

***Committee Report***

**Public**

**Date of Meeting:** 27 September 2011

**Title:** TREASURY MANAGEMENT APRIL – JUNE 2011

**Report of:** The Assistant Director (Resources)

**Report reference:** RD40/11

**Summary:**

This report, which provides the regular quarterly summary of Treasury Management transactions for the first quarter of 2011/12, was received by the Executive on 30 August 2011. 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.

**Contact Officer:** Steven Tickner

**Ext:** 7280

## REPORT TO EXECUTIVE

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### PORTFOLIO AREA : GOVERNANCE AND RESOURCES

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Date of Meeting: 30 August 2011

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Public

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Key Decision: No

Recorded in Forward Plan:

No

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Inside Policy Framework

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**Title: TREASURY MANAGEMENT APRIL – JUNE 2011**

**Report of: Assistant Director (Resources)**

**Report reference: RD40/11**

#### **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 01 July 2011.

**Contact Officer:** Steven Tickner

**Ext:** 7280

**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: The Prudential Code on Local Authority borrowing including related guidance notes; Financial Services working papers.

CITY OF CARLISLE

To: The Executive  
30 August 2011

RD40/11

TREASURY TRANSACTIONS 2011/12

**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 2011 – 30 June 2011

- **Appendix A1** – Treasury Transactions April to June 2011
- **Appendix A2** – Investment Transactions April to June 2011
- **Appendix A3** – Outstanding Investments at 30 June 2011 and

(ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2011/12:

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

**2. CONSULTATION**

2.1 Consultation to Date.  
None.

2.2 Consultation proposed.  
None.

**3. RECOMMENDATIONS**

3.1 That this report is received and the Prudential Indicators noted as at 30 June 2011.

**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
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 2011/12

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

PETER MASON  
Assistant Director (Resources)

Contact Officer: Steven Tickner

Ext 7280

TREASURY TRANSACTIONS  
1 APRIL 2011 to 1 JULY 2011

1. LOANS (DEBT)1.1 Transactions 1 April to 1 July 2011

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0		0	0
Local Bonds	0		0	0
Short Term Loans	0		0	0.00
Overnight Borrowing	0	0.00	0	0.00
	<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. 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 1 July 2011

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	13,300
	<b>15,013,300</b>

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at 1 July 2011	0	0	13,800
			<b>13,800</b>

### 1.5 Interest Rates

Sector is forecasting first rate rise of 0.25% in Q4 2011, leaving interest rates at the end of the year at 0.75%. UBS has revised its forecast and expects the first rise of 0.25% in Q1 2012. Capital Economics has kept its interest rate forecast unchanged and believes that the rate will be held at 0.5%.

Bank Rate	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Sector	0.50%	0.75%	1.00%	1.25%	1.50%
UBS	0.50%	0.50%	0.75%	1.00%	1.25%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

## 2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	29,598,000	0.70-1.37	25,958,000	0.70-2.48
	<b>29,598,000</b>		<b>25,958,000</b>	

A full schedule of investment transactions is set out in Appendix A2. Appendix A3 shows outstanding investments at 01 July 2011.

## 3 REVENUES COLLECTED

To: 1 July 2011		Collected £	% of Amount Collectable %
2011/12	Council Tax	14,135,393	29.90
	NNDR	12,690,688	32.50
<b>Total</b>		<b>26,826,081</b>	<b>31.00</b>
2010/11	Council Tax	14,165,907	29.90
	NNDR	12,039,342	33.34
<b>Total</b>		<b>26,205,249</b>	<b>31.41</b>
2009/10	Council Tax	13,835,012	29.80
	NNDR	11,849,692	33.50
<b>Total</b>		<b>25,684,704</b>	<b>31.40</b>

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

4 BANK BALANCE

At 01 July 2011, £57,244.17 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 1 JULY 2011

April – 1 July 2011

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(64)	(103)	(39)
Interest Payable	191	190	(1)
Less Rechargeable	(7)	(7)	0
	<b>184</b>	<b>183</b>	<b>(1)</b>
Principal Repaid	221	278	57
Debt Management	14	14	0
<b>NET BALANCE</b>	<b>355</b>	<b>372</b>	<b>17</b>

The estimate column is the profiled budget to 1 July 2011.

Most 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 2010/11 utilising more capital receipts than expected. This was due to expected receipts from the asset review not being generated and disposals slipping into 2011/12 This meant that the Capital Financing Requirement increased by more than expected and therefore the MRP required has increased.

APPENDIX A2

INVESTMENT TRANSACTIONS 1 APRIL TO 1 JULY 2011

INVESTMENTS MADE		INVESTMENTS REPAID	
	£		£
Bank of New York(Prime	4,000,000.00	Bank of Scotland	200,000.00
Co-op	1,000,000.00	Bank of New York(Prime	170,000.00
Co-op	1,000,000.00	Bank of Scotland	530,000.00
Bank of Scotland	1,000,000.00	Bank of Scotland	1,000,000.00
Bank of New York(Prime	170,000.00	Bank of New York(Prime	400,000.00
Bank of Scotland	1,000,000.00	Coventry B.Soc	150,000.00
Leeds B Soc	1,000,000.00	Coventry B.Soc	620,000.00
Bank of New York(Prime	400,000.00	Coventry B.Soc	240,000.00
Coventry B.Soc	1,880,000.00	Bank of New York(Prime	640,000.00
Bank of New York(Prime	300,000.00	Coventry B.Soc	870,000.00
Bank of New York(Prime	3,660,000.00	Bank of New York(Prime	3,320,000.00
Cumberland B Soc	1,000,000.00	Bank of New York(Prime	850,000.00
Bank of New York(Prime	400,000.00	Bank of New York(Prime	2,175,000.00
Bank of New York(Prime	1,420,000.00	Barclays	1,000,000.00
Bank of New York(Prime	1,205,000.00	Leeds B Soc	1,000,000.00
Cumberland B Soc	1,000,000.00	Bank of New York(Prime	1,480,000.00
Coventry B.Soc	1,000,000.00	Bank of New York(Prime	920,000.00
Bank of Scotland	2,820,000.00	Bank of New York(Prime	900,000.00
Bank of New York(Prime	380,000.00	Bank of New York(Prime	700,000.00
Bank of New York(Prime	840,000.00	Bank of Scotland	1,000,000.00
Bank of New York(Prime	347,000.00	Coventry B.Soc	1,000,000.00
Bank of New York(Prime	1,036,000.00	Bank of New York(Prime	1,490,000.00
Bank of New York(Prime	2,740,000.00	Bank of New York(Prime	310,000.00
		Bank of New York(Prime	70,000.00
		Bank of New York(Prime	95,000.00
		Bank of New York(Prime	1,555,000.00
		Bank of New York(Prime	867,000.00
		Co-op	1,000,000.00
		Bank of New York(Prime	406,000.00
		Co-op	1,000,000.00
<b>TOTAL</b>	<b>29,598,000</b>		<b>25,958,000</b>
		Bfwd	20,730,000
		Paid	29,598,000
		Repaid	25,958,000
		<b>Total</b>	<b>24,370,000</b>



**Outstanding Investments as at 1 July 2011**

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
Y	Prime Rate	3,370,000	0.74%		MMF			
B	Bank of Scotland	1,000,000	1.25%	07/04/2011	07/07/2011	40,731	91	3,116
R	Barclays Bank	1,000,000	1.75%	04/06/2010	01/06/2012	41,061	728	34,904
R	Barclays Bank	1,000,000	1.90%	16/06/2010	15/06/2012	41,075	730	38,000
G	Cater Allen	1,000,000	2.50%	02/08/2010	27/07/2011	40,751	359	24,589
G	Cater Allen	1,000,000	2.50%	03/09/2010	02/09/2011	40,788	364	24,932
G	Cater Allen	1,000,000	2.50%	29/09/2010	27/09/2011	40,813	363	24,863
N/C	Leeds BS	1,000,000	1.30%	01/10/2010	27/09/2011	40,813	361	12,858
B	Bank of Scotland	1,000,000	1.90%	01/10/2010	27/09/2011	40,813	361	18,792
G	Cater Allen	1,000,000	2.50%	26/11/2010	25/11/2011	40,872	364	24,932
B	Ulster Bank Ltd	1,000,000	1.45%	30/11/2010	30/11/2011	40,877	365	14,500
R	Nationwide BS	1,000,000	1.35%	30/11/2010	30/11/2011	40,877	365	13,500
N/C	Coventry BS	1,000,000	1.35%	01/12/2010	01/12/2011	40,878	365	13,500
G	Clydesdale Bank	1,000,000	1.20%	01/12/2010	01/12/2011	40,878	365	12,000
B	Bank of Scotland	1,000,000	1.95%	05/01/2011	05/01/2012	40,913	365	19,500
B	Bank of Scotland	1,000,000	1.95%	13/01/2011	13/01/2012	40,921	365	19,500
B	Bank of Scotland	1,000,000	2.05%	24/03/2011	26/03/2012	40,994	368	20,668
B	Bank of Scotland	1,000,000	2.05%	29/03/2011	26/03/2012	40,994	363	20,388
B	Bank of Scotland	1,000,000	1.37%	08/04/2011	10/10/2011	40,826	185	6,944
N/C	Leeds BS	1,000,000	1.13%	12/04/2011	27/10/2011	40,843	198	6,130
N/C	Cumberland BS	1,000,000	1.22%	03/05/2011	03/11/2011	40,850	184	6,150
N/C	Cumberland BS	1,000,000	0.82%	16/05/2011	16/08/2011	40,771	92	2,067
<b>Total Investments</b>		<b>£24,370,000</b>	<b>1.58%</b>					<b>£361,832</b>

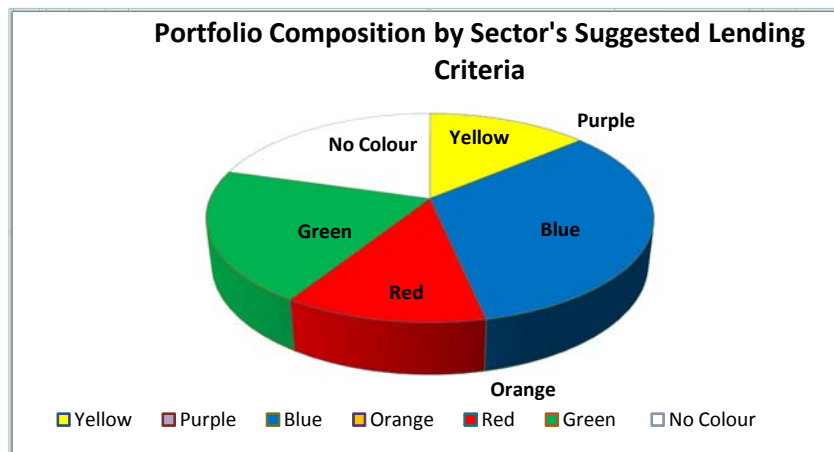
N.B Interest is recognised in the appropriate financial year in which it is due.

The category colour represents the duration of investment recommended by 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	Weighted Average Days to Maturity	Weighted Average Dats to Maturity from Execution	Weighted Average Risk		
						WARoR	WAM	WAM at Execution	Risk Score for Colour (1 = Low, 7 = High)	June 2011	March 2011
Yellow	13.83%	3,370,000	100.00%	3,370,000	13.83%	0.74%	0	0	1	0.1	0.1
Purple	0.00%	-	0.00%	-	0.00%	0.00%			2	0.0	0.0
Blue	32.83%	8,000,000	0.00%	-	0.00%	1.75%	160	308	3	1.0	1.0
Orange	0.00%	-	0.00%	-	0.00%	0.00%			4	0.0	0.0
Red	12.31%	3,000,000	0.00%	-	0.00%	1.67%	280	608	5	0.6	0.6
Green	20.52%	5,000,000	0.00%	-	0.00%	2.24%	96	363	6	1.2	1.2
No Colour	20.52%	5,000,000	0.00%	-	0.00%	1.16%	107	240	7	1.4	2.0
	<b>100.00%</b>	<b>24,370,000</b>	<b>13.83%</b>	<b>3,370,000</b>	<b>13.83%</b>	<b>1.58%</b>	<b>129</b>	<b>304</b>		<b>4.4</b>	<b>4.9</b>

	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**

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 C2 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 2011/12 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 2011/12 to date as detailed in the Treasury Management Strategy Statement for 2011/12.

**(a) Affordability**

	2011/12 Original £	2011/12 Revised £
<b>(i) Capital Expenditure</b>	7,534,000	10,810,200
<b>(ii) Financing Costs</b> Total Financing Costs	1,290,000	1,346,300
<b>(iii) Net Revenue Stream</b> Funding from Govt Grants/Local Taxpayers	13,904,000	13,904,000
<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.	9.28%	9.68%
<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.	N/A	6.08
<b>(vi) Authorised Borrowing Limit</b> 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

	2011/12 Original £	2011/12 Revised £
<p><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.</p>	32,600,000  15,013,300	32,600,000
<p><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.</p>	6,954,000	n/a

**(b) Prudence and Sustainability**

	2011/12 Original £
<p><b>(i) New Borrowing to Date</b> No Long Term Borrowing has been taken in 2011/12 to date</p>	0
<p><b>(ii) Percentage of Fixed Rate Long Term Borrowing</b> at 1 July 011</p>	100%
<p><b>(iii) Percentage of Variable Rate Long Term Borrowing</b> at 1 July 2011 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><b>(iv) Minimum Level of Investments Classified as Specified</b> Level of Specified Investments as at 1 July 2011</p> <p>As part of the Investment Strategy for 2011/12, 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% 67.00%