

Carlisle City Council

Report to Audit Committee

Meeting Date: 10 December 2021
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD10/21
Policy and Budget Framework: YES
Public / Private: Public

Title: TREASURY MANAGEMENT QUARTER 2 2021/22 AND
FORECASTS FOR 2022/23 TO 2026/27

Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number: RD49/21

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the second quarter of 2021/22 and budgetary projections for 2022/23 to 2026/27, was received by the Executive on 22 November 2021. The Audit Committee is invited to make any observations on treasury matters which took place during this quarter. The Committee is otherwise asked to note the report.

Recommendations:

That the report be noted.

Tracking

Executive:	22 November 2021
Scrutiny:	7 December 2021
Audit Committee:	10 December 2021



Carlisle City Council Report to Executive

www.carlisle.gov.uk

22 November 2021

Portfolio:

Finance, Governance and Resources

Key Decision:

Yes: Recorded in the Notice Ref: KD10/21

Policy and Budget

YES

Framework

Public / Private

Public

Title:

TREASURY MANAGEMENT QUARTER 2 2021/22 AND
FORECASTS FOR 2022/23 TO 2026/27

Report of:

CORPORATE DIRECTOR OF FINANCE AND RESOURCES

Report Number:

RD49/21

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 2022/23 with projections to 2026/27. 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 2022/23 to 2026/27 be incorporated into the budget reports considered elsewhere on the agenda.

Tracking

Executive:	22 November 2021
Scrutiny:	7 December 2021
Audit Committee:	10 December 2021

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:

1.2 **Appendix A** sets out the schedule of Treasury Transactions for the period to 1st October 2021 as follows:

- **Appendix A1** – Treasury Transactions July to 1st October 2021
- **Appendix A2** – Investment Transactions July to 1st October 2021
- **Appendix A3** – Outstanding Investments at 1st October 2021

1.3 The Prudential Code and Prudential Indicators for 2021/22 are discussed at **Appendix B** as follows:

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

1.4 TREASURY MANAGEMENT ESTIMATES 2022/23 TO 2026/27

1.4.1 The draft base Treasury Management estimates for 2022/23 with projections to 2026/27 are set out at **Appendix C**. Treasury Management projections are reviewed annually to ensure that current interest rate forecasts are up to date 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.

1.4.2 The assumptions included in the Treasury estimates for 2022/23 are as follows:

- Assumed use of revenue reserves for all budget pressure commitments outlined in RD46/21 are included;
- The capital programme and capital resources estimate as outlined in RD47/21 are included;
- External borrowing assumed as follows:

	Amount (£000)	Rate	Term
2021/22	11,500	2.20%	25 years
2021/22	1,500	2.05%	15 years
2021/22	15,000	2.20%	25 years
2021/22	1,500	2.20%	25 years
2022/23	1,507	2.30%	25 years
2022/23	5,000	2.30%	25 years
Total	36,007		

- Investment returns are assumed to be as follows:

Year	Rate
2021/22	0.30%
2022/23	0.38%
2023/24	0.70%
2024/25	0.95%
2025/26	1.08%

- Investment return from CCLA property fund is assumed at 4% p.a.

2. Risks

- 2.1 Treasury Management considers risks associated with investments with counterparties; however, the Treasury Management strategy statement outlines the risk management approach to minimise this.

3. Consultation

- 3.1 Consultation to Date.
None.

- 3.2 Consultation proposed.
The Business & Transformation Scrutiny Panel and the Audit Committee will consider this report as part of the budget process.

4. Conclusion and reasons for recommendations

- 4.1 That this report be received and that the projections for 2022/23 to 2026/27 be incorporated into the budget reports elsewhere on the agenda.

5. Contribution to the Carlisle Plan Priorities

- 5.1 To ensure that the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

Contact details:

Contact Officer: **Steven Tickner**

Ext: **7280**

Appendices attached to report:

- **Appendix A1 – Treasury Transactions July to 1 October 2021**
- **Appendix A2 – Investment Transactions July to 1 October 2021**
- **Appendix A3 – Outstanding Investments at 1 October 2021**
- **Appendix B1 – Prudential Code background**
- **Appendix B2 – Prudential Indicators**
- **Appendix C – Treasury Projections 2022/23 – 2026/27**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

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

Property Services – Not applicable

Finance - Included in the report

Equality - This report raises no explicit issues relating to the public sector Equality Duty

Information Governance- No implications

TREASURY TRANSACTIONS
JULY 2021 to 1 OCTOBER 2021

1. LOANS (DEBT)

1.1 Transactions July to 1 October 2021

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0	0	112,500	1.80
P.W.L.B	0	0	125,000	1.33
Local Bonds	0	0	0	0
Short Term Loans	0	0	0	0
Overnight Borrowing	0	0	0	0
	0		237,500	

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 1 October 2021

	£
P.W.L.B.	8,550,000
P.W.L.B.	4,500,000
Short Term Loans	12,800
	13,062,800

1.3 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Other £	Total £
Short Term Debt at 1 October 2021	475,000	0	12,800	487,800

1.4 Interest Rates

Both Link Group and Capital Economics are currently forecasting bank rate to remain at 0.1% rising to 0.25% in June 2022.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	24,685,000	0.01 - 0.58	20,685,000	0.01 - 0.19
	24,685,000		20,685,000	

A full schedule of short-term investment transactions is set out in **Appendix A2**. **Appendix A3** shows outstanding short-term investments at 1 October 2021.

3 REVENUES COLLECTED

To: 30 September 2021		Collected £	% of Amount Collectable %
2021/22	Council Tax NNDR	39,492,304 18,594,961	56.25 50.09
Total		58,087,265	54.12
2020/21	Council Tax NNDR	36,788,494 11,184,691	55.04 49.97
Total		47,973,185	53.77
2019/20	Council Tax NNDR	36,403,520 25,102,107	56.80 57.01
Total		61,505,627	56.88

Collection levels have begun to show signs of recovery from 2020/21 levels which were significantly reduced due to the impact of COVID-19.

4 BANK BALANCE

At 1 October 2021 £982,627.00 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 1 OCTOBER 2021

April – 1 October 2021

	Profiled Budget £000	Actual £000	Variance £000
Interest Receivable	(83)	(91)	(8)
Interest Payable	279	90	(189)
Less Rechargeable	0	0	0
	279	90	(189)
Principal Repaid (MRP)	0	0	0
Debt Management	12	13	1
NET BALANCE	208	12	(196)

The profiled budget is to 1 October 2021

Interest receivable is ahead of expectations due to higher than forecast average cash balances even though interest rates remain at 0.1%. However, it is expected this position will worsen during the remainder of the financial year as cash balances reduce.

Interest payable is lower than expected as no new borrowing has been undertaken in this financial year.

The CCLA property investment saw a slight increase in the capital value to the end of September. Dividends and yield levels are currently 4.04%.

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS JULY TO 1st OCTOBER 2021

INVESTMENTS MADE			INVESTMENTS REPAID	
	£			£
Santander	2,000,000.00		HSBC	1,000,000.00
Goldman Sachs	1,000,000.00		HSBC	5,000,000.00
Goldman Sachs	1,000,000.00		Goldman Sachs	1,000,000.00
Goldman Sachs	1,000,000.00		HSBC	2,000,000.00
HSBC	3,000,000.00		HSBC	2,000,000.00
HSBC	6,000,000.00		HSBC	4,885,000.00
HSBC	2,000,000.00		Goldman Sachs	1,000,000.00
HSBC	3,885,000.00		HSBC	2,800,000.00
HSBC	800,000.00		Goldman Sachs	1,000,000.00
HSBC	2,000,000.00			
Standard Chartered	2,000,000.00			
TOTAL	24,685,000			20,685,000
			Bfwd	24,402,054
			Paid	24,685,000
			Repaid	20,685,000
			Total	28,402,054
			CCLA	116,729
			Total	28,518,783

Outstanding Investments as at 01 October 2021

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
O	HSBC UK Bank Plc (RFB)	5,000,000	0.01%			Call1		
R	Standard Chartered Bank	1,000,000	0.11%	16/06/2021	29/10/2021		135	407
O	HSBC UK Bank Plc (RFB)	5,000,000	0.10%			Call31		
R	Standard Chartered Bank	1,000,000	0.12%	16/06/2021	26/11/2021	56	163	536
R	Standard Chartered Bank	1,000,000	0.15%	16/06/2021	24/12/2021	84	191	785
R	Standard Chartered Bank	2,000,000	0.08%	01/10/2021	04/01/2022	95	95	416
R	Goldman Sachs International Bank	1,000,000	0.15%	13/07/2021	28/01/2022	119	199	818
R	Goldman Sachs International Bank	1,000,000	0.18%	30/07/2021	01/02/2022	123	186	917
R	Goldman Sachs International Bank	1,000,000	0.13%	27/08/2021	25/02/2022	147	182	648
R	Santander UK	7,000,000	0.58%			Call180		
Total Investments		£25,000,000	0.22%			104	164	£4,527

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) ¹	Initial Market Value (£)	Unrealised Growth (£)
CCLA Property Fund	3,518,783	4.04%	31/07/2014	3,000,000	(163,104)	2,836,896	518,783

1. Entry Costs were charged against Treasury Management Budget in 2014/15

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

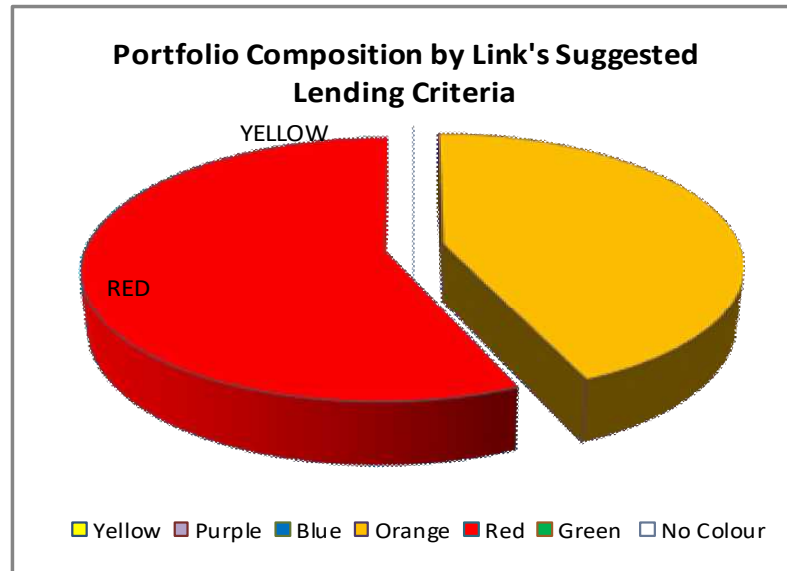
The category colour represents the duration of investment recommended by Link, the Council's Treasury Advisors. Those investments with no colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investment Summary Sheet

						Weighted Average Rate of Return	Weighted Average Days to Maturity	Weighted Average Days to Maturity from Execution
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	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	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Orange	43.48%	10,000,000	100.00%	10,000,000	43.48%	0.06%	16	16
Red	56.52%	15,000,000	46.67%	7,000,000	30.43%	0.38%	140	178
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	100.0%	25,000,000	73.91%	17,000,000	68.00%	0.24%	86	108

Risk Score for Colour (1 = Low, 7 = High)	Sep 2021	Jun 2021	Mar 2021	Dec 2020
1	0.0	0.0	0.0	0.2
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	1.7	1.9	2.2	2.1
5	2.8	2.6	2.3	1.3
6	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0
	4.6	4.5	4.5	3.6

	Link'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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APPENDIX B1

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. 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 Prudential Code any local authority borrowing was essentially based upon a government 'permission to borrow'. Following the introduction of the Prudential Code, the permission to borrow was essentially withdrawn and Councils were given greater freedom to borrow so long as they 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 2021/22 to date as detailed in the Treasury Management Strategy Statement for 2021/22.

(a) Affordability

	2021/22 Original Estimate £	2021/22 Revised Estimate £
(i) Capital Expenditure	19,070,400	29,917,200
(ii) Financing Costs Total Financing Costs	458,100	(707)
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	13,848,000	13,848,000
(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.	3.31%	-0.01%
(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.	12.82	18.54
(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.	45,100,000 34,380,000	48,100,000 34,380,000

	2021/22 Original Estimate £	2021/22 Revised Estimate £
(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.	40,100,000 34,380,000	43,100,000 34,380,000
(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.	39,601,000	40,949,000

(b) Prudence and Sustainability

	2021/22 Original £
(i) New Borrowing to Date Long Term Borrowing has been taken in 2021/22 to date	0 0
(ii) Percentage of Fixed Rate Long Term Borrowing at September 2021	100%
(iii) Percentage of Variable Rate Long Term Borrowing at September 2021 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%
(iv) Minimum Level of Investments Classified as Specified Level of Specified Investments as at September 2021 As part of the Capital Investment Strategy for 2021/22, 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 2022/23 with projections to 2026/27

Carlisle City Council	2022/23	2023/24	2024/25	2025/26	2026/27
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Interest Payable	980	940	899	860	819
Core MRP	521	1,266	1,265	1,261	1,227
MRP Adjustments - Voluntary and Assets Under Construction	0	0	0	0	0
MRP Adjustments - Adjustment A	(241)	(241)	(241)	0	0
Voluntary MRP (to match principal repayments)	0	0	0	0	0
Debt Management					
Link	12	12	12	12	12
Publications	1	1	1	1	1
Recharge - Transferred Debt/bequests etc	(18)	(18)	(18)	(18)	(18)
Total Expenditure	1,254	1,960	1,918	2,115	2,040
Interest Receivable	(201)	(238)	(249)	(252)	(262)
Total Income	(201)	(238)	(249)	(252)	(262)
Treasury Management Net Expenditure	1,053	1,722	1,669	1,863	1,778
Council Resolution Budget 21/22 (incl in year adjustments)	768	1,507	1,477	1,679	1,617
Difference to Council Resolution Position (budget pressure / (Saving))	285	215	192	184	161
Cumulative Difference to Council Resolution Position	285	500	692	877	1,038

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 22 NOVEMBER 2021

EX.135/21 TREASURY MANAGEMENT QUARTER 2 2021/22 AND FORECASTS FOR 2022/23 TO 2026/27

(Key Decision KD.10/21)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

The Deputy Leader submitted report RD.49/21 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 2022/23 with projections to 2026/27 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 2022/23 with projections for 2026/27 were set out at Appendix C.

The Deputy Leader concluded by moving the recommendation set out in the report. The Leader seconded the recommendation.

Summary of options rejected none

DECISION

That Report RD.49/21 be received and the projections for 2022/23 to 2026/27 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.