

Committee Report

Public

Date of Meeting: 24 September 2010

Title: TREASURY TRANSACTIONS 2010/11 – QUARTER 1

Report of: Assistant Director (Resources)

Report reference: RD34/10

Summary:

This report provides the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code. This report was considered by the Executive at its meeting on 2 September.

Recommendations:

That this report be received and the Prudential Indicators noted as at 30 June 2010.

Contact Officer: Steven Tickner

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CITY OF CARLISLE

To: The Executive
24 September 2010

RD34/10

TREASURY TRANSACTIONS 2010/11

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) **Appendices A1-A3** set out the schedule of Treasury Transactions for the period 1 April 2010 – 30 June 2010:

- **Appendix A1** – Treasury Transactions April to June 2010
- **Appendix A2** – Investment Transactions April to June 2010
- **Appendix A3** – Outstanding Investments at 30 June 2010

(ii) **Appendices B1-B2** discuss the Prudential Code and Prudential Indicators for 2010/11 and 2011/12 (as proposed):

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

1.2 This last quarter was a fairly quiet one in terms of treasury activity. Investments continued to be placed with approved counterparties in line with the Council's agreed Investment Strategy. Investment returns, meanwhile, remain at historically low levels. The running yield on the Council's short term investments fell by almost 0.20% to 1.66% during the quarter as investments placed when base rate was much higher than it is now reached their maturity. At the present time, there are few signs that investment rates are likely to rise in the near future but this aspect of the Council's budget will remain under close scrutiny.

1.3 The Council's Treasury Management Strategy Statement for 2010/11, which incorporates the Investment Strategy and the Minimum Revenue Provision Strategy, was approved by Council in February 2010. This has been informed in part by the latest editions of both the CIPFA Code on Treasury Management and the Prudential Code on capital finance as well as draft guidance on investments recently issued by the DCLG. These are all indications of the fact that local authority treasury management remains a high profile activity.

2. CONSULTATION

2.1 Consultation to Date.
None.

2.2 Consultation proposed.
None.

3. RECOMMENDATIONS

3.1 That this report be received and the Prudential Indicators noted as at 30 June 2010.

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 1 2010/11.

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

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Assistant Director (Resources)

Contact Officer: Steven Tickner

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TREASURY TRANSACTIONS1 APRIL 2010 to 30 JUNE 20101. LOANS (DEBT)1.1 Transactions 1 April to 30 June 2010

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0		0	
Local Bonds	0		55,176	5.75-6.75
Short Term Loans	0		5,300	2.00
Overnight Borrowing	3,200,000	0.5 - 0.52	1,675,000	0.50 - 0.52
	3,200,000		1,735,476	

This provides a summary of any loans that have been raised or repaid, analysed by type, since the previous report. Overnight borrowing was raised at the end of April, May and June to cover short term cash flow until direct debits were collected on the 1st of the month.

1.2 Bond TransactionsPeriod: April 2010 to June 2010

Bonds Repaid: £55,176 Balance remaining: £0

This section details repayments of market bonds held by the City Council. Repayments now refer only to the periodic repayments on one bond inherited from the former Border RDC. All of these bonds were repaid in May 2010, after the Council was approached by the Bond holders with favourable repayment terms.

1.4 Loans (Debt) Outstanding at 30 June 2010

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	14,800
Overnight Borrowing	1,525,076
	16,539,876

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
01 July 10	0	1,525,076	1,525,076
Short Term Debt at 30 June 2010	0	0	14,800
			1,539,876

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 can be anticipated for some time. The Council had £1.5million borrowed overnight at 30 June and this was repaid in full on 1 July 2010 when direct debits were received.

1.5 Interest Rates

Date	PWLB Maturity		
	1 Year %	10 Years %	25 Years %
06 April 2010	0.83	4.14	4.59
13 April 2010	0.83	4.27	4.72
20 April 2010	0.81	4.22	4.69
27 April 2010	0.90	4.22	4.69
04 May 2010	0.77	4.03	4.54
11 May 2010	0.87	4.21	4.66
18 May 2010	0.74	3.93	4.53
25 May 2010	0.70	3.65	4.28
01 June 2010	0.71	3.73	4.37
08 June 2010	0.63	3.67	4.37
15 June 2010	0.60	3.70	4.36
22 June 2010	0.72	3.69	4.35
29 June 2010	0.68	3.52	4.29

Interest rates saw a gradual decline in the period under review in all maturity periods.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	25,350,000	0.25-1.90	21,350,000	0.25-6.40
	25,350,000		21,350,000	

A full schedule of investment transactions is set out in Appendix A2. Appendix A3 shows outstanding investments at 30 June 2010.

3 REVENUES COLLECTED

To: 30 June 2010		Collected £	% of Amount Collectable %
2010/11	Council Tax	14,165,907	29.90
	NDR	12,039,342	33.34
Total		26,205,249	31.41
2009/10	Council Tax	13,835,012	29.80
	NDR	11,849,692	33.50
Total		25,684,704	31.40
2008/09	Council Tax	13,403,360	29.70
	NDR	11,764,305	33.70
Total		25,167,665	31.40

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

4 BANK BALANCE

At 30 June 2010 £726,366 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 JUNE 2010

April – June 2010

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(129)	(92)	37
Interest Payable	193	197	4
Less Rechargeable	(7)	(7)	0
	186	190	4
Principal Repaid	141	184	43
Debt Management	14	14	0
NET BALANCE	212	296	84

The estimate column is the profiled budget to 30 June 2010.

Current money rates are now below the level anticipated at the time of the budget although this factor has been somewhat mitigated through cash balances being generally higher than forecast. Overall, final investment interest for the year is likely to fall short of the original budget (£513,000) due to investment rates not increasing as expected when the budget was set. The position will be monitored closely throughout the year.

Most other 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 2009/10 utilising more capital receipts than expected. This meant that the Capital Financing Requirement increased by more than expected and therefore the MRP required has increased. Any overspend will need to be addressed as part of the 2011/12 budget process with revisions made as necessary for the 2010/11 revised budgets.

APPENDIX A2

INVESTMENT TRANSACTIONS 1 APRIL 2010 TO 30 JUNE 2010

INVESTMENTS MADE		INVESTMENTS REPAYD	
	£		£
Coventry B.Soc	1,900,000.00	HSBC	630,000.00
HSBC	1,290,000.00	HSBC	660,000.00
Bank of Scotland	1,000,000.00	HSBC	200,000.00
HSBC	980,000.00	HSBC	1,820,000.00
Coventry B.Soc	1,100,000.00	HSBC	1,440,000.00
HSBC	2,020,000.00	Coventry B.Soc	3,000,000.00
Cumberland B.Soc	1,000,000.00	Coventry B.Soc	1,050,000.00
HSBC	460,000.00	Coventry B.Soc	500,000.00
Coventry B.Soc	500,000.00	Coventry B.Soc	450,000.00
Clydesdale Bank	1,000,000.00	Nationwide B.Soc	1,000,000.00
Coventry B.Soc	1,500,000.00	Coventry B.Soc	560,000.00
Coventry B.Soc	500,000.00	Coventry B.Soc	750,000.00
Coventry B.Soc	440,000.00	Bank of Scotland	1,000,000.00
Coventry B.Soc	200,000.00	Coventry B.Soc	750,000.00
Leeds B.Soc	1,000,000.00	Coventry B.Soc	500,000.00
Coventry B.Soc	1,860,000.00	Coventry B.Soc	440,000.00
Bank of Scotland	1,000,000.00	Leeds B.Soc	1,000,000.00
Coventry B.Soc	500,000.00	Newcastle B.Soc	1,000,000.00
Coventry B.Soc	1,500,000.00	Coventry B.Soc	500,000.00
Coventry B.Soc	1,000,000.00	Coventry B.Soc	1,600,000.00
Barclays	1,000,000.00	Coventry B.Soc	500,000.00
Nationwide B.Soc	1,000,000.00	Coventry B.Soc	1,500,000.00
Nationwide B.Soc	1,600,000.00	Coventry B.Soc	500,000.00
Barclays	1,000,000.00		
TOTAL	25,350,000		21,350,000
		Bfwd	22,000,000
		Paid	25,350,000
		Repaid	21,350,000
		Total	26,000,000

OUTSTANDING INVESTMENTS AS AT 30 JUNE 2010

DATE	BORROWER	AMOUNT	TERMS	RATE %
14/05/2009	Barclays Bank	£1,000,000	13 May 2011	2.4800
02/07/2009	Royal Bank of Scotland	£1,000,000	05 January 2011	2.0100
27/07/2009	Cater Allen	£1,000,000	27 July 2010	3.0000
03/08/2009	Bank of Scotland (inc HBOS)	£1,000,000	02 August 2010	1.3200
28/08/2009	Cater Allen	£1,000,000	27 August 2010	3.0000
01/09/2009	Barclays Bank	£1,000,000	27 August 2010	1.5300
04/09/2009	Cater Allen	£1,000,000	03 September 2010	2.6000
15/09/2009	Nationwide	£1,000,000	14 September 2010	1.1200
30/09/2009	Cater Allen	£1,000,000	29 September 2010	2.6000
02/11/2009	Clydesdale Bank	£1,000,000	27 October 2010	1.2000
16/11/2009	Clydesdale Bank	£1,000,000	16 November 2010	1.2500
01/12/2009	Ulster Bank Ltd	£1,000,000	30 November 2010	1.3000
01/12/2009	Clydesdale Bank	£1,000,000	27 September 2010	1.0000
11/12/2009	Ulster Bank Ltd	£1,000,000	10 December 2010	1.2700
04/01/2010	Coventry	£1,000,000	22 July 2010	0.9700
14/01/2010	Bank of Scotland (inc HBOS)	£1,000,000	13 January 2011	1.8200
21/01/2010	Ulster Bank Ltd	£1,000,000	20 January 2011	1.2500
01/02/2010	Cumberland B.Soc	£1,000,000	27 July 2010	1.2300
09/04/2010	Bank of Scotland (inc HBOS)	£1,000,000	08 April 2011	1.9000
19/04/2010	Cumberland B.Soc	£1,000,000	27 October 2010	1.2500
04/05/2010	Clydesdale Bank	£1,000,000	25 March 2011	1.1500
17/05/2010	Leeds	£1,000,000	13 May 2011	1.2500
27/05/2010	Bank of Scotland (inc HBOS)	£1,000,000	27 May 2011	1.8400
04/06/2010	Barclays Bank	£1,000,000	01 June 2012	1.7500
09/06/2010	Nationwide	£1,000,000	25 March 2011	1.1700
16/06/2010	Barclays Bank	£1,000,000	15 June 2012	1.9000
	Total	£26,000,000	Weighted Average	1.66

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 together with the proposed indicators for 2010/11.

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 2010/11 to date as detailed in the Treasury Management Strategy Statement for 2010/11.

(a) Affordability

	2010/11 Revised £	2010/11 Estimate £
(i) Capital Expenditure	12,458,500	11,334,000
(ii) Financing Costs Total Financing Costs	950,000	989,000
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	17,047,000	17,047,000
(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.	5.57%	5.80%
(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	37,600,000 16,539,876	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.		

	2010/11 Revised £	2010/11 Estimate £
<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 16,539,876	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>	n/a	8,101,000

(b) Prudence and Sustainability

	2010/11 Estimate £
<p>(i) New Borrowing to Date No Long Term Borrowing has been taken in 2010/11 to date</p>	0
<p>(ii) Percentage of Fixed Rate Long Term Borrowing at 30 June 2010</p>	100%
<p>(iii) Percentage of Variable Rate Long Term Borrowing at 30 June 2010 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 June 2010 As part of the Investment Strategy for 2010/11, 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% 85.00%