

## Bath & North East Somerset Council

MEETING:	<b>Cabinet</b>	
MEETING DATE:	<b>7<sup>th</sup> September 2016</b>	
TITLE:	<b>Treasury Management Monitoring Report to 30<sup>th</sup> June 2016</b>	EXECUTIVE FORWARD PLAN REFERENCE: <b>E 2868</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> June 2016 <b>Appendix 3</b> – Average monthly rate of return for 1 <sup>st</sup> 3 months of 2016/17 <b>Appendix 4</b> – The Council’s External Borrowing Position at 30 <sup>th</sup> June 2016 <b>Appendix 5</b> – Arlingclose’s Economic & Market Review Q1 of 2016/17 <b>Appendix 6</b> – Interest & Capital Financing Budget Monitoring 2016/17 <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 2016/17 for the first three months of 2016/17.

### 2 RECOMMENDATION

The Cabinet agrees that:

- 2.1 the Treasury Management Report to 30<sup>th</sup> June 2016, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 the Treasury Management Indicators to 30<sup>th</sup> June 2016 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 first three months of 2016/17 is 0.50%, which is 0.09% above the benchmark rate.
- 5.2 The Council's Prudential Indicators for 2016/17 were agreed by Council in February 2016 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> June 2016 is given in **Appendix 2**. The balance of deposits as at 31<sup>st</sup> March 2016 and 30<sup>th</sup> June 2016 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, with the value of the fund as at 30<sup>th</sup> June 2016 is £32.0 million. The Council acts as an agent and holds these funds until they are allocated in the form of repayable grants to the constituent Local Authorities to meet approved infrastructure costs. These funds are invested separately from the Council's cash balances they are therefore excluded from all figures given in this report.
- 5.5 The Council also continues to act as Accountable Body for the West of England Local Enterprise Partnership (WoE LEP). In 2016/17 it has received £42.407m of Local Growth Fund (LGF) from Central Government following submission of its Strategic Economic Plan. This sum, prior to distribution, is being invested in line with the Council's overall Treasury Management Strategy, with the interest earmarked to fund support and governance costs. The balances related to the LGF are included in the figures given in this report.
- 5.6 Gross interest earned on investments for the first three months totalled £103k. Net interest, after deduction of amounts due to Schools, Local Growth Fund and other internal balances, is £44k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.50%, which was 0.09% above the benchmark rate of average 7 day LIBID +0.05% (0.41%).

### Summary of Borrowings

- 5.7 Short term Local Authority borrowing of £5m was repaid during the quarter, replaced by new PWLB borrowing of £20m, with a net increase of £15m bringing the Council's total borrowing to £133.3m as at 30<sup>th</sup> June 2016. The £20m was taken at an interest rate of 2.36%, the lowest current PWLB rate accessed by the Council, in line with need to borrow for capital expenditure. Although the borrowing was not needed for cashflow purposes at that time, the decision was taken to borrow in order to take advantage of temporary drop in borrowing rates.
- 5.8 The Council's Capital Financing Requirement (CFR) as at 31<sup>st</sup> March 2016 was £182.5 million with a projected total of £266 million by the end of 2016/17 based on

the capital programme approved at February 2016 Council. 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.

5.9 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 2016 apportioned to Bath & North East Somerset Council is £13.40m. Since this borrowing is managed by an external body 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 5.7.

5.10 The borrowing portfolio as at 30<sup>th</sup> June 2016 is shown in **Appendix 4**.

### **Strategic & Tactical Decisions**

5.11 As shown in the charts at **Appendix 2**, the investment portfolio has been diversified across UK Banks and Building Societies, Local Authorities and very highly rated Foreign Banks. The Council also uses AAA rated Money Market funds to maintain very short term liquidity. The Council has £19.9M invested in Money Market Funds as at 30<sup>th</sup> June 2016.

5.12 The Council does 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.

5.13 The Council's average investment return is in line with the budgeted level of 0.45%.

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

5.14 Our treasury management advisors economic and market review for the first quarter 2016/17 is included in **Appendix 5**.

5.15 The Bank of England base rate has remained constant at 0.50% since March 2009. In the June the opinion of the Council's treasury advisors was that there would not be a rate rise until Q2 2018. They have revised their advice since the Brexit vote result with interest rates now expected to fall to 0.25% by Q3 2016 and remain at that level for some time. Subsequently, the Bank of England reduced the base rate to 0.25% at its meeting on 4<sup>th</sup> August.

5.16 These lower rates reinforce the benefits of the Council's current policy of internal borrowing, although this continues to be 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 and, in this respect, the current forecast remains that rates will rise slowly and to a lower level than in the past.

## 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 June is included in **Appendix 6**. This is currently forecast to be on target for 2016/17.
- 5.18 This position will be kept under review during the remainder of the 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 Community Resources, Section 151 Finance Officer and Monitoring Officer.
- 8.2 Consultation was carried out via e-mail.

## 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 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>2016/17 Treasury Management &amp; Investment Strategy</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	