,658,663	1,336,248	1,778,229	1,671,360	1,729,454
Interest Receivable	(253,877)	(522,000)	(433,000)	(722,000)	(742,000)	(852,000)
Other Int Recharged	3,000	3,000	3,000	3,000	3,000	3,000
Total Income	(250,877)	(519,000)	(430,000)	(719,000)	(739,000)	(849,000)
T M Net Exp	1,361,063	1,139,663	906,248	1,059,229	932,360	880,454
Current MTFP	1,304,600	780,000	1,379,600	446,100	1,207,000	1,162,700
Difference	56,463	359,663	(473,352)	613,129	(274,640)	(282,246)