

# Bath & North East Somerset Council

MEETING:	<b>Cabinet</b>	
MEETING DATE:	<b>13<sup>th</sup> November 2013</b>	EXECUTIVE FORWARD PLAN REFERENCE:
		<b>E 2557</b>
TITLE:	<b>Treasury Management Monitoring Report to 30<sup>th</sup> September 2013</b>	
WARD:	All	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b>		
<b>Appendix 1</b> – Performance Against Prudential Indicators		
<b>Appendix 2</b> – The Council’s Investment Position at 30 <sup>th</sup> September 2013		
<b>Appendix 3</b> – Average monthly rate of return for 1 <sup>st</sup> 6 months of 2013/14		
<b>Appendix 4</b> – The Council’s External Borrowing Position at 30 <sup>th</sup> September 2013		
<b>Appendix 5</b> – Arlingclose’s Economic & Market Review Q2 of 2013/14		
<b>Appendix 6</b> – Interest & Capital Financing Budget Monitoring 2013/14		
<b>Appendix 7</b> – 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 six months of 2013/14.

## 2 RECOMMENDATION

The Cabinet agrees that:

2.1 the Treasury Management Report to 30<sup>th</sup> September 2013, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the Treasury Management Indicators to 30<sup>th</sup> September 2013 are noted.

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

### **3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)**

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

### **4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL**

4.1 This report is for information only.

### **5 THE REPORT**

#### **Summary**

- 5.1 The average rate of investment return for the first six months of 2013/14 is 0.49%, which is 0.08% 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 30<sup>th</sup> September 2013 is given in **Appendix 2**. The balance of deposits as at 30<sup>th</sup> June 2013 & 30<sup>th</sup> September 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 six months totalled £228k. Net interest, after deduction of amounts due to West of England Growth Points, B&NES PCT Pooled Budgets and schools, is £183k. **Appendix 3** details the investment performance, the average rate of interest earned over this period was 0.49%, which is 0.08% above the benchmark rate of average 7 day LIBID +0.05% (0.41%).

#### **Summary of Borrowings**

- 5.6 The Council has now implemented the restructuring of its Public Works Loan Board debt portfolio by utilising Council's cash flow, which, as can be seen above, is currently earning very low rates of interest. The rescheduling of £50 million of borrowing was completed during the second quarter of 2013/14.
- 5.7 Current forecasts project that the savings in the current year will meet the additional £500K savings target in the Council's 2013/14 approved budget, as well as generating an additional £600k saving. This is achieved by netting off the loss of interest earned on the cash balance against the reduced interest payments made to the Public Works Loan Board.
- 5.8 The Council's reduced total borrowing was £70 million as at the 30<sup>th</sup> September 2013. The Council's Capital Financing Requirement (CFR) as at 31<sup>st</sup> 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.

5.9 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 31<sup>st</sup> 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 5.8.

5.10 The borrowing portfolio as at 30<sup>th</sup> September 2013 is shown in **Appendix 4**.

### **Strategic & Tactical Decisions**

5.11 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 30<sup>th</sup> September 2013, £3.0m 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 £6.5m invested in these as at 30<sup>th</sup> September 2013.

5.12 The overall decrease in the Council's cash balance between 30<sup>th</sup> June 2013 and 30<sup>th</sup> September 2013, as detailed in **Appendix 2**, is a reflection of the debt repayments that have been made during that period, as detailed in paragraph 5.6 above.

5.13 The Council continues to not invest 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 Eurozone debt situation (Portugal, Ireland, Greece, Spain and Italy).

5.14 The Council's average investment return is running below the budgeted level of 0.75% due to the continued reduction in current market rates. Also, in line with the debt restructuring strategy, the majority of the remaining cash balance is required for short term cashflow, so cannot be locked into the slightly higher longer term rates. The reduced return is more than offset by the reduced interest payments, as set out in **Appendix 6**.

### **Future Strategic & Tactical Issues**

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

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

## Budget Implications

- 5.17 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 be £600k underspend for 2013/14, resulting from the recent debt rescheduling.

## 6 RATIONALE

- 6.1 The Prudential Code and CIPFA's Code of Practice on Treasury Management requires regular monitoring and reporting of Treasury Management activities.

## 7 OTHER OPTIONS CONSIDERED

- 7.1 None.

## 8 CONSULTATION

- 8.1 Consultation has been carried out with the Cabinet Member for Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

- 8.2 Consultation was carried out via e-mail.

## 9 RISK MANAGEMENT

- 9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.
- 9.2 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.
- 9.3 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.
- 9.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

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<b>Background papers</b>	<i>2013/14 Treasury Management &amp; Investment Strategy</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	