

Bath & North East Somerset Council

MEETING:	Council	
MEETING DATE:	9 November 2017	
TITLE:	Treasury Management Monitoring Report to 30th September 2017	EXECUTIVE FORWARD PLAN REFERENCE:
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 30 th September 2017 Appendix 3 – Average monthly rate of return for 1 st 6 months of 2017/18 Appendix 4 – The Council’s External Borrowing Position at 30 th September 2017 Appendix 5 – Arlingclose’s Economic & Market Review Q2 of 2017/18 Appendix 6 – Interest & Capital Financing Budget Monitoring 2017/18 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 2017/18 for the first six months of 2017/18.

2 RECOMMENDATION

The Council agrees that:

- 2.1 the Treasury Management Report to 30th September 2017, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 the Treasury Management Indicators to 30th September 2017 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 six months of 2017/18 is 0.26%, which is 0.10% above the benchmark rate.
- 5.2 The Council's Prudential Indicators for 2017/18 were agreed by Council in February 2017 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 30th September 2017 is given in **Appendix 2**. The balance of deposits as at 30th June 2017 and 30th September 2017 are also set out in the pie charts in this appendix.
- 5.4 The Council was the accountable body for the West of England Revolving Investment Fund (RIF) and Local Growth Fund. This function has now transferred to the West of England Combined Authority (WECA) and all balances also transferred.
- 5.5 Gross interest earned on investments for the first six months totalled £44k. Net interest, after deduction of amounts due to Schools, Local Growth Fund and other internal balances, is £31k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.26%, which was 0.10% above the benchmark rate of average 7 day LIBID +0.05% (0.16%).

Summary of Borrowings

- 5.6 The Council's external borrowing as at 30th September 2017 totalled £167.5million and is detailed in Appendix 4. £9.5m of new borrowing was arranged during the quarter to the fund the acquisition of an investment property, being £7m long term PWLB annuity borrowing and £2.5m at 0.41% for 12 months pending capital receipt.
- 5.7 The Council's Capital Financing Requirement (CFR) as at 31st March 2017 was £200.1 million with a projected total of £338 million by the end of 2017/18 based on the capital programme approved at February 2017 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 The CFR represents the underlying need to borrow and the difference from the current borrowing of £167.5m, represents re-investment internal balances of reserves, reducing the in-year borrowing costs in excess of the potential investment returns. Therefore, in-year use of reserves will lead to higher borrowing.
- 5.9 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 2017 apportioned to Bath & North East Somerset Council is £12.86m. Since this borrowing is managed by an external body 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.

5.10 The borrowing portfolio as at 30th September 2017 is shown in **Appendix 4**.

Strategic & Tactical Decisions

5.11 As shown in the charts at **Appendix 2**, the investment portfolio has been mainly diversified across Money Market Funds and Local Authorities. The Council uses AAA rated Money Market funds to maintain very short term liquidity and has £18.3M as at 30th September 2017.

5.12 The Council does 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.

5.13 The Council's current average investment return is in broadly line with the budgeted level of 0.30%.

Future Strategic & Tactical Issues

5.14 Our treasury management advisors economic and market review for the second quarter 2017/18 is included in **Appendix 5**.

5.15 The Bank of England base rate was reduced to 0.25% on 4th August 2016. In the opinion of the Council's treasury advisors there is unlikely to be a rate rise until Q3 2020, with the risks to this forecast remain weighted to the downside. In their September "Mid Year Report 2017/18" their view is that, whilst the Bank of England MPC has changed its 'rhetoric' recently, they are not 'convinced the UK outlook justifies' a rate increase 'at this stage'. We are aware the MPC will be meeting on 2nd November and will be monitoring the outcome.

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 remains on the rate of increase and the medium-term peak.

Budget Implications

5.17 A breakdown of the revenue budget for interest and capital financing and the forecast year end position based on the period April to September is included in **Appendix 6** and shows that the forecast is on target

5.18 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>2017/18 Treasury Management & Investment Strategy</i>
Please contact the report author if you need to access this report in an alternative format	