Bath & North East Somerset Council		
MEETING:	**Cabinet**	
MEETING DATE:	**12th February 2014**	EXECUTIVE FORWARD PLAN REFERENCE: E 2559
TITLE:	**Treasury Management Monitoring Report to 31st December 2013**	
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 2013
Appendix 3 – Average monthly rate of return for 1st 9 months of 2013/14
Appendix 4 – The Council's External Borrowing Position at 31st December 2013
Appendix 5 – Arlingclose's Economic & Market Review Q3 of 2013/14
Appendix 6 – Interest & Capital Financing Budget Monitoring 2013/14
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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 2013/14 for the first nine months of 2013/14.

2 RECOMMENDATION

The Cabinet agrees that:

2.1 the Treasury Management Report to 31st December 2013, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the Treasury Management Indicators to 31st December 2013 are noted.

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

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 nine months of 2013/14 is 0.48%, which is 0.07% above the benchmark rate.

5.2 The Council's Prudential Indicators for 2013/14 were agreed by Council in February 2013 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 31st December 2013 is given in **Appendix 2**. The balance of deposits as at 30th September 2013 & 31st December 2013 are also set out in the pie charts in this appendix.

5.4 Gross interest earned on investments for the first nine months totalled £283k. Net interest, after deduction of amounts due to West of England Growth Points, B&NES PCT Pooled Budgets and schools, is £221k. **Appendix 3** details the investment performance, the average rate of interest earned over this period was 0.48%, which is 0.07% above the benchmark rate of average 7 day LIBID +0.05% (0.41%).

5.5 Funds held on behalf of the West of England Revolving Infrastructure Fund are not included in the summary above.

Summary of Borrowings

5.6 The Council has now implemented the restructuring of its Public Works Loan Board debt portfolio by utilising Council's cash flow, which, as can be seen above, is currently earning very low rates of interest. The rescheduling of £50 million of borrowing was completed during the second quarter of 2013/14.

5.7 Current forecasts project that the savings in the current year will meet the additional £500K savings target in the Council's 2013/14 approved budget, as well as generating an additional £600k saving. This is achieved by netting off the loss of interest earned on the cash balance against the reduced interest payments made to the Public Works Loan Board.

5.8 The Council's total borrowing was £70 million as at the 31st December 2013. The Council's Capital Financing Requirement (CFR) as at 31st March 2013 was £141.8 million with a projected total of £201 million by the end of 2013/14 based on the capital programme approved at February 2013 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.

5.9 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 2013 apportioned to Bath & North East Somerset Council is £15.14m. 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 5.8.

5.10 The borrowing portfolio as at 31st December 2013 is shown in **Appendix 4**.

Strategic & Tactical Decisions

5.11 As 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 2013, £18.0m was invested with AAA rated Money Market funds to increase diversification whilst maintaining strong counterparty rating.

5.12 The Council continues to not invest 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 Eurozone debt situation (Portugal, Ireland, Greece, Spain and Italy).

5.13 The Council's average investment return is running below the budgeted level of 0.75% due to the continued reduction in current market rates. Also, in line with the debt restructuring strategy, the majority of the remaining cash balance is required for short term cashflow, so cannot be locked into the slightly higher longer term rates. The reduced return is more than offset by the reduced interest payments, as set out in **Appendix 6**.

Future Strategic & Tactical Issues

5.14 Our treasury management advisors economic and market review for the third quarter 2013/14 is included in **Appendix 5**.

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

Budget Implications

5.16 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 £600k underspend for 2013/14, resulting from the recent debt rescheduling. This has been factored into the budget plans for 2014/15 and beyond.

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 Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

8.2 Consultation was carried out via e-mail.

9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

9.2 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 Arlingclose.

9.3 The 2011 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 February 2012, the Council's treasury advisors provided training to the Corporate Audit Committee to carry out this scrutiny.

9.4 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	*2013/14 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.

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

6. Maturity Structure of new 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 Dec. 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.

	2013/14 Prudential Indicator	2013/14 Actual as at 31st Dec. 2013
	Rating	Rating
Minimum Portfolio Average Credit Rating	**A**	**AA**

APPENDIX 2

The Council's Investment position at 31st December 2013

	Balance at 31st December 2013
	£'000's
Notice (instant access funds)	22,500
Up to 1 month	5,000
1 month to 3 months	10,000
Over 3 months	0
Total	**37,500**

The investment figure of £37.5 million is made up as follows:

	Balance at 31st December 2013
	£'000's
B&NES Council	19,364
B&NES PCT	8,756
West Of England Growth Points	686
Schools	8,694
Total	**37,500**

The Council had an average net positive balance of £78.3m (including Growth Points & B&NES PCT Funding) during the period April 2013 to December 2013.

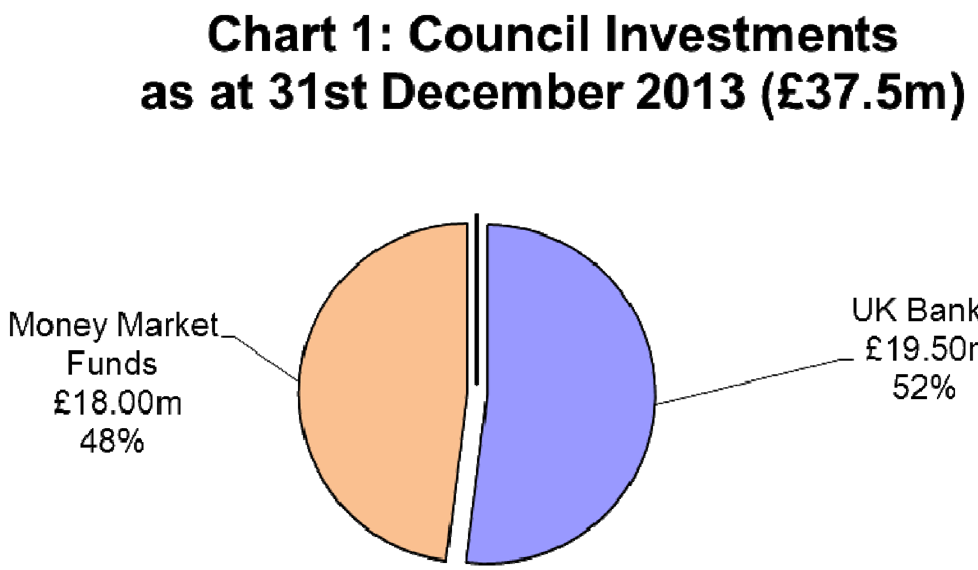


Chart 2: Council Investments as at 30th September 2013 (£45.2m)

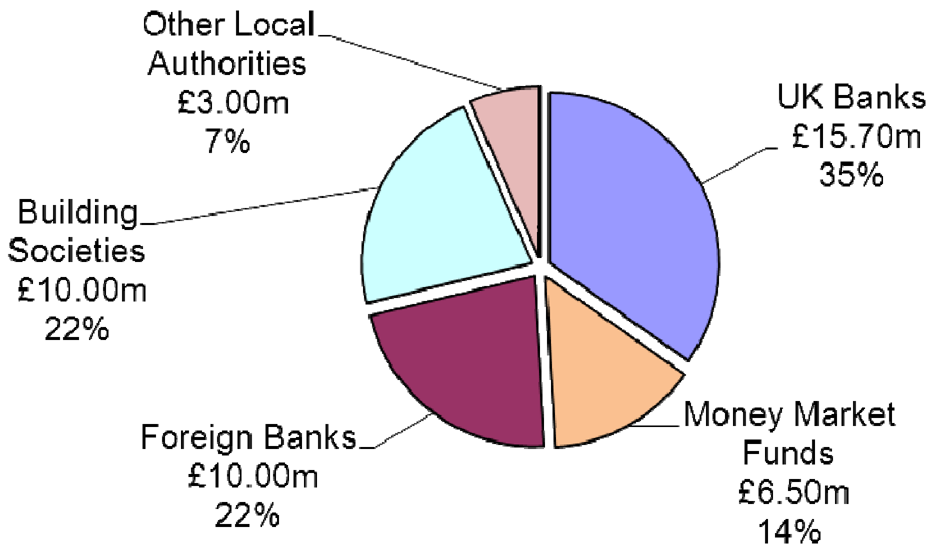
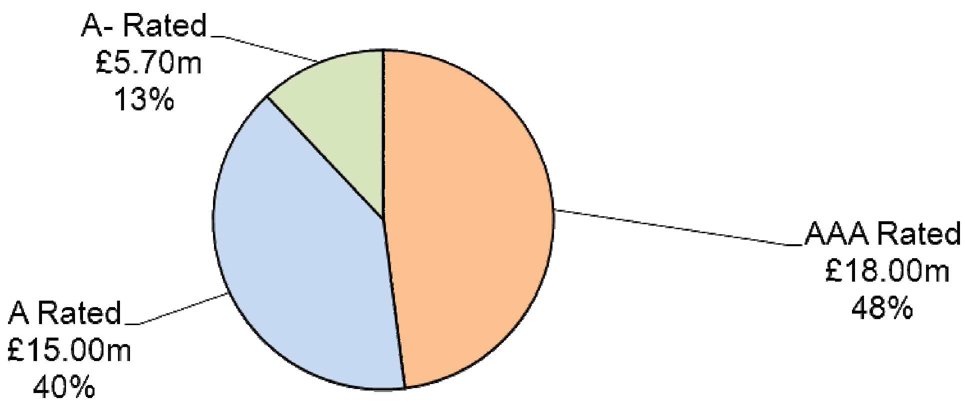
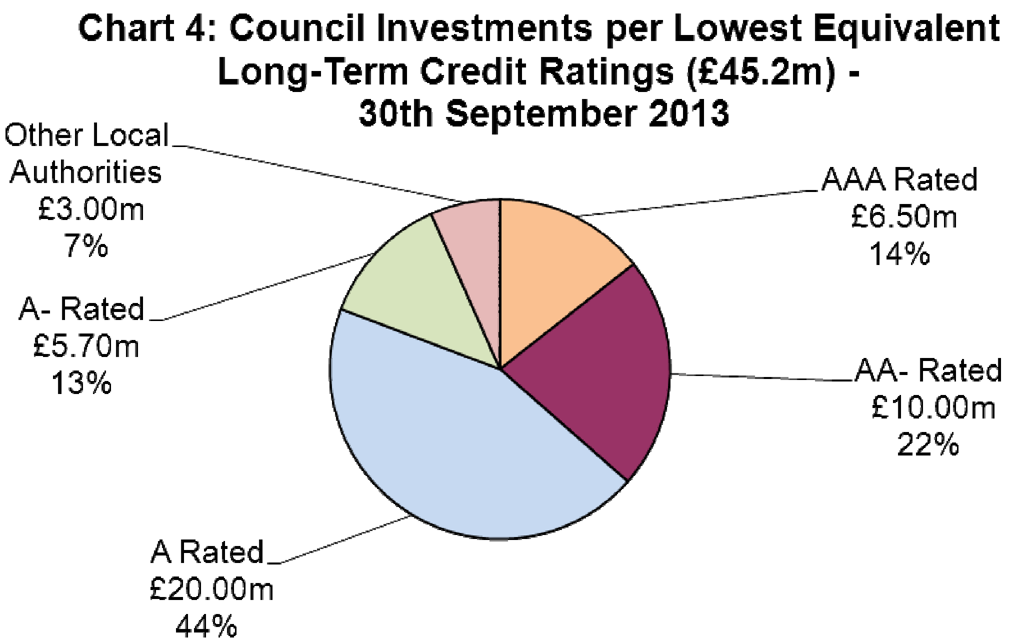


Chart 3: Council Investments per Lowest Equivalent Long-Term Credit Ratings (£37.5m) - 31st December 2013





APPENDIX 3

Average rate of return on investments 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. %**	**Average for Period**
Average rate of interest earned	0.44	0.46	0.48	**0.48**
Benchmark = Average 7 Day LIBID rate +0.05%	0.40	0.40	0.40	**0.41**
Performance against Benchmark %	+0.04	+0.06	+0.08	**+0.07**

APPENDIX 4
Council's External Borrowing at 31st December 2013

LONG TERM	Amount	Fixed Term	Interest Rate	Variable Term	Interest Rate
PWLB	10,000,000	30 yrs	4.75%	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	**70,000,000**				

*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 July 2013 to December 2013 (Arlingclose)

Growth: The flow of credit to households and businesses slowly improved but was still below pre-crisis levels. The fall in consumer price inflation from the high of 5.2% in September 2011 to 2.1% in November 2013 helped consumers. There was hope it might allow real wage increases (i.e. after inflation) to slowly turn positive, improve confidence and aid future consumer spending.

Stronger UK growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices, mainly stoked by government initiatives to boost mortgage lending, lead markets to price in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. Unemployment was 7.4% in the three months to October 2013. However, with jobs growth picking up slowly, many employees working shorter hours than they would like and benefit cuts set to gather pace, economic growth was likely to only be gradual.

Monetary Policy: There was no change to UK monetary policy with official interest rates and asset purchases maintained at 0.5% and £375bn respectively. On the probability of unemployment reaching the 7% threshold under the MPC's Forward Guidance, the November Inflation Report attached only a two-in-five chance to the rate having reached the 7% level by the end of 2014. The corresponding figures for the end of 2015 and 2016 were around three-in-five and two-in-three respectively. These forecasts brought forward market expectations of a bank rate rise, although the MPC repeatedly emphasised that the 7% threshold was not an automatic trigger for a rate rise.

A fragile economic recovery, subdued inflation and depressed bank lending resulted in the European Central Bank cutting the repo rate from 0.50% to 0.25%. ECB President Mario Draghi strengthened the Bank's pledge to keep interest rates low for as long as necessary and warned that it was too soon to say the euro region is out of danger.

In the US, following the clear momentum witnessed in its economy – despite the political impasse which resulted in a partial government shutdown during the quarter - the 'tapering' of asset purchases was announced by the Federal Reserve in December. Tapering will commence in January 2014 and with the Fed reducing its monthly purchases from $85bn to $75bn a month. Financial markets reacted in a predicatively ebullient manner with risk assets such as equities rallying toward higher levels whilst government bond prices reversed, leading to higher yields.

APPENDIX 6
Interest & Capital Financing Costs – Budget Monitoring 2013/14 (April to December)

April to December 2013	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	4,947	4,097	(850)	FAV
- Internal Repayment of Loan Charges	(6,584)	(6,584)		
- Ex Avon Debt Costs	1,388	1,388		
- Minimum Revenue Provision (MRP)	4,782	4,782		
- Interest on Balances	(455)	(205)	250	ADV
Sub Total - Capital Financing	**4,078**	**3,478**	**(600)**	**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 - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.