

## Report to Audit Committee

Agenda  
Item:

**A.7**

Meeting Date: 12 January 2017  
Portfolio: Finance, Governance and Resources  
Key Decision: No  
Within Policy and Budget Framework: Yes  
Public / Private: Public

Title: TREASURY MANAGEMENT SEPTEMBER 2017 AND FORECASTS FOR 2018/19 TO 2022/23  
Report of: CHIEF FINANCE OFFICER  
Report Number: RD30/17

### **Purpose / Summary:**

This report, which provides the regular quarterly summary of Treasury Management transactions for the second quarter of 2017/18 and budgetary projections for 2018/19 to 2022/23, was received by the Executive on 20 November 2017. 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:	12 January 2017
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## Report to Executive

Agenda  
Item:

Meeting Date: 20 November 2017  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref: KD23/17  
Within Policy and Budget Framework YES  
Public / Private Public

Title: TREASURY MANAGEMENT QUARTER 2 2017 AND FORECASTS FOR 2018/19 TO 2022/23  
Report of: CHIEF FINANCE OFFICER  
Report Number: RD30/17

### 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 2018/19 with projections to 2022/23. 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 2018/19 to 2022/23 be incorporated into the budget reports considered elsewhere on the agenda.

### Tracking

Executive:	<b>20 November 2017</b>
Overview and Scrutiny:	<b>5 December 2017</b>
Audit Committee:	<b>12 January 2018</b>
Council:	<b>n/a</b>

## **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 2017
  - **Appendix A1** – Treasury Transactions July to September 2017
  - **Appendix A2** – Investment Transactions July to September 2017
  - **Appendix A3** – Outstanding Investments at September 2017 and
- (ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2017/18:
  - **Appendix B1** – Prudential Code background
  - **Appendix B2** – Prudential Indicators
- (iii) **Appendix C** sets out the draft base Treasury Management estimates for 2018/19 with projections to 2022/23 and which encompass the potential budget pressures and savings 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. 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 Business & Transformation 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 2018/19 to 2022/23 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 attached to report:**

- Appendix A1 – Treasury Transactions July to September 2017**
- Appendix A2 – Investment Transactions July to September 2017**
- Appendix A3 – Outstanding Investments at 30 September 2017**
- Appendix B1 – Prudential Code background**
- Appendix B2 – Prudential Indicators**
- Appendix C – Treasury Projections 2018/19 – 2022/23**

**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:**

**Community Services** – not applicable

**Economic Development** – not applicable

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

**Corporate Support & Resources** – Contained within the report

TREASURY TRANSACTIONS  
JULY 2017 to SEPTEMBER 2017

1. LOANS (DEBT)1.1 Transactions July to September 2017

	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 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.

1.2 Loans (Debt) Outstanding at September 2017

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

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at 30 September 2017 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	12,800
			<b>12,800</b>

### 1.5 Interest Rates

Capita are currently revising their interest rate forecasts following the bank rate increase in early November from 0.25% to 0.50%.

## 2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	25,700,000	0.17 - 0.6850	20,550,000	0.17 - 0.77
	<b>25,700,000</b>		<b>20,550,000</b>	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short term investments at 30 September 2017.

## 3 REVENUES COLLECTED

To: 30 September 2017		Collected £	% of Amount Collectable %
2017/18	Council Tax NNDR	32,327,974 25,527,972	56.55 57.28
<b>Total</b>		<b>57,855,946</b>	<b>56.87</b>
2016/17	Council Tax NNDR	29,944,677 26,320,394	56.27 57.94
<b>Total</b>		<b>56,265,072</b>	<b>57.04</b>
2015/16	Council Tax NNDR	29,418,449 25,123,526	56.99 57.30
<b>Total</b>		<b>54,541,975</b>	<b>57.13</b>

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

## 4 BANK BALANCE

At 30 September 2017 £304,084.18 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 2017

April –September 2017

	Profiled Budget £000	Actual £000	Variance £000
Interest Receivable	(131)	(106)	25
Interest Payable	191	190	(1)
Less Rechargeable	0	0	0
	<b>191</b>	<b>190</b>	<b>(1)</b>
Principal Repaid (MRP)	187	147	(40)
Debt Management	13	13	0
<b>NET BALANCE</b>	<b>260</b>	<b>244</b>	<b>(16)</b>

The profiled budget is to 30 September 2017.

Interest receivable is slightly below expectations due to lower than forecast average cash balances and a lower rate of return being achieved on treasury investments when compared to when the budgets were set. 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 4.60%

## APPENDIX A2

### SHORT TERM INVESTMENT TRANSACTIONS JULY TO SEPTEMBER 2017

INVESTMENTS MADE		INVESTMENTS REPAID	
	£		£
Federated Investors	4,000,000.00	Standard Life	1,000,000.00
Handelsbanken	2,900,000.00	Handelsbanken	1,300,000.00
Standard Life	1,000,000.00	Federated Investors	200,000.00
Handelsbanken	4,000,000.00	Handelsbanken	2,700,000.00
Goldman Sachs	1,000,000.00	Standard Life	300,000.00
Standard Life	1,400,000.00	Standard Life	1,100,000.00
Goldman Sachs	1,000,000.00	Handelsbanken	1,100,000.00
Federated Investors	1,900,000.00	Handelsbanken	200,000.00
Handelsbanken	4,000,000.00	Federated Investors	1,450,000.00
HSBC	1,100,000.00	Handelsbanken	2,700,000.00
HSBC	1,400,000.00	Federated Investors	250,000.00
Bank of Scotland	1,000,000.00	Handelsbanken	50,000.00
Goldman Sachs	1,000,000.00	HSBC	1,100,000.00
		Handelsbanken	450,000.00
		HSBC	1,400,000.00
		Bank of Scotland	1,000,000.00
		Handelsbanken	3,250,000.00
		Goldman Sachs	1,000,000.00
<b>TOTAL</b>	<b>25,700,000</b>		<b>20,550,000</b>
		Bfwd	10,829,873
		Paid	25,700,000
		Repaid	20,550,000
		<b>Total</b>	<b>15,979,873</b>
		<b>CCLA Change</b>	<b>70,351</b>
		<b>Total</b>	<b>16,050,224</b>



### Outstanding Investments as at 30 September 2017

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
R	Bank Of Scotland	1,500,000	0.55%	13/04/2017	13/10/2017	13	183	4,136
R	Goldman Sachs	1,000,000	0.72%	13/04/2017	13/10/2017	13	183	3,610
R	Standard Chartered	2,000,000	0.44%	02/05/2017	02/11/2017	33	184	4,436
R	Goldman Sachs	1,000,000	0.58%	01/08/2017	01/02/2018	124	184	2,924
R	Goldman Sachs	1,000,000	0.54%	16/08/2017	16/02/2018	139	184	2,722
R	Bank Of Scotland	1,000,000	0.38%	20/09/2017	21/03/2018	172	182	1,895
R	Goldman Sachs	1,000,000	0.69%	29/09/2017	29/03/2018	180	181	3,397
O	Svenska Handelsbanken	250,000	0.20%					0
Y	Federated Investors	4,000,000	0.20%					0
	<b>Total Investments</b>	<b>£12,750,000</b>	<b>0.43%</b>			<b>96</b>	<b>183</b>	<b>£23,120</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>3,300,224</b>	<b>4.60%</b>	31/07/2014	3,000,000	(163,104)	2,836,896	<b>300,224</b>

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

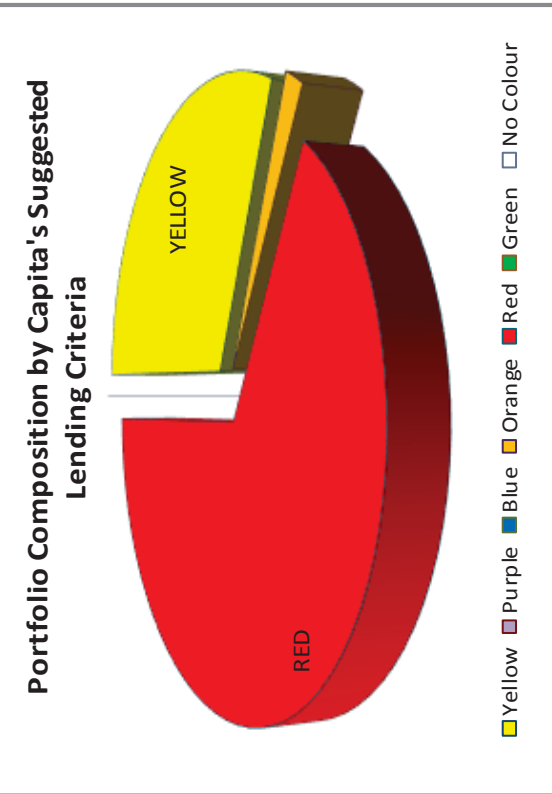
The category colour represents the duration of investment recommended by Capita, the Council's Treasury Advisors. Those investments with no colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

# 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	WAM at Execution
Yellow	31.37%	4,000,000	100.00%	4,000,000	31.37%	0.20%	0	0.20%	0	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0.00%	0	0	0
Blue	0.00%	-	0.00%	-	0.00%	0.00%	0	0.00%	0	0	0
Orange	1.96%	250,000	0.00%	-	0.00%	0.20%	2	0.20%	2	3	183
Red	66.67%	8,500,000	0.00%	-	0.00%	0.54%	84	0.54%	84	183	183
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0.00%	0	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0.00%	0	0	0
	100.00%	12,750,000	31.37%	4,000,000	31.37%	0.43%	56	0.43%	56	122	122

Risk Score for Colour (1 = Low, 7 = High)	Sep 2017	Jun 2017	Mar 2017	Dec 2017
1	0.3	0.0	0.0	0.0
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	0.1	0.6	0.3	0.8
5	3.3	4.3	4.6	4.0
6	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0
	3.7	4.2	4.9	4.8

Capita's Suggested Criteria	Up to 5 Years	Up to 2 Years	Up to 1 Year	Up to 1 Year	Up to 6 months	Up to 3 months	No Colour
Y							
P							
B							
O							
R							
G							
N/C							



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 2017/18 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 2017/18 to date as detailed in the Treasury Management Strategy Statement for 2017/18.

**(a) Affordability**

	2017/18 Original Estimate £	2017/18 Revised Estimate £
<b>(i) Capital Expenditure</b>	3,182,000	9,008,400
<b>(ii) Financing Costs</b> Total Financing Costs	1,244,000	1,223,000
<b>(iii) Net Revenue Stream</b> Funding from Govt Grants/Local Taxpayers	12,047,000	12,047,000
<b>(iv) Ratio of Financing Costs to Net Revenue Stream</b> 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.	10.33%	10.15%
<b>(v) Incremental Impact on Council Tax</b> This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.	(1.36)	3.00
<b>(vi) Authorised Borrowing Limit</b> Maximum Level of Borrowing and Other Long term Liabilities	37,600,000	37,600,000
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.	15,012,800	15,012,800

	2017/18 Original Estimate £	2017/18 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	32,600,000
	15,012,800	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.	12,645,000	n/a

**(b) Prudence and Sustainability**

	2017/18 Original £
<b>(i) New Borrowing to Date</b> No Long Term Borrowing has been taken in 2017/18 to date	0
<b>(ii) Percentage of Fixed Rate Long Term Borrowing</b> at September 2017	100%
<b>(iii) Percentage of Variable Rate Long Term Borrowing</b> at September 2017 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%
<b>(iv) Minimum Level of Investments Classified as Specified</b> Level of Specified Investments as at September 2017  As part of the Investment Strategy for 2017/18, 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 2017/18 and 2018/19 with projections to 2022/23

	2017/18 Revised £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Interest Payable	1,319	1,320	1,704	851	817	782
Core MRP	373	471	403	760	742	753
MRP Adjustments	(226)	(226)	(226)	(226)	(226)	0
Debt Management						
Sector	15	15	15	15	15	15
Publications	1	1	1	1	1	1
Recharge - Transferred Debt/bequests etc	(23)	(18)	(18)	(18)	(18)	(18)
<b>Total Expenditure</b>	<b>1,458</b>	<b>1,562</b>	<b>1,879</b>	<b>1,383</b>	<b>1,331</b>	<b>1,533</b>
Interest Receivable	(239)	(264)	(258)	(324)	(409)	(465)
Other Interest Recharged	3	3	3	3	3	3
<b>Total Income</b>	<b>(236)</b>	<b>(261)</b>	<b>(255)</b>	<b>(321)</b>	<b>(406)</b>	<b>(462)</b>
<b>Treasury Management Net Expenditure</b>	<b>1,222</b>	<b>1,301</b>	<b>1,624</b>	<b>1,062</b>	<b>925</b>	<b>1,071</b>
<b>Council Resolution Budget 17/18</b>	<b>1,245</b>	<b>1,485</b>	<b>1,540</b>	<b>588</b>	<b>490</b>	<b>879</b>
<b>Difference to Council Resolution Position</b>	<b>(23)</b>	<b>(184)</b>	<b>84</b>	<b>474</b>	<b>435</b>	<b>192</b>
<b>Cumulative Difference to Council Resolution Position</b>	<b>(23)</b>	<b>(207)</b>	<b>(123)</b>	<b>350</b>	<b>785</b>	<b>976</b>

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## **EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 20 NOVEMBER 2017**

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**EX.119/17    TREASURY MANAGEMENT QUARTER 2 2017 AND FORECASTS FOR  
2018/19 TO 2022/23**  
(Key Decision – KD.23/17)

**Portfolio**      Finance, Governance and Resources

**Relevant Scrutiny Panel**      Business and Transformation

### **Subject Matter**

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder submitted report RD.30/17 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 2018/19 with projections to 2022/23, 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 2018/19 with projections for 2022/23 were set out at Appendix C.

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

**Summary of options rejected**    none

### **DECISION**

That Report RD.30/17 be received and the projections for 2018/19 to 2022/23 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



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**EXCERPT FROM THE MINUTES OF THE  
BUSINESS AND TRANSFORMATION SCRUTINY PANEL  
HELD ON 5 DECEMBER 2017**

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**BTSP.42/17      BUDGET 2018/19**

**(f) Treasury Management Quarter 2 2017 and Forecasts for 2018/19 to 2022/23**

The Chief Finance Officer submitted report RD.30/17 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 2018/19 with projections to 2022/23, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

The base Treasury Management estimates for 2018/19 with projections for 2022/23 were set out at Appendix C.

The Executive had on 20 November 2017 (EX.119/17) received the report and resolved that Report RD.30/17 be received and the projections for 2018/19 to 2022/23 be incorporated into the Budget reports considered elsewhere on the Agenda.

A Member commented that the figures set out in a previous report would take the Council above the Authorised Borrowing Limit as set out in Appendix B2 of the report. The Chief Finance Officer explained that the limit in Appendix B2 was the 2017/18 limit and the revised figure 2018/19 would be submitted to the Panel for scrutiny in January.

**RESOLVED** – That the Treasury Management Quarter 2 2017 and Forecasts for 2018/19 to 2022/23 (RD.30/17) be noted.