

## APPENDIX 1

### Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

#### 1. Authorised limit for external debt

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

	<b>2012/13 Prudential Indicator</b>	<b>2012/13 Actual as at 30<sup>th</sup> Jun. 2012</b>
	£'000	£'000
Borrowing	171,000	120,000
Other long term liabilities	2,000	0
<b>Cumulative Total</b>	<b>173,000</b>	<b>120,000</b>

#### 2. Operational limit for external debt

The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

	<b>2012/13 Prudential Indicator</b>	<b>2012/13 Actual as at 30<sup>th</sup> Jun. 2012</b>
	£'000	£'000
Borrowing	161,000	120,000
Other long term liabilities	2,000	0
<b>Cumulative Total</b>	<b>163,000</b>	<b>120,000</b>

#### 3. Upper limit for fixed interest rate exposure

This is the maximum amount of total borrowing which can be at fixed interest rate, less any investments for a period greater than 12 months which has a fixed interest rate.

	<b>2012/13 Prudential Indicator</b>	<b>2012/13 Actual as at 30<sup>th</sup> Jun. 2012</b>
	£'000	£'000
<b>Fixed interest rate exposure</b>	<b>171,000</b>	<b>100,000*</b>

\* The £20m of LOBO's are quoted as variable rate in this analysis as the Lender has the option to change the rate at 6 monthly intervals (the Council has the option to repay the loan should the rate increase)

#### 4. Upper limit for variable interest rate exposure

While fixed rate borrowing contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping flexibility through the use of variable interest rates. This is the maximum amount of total borrowing which can be at variable interest rates less any investments at variable interest rates (this includes any investments that have a fixed rate for less than 12 months).

	<b>2012/13 Prudential Indicator</b>	<b>2012/13 Actual as at 30<sup>th</sup> Jun. 2012</b>
	£'000	£'000
<b>Variable interest rate exposure</b>	<b>0</b>	<b>-78,400*</b>

\*This is the variable rate debt (LOBOs of £20m) less the £98.4m variable rate investments.

### 5. Upper limit for total principal sums invested for over 364 days

This is the maximum % of total investments which can be over 364 days. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

	<b>2012/13 Prudential Indicator</b>	<b>2012/13 Actual as at 30<sup>th</sup> Jun. 2012</b>
	£'000	£'000
<b>Investments over 364 days</b>	<b>30</b>	<b>1</b>

### 6. Maturity Structure of new fixed rate borrowing during 2012/13

This indicator is set to control the Council's exposure to refinancing risk.

	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>2012/13 Actual as at 30<sup>th</sup> Jun. 2012</b>
	%	%	%
Under 12 months	50	Nil	0
12 months and within 24 months	50	Nil	0
24 months and within 5 years	50	Nil	0
5 years and within 10 years	50	Nil	0
10 years and above	100	Nil	100

### 7. Average Credit Rating

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	<b>2012/13 Prudential Indicator</b>	<b>2012/13 Actual as at 30<sup>th</sup> Jun. 2012</b>
	Rating	Rating
<b>Minimum Portfolio Average Credit Rating</b>	<b>A+</b>	<b>AA-</b>

## APPENDIX 2

### The Council's Investment position at 30<sup>th</sup> June 2012

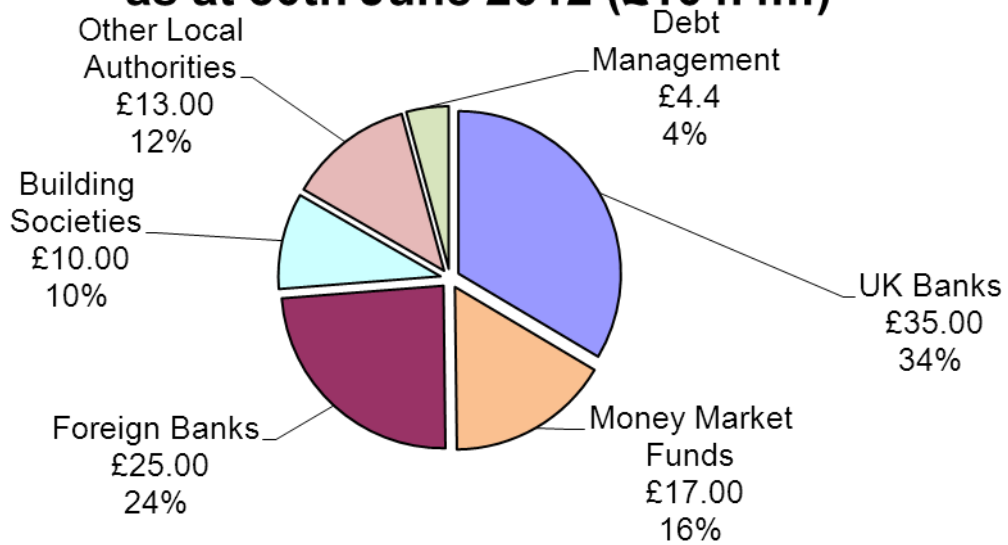
	<b>Balance at 30<sup>th</sup> June 2012</b>
	£'000's
Notice (instant access funds)	17,000
Up to 1 month	19,400
1 month to 3 months	35,000
Over 3 months	33,000
<b>Total</b>	<b>104,400</b>

The investment figure of £104.4 million is made up as follows:

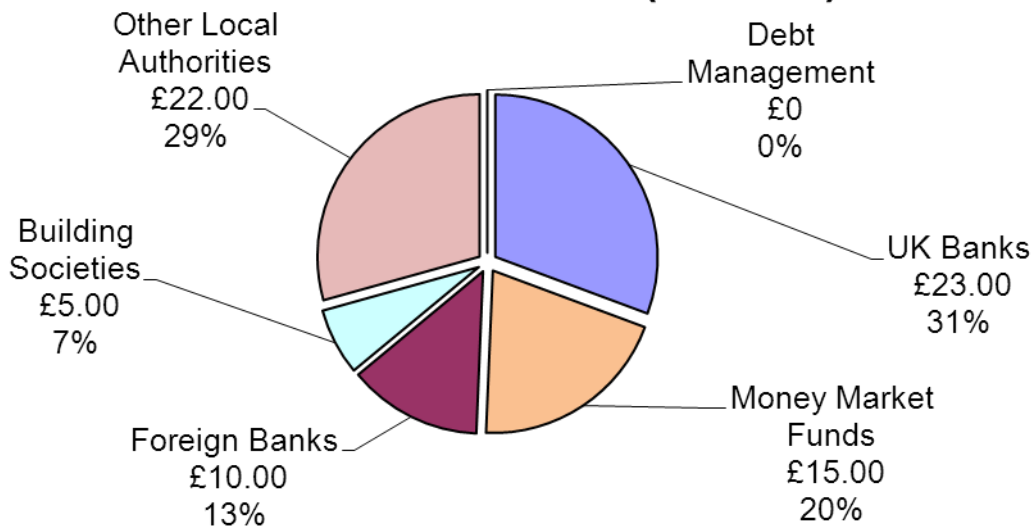
	<b>Balance at 30<sup>th</sup> June 2012</b>
	£'000's
B&NES Council	79,149
B&NES PCT	14,589
West Of England Growth Points	1,630
Schools	9,032
<b>Total</b>	<b>104,400</b>

The Council had an average net positive balance of £104.5m (including Growth Points & B&NES PCT Funding) during the period April 2012 to June 2012.

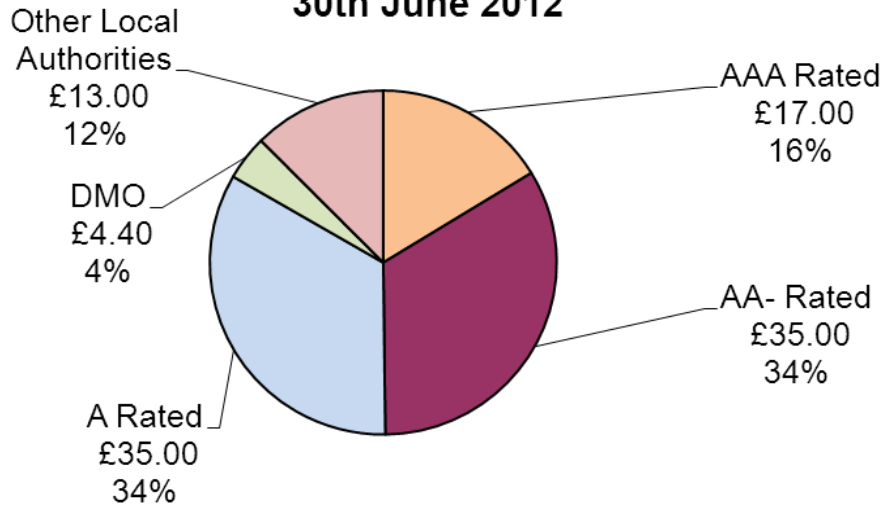
**Chart 1: Council Investments  
as at 30th June 2012 (£104.4m)**



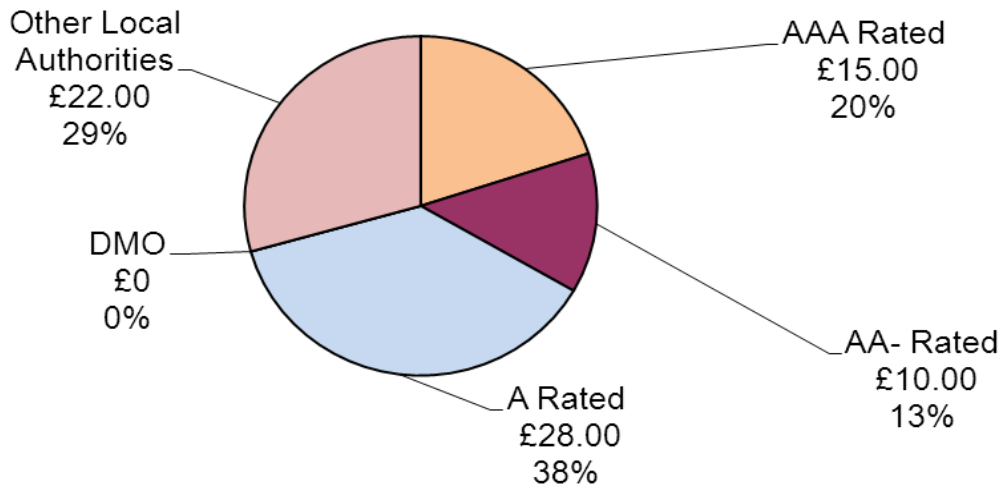
**Chart 2: Council Investments  
as at 31st March 2012 (£75.0m)**



**Chart 3: Council Investments per Lowest Equivalent Long-Term Credit Ratings (£104.4 m) - 30th June 2012**



**Chart 4: Council Investments per Lowest Equivalent Long-Term Credit Ratings (£75.0 m) - 31st March 2012**



## APPENDIX 3

### Average rate of return on investments for 2012/13

	April %	May %	June %	Average for Period
Average rate of interest earned	1.11%	1.10%	1.03%	1.08%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Sterling)	0.45%	0.45%	0.44%	0.45%
Performance against Benchmark %	+0.66%	+0.65%	+0.59%	+0.63%

## APPENDIX 4

### Councils External Borrowing at 30<sup>th</sup> June 2012

LONG TERM	Amount	Fixed Term	Interest Rate	Variable Term	Interest Rate
PWLB	10,000,000	30 yrs	4.75%	n/a	n/a
PWLB	20,000,000	48 yrs	4.10%	n/a	n/a
PWLB	10,000,000	46 yrs	4.25%	n/a	n/a
PWLB	10,000,000	50 yrs	3.85%	n/a	n/a
PWLB	10,000,000	47 yrs	4.25%	n/a	n/a
PWLB	5,000,000	25 yrs	4.55%	n/a	n/a
PWLB	5,000,000	50 yrs	4.53%	n/a	n/a
PWLB	5,000,000	20 yrs	4.86%	n/a	n/a
PWLB	10,000,000	18 yrs	4.80%	n/a	n/a
PWLB	15,000,000	50 yrs	4.96%	n/a	n/a
KBC Bank N.V*	5,000,000	2 yrs	3.15%	48 yrs	4.50%
KBC Bank N.V*	5,000,000	3 yrs	3.72%	47 yrs	4.50%
Eurohypo Bank*	10,000,000	3 yrs	3.49%	47 yrs	4.50%
<b>TOTAL</b>	<b>120,000,000</b>				

\*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.50%. The lender has the option to change the interest rate at 6 monthly intervals, however at this point the borrower also has the option to repay the loan without penalty.

## **APPENDIX 5**

### **Economic and market review for April 2012 to June 2012 (Sterling Consultancy Services)**

The ECB's Long-Term Refinancing Operations, in which the central bank supplied cheap funding to the Eurozone banking system, initiated a calmer period of financial market activity in the first quarter of the year relative to recent times. The calm was not to last, however, as the ECB intervention did not address the root causes of the Eurozone sovereign debt crisis, i.e. unsustainable debt levels in uncompetitive countries.

A number of events pushed the crisis back to the fore: the two Greek general elections, the failure of Spanish bank Bankia and subsequent bailout speculation for the sector and signs that the Eurozone economy was experiencing a deeper downturn in economic activity than previously expected. Throughout the quarter, Germany resisted pressure for regional debt mutualisation or a banking union, unprepared to risk the moral hazard of supporting profligate Mediterranean countries. Meanwhile, yields on Spanish 10-year government bonds regularly exceeded seven per cent, the danger level at which Ireland and Portugal approached the Eurozone/IMF for bailouts. Risk appetite plummeted; the FTSE 100 dropped 3.4% over the quarter (it was down 8.8% at the end of May), while yields on safe haven bonds, including UK gilts and German bunds, regularly dipped to new record lows.

As the situation deteriorated, leaders made some progress towards a solution. At the EU summit at the end of June leaders agreed that the yet-to-be initiated bailout fund, the European Stability Mechanism (ESM), would have more flexibility, allowing it to buy the debt of struggling countries or directly recapitalise banks. Policymakers realised that the link between government and banks had to be broken. This was shown by investor reaction to the initial proposal to recapitalise the Spanish banking system, in which the Spanish government would assume liability for the financial assistance – investors noted that the risk had simply been transferred to the already financially distressed state, placing further pressure on funding costs.

The reaction to the on-going sovereign crisis was exacerbated by the developing slowdown in global economic growth, as the Eurozone recession and uncertainty depressed confidence and business activity in other large economies. The US economy stuttered, with slower employment growth a particular concern, although the Federal Reserve resisted the temptation to engage in further monetary stimulus. A widely anticipated risk was the slowdown in Chinese growth, specifically whether the world's second largest economy would have a hard or soft landing. Signs of weakening domestic demand allied with a softer export outlook prompted the People's Bank of China to cut interest rates and relax commercial lending criteria in both June and early July in an attempt to prop up economic activity. The deteriorating outlook for global growth had a significant impact on commodity prices, particularly oil prices. Over May and June the price of Brent crude fell around 30% from its April peak of \$126 per barrel.

In the UK the data suggested that the recession continued into quarter two, with the loss of a working day to the Jubilee bank holiday the primary factor. However, as with the larger economies described above, the UK was not immune to the uncertainty emanating from the Eurozone, and the data suggested that underlying business conditions had weakened. Trade data indicated that goods exports to the Eurozone were declining, a particular problem for a manufacturing sector struggling with weak domestic demand. The extreme

wet weather in April caused a plunge in retail sales volumes, while the construction sector output continued to decline amid both a weak housing market and a reduction in government capital spending. The banking sector and credit bottleneck were perceived to be an important factor holding back economic recovery, prompting HM Treasury and the Bank of England to announce two schemes in June to reduce bank funding costs and increase the availability of cheaper finance for businesses. The Bank's intervention in the money markets placed downward pressure on Libor rates; 3-month LIBOR declined nine basis points during June to 0.90%. The deteriorating domestic and global economic conditions also boosted support for further monetary stimulus. The MPC duly increased the Asset Purchase Facility by £50bn to £375bn, the third tranche of quantitative easing.

### **Sterling Consultancy Services Update**

The August Inflation Report showed that the Bank expects little economic growth this year and a gradual recovery in 2013. The weakness in demand and margin of spare capacity is projected to place downward pressure on inflation, maintaining it around target for the next few years. The recent downward trend in the CPI inflation rate allied with the apparent synchronised global downturn led by the Eurozone has pushed market expectations for a rise in interest rates out to at least 2014. Although previously discounted by the MPC, there is now also the possibility of a cut in Bank Rate to 0.25%. Further asset purchases also seem likely later this year.

## **APPENDIX 6**

### **Interest & Capital Financing Costs – Budget Monitoring 2012/13 (April to June)**

<b>April to June 2012</b>	<b>YEAR END FORECAST</b>			<b>ADV/FAV</b>
	<b>Budgeted Spend or (Income) £'000</b>	<b>Forecast Spend or (Income) £'000</b>	<b>Forecast over or (under) spend £'000</b>	
<b>Interest &amp; Capital Financing</b>				
- Debt Costs	6,200	6,200		
- Internal Repayment of Loan Charges	(5,362)	(5,362)		
- Ex Avon Debt Costs	1,432	1,432		
- Minimum Revenue Provision (MRP)	4,440	4,440		
- Interest on Balances	(492)	(492)		
<b>Sub Total - Capital Financing</b>	<b>6,218</b>	<b>6,218</b>		