

Report to Audit Committee

Agenda
Item:

A.9

Meeting Date: 18 December 2020
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD 25/20
Within Policy and Budget Framework: Yes
Public / Private: Public

Title: TREASURY MANAGEMENT QUARTER 2 2020/21 AND FORECASTS FOR 2021/22 TO 2025/26
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number: RD34/20 (amended)

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the second quarter of 2020/21 and budgetary projections for 2021/22 to 2025/26, was received by the Executive on 9 November 2020. The Audit Committee is invited to make any observations on treasury matters which took place during this quarter. The Committee is otherwise asked to note the report.

Since this report was considered by the Executive the government have announced the outcome of a consultation into use of the PWLB borrowing facility. As part of the Spending Review announcement on 25 November, the government outlined the new guidelines under which borrowing from the PWLB can be undertaken by local authorities.

As expected, these new guidelines restrict the use of borrowing for commercial investment property ventures where yield is the primary reason for purchase.

The outcome of this new approach is that the additional 100bps that was added to rates 12-months ago has now been rescinded and borrowing rates have immediately fallen back to now be at levels similar to when the Council undertook some borrowing in September 2019 when it borrowed (£9m at 1.8% for 40 years, and £5m at 1.33% for 20 years).

The impact of the reduction in rates will be factored into the draft budget proposals and provides a significant saving in the cost of the borrowing that is still included in the Medium-Term Financial Plan. (Appendix C shows the original MTFP projection as

considered by Executive in November). A revised projection is now shown at Appendix D that shows the impact of the new rates.

The borrowing rates shown at Para 1.4.2 have been updated to the following:

	Amount (£000)	Original Rate	Updated Rate	Term
2020/21	5,500	2.41%	1.50%	25 years
2020/21	1,500	2.20%	1.40%	15 years
2020/21	15,000	2.41%	1.50%	25 years
2021/22	6,000	2.60%	1.55%	25 years
2022/23	5,000	2.80%	1.65%	25 years
2022/23	1,507	2.80%	1.65%	25 years
Total	34,007			

Recommendations:

That the report be noted including the update to borrowing rates as outlined above.

Tracking

Executive:	9 November 2020
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Report to Executive

Agenda
Item:

Meeting Date: 09 November 2020
 Portfolio: Finance, Governance and Resources
 Key Decision: Yes: Recorded in the Notice Ref: KD25/20
 Within Policy and Budget Framework YES
 Public / Private Public

Title: TREASURY MANAGEMENT QUARTER 2 2020/21 AND
 FORECASTS FOR 2021/22 TO 2025/26
 Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
 Report Number: RD34/20

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 2021/22 with projections to 2025/26. 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 2021/22 to 2025/26 be incorporated into the budget reports considered elsewhere on the agenda.

Tracking

Executive:	09 November 2020
Scrutiny BTSP:	01 December 2020
Audit Committee:	18 December 2020

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:

1.2 **Appendix A** sets out the schedule of Treasury Transactions for the period to September 2020 as follows:

- **Appendix A1** – Treasury Transactions July to September 2020
- **Appendix A2** – Investment Transactions July to September 2020
- **Appendix A3** – Outstanding Investments at September 2020

1.3 The Prudential Code and Prudential Indicators for 2020/21 are discussed at **Appendix B** as follows:

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

1.4 TREASURY MANAGEMENT ESTIMATES 2021/22 TO 2025/26

1.4.1 The draft base Treasury Management estimates for 2021/22 with projections to 2025/26 are set out at **Appendix C**. 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. 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.

1.4.2 The assumptions included in the Treasury estimates for 2021/22 are as follows:

- Assumed use of revenue reserves for all budget pressure commitments outlined in RD32/20 are included;
- The capital programme and capital resources estimate as outlined in RD33/20 are included;
- External borrowing assumed as follows:

	Amount (£000)	Rate	Term
2020/21	5,500	2.41%	25 years
2020/21	1,500	2.20%	15 years
2020/21	15,000	2.41%	25 years
2021/22	6,000	2.60%	25 years
2022/23	5,000	2.80%	25 years
2022/23	1,507	2.80%	25 years
Total	34,007		

- Investment returns are assumed to be as follows:

Year	Rate
2020/21	0.30%
2021/22	0.30%
2022/23	0.70%
2023/24	0.83%
2024/25	1.08%

- Investment return from CCLA property fund is assumed at 4% p.a.

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.

- 3.2 Consultation proposed.
The Business & Transformation Scrutiny Panel and the Audit Committee will consider this report as part of the budget process.

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 4.1 That this report be received and that the projections for 2021/22 to 2025/26 be incorporated into the budget reports elsewhere on the agenda.

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.

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**Appendices
attached to report:**

Appendix A1 – Treasury Transactions July to September 2020
Appendix A2 – Investment Transactions July to September 2020
Appendix A3 – Outstanding Investments at 30 September 2020
Appendix B1 – Prudential Code background
Appendix B2 – Prudential Indicators

Appendix C – Treasury Projections 2021/22 – 2025/26

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

TREASURY TRANSACTIONS
JULY 2020 to SEPTEMBER 2020

1. LOANS (DEBT)1.1 Transactions July to September 2020

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0	0	112,500	1.80
P.W.L.B	0	0	125,000	1.33
Local Bonds	0	0	0	0
Short Term Loans	0	0	0	0
Overnight Borrowing	0	0	0	0
	0		237,500	

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.

1.5 Loans (Debt) Outstanding at September 2020

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

1.6 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Other £	Total £
Short Term Debt at 30 September 2020 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	12,800	12,800

1.7 Interest Rates

Both Link Group and Capital Economics have maintained their interest rate forecasts amid the coronavirus outbreak. Bank Rate is currently forecast to remain unchanged at 0.1% throughout 2020 and 2021.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	20,940,000	0.01 - 0.10	21,730,000	1.10 - 0.01
	20,940,000		21,730,000	

A full schedule of short-term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short-term investments at 30 September 2020.

3 REVENUES COLLECTED

To: 30 September 2020		Collected £	% of Amount Collectable %
2020/21	Council Tax NNDR	36,788,494 11,184,691	55.04 49.97
Total		47,973,185	53.77
2019/20	Council Tax NNDR	36,403,520 25,102,107	56.80 57.01
Total		61,505,627	56.88
2018/19	Council Tax NNDR	34,146,022 26,058,251	56.55 58.15
Total		60,204,273	57.23

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. Revised debt recovery procedures have been put in place in order to provide support to rate payers whilst, at the same time, safeguarding the Council's cash position.

4 BANK BALANCE

At 30 September 2020 £1,759,713.93 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 2020

April –September 2020

	Profiled Budget £000	Actual £000	Variance £000
Interest Receivable	(133)	(186)	(53)
Interest Payable	1,064	281	(783)
Less Rechargeable	0	0	0
	1,064	281	(783)
Principal Repaid (MRP)	0	0	0
Debt Management	12	13	1
NET BALANCE	943	108	(835)

The profiled budget is to 30 September 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 with a higher return begin to mature and 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 September. Dividends and yield levels are currently 4.26%.

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS JULY TO SEPTEMBER 2020

INVESTMENTS MADE			INVESTMENTS REPAID	
	£			£
Federated Investors	3,210,000.00		Federated Investors	550,000.00
Federated Investors	1,380,000.00		Federated Investors	200,000.00
Handelsbanken	3,700,000.00		Federated Investors	630,000.00
Handelsbanken	300,000.00		Handelsbanken	4,000,000.00
Federated Investors	4,000,000.00		Bank of Scotland	2,000,000.00
Handelsbanken	200,000.00		Federated Investors	4,000,000.00
HSBC	4,500,000.00		Handelsbanken	200,000.00
Federated Investors	3,650,000.00		Bank of Scotland	2,000,000.00
			HSBC	2,550,000.00
			HSBC	185,000.00
			HSBC	1,765,000.00
			Federated Investors	3,150,000.00
			Federated Investors	500,000.00
TOTAL	20,940,000			21,730,000
			Bfwd	20,971,143
			Paid	20,940,000
			Repaid	21,730,000
			Total	20,181,143
			CCLA	(6,050)
			Total	20,175,093

Outstanding Investments as at 30 September 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	0.06%		MMF			
O	Handelsbanken	4,000,000	0.10%		Call1			
O	Bank of Scotland	2,000,000	1.10%	05/11/2019	05/11/2020	36	366	22,060
O	Bank of Scotland	1,000,000	1.10%	07/01/2020	18/12/2020	79	346	10,427
O	Bank of Scotland	1,000,000	1.10%	20/01/2020	18/12/2020	79	333	10,036
R	Santander UK	2,000,000	1.00%		Call180			
R	Santander UK	3,000,000	1.00%		Call180			
Total Investments		£17,000,000	0.59%			65	348	£42,523

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) ¹	Initial Market Value (£)	Unrealised Growth (£)
CCLA Property Fund	3,175,093	4.26%	31/07/2014	3,000,000	(163,104)	2,836,896	175,093

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.

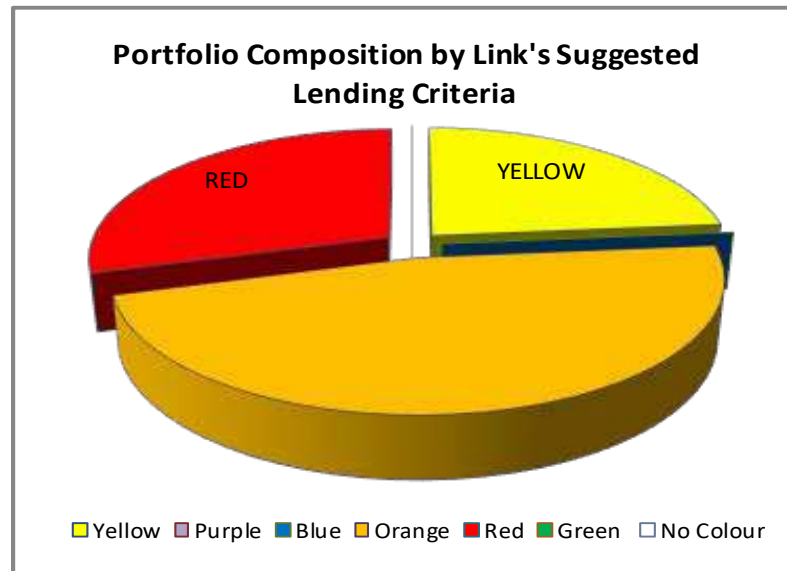
The category colour represents the duration of investment recommended by Link, the Council's Treasury Advisors. Those investments with no colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investment Summary Sheet

						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	23.53%	4,000,000	100.00%	4,000,000	23.53%	0.06%	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	47.06%	8,000,000	50.00%	4,000,000	23.53%	0.60%	29	58
Red	29.41%	5,000,000	100.00%	5,000,000	29.41%	1.00%	180	0
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%	17,000,000	76.47%	13,000,000	76.47%	0.59%	67	136

Risk Score for Colour (1 = Low, 7 = High)	Sep 2020	Jun 2020	Mar 2020	Dec 2020
1	0.2	0.04	0.0	0.1
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	1.9	2.7	2.8	1.9
5	1.5	1.4	1.1	2.3
6	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0
	3.6	4.1	3.9	4.3

	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



Normal' Risk Score	3.5	3.5	3.5	3.5
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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, 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.

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	19,390,400
(ii) Financing Costs Total Financing Costs	1,241,500	628,500
(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 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.	9.27%	4.70%
(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.	8.39	8.87
(vi) Authorised Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities	44,100,000 34,081,000	44,100,000 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 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.	39,100,000 34,081,000	39,100,000 34,381,000
(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.	38,793,000	24,676,000

(b) Prudence and Sustainability

	2020/21 Original £
(i) New Borrowing to Date Long Term Borrowing has been taken in 2020/21 to date	0 0
(ii) Percentage of Fixed Rate Long Term Borrowing at September 2020	100%
(iii) Percentage of Variable Rate Long Term Borrowing at September 2020 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 2020 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.	50.00% 100.00%

TREASURY AND DEBT MANAGEMENT BASE ESTIMATES

APPENDIX C

Set out below are the base treasury management estimates for 2021/22 with projections to 2025/26

Carlisle City Council	2021/22	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Interest Payable	877	1,025	982	938	896
Core MRP	223	466	1,227	1,228	1,224
MRP Adjustments - Voluntary and Assets Under Construction	(226)	0	0	0	0
MRP Adjustments - Adjustment A	(241)	(241)	(241)	(241)	0
Voluntary MRP (to match principal repayments)	244	0	0	0	0
Debt Management					
Link	12	12	12	12	12
Publications	1	1	1	1	1
Recharge - Transferred Debt/bequests etc	(18)	(18)	(18)	(18)	(18)
Total Expenditure	872	1,245	1,963	1,920	2,115
Interest Receivable	(160)	(176)	(162)	(146)	(134)
Total Income	(160)	(176)	(162)	(146)	(134)
Treasury Management Net Expenditure	712	1,069	1,801	1,774	1,981
Council Resolution Budget 20/21 (incl in year adjustments)	768	1,048	1,862	1,804	1,996
Difference to Council Resolution Position (budget pressure / (Saving))	(56)	21	(62)	(31)	(16)
Cumulative Difference to Council Resolution Position	(56)	(36)	(97)	(128)	(143)

REVISED TREASURY AND DEBT MANAGEMENT BASE ESTIMATES
AS A RESULT OF THE CHANGE IN PWLB BORROWING RATES (26 NOVEMBER 2020)

Carlisle City Council	2021/22	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Interest Payable	625	708	679	649	621
Core MRP	223	466	1,227	1,228	1,224
MRP Adjustments - Voluntary and Assets Under Construction	(226)	0	0	0	0
MRP Adjustments - Adjustment A	(241)	(241)	(241)	(241)	0
Voluntary MRP (to match principal repayments)	244	0	0	0	0
Debt Management					
Link	12	12	12	12	12
Publications	1	1	1	1	1
Recharge - Transferred Debt/bequests etc	(18)	(18)	(18)	(18)	(18)
Total Expenditure	620	928	1,660	1,631	1,840
Interest Receivable	(167)	(159)	(153)	(153)	(160)
Total Income	(167)	(159)	(153)	(153)	(160)
Treasury Management Net Expenditure	453	769	1,507	1,478	1,680
Council Resolution Budget 20/21 (incl in year adjustments)	768	1,048	1,862	1,804	1,996
Difference to Council Resolution Position (budget pressure / (Saving))	(315)	(280)	(356)	(327)	(317)
Cumulative Difference to Council Resolution Position	(315)	(595)	(950)	(1,277)	(1,593)

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 9 NOVEMBER 2020

**EX.129/20 TREASURY MANAGEMENT QUARTER 2 2020/21 AND FORECASTS
FOR 2021/22 TO 2025/26**
(Key Decision – KD.25/20)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

The Deputy Leader submitted report RD.34/20 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 2021/22 with projections to 2025/26 and set out information regarding the requirements of the Prudential Code on local authority capital finance.

Treasury Management projections were reviewed annually to ensure that current interest rate forecasts were updated, and that current and future spending implications were built into the cash flow forecasts model. 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 draft base Treasury Management estimates for 2021/22 with projections for 2025/26 were set out at Appendix C.

The Deputy Leader moved the report, which was seconded by the Leader.

Summary of options rejected none

DECISION

That Report RD.34/20 be received and the projections for 2021/22 to 2025/26 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 BUSINESS AND TRANSFORMATION SCRUTINY PANEL HELD ON 1 DECEMBER 2020

BTSP.73/20 BUDGET 2021/22

(f) Treasury Management Quarter 2 2020/21 and Forecasts for 2021/22 to 2025/26

The Corporate Director of Finance and Resources submitted report RD.34/20 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 2021/22 with projections to 2025/26, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

The Corporate Director of Finance and Resources reminded the Panel that the announcement by the PWLB regarding borrowing rates would significantly alter the figures in the report during the budget process. The base Treasury Management estimates for 2020/21 with projections for 2024/25 were set out at Appendix C.

The Executive had on 9 November 2020 (EX.129/20) considered the report and resolved that Report RD.34/20 be received and the projections for 2021/20 to 2025/26 be incorporated into the Budget reports considered elsewhere on the Agenda.

RESOLVED – That the Treasury Management Quarter 2 2021/22 and Forecasts for 2021/22 to 2025/26 (RD.34/20) be received.