Bath & North East Somerset Council	
MEETING:	**Corporate Audit Committee**
MEETING DATE:	**7th February 2012**
TITLE:	**Treasury Management Monitoring Report to 31st December 2011**
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 31st December 2011**Appendix 3** – Average monthly rate of return for 1st 9months of 2011/12 **Appendix 4** – The Council's External Borrowing Position at 31st December 2011 **Appendix 5** – Sterling Consultant's Economic & Market Review Q3 of 2011/12**Appendix 6** – Interest & Capital Financing Budget Monitoring 2011/12	

THE ISSUE

1.1 In February 2010 the Council adopted the 2009 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 2011/12 for the first nine months of 2011/12.

RECOMMENDATION

The Corporate Audit Committee is asked to agree that:

1.3 the Treasury Management Report to 31st December 2011, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

1.4 the Treasury Management Indicators to 31st December 2011 are noted.

FINANCIAL IMPLICATIONS

1.5 The financial implications are contained within the body of the report.

THE REPORT

Summary

1.6 The average rate of investment return for the first nine months of 2011/12 is 1.11%, which is 0.64% above the benchmark rate.

1.7 The Councils Prudential Indicators for 2011/12 were agreed by Council in February 2011 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

Summary of Returns

1.8 The Council's investment position as at 31st December 2011 is given in **Appendix 2**. The balance of deposits as at 30thSeptember 2011& 31st December 2011 are also set out in the pie charts in this appendix.

1.9 Gross interest earned on investments for the first nine months totalled £888k. Net interest, after deduction of amounts due to West of England Growth Points, B&NES PCT and schools, is £723k. **Appendix3**details the investment performance, the average rate of interest earned over this period was 1.11%, which is 0.64% above the benchmark rate of average 7 day LIBID +0.05% (0.47%).

Summary of Borrowings

1.10 No new borrowing has taken place in the third quarter of 2011/12. The Council's total borrowing is currently £120 million. The Council's Capital Financing Requirement (CFR) as at 31st March 2011 was £112.7 million with a projected total of £151 million by the end of 2011/12 based on the capital programme approved at February 2011 Council.This represents the Council's need to borrow to finance capital expenditure, and demonstrates that the borrowing taken to date relates to funding historical capital spend.

1.11 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 2011 apportioned to Bath & North East Somerset Council is £16.43m. 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 5.5.

1.12 The current borrowing portfolio is shown in **Appendix 4**.

Strategic & Tactical Decisions

1.13As shown in the charts at**Appendix 2**,investments continue to be focussed on UK banks that have either already or are likely to receive support from the UK Government should they experience financial difficulties. As at 31st December 2011, £30.0m was been invested with other Local Authorities to increase diversification whilst maintaining strong counterparty rating.To increase diversification further, the Council has now started investing in AAA rated Money Market funds as authorised in the 2011/12 Treasury Management Strategy. The amount invested with the Debt Management Office continues to remain between 0-10% of total investments.

1.14 Due to concerns related to the current Eurozone debt situation, the Council does not currently hold any investments with banks in countries within the Eurozone. The Council's investment counterparty list does not include any banks from the countries most affected by the debt situation in the Eurozone (Portugal, Ireland, Greece, Spain and Italy).

1.15 As a result of the wider concerns relating to the Eurozone debt situation, ratings agencies are continually reviewing the ratings of all financial institutions. The recent downgrading of many UK banks places a considerable challenge for the delivery of the Council's Treasury Management & Investment Strategy, and will be reviewed for the February 2012 Council meeting.

Future Strategic & Tactical Issues

1.16 Our treasury management advisors economic andmarket review for the third quarter 2011/12 is included in **Appendix 5**.

1.17 The Bank of England base rate has remained constant at 0.50% since March 2009.

Budget Implications

1.18 A breakdown of the revenue budget for interest and capital financing and the forecast year end position based on the period April to December is included in **Appendix 6**. This is currently forecast to be £250,000 favourable by the end of 2011/12.

RISK MANAGEMENT

1.19 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 & Borrowing advice is provided by our Treasury Management consultants Sterling.

1.20 The 2009 edition of 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. In May 2010, the Council's treasury advisors provided training to the Corporate Audit Committee to carry out this scrutiny.

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

EQUALITIES

1.22 This report provides information about the financial performance of the Council and therefore no specific equalities impact assessment has been carried out on the report.

CONSULTATION

1.23 Consultation has been carried out with the Cabinet Member for Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

1.24 Consultation was carried out via e-mail.

ISSUES TO CONSIDER IN REACHING THE DECISION

1.25 This report deals with issues of a corporate nature.

ADVICE SOUGHT

1.26 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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Sponsoring Cabinet Member	*Councillor David Bellotti*
Background papers	*2011/12 Treasury Management & Investment Strategy*
Please contact the report author if you need to access this report in an alternative format	

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.

	2011/12 Prudential Indicator	**2011/12 Actual as at 31st Dec. 2011**
	£'000	£'000
Borrowing	201,000	120,000
Other long term liabilities	3,000	0
Cumulative Total	**204,000**	**120,000**

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.

	2011/12Prudential Indicator	**2011/12 Actual as at 31st Dec. 2011**
	£'000	£'000
Borrowing	150,000	120,000
Other long term liabilities	2,000	0
Cumulative Total	**152,000**	**120,000**

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.

	2011/12 Prudential Indicator	**2011/12 Actual as at 31st Dec. 2011**
	£'000	£'000
Fixed interest rate exposure	**204,000**	**100,000***

* 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 less any investments at variable interest rates (this includes any investments that have a fixed rate for less than 12 months).

	2011/12 Prudential Indicator	**2011/12 Actual as at 31st Dec. 2011**
	£'000	£'000
Variable interest rate exposure	**0**	**-65,000***

*This is the variable rate debt (LOBOs of £20m) less the £95m 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.

	2011/12 Prudential Indicator	2011/12 Actual as at 31st Dec. 2011
	%	%
Investments over 364 days	**25**	**1**

6. Maturity Structure of new fixed rate borrowing during 2011/12

	Upper Limit	Lower Limit	2011/12 Actual as at 31st Dec.2011
	%	%	%
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

APPENDIX 2

The Council's Investment position at 31st December 2011

	Balance at 31st December 2011
	£'000's
Notice (instant access funds)	9,000
Up to 1 month	21,000
1 month to 3 months	30,000
Over 3 months	35,000
Total	**95,000**

The investment figure of £95.0 million is made up as follows:

	Balance at31st December 2011
	£'000's
B&NES Council	73,726
B&NES PCT	7,068
West Of England Growth Points	4,861
Schools	9,345
Total	**95,000**

The Council had an average net positive balance of £94.8m (including Growth Points& B&NES PCT Funding) during the period April 2011to December 2011.

Chart 1: Investments as at 31st December 2011 (£95.0m)

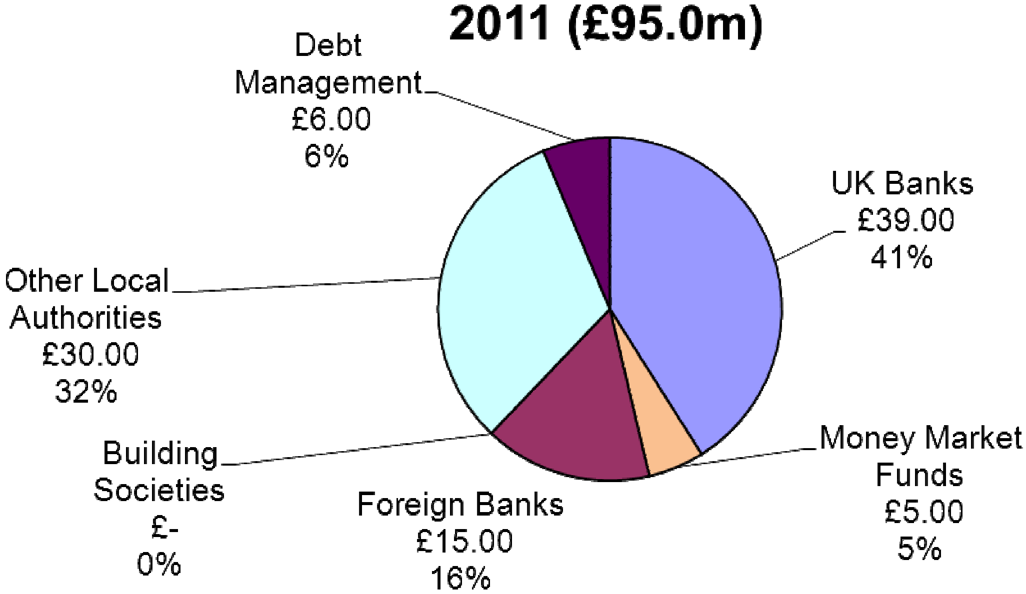


Chart 2: Investments as at 30th September 2011 (£109.4m)

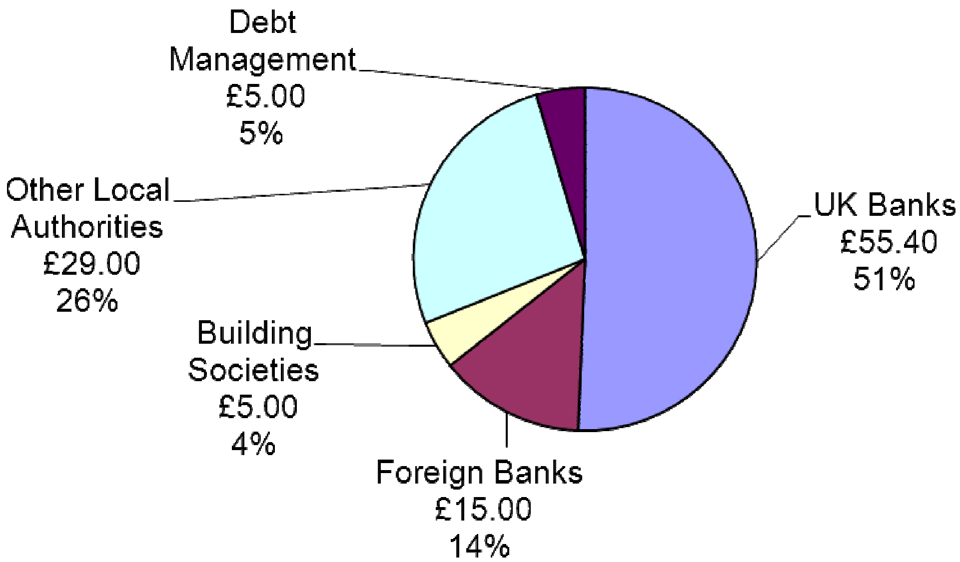


Chart 3: Investments per Lowest Equivalent Long-Term Credit Ratings (£95.0m) - 31st December 2011

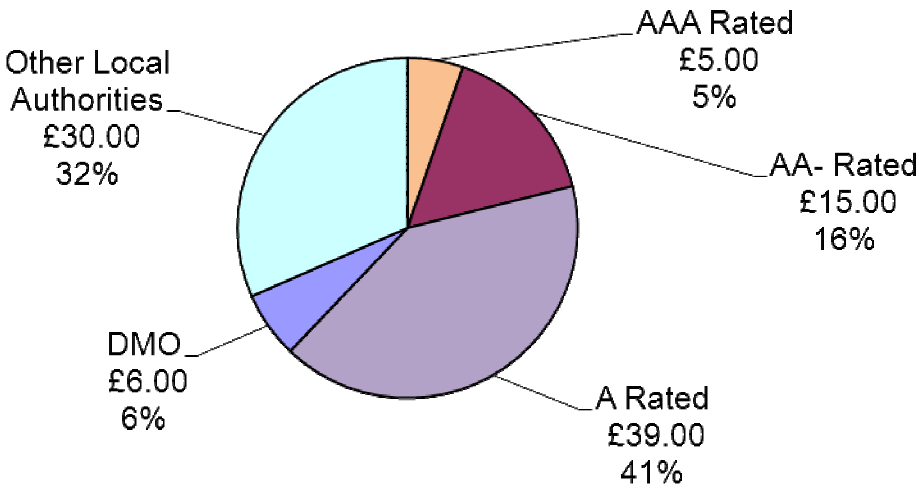
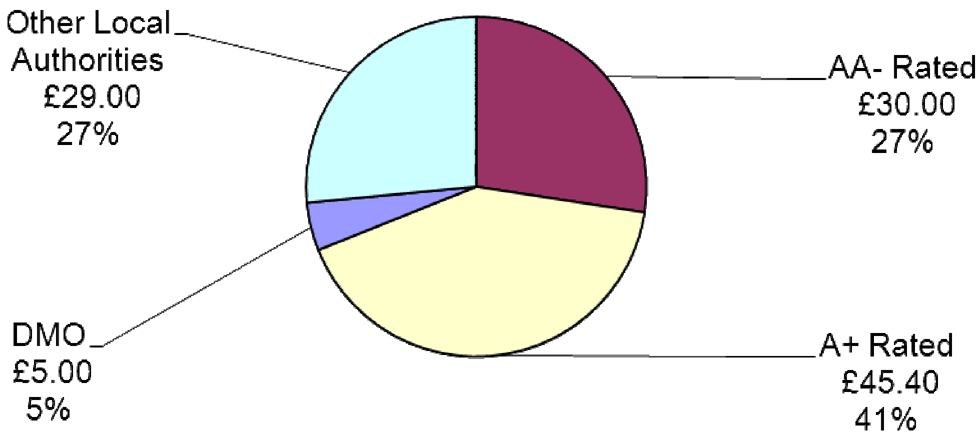


Chart 4: Investments per Lowest Equivalent Long-Term Credit Ratings (£109.4m) - 30th September 2011



APPENDIX 3

Average rate of return on investments for 2011/12

	April %	May %	June %	July %	August %	Sept. %
Average rate of interest earned	1.05%	1.13%	1.18%	1.10%	1.09%	1.14%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Sterling)	0.50%	0.50%	0.50%	0.52%	0.49%	0.54%
Performance against Benchmark %	+0.55%	+0.63%	+0.68%	+0.58%	+0.60%	+0.60%

	Oct. %	Nov. %	Dec. %	Average for Period
Average rate of interest earned	1.11%	1.08%	1.11%	**1.11%**
Benchmark = Average 7 Day LIBID rate +0.05% (source: Sterling)	0.55%	0.55%	0.55%	**0.47%**
Performance against Benchmark %	+0.56%	+0.53%	+0.56%	**+0.64%**

APPENDIX 4
Councils External Borrowing at 31st December 2011

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%
TOTAL	**120,000,000**				

*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 October 2011 to December 2011 (Sterling Consultancy Services)

Two stories dominated the last quarter of 2011; the weakening short-term economic outlook and further deterioration in the Eurozone sovereign debt crisis. By this point, the debt crisis had been an on-going problem for nearly 18 months, since Greece first ran into trouble in early 2010. Due to political dithering the situation had remained largely unsolved; various meetings caused plenty of disagreement, but little concrete and implementable policies. By the end of the summer, the situation markedly deteriorated – Greece appeared on the verge of default despite a previous bailout and investors appeared to have lost confidence in the larger economies of Italy and Spain. Spain would prove troublesome to save, but Italy may be simply too big, a fact not lost on investors, prompting Italian 10-year bond yields to approach the perceived danger-level of 7%.

The ECB resisted calls to step in and save sovereign countries, but central banks did respond to support the banking sector, which had come under intense funding pressure due to banks' exposure to sovereign debt. Reminiscent of the actions undertaken in the midst of the financial crisis in 2008, the Federal Reserve, in conjunction with the ECB, the Bank of England and the Swiss National Bank, enabled banks access to unlimited amounts of US dollar liquidity. The ECB backed this up with unlimited euro liquidity in regular short-term auctions and, just before Christmas, lent €480bn to Eurozone banks for a three-year term. Politicians hope that some of this cash will be lent to and indirectly reduce the funding pressure on sovereign governments.

By the end of the year, following unparalleled and sustained financial market volatility and panic, the governments of both Greece and Italy had been replaced, headed by unelected leaders, whose role was to control the public finances. The Greek PM resigned after prompting massive panic among investors and Eurozone leaders by appearing to renege on an agreement for a second bailout reached only the previous week. Italy's long-standing and controversial PM Silvio Berlusconi resigned after coming under massive market pressure, due to his inability and unwillingness to bring the Italian government finances under control. However, despite a move towards greater fiscal union in the Eurozone, the short-term problem of near-insolvent Eurozone governments remains unsolved.

The on-going crisis prompted a decline in global business and consumer confidence, particularly apparent in Q4. Allied to widespread fiscal consolidation, the reduction in confidence dampened economic growth, prompting significant downward revisions to global growth forecasts. In the UK, the Office for Budget Responsibility cut the UK's economic growth prospects to 0.9% for 2011 and 0.7% for 2012. Lower growth placed additional pressure on the UK government to meet its borrowing targets, and the Chancellor duly implemented new taxes and spending cuts. By this point, however, slower economic growth had already become widely evident in a range of economic indicators. With inflation expected to fall sharply in 2012, MPC policymakers at the Bank of England implemented another round of financial asset purchases, or quantitative easing, in October to boost economic activity and help the economy avoid a sharp recession.

APPENDIX 6
Interest & Capital Financing Costs – Budget Monitoring 2011/12 (April to December)

April to December 2011	YEAR END FORECAST Budgeted Spend or (Income) £'000	Forecast Spend or (Income) £'000	Forecast over or (under) spend £'000	ADV/FAV
Interest &Capital Financing				
- Debt Costs	4,840	4,840		
- Internal Repayment of Loan Charges	(3,188)	(3,188)		
- Ex Avon Debt Costs	1,491	1,491		
- Minimum Revenue Provision (MRP)	3,380	3,380		
- Interest of Balances	(460)	(710)	(250)	FAV
Sub Total - Capital Financing	**6,063**	**5,853**	**(250)**	