

## Bath & North East Somerset Council

MEETING:	<b>Cabinet</b>	
MEETING DATE:	<b>13<sup>th</sup> July 2011</b>	AGENDA ITEM NUMBER
TITLE:	<b>Treasury Management Outturn Report 2010/11</b>	<b>E 2264</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 2011 <b>Appendix 3</b> – Average monthly rate of return for 2010/2011 <b>Appendix 4</b> – The Council's External Borrowing Position at 31 <sup>st</sup> March 2011 <b>Appendix 5</b> – Sterling Consultant's Economic & Market Review of 2010/11 <b>Appendix 6</b> – Interest & Capital Financing Budget Monitoring 2010/11		

### 1 THE ISSUE

- 1.1 In February 2010 the Council adopted the 2009 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 2010/11.

### 2 RECOMMENDATION

The Council agrees that:

- 2.1 the 2010/11 Treasury Management Annual Report to 31<sup>st</sup> March 2011, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 the 2010/11 actual Treasury Management Indicators are noted.

### **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 2010, 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 2010/11 financial year is 0.51% above the benchmark rate.

#### **Summary of Returns 2010/11**

5.3 The Council's investment position as at 31<sup>st</sup> March 2011 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 2010/11 totalled £910k. Net interest received, after deduction of amounts due to Schools, the West of England Growth Points, PCT and other internal balances, is £760k. Appendix 3 details the investment performance, the average rate of interest earned on investments over this period was 1.00%, which is 0.51% above the benchmark rate of average 7 day LIBID + 0.05% (0.49%).

#### **Summary of Borrowings 2010/11**

5.5 The Council's external borrowing as at 31<sup>st</sup> March 2011 is detailed in Appendix 4.

5.6 New loans totalling £10 million were taken from the Public Works Loan Board on 12<sup>th</sup> May 2010. One of the loans was £5 million for 25 years at a rate of 4.55%, and the other for a further £5 million for 50 years at a rate of 4.53%. It was decided to take a portion of the Council's borrowing requirement at this stage of the financial year so as to lock in at an interest rate below the rate of 4.75% included in the 2010/11 budget.

5.7 At the time of the decision, long term rates had fallen from a high in April 2010 of 4.74%, and there were concerns that rates could increase again if the general election failed to produce a clear direction in tackling the public sector budget deficit, making UK sovereign debt and therefore long term borrowing more expensive

5.8 The new borrowing took the Council's total borrowing to £90 million. The Council's Capital Financing Requirement (CFR) as at 31<sup>st</sup> March 2010 was £93.6 million. This represents the Council's need to borrow to finance capital expenditure, and demonstrates that the borrowing taken relates to funding historical capital spend relating to 2009/10 and prior years.

### **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. During the year the amount invested with the Debt Management Office has gradually reduced to between 0-10% of total investments. Some short term investments of have been made with UK Building Societies from the Council's counterparty list that was approved by Council in February 2010. This has resulted in earning a more favourable return than the 0.25% paid by the Debt Management Office.

5.10 In line with recent years, the Council continued to take a pro-active risk management approach to its investment decisions during 2009/10 due to the continued volatility of the financial markets and banking sector. This approach included the following actions.

### **Budget Implications**

5.11 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 £330k in 2010/11. During the year, the Council tightened controls on expenditure where doubts over funding existed. This caused a slowing down of capital expenditure reducing capital financing costs in the short term. The Council's cash balances were higher than anticipated at budget setting generating higher investment interest income.

5.12 A Capital Financing Smoothing Reserve has been created from the underspend which arises in capital financing costs (Debt charges & MRP) in 2010/11, 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.

## **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 2009 edition of 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>20010/11 Treasury Management &amp; Investment Strategy</i> <i>1<sup>st</sup> &amp; 3<sup>rd</sup> Quarter Treasury Performance Reports (Single Member Decisions)</i> <i>Half yearly Treasury Performance Report (Cabinet &amp; Council)</i>
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