

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.

	2013/14 Prudential Indicator	2013/14 Actual as at 31st Mar 2014
	£'000	£'000
Borrowing	201,000	70,000
Other long term liabilities	2,000	0
Cumulative Total	203,000	70,000

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.

	2013/14 Prudential Indicator	2013/14 Actual as at 31st Mar 2014
	£'000	£'000
Borrowing	167,000	70,000
Other long term liabilities	2,000	0
Cumulative Total	169,000	70,000

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.

	2013/14 Prudential Indicator	2013/14 Actual as at 31st Mar 2014
	£'000	£'000
Fixed interest rate exposure	201,000	50,000*

*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.

	2013/14 Prudential Indicator	2013/14 Actual as at 31st Mar 2014
	£'000	£'000
Variable interest rate exposure	60,000	20,000

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

This is the maximum amount 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.

	2013/14 Prudential Indicator	2013/14 Actual as at 31st Mar 2014
	£'000	£'000
Investments over 364 days	50,000	0

6. Maturity Structure of fixed rate borrowing during 2013/14

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

	Upper Limit	Lower Limit	2013/14 Actual as at 31st Mar 2014
	%	%	%
Under 12 months	50	Nil	29*
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	71

* The CIPFA Treasury management Code now requires the prudential indicator relating to Maturity of Fixed Rate Borrowing to reference the maturity of LOBO loans to the earliest date on which the lender can require payment, i.e. the next call date (which are at 6 monthly intervals for the £20m of LOBO's). However, the Council would only consider repaying these loans if the Lenders exercised their options to alter the interest rate.

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. A summary guide to credit ratings is set out at **Appendix 7**.

	2013/14 Prudential Indicator	2013/14 Actual as at 31st Mar. 2014
	Rating	Rating
Minimum Portfolio Average Credit Rating	A	AA-

APPENDIX 2

The Council's Investment position at 31st March 2014

	Balance at 31st March 2014
	£'000's
Notice (instant access funds)	6,000
Up to 1 month	5,000
1 month to 3 months	5,000
Over 3 months	0
Total	16,000

The total investment figure of £16,000 million is made up as follows:

	Balance at 31st March 2014
	£'000's
B&NES Council	478
West of England Growth Points	688
Schools	6,987
B&NES PCT	7,847
Total	16,000

The Council had an average net positive balance of £67.6m (including Growth Points & B&NES PCT Funding) during the period April 2013 to March 2014.

The following fixed term investments were undertaken during 2013/14 with a maturity date in the following financial year:

Institution	Amount	Rate	Start Date	Maturity Date	Long Term Credit Rating*
Lloyds	£5m	0.60%	12/02/14	13/05/14	A
DMO	£5m	0.25%	31/03/14	01/04/14	AAA
Total	£10m	0.43%	-	-	

*The credit rating shown is the lowest equivalent rating from Fitch, Standard & Poor's and Moody's credit rating agencies.

The balance of £6.0m was held in call accounts as at 31st March 2014.

Chart 1: Council Investments as at 31st March 2014 (£16.0m)

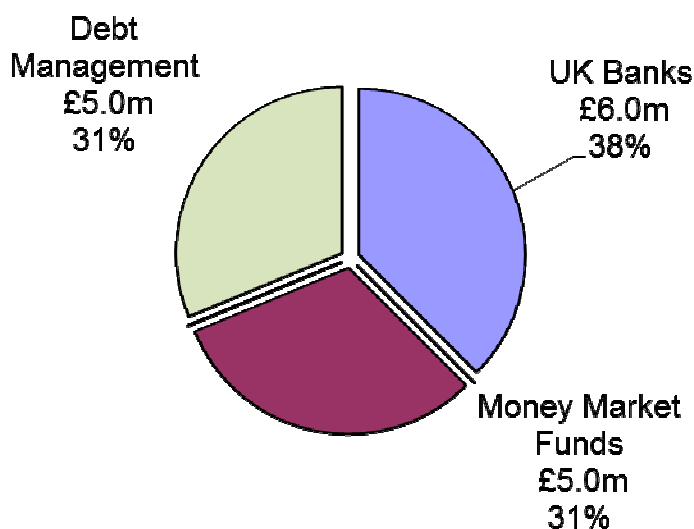


Chart 2: Council Investments as at 31st December 2013 (£37.5m)

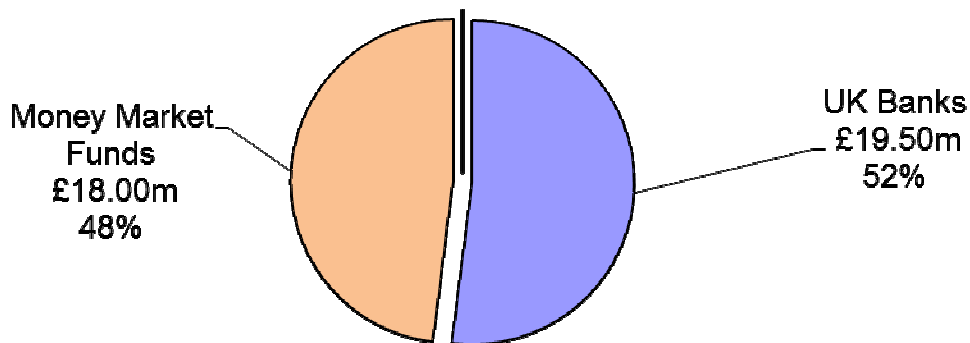


Chart 3: Council Investments per Lowest Equivalent Long-Term Credit Ratings (£16.0m) - 31st March 2014

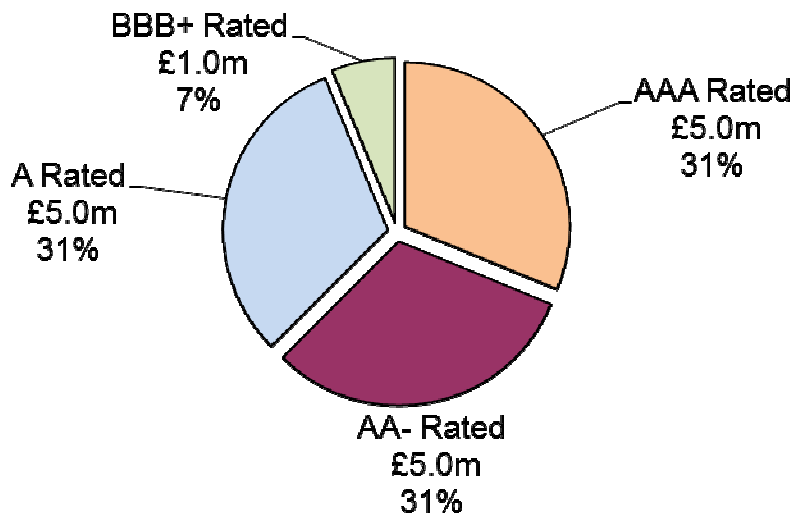
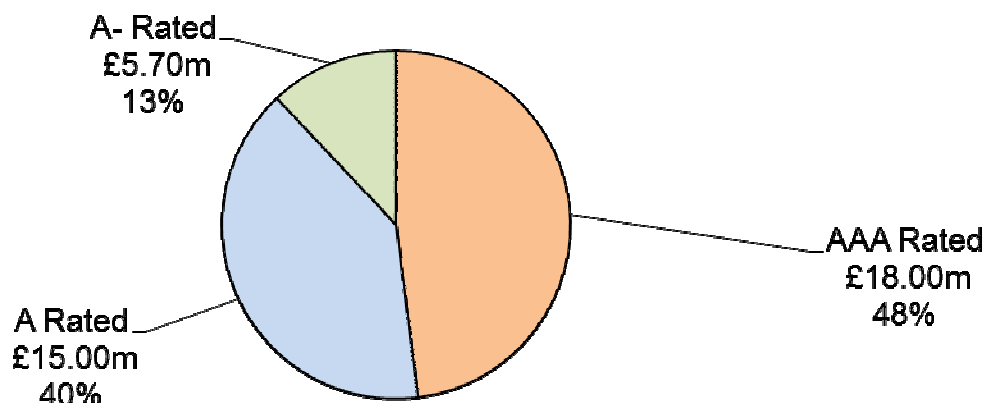


Chart 4: Council Investments per Lowest Equivalent Long-Term Credit Ratings (£37.5m) - 31st December 2013



APPENDIX 3

Average rate of return for 2013/14

	Apr %	May %	Jun %	Jul %	Aug %	Sep %
Average rate of interest earned	0.49	0.48	0.47	0.50	0.49	0.49
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.42	0.41	0.41	0.41	0.41	0.40
Performance against Benchmark %	+0.07	+0.07	+0.06	+0.09	+0.08	+0.09

	Oct %	Nov %	Dec %	Jan %	Feb %	Mar %	Average for Period
Average rate of interest earned	0.44	0.46	0.48	0.46	0.43	0.42	0.48
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.40	0.40	0.40	0.39	0.39	0.39	0.40
Performance against Benchmark %	+0.04	+0.06	+0.08	+0.07	+0.04	+0.03	+0.08

APPENDIX 4

Councils External Borrowing at 31st March 2014

LONG TERM	Amount	Start Date	Maturity Date	Interest Rate
PWLB	10,000,000	15/10/04	15/10/35	4.75%
PWLB	5,000,000	12/05/10	15/08/35	4.55%
PWLB	5,000,000	12/05/10	15/08/60	4.53%
PWLB	5,000,000	05/08/11	15/02/31	4.86%
PWLB	10,000,000	05/08/11	15/08/29	4.80%
PWLB	15,000,000	05/08/11	15/02/61	4.96%
KBC Bank N.V*	5,000,000	08/10/04	08/10/54	4.50%
KBC Bank N.V*	5,000,000	08/10/04	08/10/54	4.50%
Eurohypo Bank*	10,000,000	27/04/05	27/04/55	4.50%
TOTAL	70,000,000			
TEMPORARY	NIL			
TOTAL	70,000,000			4.71%

- All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.5%. 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

Annual Economic Review 2013/14 – (provided by Arlingclose)

Economic background: At the beginning of the 2013-14 financial year markets were concerned about lacklustre growth in the Eurozone, the UK and Japan. Lack of growth in the UK economy, the threat of a 'triple-dip' alongside falling real wages (i.e. after inflation) and the paucity of business investment were a concern for the Bank of England's Monetary Policy Committee. Only two major economies – the US and Germany – had growth above pre financial crisis levels, albeit these were still below trend. The Eurozone had navigated through a turbulent period for its disparate sovereigns and the likelihood of a near-term disorderly collapse had significantly diminished. The US government had just managed to avoid the fiscal cliff and a technical default in early 2013, only for the problem to re-emerge later in the year.

With new Governor Mark Carney at the helm, the Bank of England unveiled forward guidance in August pledging to not consider raising interest rates until the ILO unemployment rate fell below the 7% threshold. In the Bank's initial forecast, this level was only expected to be reached in 2016. Although the Bank stressed that this level was a threshold for consideration of rate increase rather an automatic trigger, markets began pricing in a much earlier rise than was warranted and, as a result, gilt yields rose aggressively.

The recovery in the UK surprised with strong economic activity and growth. Q4 2014 GDP showed year-on-year growth of 2.7%. Much of the improvement was down to the dominant service sector, and an increase in household consumption buoyed by the pick-up in housing transactions which were driven by higher consumer confidence, greater availability of credit and strengthening house prices which were partly boosted by government initiatives such as Help-to-Buy. However, business investment had yet to recover convincingly and the recovery

was not accompanied by meaningful productivity growth. Worries of a housing bubble were tempered by evidence that net mortgage lending was up by only around 1% annually.

CPI fell from 2.8% in March 2013 to 1.7% in February 2014, the lowest rate since October 2009, helped largely by the easing commodity prices and discounting by retailers, reducing the pressure on the Bank to raise rates. Although the fall in unemployment (down from 7.8% in March 2013 to 7.2% in January 2014) was faster than the Bank of England or indeed many analysts had forecast, it hid a stubbornly high level of underemployment. Importantly, average earnings growth remained muted and real wage growth (i.e. after inflation) was negative. In February the Bank stepped back from forward guidance relying on a single indicator – the unemployment rate – to more complex measures which included spare capacity within the economy. The Bank also implied that when official interest rates were raised, the increases would be gradual – this helped underpin the ‘low for longer’ interest rate outlook despite the momentum in the economy.

The Office of Budget Responsibility’s 2.7% forecast for economic growth in 2014 forecast a quicker fall in public borrowing over the next few years. However, the Chancellor resisted the temptation to spend some of the proceeds of higher economic growth. In his 2013 Autumn Statement and the 2014 Budget, apart from the rise in the personal tax allowance and pension changes, there were no significant giveaways and the coalition’s austerity measures remained on track.

US: The Federal Reserve’s then Chairman Ben Bernanke’s announcement in May that the Fed’s quantitative easing (QE) programme may be ‘tapered’ caught markets by surprise. Investors began to factor in not just an end to QE but also rapid rises in interest rates. ‘Tapering’ (a slowing in the rate of QE) began in December 2013. By March 2014, asset purchases had been cut from \$75bn to \$55bn per month with expectation that QE would end by October 2014. This had particular implications for global markets which had hitherto benefited from, and got very accustomed to, the high levels of global liquidity afforded by QE. The impact went further than a rise in the dollar and higher US treasury bond yields. Gilt yields also rose as a consequence and emerging markets, which had previously benefited as investors searched for yield through riskier asset, suffered large capital outflows in December and January.

Europe: With the Eurozone struggling to show sustainable growth, the European Central Bank cut main policy interest rates by 0.25% to 0.25% and the deposit rate to zero. Markets were disappointed by the lack of action by the ECB despite CPI inflation below 1% and a looming threat of deflation. Data pointed to an economic slowdown in China which, alongside a weakening property market and a highly leveraged shadow banking sector, could prove challenging for its authorities.

Russia’s annexation of the Ukraine in March heightened geopolitical tensions and risk. The response from the West which began with sanctions against Russia which is the second largest gas producer in the world and which supplies nearly 30% of European natural gas needs and is also a significant supplier of crude oil – any major disruption to their supply would have serious ramifications for energy prices.

Gilt Yields and Money Market Rates: Gilt yields ended the year higher than the start in April. The peak in yields was during autumn 2013. The biggest increase was in 5-year gilt yields which increased by nearly 1.3% from 0.70% to 1.97%. 10-year gilt yields rose by nearly 1% ending the year at 2.73%. The increase was less pronounced for longer dated gilts; 20-year yields rose from 2.74% to 3.37% and 50-year yields rose from 3.23% to 3.44%.

3-month, 6-month and 12-month Libid rates remained at levels below 1% through the year.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2013/14 (Outturn)

April 2013 to March 2014	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Actual Spend or (Income) £'000	Actual over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	4,947	4,096	(851)	FAV
- Internal Repayment of Loan Charges	(6,584)	(6,584)	0	
- Ex Avon Debt Costs	1,388	1,388	0	
- Minimum Revenue Provision (MRP)	4,782	4,843	61	ADV
- Interest of Balances	(455)	(222)	233	ADV
Sub Total - Capital Financing	4,078	3,521	(557)	FAV

APPENDIX 7

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on

	a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default – indicates an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.