

Bath & North East Somerset Council

MEETING:	Cabinet	
MEETING DATE:	11th February 2015	
TITLE:	Treasury Management Monitoring Report to 31st December 2014	EXECUTIVE FORWARD PLAN REFERENCE: E 2653
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 December 2014 Appendix 3 – Average monthly rate of return for 1 st 9 months of 2014/15 Appendix 4 – The Council’s External Borrowing Position at 31 st December 2014 Appendix 5 – Arlingclose’s Economic & Market Review Q3 of 2014/15 Appendix 6 – Interest & Capital Financing Budget Monitoring 2014/15 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 2014/15 for the first nine months of 2014/15.

2 RECOMMENDATION

The Cabinet agrees that:

2.1 the Treasury Management Report to 31st December 2014, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the Treasury Management Indicators to 31st December 2014 are noted.

3 RESOURCE IMPLICATIONS

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

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 This report is for information only.

5 THE REPORT

Summary

- 5.1 The average rate of investment return for the first nine months of 2014/15 is 0.44%, which is 0.04% above the benchmark rate.
- 5.2 The Council's Prudential Indicators for 2014/15 were agreed by Council in February 2014 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

Summary of Returns

- 5.3 The Council's investment position as at 31st December 2014 is given in **Appendix 2**. The balance of deposits as at 30th September 2014 and 31st December 2014 are also set out in the pie charts in this appendix.
- 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 all figures given in this report. The current value of the fund is £45.1 million.
- 5.5 Gross interest earned on investments for the first nine months totalled £106k. Net interest, after deduction of amounts due to Schools, the West of England Growth Points, CHC and other internal balances, is £51k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.44%, which was 0.04% above the benchmark rate of average 7 day LIBID +0.05% (0.39%).

Summary of Borrowings

- 5.6 £28 million of borrowing was arranged in the third quarter of 2014/15, with five different Local Authorities, for periods of between one and five years. The borrowing was undertaken to replenish cash-flow used to fund a specific commercial estate investment opportunity and to maintain appropriate working cash balances. The Council's total borrowing was £98 million as at 31st December 2014.
- 5.7 The Council's Capital Financing Requirement (CFR) as at 31st March 2014 was £153 million with a projected total of £215 million by the end of 2014/15 based on the capital programme approved at February 2014 Council. This represents the Council's underlying need to borrow to finance capital expenditure, and demonstrates that the borrowing taken to date relates to funding historical capital spend.

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 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 5.6.

5.9 The borrowing portfolio as at 31st December 2014 is shown in **Appendix 4**.

Strategic & Tactical Decisions

5.10 As shown in the charts at **Appendix 2**, the proportion of investments in Foreign Banks increased during the quarter, reflecting new short term investments in very highly rated counterparties (AA-). To increase diversification, the Council invests in AAA rated Money Market funds, with a balance of £7.4m invested in these as at 31st December 2014.

5.11 The Council continues to not hold any direct investments with banks in countries within the Eurozone reflecting both on the underlying debt issues in some Eurozone countries and the low levels of interest rates. The Council's investment counterparty list does not currently include any banks from Portugal, Ireland, Greece, Spain and Italy.

5.12 The Council's average investment return is running slightly above the budgeted level of 0.35%, although the impact is offset by the lower than budgeted investment balances held.

Future Strategic & Tactical Issues

5.13 Our treasury management advisors economic and market review for the third quarter 2014/15 is included in **Appendix 5**.

5.14 The Bank of England base rate has remained constant at 0.50% since March 2009. In the opinion of the Council's treasury advisors, Arlingclose, falling oil prices and sub-target inflation (with CPI falling to 0.5% in December) is easing pressure on officials to act, though forward expectations are still focusing on a rate rise in Q3 2015.

5.15 In their opinion the lack of inflationary signals is expected to allow policymakers to hold off monetary tightening for longer than the market currently expects. However, the near-term risk is that the Bank Rate could rise sooner than anticipated.

5.16 The benefits of the Council's current policy of internal borrowing are monitored regularly against the likelihood that long term borrowing rates are forecast to rise in future years. The focus is now on the rate of increase and the medium-term peak and, in this respect, the current forecast is that rates will rise slowly and to a lower level than in the past.

5.17 The borrowing that has taken place in the last quarter is therefore driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.

Budget Implications

- 5.18 A breakdown of the revenue budget for interest and capital financing and the forecast year end position based on the period April to December is included in **Appendix 6**. This is currently forecast to remain on target for 2014/15.
- 5.19 This position will be kept under review during the remainder of the year, taking into account the Council's cash-flow position and the timing of any new borrowing required.

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 and Monitoring Officer.
- 8.2 Consultation was carried out via e-mail.

9 RISK MANAGEMENT

- 9.1 The Council's lending & 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. The Corporate Audit Committee carries out this scrutiny.
- 9.3 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

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Background papers	<i>2014/15 Treasury Management & Investment Strategy</i> <i>1st Quarter Treasury Performance Report (Cabinet)</i> <i>2nd Quarter Treasury Performance Report (Cabinet)</i>
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