

Bath & North East Somerset Council

MEETING:	Corporate Audit Committee
MEETING DATE:	23rd September 2013
TITLE:	Treasury Management Outturn Report 2012/13
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 31st March 2013
- Appendix 3** – Average monthly rate of return for 2012/13
- Appendix 4** – The Council's External Borrowing Position at 31st March 2013
- Appendix 5** – Arlingclose'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 for 2012/13.

2 RECOMMENDATION

The Corporate Audit Committee agrees that:

- 2.1 the 2012/13 Treasury Management Annual Report to 31st March 2013, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 the 2012/13 actual Treasury Management Indicators are noted.
- 2.3 the Debt rescheduling actions highlighted at paragraphs 5.13-5.15 is noted.

3 FINANCIAL IMPLICATIONS

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

4 THE REPORT

Summary

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 2012, as shown in **Appendix 1**, as well as the CIPFA Code of Practice and the relevant legislative provisions.

4.2 The average rate of investment return for the 2012/13 financial year was 0.39% above the benchmark rate.

Summary of Investment Activity 2012/13

4.3 The Council's investment position as at 31st March 2013 is given in **Appendix 2**. In line with the Annual Investment Strategy, investments undertaken were mainly temporary short term investments made with reference to the core balance and cash flow requirements.

4.4 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.

4.5 Gross interest earned from investments for 2012/13 totalled £821k. Net interest received, after deduction of amounts due to Schools, the West of England Growth Points, PCT and other internal balances, was £683k. **Appendix 3** details the investment performance, showing the average rate of interest earned on investments over this period was 0.83%, which is 0.39% above the benchmark rate of average 7 day LIBID + 0.05% (0.44%).

Summary of Borrowings 2012/13

4.6 The Council's external borrowing as at 31st March 2013 is detailed in **Appendix 4**.

4.7 No new borrowing has taken place in 2012/13. The Council's total borrowing at the end of 2012/13 was £120 million. The Council's provisional Capital Financing Requirement (CFR) as at 31st March 2013 is £141.8 million. This represents the Council's requirement to borrow to finance capital expenditure, and demonstrates that total borrowing remains below this requirement as at 31st March 2013.

4.8 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 4.7.

Strategic & Tactical Decisions

- 4.9 As shown in **Appendix 2**, the Council has continued to place a significant proportion of funds with highly-rated major financial institutions, primarily with UK banks. However, during the year the Council has maintained a low risk appetite to investments. The Council increased its proportion of investments with other Local Authorities and AAA rated Money Market Funds to improve diversification and counterparty credit rating whilst maintain appropriate liquidity.
- 4.10 Due to concerns related to the Eurozone debt situation the council does not currently and did not hold throughout 2012/13 any direct investments with banks 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).
- 4.11 Our treasury management advisors economic and market review for 2012/13 is included in Appendix 5.

Budget Implications

- 4.12 A breakdown of the revenue budget for interest and capital financing and the actual year end position is included in **Appendix 6**. This shows an underspend of £97k in 2012/13. This arises as a result of the Council's cash balances being higher than anticipated at budget setting generating higher investment interest income.

Debt Rescheduling

- 4.13 As market expectations for sustained low interest rates have increasingly been accepted as the consensus view, the Council has requested a review of its existing debt portfolio to be undertaken by its treasury management advisors. The purpose of this review was to identify debt rescheduling opportunities within this low interest rate environment, and this was completed in April 2013.
- 4.14 The review identified the potential to undertake a significant debt rescheduling, utilising Council cashflows which are earning very low rates of interest – just over 0.5%, when the average carrying cost of debt is approximately 4.5% (as set out in Appendix 3 and Appendix 4). The proposal is in line with the Council's approved Treasury Management Strategy and the Council's S151 Officer will be implementing the rescheduling proposals during the second quarter of the 2013/14 financial year as cash flows permit.
- 4.15 It is anticipated that this approach will deliver the additional £500K savings target in the Council's Approved Budget for 2013/14 together with the potential to provide further savings to contribute to the Budget shortfall in future years.

5 RISK MANAGEMENT

- 5.1 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 Arlingclose.

5.2 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. In February 2012, the Council's treasury advisors provided training to the Corporate Audit Committee to carry out this scrutiny.

5.3 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

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 Cabinet Member for Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

7.2 Consultation was carried out via e-mail.

7.3 This report was also presented to July 2013 Cabinet and Council.

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.

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Background papers	<i>2012/13 Treasury Management & Investment Strategy</i> <i>1st & 3rd Quarter Treasury Performance Reports (Cabinet)</i> <i>Half yearly Treasury Performance Report (Cabinet, Council & Corporate Audit Committee)</i>
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