**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.

| | 2012/13 Prudential Indicator | 2012/13 Actual as at 31st Mar 2013 |
|---|---|---|
| | £'000 | £'000 |
| Borrowing | 171,000 | 120,000 |
| Other long term liabilities | 2,000 | 0 |
| **Cumulative Total** | **173,000** | **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.

| | 2012/13 Prudential Indicator | 2012/13 Actual as at 31st Mar 2013 |
|---|---|---|
| | £'000 | £'000 |
| Borrowing | 161,000 | 120,000 |
| Other long term liabilities | 2,000 | 0 |
| **Cumulative Total** | **163,000** | **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.

| | 2012/13 Prudential Indicator | 2012/13 Actual as at 31st Mar 2013 |
|---|---|---|
| | £'000 | £'000 |
| **Fixed interest rate exposure** | **171,000** | **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).

| | 2012/13 Prudential Indicator | 2012/13 Actual as at 31st Mar 2013 |
|---|---|---|
| | £'000 | £'000 |
| **Variable interest rate exposure** | **0** | **-57,100** |

*This is the variable rate debt (LOBOs of £20m) less the £77.1m variable rate investments.

**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.

| | **2012/13 Prudential Indicator** | **2012/13 Actual as at 31st Mar 2013** |
|---|---|---|
| | £'000 | £'000 |
| **Investments over 364 days** | **30,000** | **1,000** |

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

| | **Upper Limit** | **Lower Limit** | **2012/13 Actual as at 31st Mar 2013** |
|---|---|---|---|
| | % | % | % |
| 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. A summary guide to credit ratings is set out at **Appendix 7**

| | **2012/13 Prudential Indicator** | **2012/13 Actual as at 31st Mar. 2013** |
|---|---|---|
| | Rating | Rating |
| **Minimum Portfolio Average Credit Rating** | **A+** | **AA-** |

**APPENDIX 2**

**The Council's Investment position at 31st March 2013**

| | **Balance at 31st March 2013** |
|---|---|
| | £'000's |
| Notice (instant access funds) | 7,100 |
| Up to 1 month | 17,000 |
| 1 month to 3 months | 31,000 |
| Over 3 months | 23,000 |
| **Total** | **78,100** |

The total investment figure of £78,100 million is made up as follows:

| | **Balance at 31st March 2013** |
|---|---|
| | £'000's |
| B&NES Council | 61,170 |
| West of England Growth Points | 837 |
| Schools | 7,385 |
| B&NES PCT | 8,708 |
| **Total** | **78,100** |

The Council had an average net positive balance of £90.3m (including Growth Points & B&NES PCT Funding) during the period April 2012 to March 2013.

The following fixed term investments were undertaken during 2012/13 with a maturity date in the following financial year:

| **Institution** | **Amount** | **Rate** | **Start Date** | **Maturity Date** | **Long Term Credit Rating*** |
|---|---|---|---|---|---|
| Barclays Bank | £5m | 0.59% | 04/02/13 | 05/08/13 | A |
| Barclays Bank | £5m | 0.63% | 12/11/12 | 13/05/13 | A |
| HSBC | £5m | 0.50% | 01/05/12 | 01/05/13 | AA- |
| HSBC | £5m | 0.50% | 08/06/12 | 07/06/13 | AA- |
| Bank of Scotland | £5m | 0.70% | 04/02/13 | 07/05/13 | A |
| Lloyds Banking Group | £5m | 0.70% | 25/02/13 | 25/05/13 | A |
| Nationwide B/S | £5m | 0.73% | 02/10/12 | 02/04/13 | A |
| Coventry B/S | £2m | 0.41% | 10/01/13 | 10/04/13 | A- |
| Development Bank of Singapore | £5m | 0.40% | 16/01/13 | 16/07/13 | AA- |
| Oversea-Chinese Banking Corporation | £5m | 0.55% | 02/10/12 | 02/04/13 | AA- |
| Oversea-Chinese | £5m | 0.50% | 10/10/12 | 10/10/13 | AA- |

| Banking Corporation | | | | | |
|---|---|---|---|---|---|
| National Australia Bank | £5m | 0.41% | 10/01/13 | 10/07/13 | AA- |
| Peterborough City Council | £3m | 0.44% | 07/12/12 | 09/12/13 | |
| Kingston Upon Hull City Council | £1m | 1.20% | 12/12/11 | 11/06/13 | |
| Salford City Council | £3m | 0.33% | 28/12/12 | 01/07/13 | |
| Salford City Council | £2m | 0.33% | 31/12/12 | 01/07/13 | |
| **Total** | **£66.0m** | **0.55%** | **-** | **-** | |

* The credit rating shown is the lowest equivalent rating from Fitch, Standard & Poors and Moody's credit rating agencies
The balance of £12.1m was held in call accounts and Money Market Funds as at 31st March 2013.

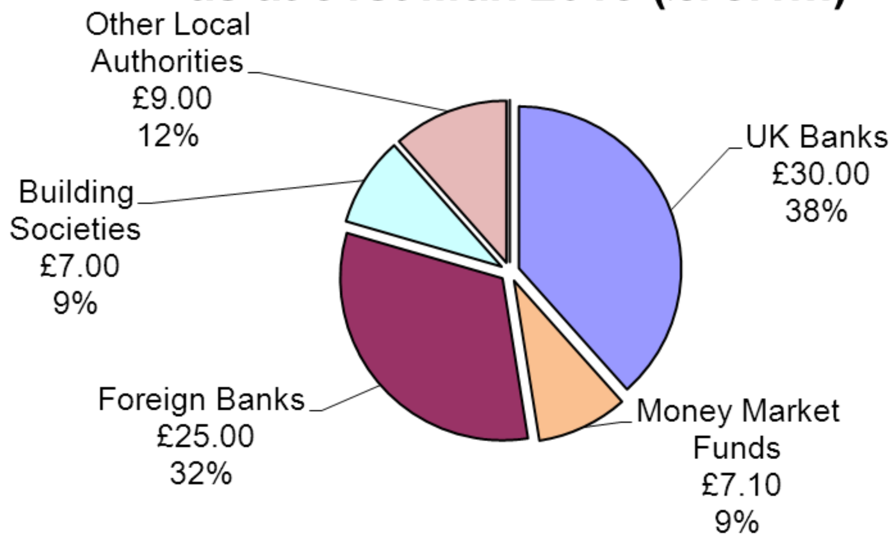


**Chart 2: Council Investments as at 31st Dec. 2012 (£89.9m)**

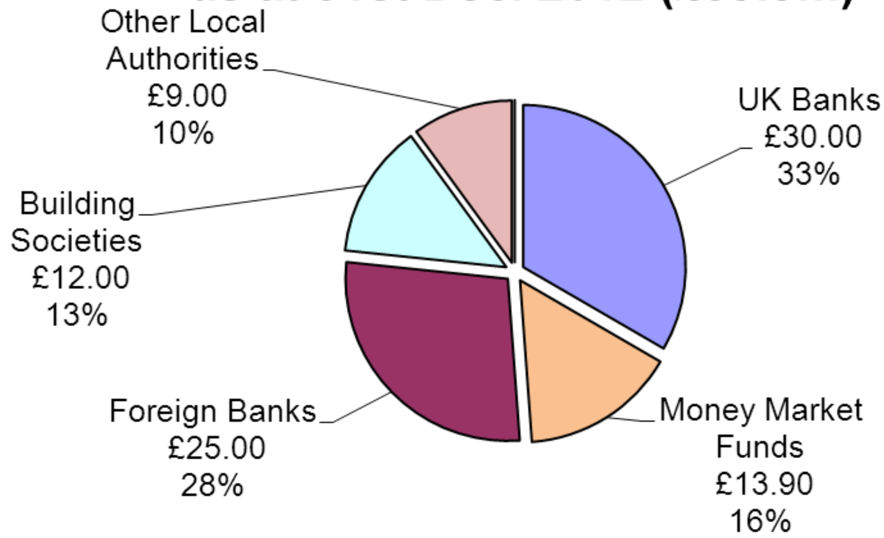
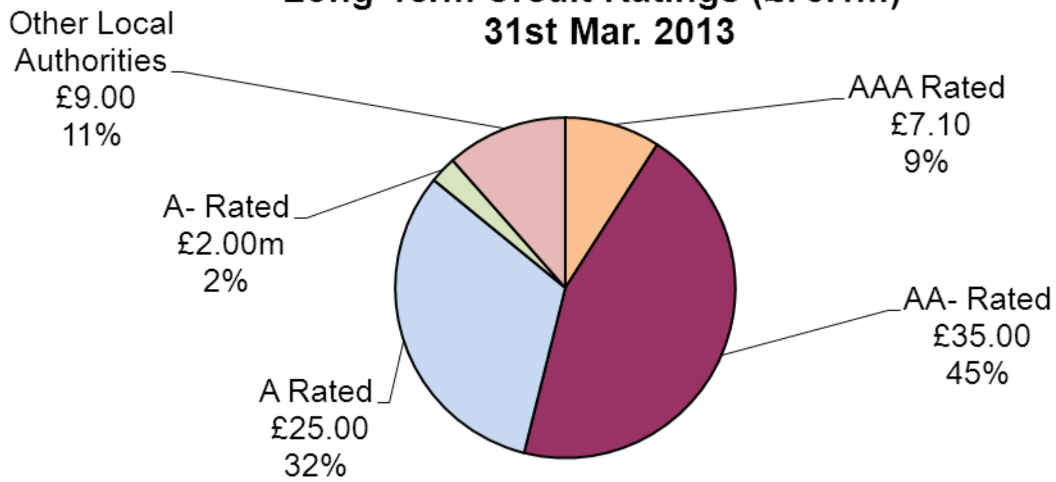
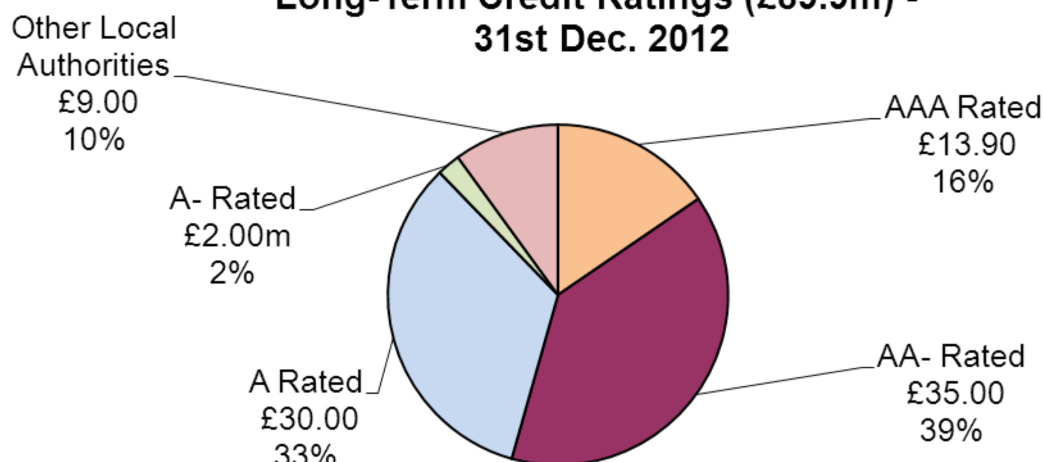



**Chart 3: Council Investments per Lowest Equivalent Long-Term Credit Ratings (£78.1m) - 31st Mar. 2013**






**APPENDIX 3**

**Average rate of return for 2012/13**

| | Apr % | May % | Jun % | Jul % | Aug % | Sep % |
|---|---|---|---|---|---|---|
| **Average rate of interest earned** | 1.11% | 1.10% | 1.03% | 1.01% | 0.87% | 0.88% |
| **Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)** | 0.50% | 0.50% | 0.49% | 0.47% | 0.45% | 0.44% |
| **Performance against Benchmark %** | +0.61% | +0.60% | +0.54% | +0.54% | +0.42% | +0.44% |

| | Oct % | Nov % | Dec % | Jan % | Feb % | Mar % | Average for Period |
|---|---|---|---|---|---|---|---|
| **Average rate of interest earned** | 0.75% | 0.70% | 0.68% | 0.61% | 0.56% | 0.53% | **0.83%** |
| **Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)** | 0.42% | 0.42% | 0.41% | 0.41% | 0.41% | 0.41% | **0.44%** |
| **Performance against Benchmark %** | +0.33% | +0.28% | +0.27% | +0.20% | +0.15% | +0.12% | **+0.39%** |

**APPENDIX 4**

**Councils External Borrowing at 31st March 2013**

| LONG TERM | Amount | Start Date | Maturity Date | Interest Rate |
|---|---|---|---|---|
| PWLB | 10,000,000 | 15/10/04 | 15/10/35 | 4.75% |
| PWLB | 20,000,000 | 02/10/06 | 20/05/54 | 4.10% |
| PWLB | 10,000,000 | 21/12/06 | 20/11/52 | 4.25% |
| PWLB | 10,000,000 | 15/02/06 | 15/02/56 | 3.85% |
| PWLB | 10,000,000 | 19/07/06 | 15/04/53 | 4.25% |
| 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 | 4.80% |
| PWLB | 10,000,000 | 05/08/11 | 15/08/29 | 4.90% |
| 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** | **120,000,000** | | | |
| **TEMPORARY** | **NIL** | | | |
| **TOTAL** | **120,000,000** | | | **4.46%** |

- 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 2012/13 – (provided by Arlingclose)**

The global outlook stabilised mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite economic growth in G-7 nations being either muted or disappointing.

In the UK the economy shrank in the first, second and fourth quarters of calendar 2012. It was the impressive 0.9% growth in the third quarter, aided by the summer Olympic Games, which allowed growth to register 0.2% over the calendar year 2012. The expected boost to net trade from the fall in the value of sterling did not materialise, but raised the price of imports, especially low margin goods such as food and energy. Avoiding a 'triple-dip' recession became contingent on upbeat services sector surveys translating into sufficient economic activity to overhaul contractions in the struggling manufacturing and construction sectors.

Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation. Annual CPI dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England's 2% CPI target.

The lack of growth and the fall in inflation were persuasive enough for the Bank of England to maintain the Bank Rate at 0.5% and also sanction additional £50 billion asset purchases (QE)

in July, taking total QE to £375 billion. The possibility of a rate cut was discussed at some of Bank's Monetary Policy Committee meetings, but was not implemented as the potential drawbacks outweighed the benefits of a reduction in the Bank Rate. In the March Budget the Bank's policy was revised to include the 2% CPI inflation remit alongside the flexibility to commit to intermediate targets.

The resilience of the labour market, with the ILO unemployment rate falling to 7.8%, was the main surprise given the challenging economic backdrop. Many of the gains in employment were through an increase in self-employment and part time working.

The Chancellor largely stuck to his fiscal plans with the austerity drive extending into 2018. In March the Office for Budgetary Responsibility (OBR) halved its forecast growth in 2013 to 0.6% which then resulted in the lowering of the forecast for tax revenues and an increase in the budget deficit. The government is now expected to borrow an additional £146bn and sees gross debt rising above 100% of GDP by 2015-16. The fall in debt as a percentage of GDP, which the coalition had targeted for 2015-16, was pushed two years beyond this horizon. With the national debt metrics out of kilter with a triple-A rating, it was not surprising that the UK's sovereign rating was downgraded by Moody's to Aa1. The AAA status was maintained by Fitch and S&P, albeit with a Rating Watch Negative and with a Negative Outlook respectively.

The government's Funding for Lending (FLS) initiative commenced in August which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. There was an improvement in the flow of credit to mortgagees, but was still below expectation for SMEs.

The big four banks in the UK – Barclays, RBS, Lloyds and HSBC – and several other global institutions including JP Morgan, Citibank, Rabobank, UBS, Credit Suisse and Deutsche came under investigation in the Libor rigging scandal which led to fines by and settlements with UK and US regulators. Banks' share prices recovered after the initial setback when the news first hit the headlines.

**Europe**: The Euro region suffered a further period of stress when Italian and Spanish government borrowing costs rose sharply and Spain was also forced to officially seek a bailout for its domestic banks. Markets were becalmed after the ECB's declaration that it would do whatever it takes to stabilise the Eurozone and the central bank's announcement in September of its Outright Monetary Transactions (OMT) facility, buying time for the necessary fiscal adjustments required. Neither the Italian elections which resulted in political gridlock nor the poorly-managed bailout of Cyprus which necessitated 'bailing-in' non-guaranteed depositors proved sufficient for a market downturn. Growth was hindered by the rebalancing processes under way in Euroland economies, most of which contracted in Q4 2012.

**US**: The US Federal Reserve extended quantitative easing through 'Operation Twist', in which it buys longer-dated bonds with the proceeds of shorter-dated US Treasuries. The Federal Reserve shifted policy to focus on the jobless rate with a pledge to keep rates low until unemployment falls below 6.5%. The country's extended fiscal and debt ceiling negotiations remained unresolved.

***Gilt Yields and Money Market Rates***: Gilt yields ended the year lower than the start in April. By September the 2-year gilt yield had fallen to 0.06%, raising the prospect that short-dated yields could turn negative. 10-year yields fell by nearly 0.5% ending the year at 1.72%. The reduction was less pronounced at the longer end; 30-year yields ended the year at 3.11%, around 25bp lower than in April. Despite the likelihood the DMO would revise up its gilt issuance for 2012/13, there were several gilt-supportive factors: the Bank of England's continued purchases of gilts under an extended QE programme; purchases by banks,

insurance companies and pension funds driven by capital requirements and the preference for safe harbour government bonds.

One direct consequence of the Funding for Lending Scheme was the sharp drop in rates at which banks borrowed from local government. 3-month, 6-month and 12-month Libid rates which were 1%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

**APPENDIX 6**

**Capital Financing Costs – Budget Monitoring 2012/13 (Outturn)**

| April 2012 to March 2013 | 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 | 6,200 | 5,351 | (849) | FAV |
| - Internal Repayment of Loan Charges | (5,362) | (4,382) | 980 | ADV |
| - Ex Avon Debt Costs | 1,432 | 1,443 | 11 | ADV |
| - Minimum Revenue Provision (MRP) | 4,440 | 4,310 | (130) | FAV |
| - Interest of Balances | (592) | (700) | (108) | FAV |
| **Sub Total - Capital Financing** | **6,118** | **6,021** | **(97)** | **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. |