

# Report to Business and Transformation Scrutiny Panel

Agenda  
Item:

A.3  
(C)

Meeting Date: 30 May 2019  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref: KD05/19  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT OUTTURN 2018/19  
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES  
Report Number: RD.03/19

## Summary:

This report provides the annual report on Treasury Management (Appendix A), as required under both the Financial Procedure rules and the CIPFA Code of Practice on Treasury Management. Also included is the regular report on Treasury Transactions (Appendix B) that was considered by Executive on 29 May 2019

## Questions for / input required from Scrutiny:

Members are asked to scrutinise the outturn position for Treasury Management in 2018/19.

## Recommendations:

Members of the Business and Transformation Scrutiny Panel are asked to scrutinise this report.

## Tracking

Executive:	<b>29 May 2019</b>
Scrutiny:	<b>30 May 2019</b>
Audit Committee:	<b>08 July 2019</b>
Council:	<b>16 July 2019</b>

# Report to Executive

Agenda  
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Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES  
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## Purpose / Summary:

This report provides the annual report on Treasury Management (Appendix A), as required under both the Financial Procedure rules and the CIPFA Code of Practice on Treasury Management. Also included is the regular report on Treasury Transactions (Appendix B).

## Recommendations:

- 1 That this report be received and recommended to Council for approval.

## Tracking

Executive:	<b>29 May 2019</b>
Scrutiny:	<b>30 May 2019</b>
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## **1. BACKGROUND**

- 1.1 The purpose of this report is to inform Members on various Treasury Management issues.
- 1.2 Appendix A1 to this report sets out a final report on Treasury Management in 2018/19 as required by the CIPFA Code of Practice on Treasury Management. Appendix A2 highlights some performance measures and Appendix A3 shows the final prudential indicators for 2018/19.
- 1.3 Appendices B1-B3 details the schedule of Treasury Transactions for the period 1 January 2019 – 31 March 2019.

## **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 Business and Transformation Scrutiny Panel will consider the report on 30 May 2019 and the Audit Committee will do so on 08 July 2019.

## **4. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

- 4.1 That this report be received and recommended to Council for approval.

## **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 Management 2018/19**
- Appendix A2 – Performance Statistics**
- Appendix A3 – Prudential Code and Prudential Borrowing**
- Appendix B1 – Treasury Transactions**
- Appendix B2 – Investment Transactions**
- Appendix B3 – Outstanding Investments**

**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** – Treasury Management activities are delegated to the Corporate Director of Finance and Resources and Financial Procedure Rule 3.19 requires that she prepare an annual report on the topic. This Report fulfils that obligation.

**Finance** – Included in the report

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

**Information Governance** – No implications

## TREASURY MANAGEMENT 2018/19

### 1. INTRODUCTION

- 1.1 The CIPFA Code of Practice on Treasury Management (2018) requires that full Council should receive both a mid-term and an annual report on treasury management activities during the year. This report on the treasury function during 2018/19, while being first presented to the Executive, is therefore required to have the approval of full Council in order to comply with the CIPFA Code.
- 1.2 Regular reports on treasury transactions are presented to the Executive while an interim report on treasury management in 2018/19 was presented in November 2018 (RD27/18). The purpose of this report is to complete the process of accounting for the treasury function in the last financial year in compliance with the Code. Any funding and other financing transactions are detailed and placed in the context of money market conditions in 2018/19 while the City Council's investment activities are also discussed.

Separate papers (A2 and A3) provide information on performance in 2018/19 and on the Prudential Code on local authority borrowing.

### 2. MONEY MARKET CONDITIONS

- 2.1 The following table sets out the levels of bank base rate in 2018/19

	%	
1 April 2018	0.50	Average = 0.67%
31 March 2019	0.75	(2017/18= 0.35%)

- 2.2 The financial year began with bank rate at 0.50% however, the rate was increased to 0.75% in August 2018 and has remained at this level for the rest of 2018/19.
- 2.3 The pattern of long-term borrowing rates in 2018/19 can be gauged by the following table of Public Works Loans Board (PWLB) fixed rate maturity loans during the year. These are the rates cited in the regular Treasury Transactions reports and relate to the type of loan that historically has most usually been taken up by the City Council.

	1 Yr %	10 Yr %	25 Yr %
1 April 2018	1.68	2.45	2.75
31 March 2019	1.68	2.09	2.60
Highest Rate in 2018/19	1.84	2.73	3.13
Lowest Rate in 2018/19	1.48	2.04	2.53
Span of Rates	0.36	0.69	0.60

### 3. LONG TERM FUNDING

3.1 The Prudential Code on local authority borrowing came into operation on 1 April 2004. The principal effect of the Code was to abolish most central government control of local authority borrowing, a principle that has been a cornerstone of local government finance for over a century. Instead, authorities must follow the guidance laid down in the Code and they will be expected to comply with its requirements. These cover not just borrowing but any decision that determines whether the capital investment plans of an authority are affordable, prudent and sustainable. The Code is discussed in more detail in Appendix A3.

3.2 The City Council did not, therefore, draw down any external long-term loans in 2018/19. The capital programme was funded internally by drawing from the authority's own resources, principally its stock of capital receipts, and from external grants and contributions.

### 4. DEBT RESCHEDULING

4.1 The City Council's long-term loans portfolio now consists entirely of the £15m stock issue, placed in 1995 and not due to mature until 2020. While there is a possibility that these funds could be repaid prior to that date, this is unlikely to be in the near future although the issue is regularly reviewed in conjunction with our treasury advisers. In the current financial climate, the cost of the premium that would be required to effect the early repayment remains prohibitive.

## 5. LOANS OUTSTANDING

5.1 Set out below is a schedule of outstanding external loans as at 31 March 2019.

	£
Public Works Loans Board	NIL
Secured Loan Stock	15,000,000
Short Term Loans	<u>12,800</u>
Total Loans Outstanding	<u>£15,012,800</u>

## 6. INVESTMENT TRANSACTIONS

- 6.1 As is apparent from the regular 'Treasury Transactions' reports, the City Council continues to be a frequent investor in the short-term money market and the interest earned from these transactions makes a valuable contribution to the overall level of the Council's revenue budget. Investments are placed only with the institutions that fall within the guidelines of the Council's approved Investment Strategy and a full schedule of investments at 31 March 2019 is set out in Appendix B3. It should be noted that the Council's level of short-term investment reaches its lowest point each year on 31 March when any benefits accruing from positive annual cash flow are, by definition, extinguished.
- 6.2 The total at that date (£19.535m) can be compared with an average figure in 2018/19 of over £25.673m and a peak amount of over £35.956m. The closing balance in 2017/18 was £11.053m.
- 6.3 The Investment Strategy for 2018/19 embraced a mixture of longer-term investments and monies lent out for shorter periods to meet anticipated cash flow needs e.g. grant and precept payment dates. There were no changes made to counter-party limits in 2018/19.
- 6.4 Investment income in 2018/19 at £321,214 was below the original estimate of £346,400. Actual investment rates obtained from banks and building society investments in 2018/19 were generally below expectations when the budget was framed (even though there was a small interest rate rise part way through the year); however, this was mitigated by the outturn on average cash balances being higher than expected. The average yield on the Council's investments held excluding the property fund in 2018/19 was 0.99%. This is still a favourable return considering the position of bank base rates and compares well against other local authorities. This performance was assisted by a significant proportion of investments being placed for longer terms of up to a year and the use of deposit accounts for shorter dated cash requirements. At 31 March the investment in the CCLA Property Fund was yielding a return of 4.26%. Dividends received in 2018/19 totalled £145,400.29. The investment has also grown in capital value since the investment was placed in July 2014 from £2,836,893 (After entry costs of £163,107) to £3,435,773 (an increase of £598,880). The capital value for 2018/19 increased by £52,539. This overall increase in value offsets the initial entry costs but is still subject to fluctuations in the

overall performance of the fund. However, the fund is continuing to grow with more local authorities taking the decision to invest.

## 7 INVESTMENT STRATEGY 2019/20

- 7.1 The Investment Strategy must be agreed before the start of each financial year and the 2019/20 Strategy was approved by Council on 5 February 2019. While the principles of the Strategy remain fundamentally sound, any amendments to the current schedule of investments, if agreed by the Executive, must be approved by Council.

## 8. PERFORMANCE MANAGEMENT

- 8.1 The CIPFA Code places an increased emphasis on performance monitoring in an attempt to measure the efficiency of the treasury function. With treasury management, the difficulty in assessing performance arises from the very different circumstances of each authority and the fact that, for example, a long-term borrowing decision can affect an authority's measured performance for many years to come. In the case of the City Council, this is particularly the case with the £15m stock issue which will affect our average borrowing rate until 2020. Equally, borrowing decisions invariably impact on investment decisions since, in cash flow terms, one can be the mirror image of the other.
- 8.2 Appendix A2 sets out some performance indicators in respect of both loans and investments outturn for 2018/19 and 2017/18.

## 9. TREASURY CONSULTANCY SERVICE (TCS)

- 9.1 The City Council continues to employ Link Asset Services as its treasury management consultants. Link provide daily bulletins on both borrowing and investment issues and this helps advise both the investment and funding decisions that are taken by the Council.

## 10 CONCLUSIONS

- 10.1 The City Council has only one substantial long-term loan i.e. the £15m stock issue, which is likely to remain on the books until maturity as the cost of making a premature repayment would be very prohibitive in the present climate, particularly with interest rates being at such depressed levels. In addition, there are no plans to undertake any prudential or other borrowing in this financial year however the Medium-Term Financial Plan does anticipate external borrowing to fund leisure facilities in 2019/20 however this will be further assessed during future planning of the MTFP. The focus of the authority's treasury management activities therefore remains very much on the investment aspect of the function.
- 10.2 Investment conditions were very similar to as they were in 2017/18, although the increase in bank base rate saw a small increase in investment returns. The effect on the City Council's investment interest was slightly up on the previous year, the performance achieved was slightly better than bank base rate levels. For this authority, as indeed for



most others, the reduction in investment income poses a very significant financial challenge. This has been alleviated somewhat by the decision to invest in the CCLA property fund which has performed well since initial investment.

- 10.3 The outlook for interest rates in the UK remains uncertain but there is a general expectation that bank base rates will start to rise again during 2019/20.

CITY OF CARLISLEPERFORMANCE MEASUREMENT STATISTICS1. LOANS MANAGEMENT

	2018/19 %	2017/18 %
Average External Debt Rate - Carlisle	8.78	8.78

Comment

Average loan debt statistics tend to reflect borrowing decisions taken over a period of many years. The City Council's only substantial remaining external debt is the £15m stock issue which carries a high coupon (8.75% excluding management fee).

2. INVESTMENT MANAGEMENT (Excl. Property Fund)

	2018/19 %	2017/18 %
Average Return in Year - Carlisle	0.99	0.73
Average Bank Base Rate in Year	0.67	0.35

Comment

The City Council's rate of return in 2018/19 on its investments was slightly above that obtained in 2017/18 however was slightly below expectations when the budget was originally set.

## 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 itself 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 The final performance indicators for the current year, as compared to those reported in during the budget cycle are set out below. The compilation and monitoring of these indicators is central to the operation of the Code.

### 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 Prudential Code any local authority borrowing was essentially based upon a government 'permission to borrow'. This was deemed to be supported borrowing as credit limits were supported through funding from Revenue Support Grant. Following the introduction of the Prudential Code in 2003, 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.

	2018/19 Provisional Outturn £	2018/19 Revised Estimate £
<b>(i) Capital Expenditure</b>	5,863,517	9,071,500
<b>(ii) Financing Costs</b>		
Interest Payable - Re Borrowing	1,318,007	1,319,600
Minimum Revenue Provision	21,000	112,000
Investment Income	(321,214)	(346,400)
<b>Total Financing Costs</b>	<b>1,017,793</b>	<b>1,085,200</b>
<b>(iii) Net Revenue Stream</b>		
Funding from Govt Grants/Local Taxpayers	13,538,635	12,981,000
<b>(iv) Ratio of Financing Costs to Net Revenue Stream</b>	7.52%	8.36%
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.		
<b>(v) Incremental Impact on Council Tax</b>	0.63	3.36
This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.		
<b>(vi) Authorised Borrowing Limit</b>	37,600,000	37,600,000
Maximum Level of Borrowing and Other Long term Liabilities	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 Provisional Outturn £	2018/19 Revised Estimate £
<b>(vii) Operational Borrowing Limit</b> 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
<b>(viii) Capital Financing Requirement (CFR)</b> As at 31 March The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.	13,686,521	16,463,000

**(a) Prudence and Sustainability**

	2018/19 £
<b>(i) Target New Borrowing to Date</b> No Long Term Borrowing has been taken in 2018/19	0 0
<b>(ii) Target Percentage of Fixed Rate Long Term Borrowing</b> Actual as at 31 March 2019	100% 100%
<b>(iii) Target Percentage of Variable Rate Long Term Borrowing</b> Actual as at 31 March 2019 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.	100% 0%
<b>(iv) Target Minimum Level of Investments Classified as Specified</b> Actual Level of Specified Investments as at 31 March 2019  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%

TREASURY TRANSACTIONS  
1 JANUARY 2019 TO 31 MARCH 2019

1. LOANS (DEBT)

1.1 Transactions 1 January 2019 to 31 March 2019

	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
	<b>0</b>		<b>0</b>	

This provides a summary of loans that have been raised or repaid, analysed by type, since the previous report.

1.2 Loans (Debt) Outstanding at 31 March 2019

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	12,800
	<b>15,012,800</b>

1.3 Loans Due for Repayment

	PWLB £	Overnight £	Total £
Short Term Debt at 31 March 2019	0	0	0
			<b>0</b>

Shown here is a calendar of future loan repayments which can be a useful aid to cash flow management. Following the repayment of the City Council's remaining PWLB debt in July 2004, no major debt repayments are anticipated.

#### 1.4 Interest Rates

Link Asset Services suggest that the next interest rate rise will not be until February 2020, with rates climbing to 1.75% by March 2022.

## 2. INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	23,500,000	0.65 - 1.25	30,900,000	0.65 - 0.91
	<b>23,500,000</b>		<b>30,900,000</b>	

A full schedule of investment transactions is set out in appendix B2. Appendix B3 shows outstanding investments at 31 March 2019.

## 3. REVENUES COLLECTED

	Collected £	% of Amount Collectable %
Council Tax	58,790,993	97.36
NNDR	43,904,416	98.42
<b>2018/19</b>	<b>102,695,410</b>	<b>97.80</b>
Council Tax	55,759,579	97.57
NNDR	43,478,923	97.83
<b>2017/18</b>	<b>99,238,503</b>	<b>97.68</b>
Council Tax	52,134,094	97.50
NNDR	44,527,817	98.27
<b>2016/17</b>	<b>96,661,911</b>	<b>97.86</b>

Final collection levels were very similar to those of the previous two years.

4. BANK BALANCE

At 31 March 2019 the bank balance was £837,456.64 in debit.

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

5. OUTTURN ON TREASURY MANAGEMENT IN 2018/19

	Revised Estimate £000	Actual £000	Variance £000
Interest Receivable	(346)	(321)	25
Interest Payable	1,320	1,318	(2)
Less Rechargeable	(15)	(12)	3
	<b>1,305</b>	<b>1,306</b>	<b>1</b>
Principal Repaid	112	21	(91)
Debt Management	13	14	1
<b>NET BALANCE</b>	<b>1,084</b>	<b>1,020</b>	<b>(64)</b>



## APPENDIX B2

## INVESTMENT TRANSACTIONS 1 JANUARY 2019 TO 31 MARCH 2019

[illegible]

## Outstanding Investments as at 31 March 2019

Appendix B3

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
	Barclays Bank (NRFB)	1,000,000	0.79%		Call1			0
	HSBC (RFB)	600,000	0.65%		Call1			0
	Goldman Sachs International Bank	1,000,000	0.85%	15/10/2018	12/04/2019	12	179	4,168
	Barclays Bank (NRFB)	1,500,000	0.78%	16/10/2018	12/04/2019	12	178	5,706
	Santander UK plc	2,000,000	1.00%	01/11/2018	29/04/2019	29	179	9,808
	Bank of Scotland PLC	1,000,000	1.00%	19/11/2018	20/05/2019	50	182	4,986
	Santander UK plc	1,000,000	1.00%	21/12/2018	19/06/2019	80	180	4,932
	Bank of Scotland PLC	1,000,000	1.00%	02/01/2019	28/06/2019	89	177	4,849
	Goldman Sachs International Bank	1,000,000	0.95%	31/01/2019	26/07/2019	117	176	4,581
	Standard Chartered Bank	1,000,000	0.96%	28/03/2019	27/09/2019	180	183	4,813
	Santander UK plc	1,000,000	1.00%	29/03/2019	27/09/2019	180	182	4,986
	Bank of Scotland PLC	2,000,000	1.15%	01/11/2018	05/11/2019	219	369	23,252
	Bank of Scotland PLC	2,000,000	1.25%	13/02/2019	21/02/2020	327	373	25,548
<b>Total Investments</b>		<b>£16,100,000</b>	<b>0.99%</b>			<b>118</b>	<b>214</b>	<b>£97,630</b>

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) <sup>1</sup>	Initial Market Value (£)	Unrealised Growth (£)
<b>CCLA Property Fund</b>	<b>3,435,773</b>	<b>4.26%</b>	<b>31/07/2014</b>	<b>3,000,000</b>	<b>(163,107)</b>	<b>2,836,893</b>	<b>435,773</b>

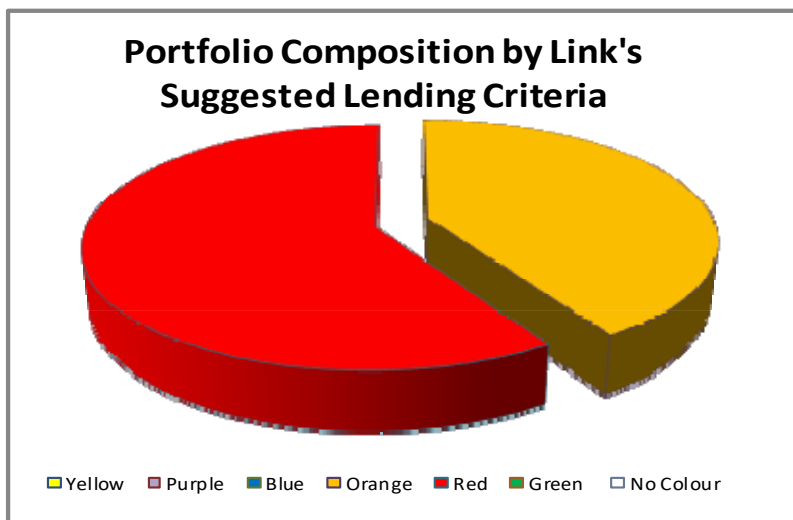
1. Entry Costs were charged against Treasury Management Budget in 2014/15

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 Asset Services, 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

					Weighted Average Rate of Return	Weighted Average Days to Maturity	Weighted Average Days to Maturity from Execution WAM at Execution
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM
Yellow	0.00%	-	0.00%	-	0.00%	0.00%	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0
Blue	0.00%	-	0.00%	-	0.00%	0.00%	0
Orange	40.99%	6,600,000	9.09%	600,000	3.73%	1.09%	187
Red	59.01%	9,500,000	10.53%	1,000,000	6.21%	0.92%	68
Green	0.00%	-	0.00%	-	0.00%	0.00%	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0
	<b>100.00%</b>	<b>16,100,000</b>	<b>9.94%</b>	<b>1,600,000</b>	<b>9.94%</b>	<b>0.99%</b>	<b>117</b>
							<b>209</b>

Weighted Average Risk				
Risk Score for Colour (1 = Low, 7 = High)	Mar 2019	Dec 2018	Sep 2018	Jun 2018
1	0.0	0.2	0.2	0.3
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	1.6	1.0	1.2	1.2
5	3.0	2.9	2.6	2.0
6	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0
	<b>4.6</b>	<b>4.1</b>	<b>4.0</b>	<b>3.5</b>



	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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