

Bath & North East Somerset Council

DECISION MAKER:	Cllr Malcolm Hanney, Cabinet Member for Resources & Deputy Leader	
DECISION DATE:	On or after 21 st August 2010	PAPER NUMBER 1
TITLE:	Treasury Management Monitoring Report to 30 th June 2010	EXECUTIVE FORWARD PLAN REFERENCE: E 2162
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 30th June 2010
- Appendix 3 – Average monthly rate of return for 1st 3 months of 2010/2011
- Appendix 4 – The Council's External Borrowing Position at 30th June 2010
- Appendix 5 – Sterling Consultant's Economic & Market Review 1st 3 months of 2010/11
- Appendix 6 – Interest & Capital Financing Budget Monitoring 2010/11

1 THE ISSUE

- 1.1 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan 2010/11 for the first three months of 2010/11.

2 RECOMMENDATION

- 2.1 That the Cabinet Member accepts the treasury management report to 30th June 2010, prepared in accordance with the CIPFA Treasury Code of Practice, and notes the performance.

3 FINANCIAL IMPLICATIONS

3.1 Included in 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 The average rate of investment return for the first three months of 2010/11 is 0.49% above the benchmark rate.
- 5.2 The Councils Prudential Indicators for 2010/11 were agreed by Council in February 2010 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 June 2010 is given in **Appendix 2**. The balance of deposits as at 31st March 2010 & 30th June 2010 is also set out in the pie charts in this appendix.
- 5.4 Gross interest earned on investments for the first three months totalled £223k. Net interest, after deduction of amounts due to West of England Growth Points, PCT and schools, is £162K.). **Appendix 3** details the investment performance, the average rate of interest earned over this period was 0.97%, which is 0.49% above the benchmark rate of average 7 day LIBID +0.05% (0.48%).

Summary of Borrowings

- 5.5 New loans totalling £10 million were taken from the Public Works Loan Board on 12th 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.
- 5.6 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. In addition, the 25-50 year PWLB interest rate forecast from our treasury advisors indicated rates rising steadily to around 5% by the middle of 2012.
- 5.7 The new borrowing took the Council's total borrowing to £90 million. The Council's Capital Financing Requirement (CFR) as at 31st 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.

5.8 The current borrowing portfolio, including these new loans, is shown in **Appendix 4**.

Strategic & Tactical Decisions

5.9 As shown in the charts in Appendix 2, the amount invested with the Debt Management Office has gradually reduced to between 0-10% of total investments. Short term investments of £3m 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.

Future Strategic & Tactical Issues

5.10 Our treasury management advisors economic and market review for the first three months of 2010/11 is included in **Appendix 5**.

5.11 The Bank of England base rate has remained constant at 0.50% since March 2009.

5.12 At the time of writing, the spread between the UK Government Debt Management Office returns and those of highly rated UK banks remains in excess of 1.00%.

Budget Implications

5.13 A breakdown of the revenue budget for interest and capital financing and the forecast year end position based on the period April to June is included in **Appendix 6**. This shows a current forecast underspend of £133k in 2010/11. The Council has tightened controls on expenditure where doubts over funding exist due to the growing uncertainties over government funding for capital schemes which have emerged over the past year. This slowing down of capital expenditure reduces capital financing costs in the short term. The amount of the underspend could increase depending on decisions taken during the remainder of the financial year and this will be closely monitored as the year progresses.

6 RISK MANAGEMENT

6.1 The report author and Cabinet member have fully reviewed the risk assessment related to the issue and recommendations, in compliance with the Council's decision making risk management guidance.

6.2 The Council's lending & borrowing list was agreed prior to the start of the financial year and the 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.

7 EQUALITIES

7.1 An equalities impact assessment has not been carried out as this is an information only 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 *Cabinet members; Section 151 Finance Officer;*

10.2 This report has been circulated to the Cabinet Member for Resources, The Strategic Director – Support Services and the Divisional Director Finance for comments and clearance.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 *Corporate;*

12 ADVICE SOUGHT

12.1 The Council's Section 151 Officer (Strategic Director - Support Services) has had the opportunity to input to this report and has cleared it for publication.

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Background papers	<i>Treasury Management Strategy & Annual Investment Plan 2010/11.</i> <i>Treasury Outturn Report 2009/10.</i>
Please contact the report author if you need to access this report in an alternative format	