

Report to Audit Committee

Agenda
Item:

A.9

Meeting Date: 24 January 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: No
 Within Policy and Budget Framework: Yes
 Public / Private: Public

Title: TREASURY MANAGEMENT: JULY - SEPTEMBER 2013 AND FORECASTS FOR 2014/15 TO 2018/19
 Report of: DIRECTOR OF RESOURCES
 Report Number: RD55/13

Purpose / Summary:

This report was presented to the Executive on 18 November 2013 and 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 2014/15 with projections to 2018/19. Also included is information regarding the requirements of the Prudential Code on local authority capital finance.

Recommendations:

That the report be noted

Tracking

Executive:	18 November 2013
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Report to Executive

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 Portfolio: Finance, Governance and Resources
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 Within Policy and Budget Framework YES
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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 2014/15 with projections to 2018/19. 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 2014/15 to 2018/19 be incorporated into the budget reports elsewhere on the agenda.

Tracking

Executive:	18 November 2013
Overview and Scrutiny:	28 November 2013
Audit Committee:	24 January 2014
Council:	n/a

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 2013 – 27 September 2013
 - **Appendix A1** – Treasury Transactions April to September 2013
 - **Appendix A2** – Investment Transactions April to September 2013
 - **Appendix A3** – Outstanding Investments at 27 September 2013 and

- (ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2013/14:
 - **Appendix B1 – Prudential Code background**
 - **Appendix B2 – Prudential Indicators**

- (iii) **Appendix C** sets out the base Treasury Management estimates for 2014/15 with projections to 2018/19 which are included as budget pressures 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. As interest rates are not forecast to rise in the medium term, revisions have been made to the interest achievable and average cash balances have been amended to reflect revised forecasts for anticipated capital receipts, capital expenditure and use of revenue reserves. Consideration has also been given to the profiling of new capital receipts expected and the impact this will have on cash balances and the capital programme. The overall impact of this is shown as the shortfall in the projections within the appendix.

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. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 That this report be received and that the projections for 2014/15 to 2018/19 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.

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Appendices attached to report: Appendix A1 – Treasury Transactions April to September 2013
Appendix A2 – Investment Transactions April to September 2013
Appendix A3 – Outstanding Investments at 27 September 2013
Appendix B1 – Prudential Code background
Appendix B2 – Prudential Indicators
Appendix C – Treasury Projections 2014/15 – 2018/19

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:

Chief Executive's – not applicable

Community Engagement – not applicable

Economic Development – not applicable

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

Local Environment – not applicable

Resources – Contained within the report

TREASURY TRANSACTIONS
1 APRIL 2013 to 27 SEPTEMBER 2013

1. LOANS (DEBT)1.1 Transactions 1 July to 27 September 2013

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0		0	0
Local Bonds	0		0	0
Short Term Loans	0		0	0.00
Overnight Borrowing	0		0	0.00
	0		0	

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 27 September 2013

	£
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 27 September 2013 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	13,300
			13,300

1.5 Interest Rates

Sector is not forecasting an interest rate rise until Quarter 4 of 2015.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	38,877,000	0.36 - 1.01	38,602,000	0.36 - 2.85
	38,877,000		38,602,000	

A full schedule of investment transactions is set out in Appendix A2. Appendix A3 shows outstanding investments at 27 September 2013.

3 REVENUES COLLECTED

To: 30 September 2013		Collected £	% of Amount Collectable %
2013/14	Council Tax	27,983,861	51.17
	NNDR	26,068,556	62.02
Total		54,052,417	31.21
2012/13	Council Tax	27,409,813	57.42
	NNDR	24,438,969	60.08
Total		51,848,782	58.64
2011/12	Council Tax	27,331,978	57.60
	NNDR	23,320,145	60.62
Total		50,652,123	58.97

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

4 BANK BALANCE

At 27 September 2013 £80,918 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 27 SEPTEMBER 2013
 July – 27 September 2013

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(237)	(129)	108
Interest Payable	190	190	0
Less Rechargeable	(7)	(7)	0
	183	183	0
Principal Repaid	0	0	0
Debt Management	14	12	(2)
NET BALANCE	(40)	66	106

The estimate column is the profiled budget to 27 September 2013.

Interest receivable is falling behind budgeted projections due to average investment returns being lower than those anticipated when the budget was set. Although bank base rates have remained at 0.50%, investment rates have fallen significantly over the first 6 months of 2013 due to banks being able to access capital from the Bank of England that has meant they do not need to offer higher rates to attract investment from the financial markets. This has meant, for example, that a twelve month investment made now will only attract a yield of 1.01%, whereas at this point twelve months ago, the same investment could have achieved a return of 3%.

APPENDIX A2

INVESTMENT TRANSACTIONS 1 JULY TO 27 SEPTEMBER 2013

INVESTMENTS MADE		INVESTMENTS REPAID	
	£		£
Ignis, Money Market	1,475,000.00	Ignis, Money Market	200,000.00
HSBC Call	3,835,000.00	Royal Bank of Scotland	2,000,000.00
Ignis, Money Market	620,000.00	Prime Rate, Money Market	1,125,000.00
Ignis, Money Market	635,000.00	Prime Rate, Money Market	555,000.00
Royal Bank of Scotland	2,000,000.00	Ignis, Money Market	3,025,000.00
Ignis, Money Market	495,000.00	HSBC Call	120,000.00
Prime Rate, Money Market	1,680,000.00	HSBC Call	1,387,000.00
HSBC Call	2,000,000.00	HSBC Call	3,600,000.00
HSBC Call	400,000.00	HSBC Call	215,000.00
HSBC Call	4,000,000.00	Ignis, Money Market	200,000.00
HSBC Call	922,000.00	Bank of Scotland	1,000,000.00
Ignis, Money Market	1,100,000.00	Royal Bank of Scotland	1,000,000.00
Bank of Scotland	1,000,000.00	Royal Bank of Scotland	2,000,000.00
Royal Bank of Scotland	1,000,000.00	Ignis, Money Market	2,800,000.00
Ignis, Money Market	1,900,000.00	HSBC Call	170,000.00
Royal Bank of Scotland	2,000,000.00	HSBC Call	380,000.00
Barclays	1,000,000.00	Barclays FIBCA	1,000,000.00
HSBC Call	1,100,000.00	HSBC Call	85,000.00
HSBC Call	525,000.00	Barclays FIBCA	2,000,000.00
HSBC Call	2,630,000.00	HSBC Call	3,480,000.00
Ignis, Money Market	2,400,000.00	HSBC Call	140,000.00
Royal Bank of Scotland	1,000,000.00	Barclays FIBCA	1,000,000.00
Barclays	1,000,000.00	Royal Bank of Scotland	1,000,000.00
Prime Rate, Money Market	3,160,000.00	Ignis, Money Market	140,000.00
Royal Bank of Scotland	1,000,000.00	Ignis, Money Market	335,000.00
		Prime Rate, Money Market	3,160,000.00
		Ignis, Money Market	1,925,000.00
		HSBC Call	220,000.00
		Royal Bank of Scotland	1,000,000.00
		HSBC Call	200,000.00
		HSBC Call	80,000.00
		HSBC Call	3,060,000.00
TOTAL	38,877,000		38,602,000
		Bfwd	23,165,000
		Paid	38,877,000
		Repaid	38,602,000
		Total	23,440,000

Outstanding Investments as at 27 September 2013

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
O	HSBC	2,440,000	0.50%		Call			0
B	Royal Bank of Scotland	1,000,000	1.75%	05/10/2012	04/10/2013		90	4,315
G	Nationwide Building Society	1,000,000	0.61%	04/04/2013	19/12/2013	172	259	4,328
B	Royal Bank of Scotland	1,000,000	0.85%		Call90	90	90	
B	Royal Bank of Scotland	2,000,000	0.85%		Call90	90	90	
B	Royal Bank of Scotland	1,000,000	0.85%		Call90	90	90	
B	Royal Bank of Scotland	2,000,000	0.85%		Call90	95	90	
B	Royal Bank of Scotland	1,000,000	0.85%		Call90	95	90	
G	Nationwide Building Society	2,000,000	0.63%	02/04/2013	02/01/2014	186	275	9,493
B	Bank of Scotland	1,000,000	1.10%	04/01/2013	03/01/2014	187	364	10,970
B	Bank of Scotland	1,000,000	1.10%	13/02/2013	14/02/2014	229	366	11,030
G	Barclays Bank	1,000,000	0.52%	09/09/2013	06/03/2014	249	178	2,536
B	Bank of Scotland	1,000,000	1.10%	25/03/2013	28/03/2014	271	368	11,090
B	Bank of Scotland	1,000,000	1.10%	27/03/2013	28/03/2014	271	366	11,030
B	Bank of Scotland	1,000,000	1.10%	28/03/2013	28/03/2014	90	90	2,712
B	Bank of Scotland	1,000,000	1.10%	11/04/2013	10/04/2014	95	95	2,863
B	Bank of Scotland	1,000,000	1.05%	30/05/2013	30/05/2014	334	365	10,500
G	Barclays Bank	1,000,000	0.69%	22/08/2013	30/05/2014	334	281	5,312
B	Bank of Scotland	1,000,000	1.01%	02/08/2013	01/08/2014	397	364	10,072
Total Investments		£23,440,000	0.88%			193	217	£96,253

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

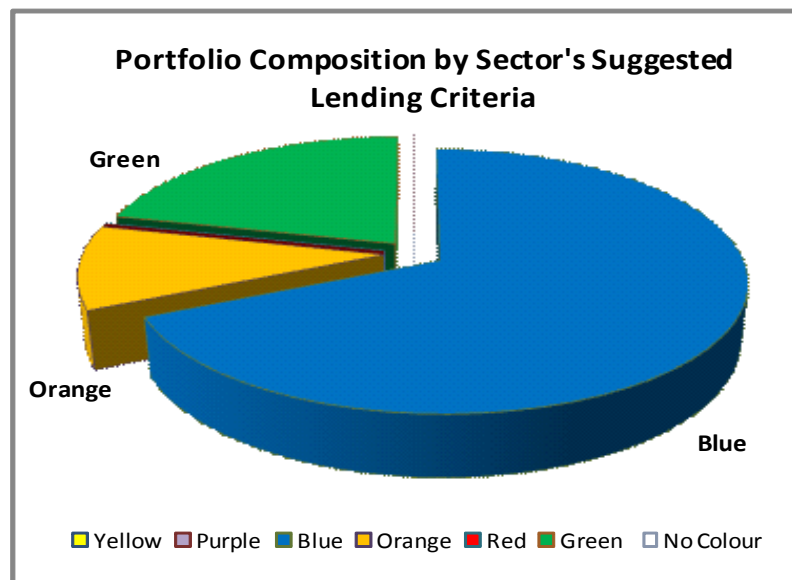
The category colour represents the duration of investment recommended by Sector, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

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 Dats to Maturity from Execution WAM at Execution
Yellow	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Blue	68.26%	16,000,000	43.75%	7,000,000	29.86%	1.02%	134	245
Orange	10.41%	2,440,000	100.00%	2,440,000	10.41%	0.50%	0	0
Red	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Green	21.33%	5,000,000	0.00%	-	0.00%	0.62%	133	254
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	100.00%	23,440,000	40.27%	9,440,000	40.27%	0.88%	120	222

	Weighted			
Risk Score for Colour (1 = Low, 7 = High)	Sep 2013	Jun 2013	Mar 2013	Sep 2012
1	0	0.0	0.0	0.0
2	0	0.0	0.0	0.0
3	2.1	2.1	2.6	2.1
4	0.4	0.0	0.4	0.0
5	0	0.6	0.3	0.0
6	1.3	1.0	0.0	1.0
7	0	0.0	0.0	0.6
	3.7	3.7	3.2	3.8

	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	3.5	3.5	3.5	3.5
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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 2013/14 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 2013/14 to date as detailed in the Treasury Management Strategy Statement for 2013/14.

(a) Affordability

	2013/14 Original £	2013/14 Revised £
(i) Capital Expenditure	7,780,000	7,403,900
(ii) Financing Costs Total Financing Costs	845,959	845,959
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	13,454,000	13,454,000
(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.	6.29%	6.29%
(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.	0.56	0.56
(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

	2013/14 Original £	2013/14 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>	(5,293,000)	n/a

(b) Prudence and Sustainability

	2013/14 Revised £
<p>(i) New Borrowing to Date No Long Term Borrowing has been taken in 2013/14 to date</p>	0
<p>(ii) Percentage of Fixed Rate Long Term Borrowing at 27 September 2013</p>	100%
<p>(iii) Percentage of Variable Rate Long Term Borrowing at 27 September 2013 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 27 September 2013</p> <p>As part of the Investment Strategy for 2013/14 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% 100.00%

TREASURY AND DEBT MANAGEMENT BASE ESTIMATES

APPENDIX C

Set out below are the base treasury management estimates for 2013/14 and 2014/15 with projections to 2018/19

	2013/14 Original Estimate	2013/14 Revised	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Treasury Management Budget	£	£	£	£	£	£	£
Interest Payable	1,319,050	1,319,050	1,319,625	1,474,756	1,470,988	1,466,578	1,461,945
Core MRP	0	0	423,074	515,543	759,057	898,640	963,762
Principal Repayments	0	0	0	131,997	136,339	140,825	145,458
Debt Management							
Sector	14,689	14,689	15,100	15,523	15,958	16,405	16,864
Publications	500	500	500	500	500	500	500
Recharge - Transferred Debt/bequests etc	(23,000)	(23,000)	(21,000)	(21,000)	(21,000)	(21,000)	(21,000)
Total Expenditure	1,311,239	1,311,239	1,737,299	2,117,319	2,361,843	2,501,947	2,567,528
Interest Receivable	(473,100)	(258,557)	(226,092)	(237,633)	(304,218)	(362,044)	(432,970)
Other Interest Recharged	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Total Income	(288,778)	(255,557)	(223,092)	(234,633)	(301,218)	(359,044)	(429,970)
Treasury Management Net Expenditure	1,022,461	1,055,682	1,514,207	1,882,686	2,060,625	2,142,903	2,137,558
MTFP 13/14	1,022,461	841,100	494,200	518,900	840,700	706,100	545,400
Difference to Council Resolution Position	0	214,582	1,020,007	1,363,786	1,219,925	1,436,803	1,592,158
Assumed Average Investment Return	1.73%	1.00%	1.00%	1.00%	1.38%	1.88%	2.50%