

## Bath & North East Somerset Council

MEETING:	<b>Cabinet</b>	
MEETING DATE:	<b>11<sup>th</sup> July 2012</b>	AGENDA ITEM NUMBER
TITLE:	<b>Treasury Management Outturn Report 2011/12</b>	<b>E 2408</b>
WARD:	All	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b> <b>Appendix 1</b> – Performance Against Prudential Indicators <b>Appendix 2</b> - The Council's Investment Position at 31 <sup>st</sup> March 2012 <b>Appendix 3</b> – Average monthly rate of return for 2011/2012 <b>Appendix 4</b> – The Council's External Borrowing Position at 31 <sup>st</sup> March 2012 <b>Appendix 5</b> – Sterling Consultant's Economic & Market Review of 2011/12 <b>Appendix 6</b> – Interest & Capital Financing Budget Monitoring 2011/12		

### 1 THE ISSUE

- 1.1 In February 2012 the Council adopted the 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to approve a Treasury Management Strategy before the start of each financial year, and to receive a mid year report and an annual report after the end of each financial year.
- 1.2 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan for 2011/12.

### 2 RECOMMENDATION

The Cabinet agrees that:

- 2.1 the 2011/12 Treasury Management Annual Report to 31<sup>st</sup> March 2012, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 the 2011/12 actual Treasury Management Indicators are noted.
- 2.3 this Treasury Management Report and attached appendices are reported to July Council.

### **3 FINANCIAL IMPLICATIONS**

3.1 The financial implications are contained within the body of the report.

### **4 CORPORATE PRIORITIES**

4.1 This report is for information only and is therefore there are no proposals relating to the Council's Corporate Priorities.

### **5 THE REPORT**

#### **Summary**

5.1 Performance against the Treasury Management & Prudential Indicators agreed as part of the annual Treasury Management Strategy is provided in **Appendix 1**. The outturn position and all treasury activity undertaken during the financial year is within the limits agreed by Council in February 2011, as shown in **Appendix 1**, as well as the CIPFA Code of Practice and the relevant legislative provisions.

5.2 The average rate of investment return for the 2011/12 financial year is 0.56% above the benchmark rate.

#### **Summary of Investment Activity 2011/12**

5.3 The Council's investment position as at 31<sup>st</sup> March 2012 is given in **Appendix 2**. In line with the Annual Investment Strategy, investments undertaken were temporary short term investments made with reference to the core balance and cash flow requirements.

5.4 Gross interest earned from investments for 2011/12 totalled £1,141k. Net interest received, after deduction of amounts due to Schools, the West of England Growth Points, PCT and other internal balances, is £933k. **Appendix 3** details the investment performance, showing the average rate of interest earned on investments over this period was 1.09%, which is 0.56% above the benchmark rate of average 7 day LIBID + 0.05% (0.53%).

#### **Summary of Borrowings 2011/12**

5.5 The Council's external borrowing as at 31<sup>st</sup> March 2012 is detailed in **Appendix 4**.

5.6 Three new loans totalling £30 million were taken from the Public Works Loan Board on 5<sup>th</sup> August 2011. One of the loans was £5 million for 19.5 years at a rate of 4.86%, one was £10 million for 18 years at a rate of 4.80%, and the third for a further £15 million for 49.5 years at a rate of 4.96%. The decision was taken as borrowing rates moved below 5% due to concerns over the USA credit rating linked with delays in the Senate agreeing increases to the countries debt ceiling and continuing anxiety over Eurozone debt.

5.7 The new borrowing took the Council's total borrowing to £120 million. The Council's provisional Capital Financing Requirement (CFR) as at 31<sup>st</sup> March 2012 is £136 million. This represents the Council's requirement to borrow to finance capital expenditure, and demonstrates that total borrowing remains below this requirement as at 31<sup>st</sup> March 2012.

5.8 Following Local Government Reorganisation in 1996, Avon County Council's residual debt is administered by Bristol City Council. All successor Unitary Authorities make an annual contribution to principal and interest repayment, for which there is a provision in the Council's revenue budget. The amount of residual debt outstanding as at 31<sup>st</sup> March 2012 apportioned to Bath & North East Somerset Council is £15.77m. Since this borrowing is managed by Bristol City Council and treated in the Council's Statement of Accounts as a deferred liability, it is not included in the borrowing figures referred to in paragraph 5.7.

### **Strategic & Tactical Decisions**

5.9 We have continued to place a significant proportion of our funds with highly-rated major financial institutions, primarily with UK banks, where we assess there is implicit or explicit Government support. However, during the year the Council continued to reduce its risk appetite related to investments due to increasing concerns about Eurozone debt and the impacts this could have on the banking sector. This approach led to reducing the proportion of investments held directly with banks and building societies to 50% of the overall portfolio from the 85% held earlier in the year. The Council increased its proportion of investments with other Local Authorities and AAA rated Money Market Funds to improve diversification and counterparty credit rating whilst maintain appropriate liquidity.

5.10 Due to concerns related to the Eurozone debt situation the council does not currently and did not hold throughout 2011/12 any direct investments with banks within the Eurozone. The Council's investment counterparty list does not include any banks from the countries most affected by the debt situation in the Eurozone (Portugal, Ireland, Greece, Spain and Italy).

5.11 Our treasury management advisors economic and market review for the third quarter 2011/12 is included in Appendix 5.

5.12 The Council is the accountable body for the West of England Revolving Investment Fund (RIF) and received grant funding of £57 million at the end of the financial year. The Council holds these funds on behalf of the West of England Local Enterprise Partnership until they are allocated in the form of repayable grants to the constituent Local Authorities to meet approved infrastructure costs. These funds are invested separately from the Council's cash balances and have been placed short term with the Debt Management Office.

### **Emerging Developments**

5.13 As a result of the continued global economic uncertainty the ratings agencies continue to monitor the financial standing of all banks very closely. Following a recent ratings agency announcement a number of banks have received a downgrading in their credit rating status. This includes a number of UK banks including Lloyds Banking Group, Barclays Bank, HSBC Bank, Royal Bank of Scotland and National Westminster Bank.

The National Westminster Bank, which is a subsidiary of the Royal Bank of Scotland has now fallen below the minimum short term credit rating acceptable under the Council's treasury management strategy. In the short term this can be accommodated within our investment strategy and the Council will not hold any investments with the bank in line with the approved treasury management strategy.

As National Westminster Bank is the Council's main appointed banker we will continue to use them for all our transactional banking needs, e.g. payments to suppliers and payroll etc. This creates a very small potential risk should the bank be unable to settle the transactions (daylight exposure). However, we consider the risk to be extremely small when compared to the alternative of seeking a new main banking partner in the current financial and economic environment impacting on the banking sector.

## **Budget Implications**

- 5.14 A breakdown of the revenue budget for interest and capital financing and the actual year end position is included in **Appendix 6**. This shows an underspend of £394k in 2011/12. This arises as a result of the Council's cash balances being higher than anticipated at budget setting generating higher investment interest income.
- 5.15 A Capital Financing Smoothing Reserve was created in 2010/11 from the underspend which arises in capital financing costs (Debt charges & MRP), due to the profiling of the borrowing costs compared to the Capital Programme spend. This timing difference is caused where a Service starts to repay its borrowing costs when capital spending begins, but the spend is initially funded by internal borrowing until the Council's cash balances require the planned external funding to be taken. In 2011/12, £1.3m was transferred to this reserve, bringing the total balance to £2.8m.

## **6 RISK MANAGEMENT**

- 6.1 The Council's lending & borrowing list has been regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Sterling.
- 6.2 The CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. In May 2010, the Council's treasury advisors provided training to the Corporate Audit Committee to carry out this scrutiny.
- 6.3 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

## **7 EQUALITIES**

- 7.1 This report provides information about the financial performance of the Council and therefore no specific equalities impact assessment has been carried out on the report.

## **8 RATIONALE**

- 8.1 The Prudential Code and CIPFA's Code of Practice on Treasury Management requires regular monitoring and reporting of Treasury Management activities.

## 9 OTHER OPTIONS CONSIDERED

9.1 None

## 10 CONSULTATION

10.1 Consultation has been carried out with the Cabinet Member for Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

10.2 Consultation was carried out via e-mail.

## 11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 This report deals with issues of a corporate nature.

## 12 ADVICE SOUGHT

12.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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<b>Sponsoring Cabinet Member</b>	<i>Councillor David Bellotti</i>
<b>Background papers</b>	<i>2011/12 Treasury Management &amp; Investment Strategy</i> <i>1<sup>st</sup> &amp; 3<sup>rd</sup> Quarter Treasury Performance Reports (Cabinet)</i> <i>Half yearly Treasury Performance Report (Cabinet &amp; Council)</i>
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