

Bath & North East Somerset Council		
MEETING:	Council	
MEETING DATE:	8 th November 2018	
TITLE:	Treasury Management 2018-19 Quarter 2 Performance Report (Mid Year Update)	
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 September 2018		
Appendix 3 – Average monthly rate of return for 1 st 6 months of 2018/19		
Appendix 4 – The Council’s External Borrowing Position at 30 th September 2018		
Appendix 5 – Arlingclose’s Economic & Market Review Q2 of 2018/19		
Appendix 6 – Interest & Capital Financing Budget Monitoring 2018/19		
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 2018/19 for the first six months of 2018/19.

2 RECOMMENDATION

The Council agrees that:

- 2.1 The Treasury Management Report to 30th September 2018, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 The Treasury Management Indicators to 30th September 2018 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 six months of 2018/19 is 0.63%, which is 0.14% above the benchmark rate.
- 5.2 The Council's Prudential Indicators for 2018/19 were agreed by Council in February 2018 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 September 2018 is given in **Appendix 2**. The balance of deposits as at 30th June 2018 and 30th September 2018 are also set out in the pie charts in this appendix.
- 5.4 Gross interest earned on investments for the first six months totalled £125k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.63%, which was 0.14% above the benchmark rate of average 7 day LIBID +0.05% (0.49%).

Summary of Borrowings

- 5.5 The Council's external borrowing as at 30th September 2018 totalled £182.8 million and is detailed in Appendix 4. A short term loan for £2.5 million matured during the quarter and new long term PWLB annuity borrowing for £10 million was arranged during the quarter to maintain appropriate cashflow balances.
- 5.6 The Council's Capital Financing Requirement (CFR) as at 31st March 2018 was £247.1 million with a projected total of £434 million by the end of 2018/19 based on the capital programme approved at February 2018 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.
- 5.7 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 2018 apportioned to Bath & North East Somerset Council is £12.3m. 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 5.5.
- 5.8 The borrowing portfolio as at 30th September 2018 is shown in **Appendix 4**.

Strategic & Tactical Decisions

- 5.9 As shown in the charts at **Appendix 2**, The Council mainly uses AAA rated Money Market funds to maintain very short term liquidity. The Council had £18.2 million

invested in Money Market Funds as at 30th September 2018. The investment portfolio also included investments with UK banks and very highly rated Foreign Banks.

- 5.10 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.
- 5.11 The Council's average investment return is slightly above the budgeted level of 0.45%.

Future Strategic & Tactical Issues

- 5.12 Our treasury management advisors economic and market review for the second quarter 2018/19 is included in **Appendix 5**.
- 5.13 The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend. The Bank of England Monetary Policy Committee (MPC) made a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%, but maintains expectations of a slow rise in interest rates over the forecast horizon
- 5.14 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 remains on the rate of increase and the medium-term peak.
- 5.15 The borrowing forecast to take place in 2018/19 is likely to be driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.

Budget Implications

- 5.16 A breakdown of the revenue budget showing interest and capital financing and the forecast year end position based on the period April to September is included in **Appendix 6**. The current forecast is for an underspend of £495k, mainly related to the re-phasing of capital spend, as reported in the 2017/18 outturn report, leading to lower than forecast borrowing costs and minimum revenue provision (MRP) requirement. This is partly offset by lower internal income related to service charges for funding debt costs in relation to the re-phased capital projects.
- 5.17 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 Finance & Efficiency, 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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Background papers	<i>2018/19 Treasury Management & Investment Strategy</i>
Please contact the report author if you need to access this report in an alternative format	