

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	25 th September 2014	AGENDA ITEM NUMBER
TITLE:	Treasury Management Outturn Report 2013/14	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Performance Against Prudential Indicators		
Appendix 2 - The Council's Investment Position at 31 st March 2014		
Appendix 3 – Average monthly rate of return for 2013/14		
Appendix 4 – The Council's External Borrowing Position at 31 st March 2014		
Appendix 5 – Arlingclose's Economic & Market Review of 2013/14		
Appendix 6 – Interest & Capital Financing Budget Monitoring 2013/14		
Appendix 7 – Summary Guide to Credit Ratings		

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, review performance during the year, and approve 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 2013/14 which were reported to full Council in July.

2 RECOMMENDATION

The Committee agrees that:

- 2.1 the 2013/14 Treasury Management Annual Report to 31st March 2014, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 the 2013/14 actual Treasury Management Indicators are noted.
- 2.3 the debt rescheduling actions highlighted at paragraphs 5.8 to 5.10 are noted.

3 RESOURCE IMPLICATIONS

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

4 STATUTORY CONSIDERATIONS AND BASIS FOR APPROVAL

4.1 This report is for information only.

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 2012, 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 2013/14 financial year is 0.08% above the benchmark rate.

Summary of Investment Activity 2013/14

5.3 The Council's investment position as at 31st March 2014 is given in **Appendix 2**. In line with the Annual Investment Strategy, investments undertaken were mainly temporary short term investments made with reference to the core balance and cash flow requirements.

5.4 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 2011/12 financial year. The Council acts as an agent and 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. Since these funds are invested separately from the Council's cash balances and have been placed short term with the Debt Management Office and other Local Authorities, they are excluded from figures given in this report.

5.5 Gross interest earned from investments for 2013/14 totalled £321k. Net interest received, after deduction of amounts due to Schools, the West of England Growth Points, PCT and other internal balances, is £222k. **Appendix 3** details the investment performance, showing the average rate of interest earned on investments over this period was 0.48%, which was 0.08% above the benchmark rate of average 7 day LIBID + 0.05% (0.40%).

Summary of Borrowings 2013/14

5.6 The Council's external borrowing as at 31st March 2014 is detailed in **Appendix 4**.

5.7 No new borrowing has taken place in 2013/14. The Council's total borrowing was £70 million as at 31st March 2014. The Council's Capital Financing Requirement (CFR) as at 31st March 2014 is £153.0 million. This represents the Council's underlying need to borrow to finance capital expenditure, and demonstrates that total borrowing taken to date relates to funding historical capital spend.

- 5.8 The Council implemented the restructuring of its Public Works Loan Board debt portfolio in the second quarter of 2013/14 by repaying £50 million of its loans. By utilising the Council's cash flow, which, as can be seen above, is earning very low rates of interest, savings in the current year have been generated well in excess of the £500k target set in the Council's 2013/14 approved budget. This has been achieved by netting off the loss of interest earned on cash balances (currently earning just under 0.5%) against the reduced interest payments made to the Public Works Loan Board (approximately 4.5%).
- 5.9 With short term interest rates remaining much lower than long term rates, it is significantly more cost effective to use internal resources in this way to reduce net borrowing costs and reduce overall treasury risk (by reducing the Council's investment lending and therefore its exposure to the risk of counterparty default as well as short term interest rate changes).
- 5.10 The benefits of internal borrowing are monitored regularly against the likelihood that long-term borrowing rates are forecast to rise in future years.
- 5.11 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 31st March 2014 apportioned to Bath & North East Somerset Council is £14.54m. 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

- 5.12 Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2013/14 which defined high credit quality organisations as those having a long term credit rating of A- or higher that are domiciled in the UK, or a foreign country with a sovereign rating of AA+ or higher (subject to further monetary and time limits).
- 5.13 As shown in **Appendix 2**, the Council has continued to place a significant proportion of funds with highly-rated major financial institutions, primarily with UK banks. However, during the year the Council has maintained a low risk appetite to investments. The Council continued to invest with other Local Authorities and AAA rated Money Market Funds to improve diversification and counterparty credit rating whilst maintaining appropriate liquidity.
- 5.14 The Council continues to not invest with banks in countries within the Eurozone. The Council's investment counterparty list does not include any banks from the countries most affected by the Eurozone debt situation (Portugal, Ireland, Greece, Spain and Italy).
- 5.15 Our treasury management advisors economic and market review for 2013/14 is included in **Appendix 5**.
- 5.16 The Bank of England base rate has remained constant at 0.50% since March 2009.

Budget Implications

- 5.17 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 overall underspend of £557k in 2013/14, resulting from the recent debt rescheduling. The Council's average investment return was below the budgeted level of 0.75% due to the continued reduction in market rates. Also, in line with the debt restructuring strategy, the majority of the remaining cash balance is required for short term cash flow, so cannot be locked into slightly higher longer term rates. However, the reduced return is more than offset by the reduced interest payments on long term borrowing. This has been factored into the budget plans for 2014/15 and beyond.

Authority's Banker

- 5.18 The Council's current accounts are held with NatWest. In March, Moody's downgraded the long term ratings of Royal Bank of Scotland and NatWest Bank to Baa1 amid concerns about the impact of any potential breakup of the bank on creditors. This rating is below the Council's normal minimum credit criterion of A- for investment with UK Banks. Therefore, in line with the specific treatment outlined in the Council's 2013/14 Treasury Management Strategy, investments with NatWest were restricted to those that can be withdrawn on the next working day, subject to the bank maintaining a credit rating of no lower than BBB-. The NatWest current accounts will continue to be used for operational and liquidity purposes.

6 RATIONALE

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

7 OTHER OPTIONS CONSIDERED

- 7.1 None

8 CONSULTATION

- 8.1 Consultation has been carried out with the Cabinet Member for Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.
- 8.2 Consultation was carried out via e-mail.

9 RISK MANAGEMENT

- 9.1 The Council's lending and borrowing list is 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 and Borrowing advice is provided by our Treasury Management consultants Arlingclose.
- 9.2 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 February

2012, the Council's treasury advisors provided training to the Corporate Audit Committee to carry out this scrutiny.

- 9.3 In addition, the Council maintains a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

Contact person	<i>Tim Richens - 01225 477468 ; Mark Angus - 01225 477180</i> Tim_Richens@bathnes.gov.uk Mark_Angus@bathnes.gov.uk
Background papers	<i>2013/14 Treasury Management & Investment Strategy</i> <i>1st & 3rd Quarter Treasury Performance Reports (Cabinet)</i> <i>Half yearly Treasury Performance Report (Cabinet & Council)</i>
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