

Bath & North East Somerset Council

MEETING:	Corporate Audit Committee	
MEETING DATE:	30 th September 2010	AGENDA ITEM NUMBER
TITLE:	Treasury Management Outturn Report 2009/10	
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 2010		
Appendix 3 – Average monthly rate of return for 2009/2010		
Appendix 4 – The Council's External Borrowing Position at 31 st March 2010		
Appendix 5 – Sterling Consultant's Economic & Market Review of 2009/10		
Appendix 6 – Interest & Capital Financing Budget Monitoring 2009/10		

1 THE ISSUE

1.1 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan for 2009/10.

2 RECOMMENDATION

The Corporate Audit Committee is asked to agree that:

2.1 the 2009/10 Treasury Management Annual Report to 31st March 2010, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the 2009/10 actual Treasury Management Indicators are noted.

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

4.1 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 2009, as shown in Appendix 1, as well as the CIPFA Code of Practice and the relevant legislative provisions.

Summary of Returns 2009/10

4.2 The Council's investment position as at 31st March 2010 and performance in 2009/10 is given in Appendices 2 and 3. 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.

4.3 Gross interest earned from investments for 2009/10 totalled £1.646m. Net interest received, after deduction of amounts due to the Avon Pension Fund, West of England Growth Points, PCT, schools and other internal balances, is £1.247m. The average rate of interest earned on investments over this period was 1.46%, which is 0.99% above the benchmark rate of average 7 day LIBID + 0.05% (0.47%). This represents an extra £843k of net interest income earned above the benchmark rate.

Summary of Borrowings 2009/10

4.4 The Council's external borrowing as at 31st March 2010 is detailed in Appendix 4. No further borrowing was taken during the year. Following concerns regarding elevated levels of credit risk, falling short term investment rates and in light of the Council's cash balances, the decision was taken to use internal resources rather than external borrowing to finance capital spending during the year. This has the effect of reducing the council's investment balance and the amounts it lends on the money markets to financial institutions, thus providing a significant net saving on capital financing costs.

Strategic & Tactical Decisions

4.5 As detailed in the 2009/10 annual economic review attached at Appendix 5, provided by Sterling, the Council's Treasury Advisors, the banking sector remained volatile and we have therefore continued to adopt a cautious strategy in this environment. We have continued to place a significant proportion of our funds with the UK Government Debt Management Office and otherwise with highly-rated major financial institutions, primarily with UK banks, where we assess there is implicit or explicit Government support.

4.6 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

- i) For the first three quarters of the financial year all investments were made in line with the restricted counterparty list approved as part of the 2009/10 treasury management strategy report. Around 20-25% of investments were placed with the UK Government's Debt Management Office (LT rating AAA). Remaining investments were placed with highly rated financial institutions, primarily with UK banks, where it was assessed there was implied or explicit Government support;
- ii) In the final quarter the amount invested with the Debt Management Office was gradually reduced to between 10-15% of total investments as the banking sector stabilised, and two short term investments of £3m each were made with two UK Building Societies (Fitch LT rating A) from the Council's wider counterparty list.

Budget Implications

4.7 An amount of £5.979m was included in the Councils 2009/10 revenue budget for capital financing costs.

4.8 A breakdown of this budget and the actual year end position is included in Appendix 6. This shows an underspend at outturn of £1.075m in 2009/10. The underspend is due to the following factors:

- Minimum Revenue Provision (MRP) in respect of debt repayments underspend of £409k due to the final capital spend in 2008/09 being underspent compared to the estimate used in setting the 2009/10 budget for MRP.
- Additional interest earned from the higher ongoing cash balances from 2008/09 and locking in some fixed term investments before a series of base rate cuts totalled £0.673m, which also resulted in a reduction in the requirement to borrow, negating the associated borrowing costs. Higher cash balances were a result of ongoing slippage in the Capital Programme plus higher than anticipated reserves.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

5.2 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.

5.3 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 EQUALITIES

6.1 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.

7 CONSULTATION

7.1 Consultation has been carried out with the Deputy Leader of The Council & Cabinet Member for Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

7.2 Consultation was carried out via e-mail.

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 This report deals with issues of a corporate nature.

9 ADVICE SOUGHT

9.1 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.

9.2 This report has also been presented to the Cabinet meeting on 21st July 2010 and the Council meeting on 9th September 2010.

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Background papers	<i>2009/10 Treasury Management & Investment Strategy</i> <i>Quarterly Treasury Performance Reports (Single Member Decisions)</i>
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