

Report to Audit Committee

Agenda
Item:

A.11

Meeting Date: 14th April 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: Not Applicable:
 Within Policy and Budget Framework YES
 Public / Private Public

Title: TREASURY MANAGEMENT OCTOBER – DECEMBER 2013
 Report of: Director of Resources
 Report Number: RD84/13

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the third quarter of 2013/14, was received by the Executive on 10 February 2014. 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 received.

Tracking

Executive:	10 February 2014
Overview and Scrutiny:	
Council:	

Report to Executive

Agenda
Item:

Meeting Date: 10 February 2014
 Portfolio: Finance, Governance and Resources
 Key Decision: No
 Within Policy and Budget Framework: YES
 Public / Private: Public

Title: TREASURY MANAGEMENT OCTOBER - DECEMBER 2013
 Report of: DIRECTOR OF RESOURCES
 Report Number: RD84/13

Purpose / Summary:

This report provides the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code.

Recommendations:

That this report be received and the Prudential Indicators noted as at the end of December 2013.

Tracking

Executive:	10 February 2014
Audit Committee:	14 April 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 December 2013

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

(ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2013/14:

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

2. CONSULTATION

2.1 Consultation to Date.
None.

2.2 Consultation proposed.
None

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 That this report is received and the Prudential Indicators noted as at the end of December 2013.

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

Appendix A1 – Treasury Transactions April to December 2013

attached to report:

Appendix A2 – Investment Transactions April to December 2013

Appendix A3 – Outstanding Investments at December 2013

Appendix B1 – Prudential Code background

Appendix B2 – Prudential Indicators

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

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 DECEMBER 2013

1. LOANS (DEBT)1.1 Transactions 1 October to 27 December 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 December 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 December 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

Capita Asset Services (previously Sector) is not forecasting an interest rate rise until Quarter 4 of 2015.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	32,935,000	0.38 - 0.85	35,475,000	0.38 - 1.75
	32,935,000		35,475,000	

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

3 REVENUES COLLECTED

To: 27 December 2013		Collected £	% of Amount Collectable %
2013/14	Council Tax NNDR	41,942,702	85.69
		37,373,230	88.84
Total		79,315,932	87.14
2012/13	Council Tax NNDR	40,986,514	86.03
		35,343,358	86.36
Total		76,329,872	86.18
2011/12	Council Tax NNDR	40,712,911	86.05
		33,408,985	87.18
Total		74,121,896	86.55

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

4 BANK BALANCE

At 27 December 2013 £1,388,491.64 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 DECEMBER 2013

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(355)	(175)	180
Interest Payable	850	849	(1)
Less Rechargeable	(7)	(7)	0
	843	842	(1)
Principal Repaid	0	0	0
Debt Management	15	12	(3)
NET BALANCE	503	679	176

The estimate column is the profiled budget to 27 December 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 fell 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 less than 1%, 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 DECEMBER 2013

INVESTMENTS MADE		INVESTMENTS REPAID	
	£		£
IGNIS	2,100,000.00	IGNIS	1,160,000.00
HSBC	3,620,000.00	Royal Bank of Scotland	1,000,000.00
Royal Bank of Scotland	1,000,000.00	IGNIS	1,050,000.00
IGNIS	990,000.00	IGNIS	130,000.00
IGNIS	1,800,000.00	IGNIS	2,550,000.00
HSBC	210,000.00	HSBC	980,000.00
HSBC	330,000.00	HSBC	225,000.00
IGNIS	1,550,000.00	HSBC	3,470,000.00
HSBC	4,000,000.00	HSBC	220,000.00
HSBC	355,000.00	IGNIS	380,000.00
Royal Bank of Scotland	1,000,000.00	Royal Bank of Scotland	1,000,000.00
IGNIS	670,000.00	IGNIS	120,000.00
IGNIS	1,780,000.00	IGNIS	1,150,000.00
Royal Bank of Scotland	1,000,000.00	IGNIS	2,350,000.00
Royal Bank of Scotland	1,000,000.00	HSBC	430,000.00
HSBC	4,925,000.00	Royal Bank of Scotland	2,000,000.00
HSBC	375,000.00	HSBC	620,000.00
Royal Bank of Scotland	1,000,000.00	HSBC	150,000.00
HSBC	305,000.00	HSBC	55,000.00
IGNIS	1,000,000.00	HSBC	4,350,000.00
HSBC	1,925,000.00	Royal Bank of Scotland	1,000,000.00
Royal Bank of Scotland	1,000,000.00	HSBC	1,475,000.00
Royal Bank of Scotland	1,000,000.00	HSBC	500,000.00
		Royal Bank of Scotland	1,000,000.00
		IGNIS	1,000,000.00
		HSBC	1,275,000.00
		NATIONWIDE	1,000,000.00
		HSBC	3,735,000.00
		Royal Bank of Scotland	1,000,000.00
		HSBC	100,000.00
TOTAL	32,935,000		35,475,000
		Bfwd	23,380,000
		Paid	32,935,000
		Repaid	35,475,000
		Total	20,840,000

Outstanding Investments as at 27 December 2013

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
O	HSBC	840,000	0.50%		Call			0
G	Nationwide Building Society	2,000,000	0.63%	02/04/2013	02/01/2014	90	275	9,493
B	Bank of Scotland	1,000,000	1.10%	04/01/2013	03/01/2014	460	364	10,970
B	Bank of Scotland	1,000,000	1.10%	13/02/2013	14/02/2014	502	366	11,030
N/C	Barclays Bank	1,000,000	0.52%	09/06/2013	06/03/2014	522	270	3,847
B	Bank of Scotland	1,000,000	1.10%	25/03/2013	28/03/2014	544	368	11,090
B	Bank of Scotland	1,000,000	1.10%	27/03/2013	28/03/2014	544	366	11,030
B	Bank of Scotland	1,000,000	1.10%	28/03/2013	28/03/2014	544	365	11,000
B	Royal Bank of Scotland	1,000,000	0.80%		Call90	90		
B	Royal Bank of Scotland	2,000,000	0.80%		Call90	90		
B	Royal Bank of Scotland	1,000,000	0.80%		Call90	90		
B	Royal Bank of Scotland	1,000,000	0.80%		Call90	90		
B	Royal Bank of Scotland	1,000,000	0.80%		Call90	90		
B	Royal Bank of Scotland	1,000,000	0.80%		Call90	90		
B	Bank of Scotland	1,000,000	1.10%	11/04/2013	10/04/2014	95	364	10,970
B	Bank of Scotland	1,000,000	1.05%	30/05/2013	30/05/2014	607	365	10,500
N/C	Barclays Bank	1,000,000	0.69%	22/08/2013	30/05/2014	607	281	5,312
B	Bank of Scotland	1,000,000	1.01%	02/08/2013	01/08/2014	670	364	10,072
Total Investments		£20,840,000	0.86%			323	341	£105,315

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

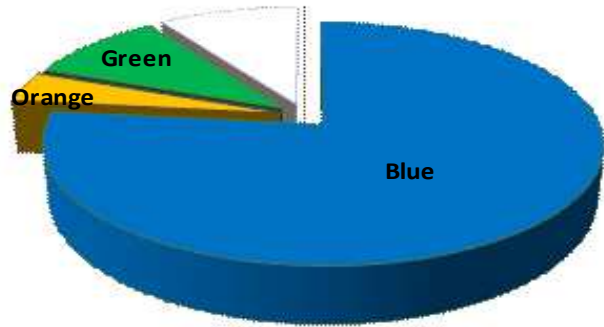
The category colour represents the duration of investment recommended by Capita Asset Services, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investments Summary Sheet

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	Weighted Average Rate of Return	Weighted Average Days to Maturity	Weighted Average Dats to Maturity from Execution				
Yellow	0.00%	-	0.00%	-	0.00%	0.00%	0	0				
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0				
Blue	76.77%	16,000,000	50.00%	8,000,000	38.39%	0.94%	93	228				
Orange	4.03%	840,000	100.00%	840,000	4.03%	0.50%	0	0				
Red	0.00%	-	0.00%	-	0.00%	0.00%	0	0				
Green	9.60%	2,000,000	0.00%	-	0.00%	0.63%	2	275				
No Colour	9.60%	2,000,000	0.00%	-	0.00%	0.61%	108	230				
100.00%						20,840,000	42.42%	8,840,000	42.42%	0.86%	82	223

Weighted Average Risk				
Risk Score for Colour (1 = Low, 7 = High)	Dec 2013	Sep 2013	Jun 2013	Mar 2013
1	0	0	0.0	0.0
2	0	0	0.0	0.0
3	2.3	2.1	2.1	2.6
4	0.2	0.4	0.0	0.4
5	0	0	0.6	0.3
6	0.6	1.3	1.0	0.0
7	0.7	0	0.0	0.0
3.7 3.8 3.7 3.3				

Portfolio Composition by Capita's Suggested Lending Criteria



■ Yellow
 ■ Purple
 ■ Blue
 ■ Orange
 ■ Red
 ■ Green
 ■ No Colour

	Capita 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

Government Backed
 Non Government Backed

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 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	7,358,400
(ii) Financing Costs Total Financing Costs	845,959	1,060,493
(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%	7.88%
(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	37,600,000 15,013,300	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.		

	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 December 2013</p>	100%
<p>(iii) Percentage of Variable Rate Long Term Borrowing at 27 December 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 December 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%