

Bath & North East Somerset Council

MEETING:	Cabinet	
MEETING DATE:	13th July 2016	
TITLE:	Treasury Management Outturn Report 2015/16	AGENDA ITEM NUMBER: E 2869
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 2016 Appendix 3 – Average monthly rate of return for 2015/16 Appendix 4 – The Council’s External Borrowing Position at 31 st March 2016 Appendix 5 – Counterparty Update Appendix 6 – Arlingclose’s Economic & Market Review of 2015/16 Appendix 7 – Interest & Capital Financing Budget Monitoring 2015/16 Appendix 8 – 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 2015/16.

2 RECOMMENDATION

The Cabinet agrees that:

- 2.1 the 2015/16 Treasury Management Report to 31st March 2016, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.
- 2.2 the 2015/16 Treasury Management Indicators are noted.

3 RESOURCE IMPLICATIONS

- 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 2015/16 financial year is 0.47%, which is 0.06% above the benchmark rate.

5.2 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 2015 as shown in **Appendix 1**, as well as the CIPFA Code of Practice and the relevant legislative provisions.

Summary of Returns

5.3 The Council's investment position as at 31st March 2016 is given in **Appendix 2**. In line with the Annual Investment Strategy, investments were mainly temporary short term investments made with reference to the core balance and cash flow requirements.

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. The value of the fund at the end of 2015/16 was £32.6 million.

5.5 Gross interest earned on investments for 2015/16 totalled £361k. Net interest, after deduction of amounts due to Schools, the West of England Growth Points, CHC and other internal balances, is £199k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.47%, which was 0.06% above the benchmark rate of average 7 day LIBID + 0.05% (0.41%).

Summary of Borrowings

5.6 The Council's external borrowing as at 31st March 2016 totalled £118.3 million and is detailed in Appendix 4. £10m of annual borrowing matured during the third quarter of 2015/16 and these funds were re-borrowed for a further 12 months at a more beneficial interest rate. A further £10m of borrowing, split £5m for 3 months and £5m for 6 months, was required in the fourth quarter to maintain appropriate working cash balances. The borrowing was arranged with different Local Authorities at an average rate of 0.57%.

5.7 The Council's Capital Financing Requirement (CFR) as at 31st March 2016 was £182.5 million. This represents the Council's underlying need to borrow to finance capital expenditure, and demonstrates that the borrowing taken to date relates to funding historical capital spend.

- 5.8 The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
- 5.9 The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.
- 5.10 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 2016 apportioned to Bath & North East Somerset Council is £13.40m. 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.

Strategic & Tactical Decisions

- 5.11 **Appendix 5** provides further information on issues impacting on investment counterparties.
- 5.12 To increase diversification, throughout 2015/16 the Council invested in AAA rated Money Market funds, UK Banks and very highly rated Foreign Bank counterparties (AA-).
- 5.13 The Council continues to not hold any direct investments with banks in countries within the Eurozone reflecting both on the underlying debt issues in some Eurozone countries and the low levels of interest rates. The Council's investment counterparty list does not currently include any banks from Portugal, Ireland, Greece, Spain and Italy.

Future Strategic & Tactical Issues

- 5.14 Our treasury management advisors economic and market review for 2015/16 is included in **Appendix 6**.
- 5.15 The Bank of England base rate has remained constant at 0.50% since March 2009.
- 5.16 The Council's treasury advisors current view is that, based on the lack of inflationary pressures in 2016 and a lower growth profile than previously expected, any rise in UK Bank Rate will be pushed back to Q2 2018. Their theme remains 'low for longer'; a slow rise in rates (when they do occur) to a new 'normal' between 2 and 3%. They continue to project gilt yields on a shallow upward path in the medium term, albeit with increased volatility around the EU referendum.
- 5.17 The benefits of the Council's current policy of internal borrowing are monitored regularly against the likelihood that long term borrowing rates are forecast to rise in future years. The focus is now on the rate of increase and the medium-term peak.

5.18 The borrowing that has taken place in 2015/16 is therefore driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.

Budget Implications

5.19 A breakdown of the revenue budget for interest and capital financing and the actual year end position is included in **Appendix 7**. This shows an overall underspend of £532k in 2015/16, resulting from the debt charges and interest relating to new borrowing being less than forecast.

This position will be kept under review during the new financial year, taking into account the Council's cash-flow position and the timing of any new borrowing required.

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 Finance and Efficiency, Section 151 Finance Officer and Monitoring Officer.

9 RISK MANAGEMENT

9.1 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 and borrowing advice is provided by our Treasury Management consultants Arlingclose.

9.2 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. The Corporate Audit Committee carries out this scrutiny.

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

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Background papers	<i>2015/16 Treasury Management & Investment Strategy</i> <i>1st & 3rd Quarter Treasury Performance Reports (Cabinet)</i> <i>Half yearly Treasury Performance Report (Cabinet & Council)</i>
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