

Bath & North East Somerset Council

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| MEETING: | Cabinet | |
| MEETING DATE: | 11th September 2013 | |
| TITLE: | Treasury Management Monitoring Report to 30th June 2013 | EXECUTIVE FORWARD PLAN REFERENCE: E 2552 |
| 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 June 2013 Appendix 3 – Average monthly rate of return for 1 st 3 months of 2013/14 Appendix 4 – The Council’s External Borrowing Position at 30 th June 2013 Appendix 5 – Arlingclose’s Economic & Market Review Q1 of 2013/14 Appendix 6 – Interest & Capital Financing Budget Monitoring 2013/14 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 2013/14 for the first three months of 2013/14.

2 RECOMMENDATION

The Cabinet agrees that:

2.1 the Treasury Management Report to 30th June 2013, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the Treasury Management Indicators to 30th June 2013 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 The average rate of investment return for the first three months of 2013/14 is 0.48%, which is 0.07% above the benchmark rate.

5.2 The Council's Prudential Indicators for 2013/14 were agreed by Council in February 2013 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 2013 is given in **Appendix 2**. The balance of deposits as at 31st March 2013 & 30th June 2013 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 2011/12 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 all figures given in this report.

5.5 Gross interest earned on investments for the first three months totalled £140k. Net interest, after deduction of amounts due to West of England Growth Points, B&NES PCT Pooled Budgets and schools, is £118k. **Appendix 3** details the investment performance, the average rate of interest earned over this period was 0.48%, which is 0.07% above the benchmark rate of average 7 day LIBID +0.05% (0.41%).

Summary of Borrowings

5.6 No new borrowing has taken place in the first quarter of 2013/14. The Council's total borrowing was £120 million as at the 30th June 2013. The Council's Capital Financing Requirement (CFR) as at 31st March 2013 was £141.8 million with a projected total of £201 million by the end of 2013/14 based on the capital programme approved at February 2013 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 2013 apportioned to Bath & North East Somerset Council is £15.14m. 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 5.6.

5.8 The borrowing portfolio as at 30th June 2013 is shown in **Appendix 4**.

Debt Rescheduling

5.9 As reported in the Treasury Management Outturn Report 2012/13, the Council is implementing a proposal to restructure its Public Works Loan Board debt portfolio by utilising Council's cash flow, which is currently earning very low rates of interest. The rescheduling of £50 million of borrowing is anticipated to be completed during the second quarter of 2013/14. Current estimates project that the savings in the current year will meet the additional £500K savings target in the Council's 2013/14 approved budget.

Strategic & Tactical Decisions

5.10 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 June 2013, £8.0m was invested with other Local Authorities to increase diversification whilst maintaining strong counterparty rating. To increase diversification further, the Council invests in AAA rated Money Market funds, with a balance of £21.0m invested in these as at 30th June 2013.

5.11 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).

5.12 The Council's average investment return is running below the budgeted level of 0.75% due to the continued reduction in current market rates and the need to keep a greater proportion of investments short term in line with the debt rescheduling strategy.

Future Strategic & Tactical Issues

5.13 Our treasury management advisors economic and market review for the first quarter 2013/14 is included in **Appendix 5**.

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

Budget Implications

5.15 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 is currently forecast to remain on target for 2013/14. The forecast will be updated as part of the 6 monthly review report to reflect the actual savings achieved through the debt rescheduling plan which is taking place during the second quarter of 2013/14.

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 Arlingclose.
- 6.2 The 2011 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 February 2012, 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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| Contact person | <i>Tim Richens - 01225 477468 ; Jamie Whittard - 01225 477213</i> Tim_Richens@bathnes.gov.uk Jamie_Whittard@bathnes.gov.uk |
| Sponsoring Cabinet Member | <i>Councillor David Bellotti</i> |
| Background papers | <i>2013/14 Treasury Management & Investment Strategy</i> |
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