

Bath & North East Somerset Council

MEETING:	Cabinet	
MEETING DATE:	14th November 2012	
TITLE:	Treasury Management Monitoring Report to 30th September 2012	EXECUTIVE FORWARD PLAN REFERENCE: E 2424
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 2012 Appendix 3 – Average monthly rate of return for 1 st 6 months of 2012/13 Appendix 4 – The Council’s External Borrowing Position at 30 th September 2012 Appendix 5 – Sterling Consultant’s Economic & Market Review of 2012/13 Appendix 6 – Interest & Capital Financing Budget Monitoring 2012/13 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 2012/13 for the first six months of 2012/13.

2 RECOMMENDATION

The Cabinet agrees that:

2.1 the Treasury Management Report to 30th September 2012, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the Treasury Management Indicators to 30th September 2012 are noted.

2.3 this Treasury Management Report and attached appendices are reported to November Council and December Corporate Audit Committee.

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 The average rate of investment return for the first six months of 2012/13 is 1.00%, which is 0.53% above the benchmark rate.

5.2 The Council's Prudential Indicators for 2012/13 were agreed by Council in February 2012 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 2012 is given in **Appendix 2**. The balance of deposits as at 30th June 2012 & 30th September 2012 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 2012/13 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 figures given in this report.

5.5 Gross interest earned on investments for the first six months totalled £519k. Net interest, after deduction of amounts due to West of England Growth Points, B&NES PCT and schools, is £433k. **Appendix 3** details the investment performance, the average rate of interest earned over this period was 1.00%, which is 0.53% above the benchmark rate of average 7 day LIBID +0.05% (0.47%).

Summary of Borrowings

5.6 No new borrowing has taken place in 2012/13. The Council's total borrowing is currently £120 million. The Council's Capital Financing Requirement (CFR) as at 31st March 2012 was £136.1 million with a projected total of £170 million by the end

of 2012/13 based on the capital programme approved at February 2012 Council. This represents the Council's need to borrow to finance capital expenditure, and demonstrates that the borrowing taken to date relates to funding historical capital spend.

- 5.7 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 2012 apportioned to Bath & North East Somerset Council is £15.77m. 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 5.5.
- 5.8 The current borrowing portfolio is shown in **Appendix 4**.

Strategic & Tactical Decisions

- 5.9 As shown in the charts at **Appendix 2**, investments continue to be focussed on UK banks that have either already or are likely to receive support from the UK Government should they experience financial difficulties. As at 30th September 2012, £8.0m was invested with other Local Authorities to increase diversification whilst maintaining strong counterparty rating. To increase diversification further, the Council now invests in AAA rated Money Market funds as authorised in the 2012/13 Treasury Management Strategy. The amount invested with the Debt Management Office continues to remain between 0-10% of total investments.
- 5.10 Due to concerns related to the current Eurozone debt situation, the Council does not currently hold any direct investments with banks in countries within the Eurozone. The Council's investment counterparty list does not include any banks from the countries most affected by the debt situation in the Eurozone (Portugal, Ireland, Greece, Spain and Italy).
- 5.11 As previously reported, the downgrading of many UK banks by the credit rating agencies places an increasing challenge for the delivery of the Council's Treasury Management requirements. In the short term this can be accommodated within the approved Treasury Management Strategy although any further significant changes may require an interim review of the Strategy.
- 5.12 Based on current Borrowing and Investment rates, it is envisaged that we will continue to utilise the Council's cash flow balances to meet approved capital expenditure and delay draw down of any new borrowing. Working closely with our Treasury advisers we also continue to monitor opportunities to repay or refinance historic debt positions although current market conditions mean the repayment premiums attached to early redemptions significantly outweigh the potential benefits in terms of reduce debt costs.
- 5.13 The Council's average investment return remains in line with budget at 1% although the continued reduction in current market rates (as reflected in the advisors review at **Appendix 5**) will inevitably impact on this return going forwards. We will continue to review opportunities with our advisors, within the limits set in the Council's current Treasury Strategy.

Future Strategic & Tactical Issues

- 5.14 Our treasury management advisors economic and market review for the first quarter 2012/13 is included in **Appendix 5**.
- 5.15 The Bank of England base rate has remained constant at 0.50% since March 2009.

Budget Implications

- 5.16 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**. This is currently forecast to remain on target for 2012/13.

6 RISK MANAGEMENT

- 6.1 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 & 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 in February 2012 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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Background papers	<i>2012/13 Treasury Management & Investment Strategy</i>
Please contact the report author if you need to access this report in an alternative format	