Bath & North East Somerset Council		
MEETING:	**Council**	
MEETING DATE:	**16th November 2010**	**AGENDA ITEM NUMBER**
TITLE:	**Treasury Management Monitoring Report to 30th September 2010**	
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 30th September 2010 **Appendix 3** – Average monthly rate of return for 1st 6 months of 2010/2011 **Appendix 4** – The Council's External Borrowing Position at 30th September 2010 **Appendix 5** – Sterling Consultant's Economic & Market Review of 1st 6 months 2010/11 **Appendix 6** – Interest & Capital Financing Budget Monitoring 2010/11		

1 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, a mid year report, and an annual report after the end of each financial year.

1.2 This report gives mid year details of performance against the Council's Treasury Management Strategy and Annual Investment Plan 2010/11 for the first six months of 2010/11.

2 RECOMMENDATION

The Council agrees that:

2.1 the Treasury Management Report to 30th September 2010, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the Treasury Management Indicators to 30th September 2010 are noted.

3 FINANCIAL IMPLICATIONS

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

4 CORPORATE PRIORITIES

4.1 This report is for information only and is therefore there are no proposals relating to the Council's Corporate Priorities.

5 THE REPORT

Summary

5.1 The average rate of investment return for the first six months of 2010/11 is 0.52% above the benchmark rate.

5.2 The Council's Prudential Indicators for 2010/11 were agreed by Council in February 2010 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 30th September 2010 is given in Appendix 2. The balance of deposits as at 31st March 2010 & 30th September 2010 is also set out in the pie charts in this appendix.

5.4 Gross interest earned on investments for the first six months totalled £479k. Net interest, after deduction of amounts due to West of England Growth Points, PCT and schools, is £367K. Appendix 3 details the investment performance, the average rate of interest earned over this period was 0.99%, which is 0.52% above the benchmark rate of average 7 day LIBID +0.05% (0.47%).

Summary of Borrowings

5.5 New loans totalling £10 million were taken from the Public Works Loan Board on 12th May 2010. One of the loans was £5 million for 25 years at a rate of 4.55%, and the other for a further £5 million for 50 years at a rate of 4.53%. It was decided to take a portion of the Council's borrowing requirement at this stage of the financial year so as to lock in at an interest rate below the rate of 4.75% included in the 2010/11 budget.

5.6 At the time of the decision, long term rates had fallen from a high in April 2010 of 4.74%, and there were concerns that if there was not a clear direction in tackling the public sector budget deficit following general election, rates could increase again, making UK sovereign debt and therefore long term borrowing more expensive. In addition, the 25-50 year PWLB interest rate forecast from our treasury advisors indicated rates rising steadily to around 5% by the middle of 2012.

5.7 The new borrowing took the Council's total borrowing to £90 million at an average interest rate of 4.32%. The Council's Capital Financing Requirement (CFR) as at 31st March 2010 was £93.6 million. This represents the Council's need to borrow to finance capital expenditure, and demonstrates that the borrowing taken relates to funding historical capital spend.

5.8 The current borrowing portfolio, including these new loans, is shown in Appendix 4.

Strategic & Tactical Decisions

5.9 As shown in the charts in Appendix 2, the amount invested with the Debt Management Office has gradually reduced to between 0-10% of total investments. Short term investments of £2m have been made with UK Building Societies from the Council's counterparty list that was approved by Council in February 2010. This has resulted in earning a more favourable return than the 0.25% paid by the Debt Management Office.

Future Strategic & Tactical Issues

5.10 Our treasury management advisors economic and market review for the first six months of 2010/11 is included in Appendix 5.

5.11 The Bank of England base rate has remained constant at 0.50% since March 2009, and the Council's treasury advisors are forecasting that this will not change in the next 12 months.

5.12 At the time of writing, the spread between the UK Government Debt Management Office returns and those of highly rated UK banks remains in excess of 1.00%.

Budget Implications

5.13 A breakdown of the revenue budget for interest and capital financing and the forecast year end position based on the period April to September is included in Appendix 6. This shows a current forecast underspend of £233k in 2010/11. The Council has tightened controls on expenditure where doubts over funding exist due to the growing uncertainties over government funding for capital schemes which have emerged over the past year. This slowing down of capital expenditure reduces capital financing costs in the short term. The amount of the underspend could increase depending on decisions taken during the remainder of the financial year and this will be closely monitored as the year progresses.

6 RISK MANAGEMENT

6.1 The Council's lending & borrowing list has been 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.

6.2 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.

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

7 EQUALITIES

7.1 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.

8 RATIONALE

8.1 The Prudential Code and CIPFA's Code of Practice on Treasury Management requires regular monitoring and reporting of Treasury Management activities.

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

10.1 Consultation has been carried out with the Deputy Leader of The Council & Cabinet Member for Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer prior to this report being presented to the 3rd November 2010 Cabinet meeting.

10.2 Consultation was carried out via e-mail.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 This report deals with issues of a corporate nature.

12 ADVICE SOUGHT

12.1 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 Malcolm Hanney*
Background papers	*2010/11 Treasury Management & Investment Strategy* *Q1 Treasury Performance Report (Single Member Decisions)*
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.

	2010/11 Prudential Indicator	2010/11 Actual as at 30th Sep. 2010
	£'000	£'000
Borrowing	115,000	90,000
Other long term liabilities	3,000	0
Cumulative Total	**118,000**	**90,000**

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.

	2010/11 Prudential Indicator	2010/11 Actual as at 30th Sep. 2010
	£'000	£'000
Borrowing	105,000	90,000
Other long term liabilities	2,000	0
Cumulative Total	**107,000**	**90,000**

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.

	2010/11 Prudential Indicator	2010/11 Actual as at 30th Sep. 2010
	£'000	£'000
Fixed interest rate exposure	**107,000**	**70,000***

* 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).

	2010/11 Prudential Indicator	2010/11 Actual as at 30th Sep. 2010
	£'000	£'000
Variable interest rate exposure	**20,000**	**-72,800**

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

Given the Councils' financial position, i.e. of having low cash balances, any lending is likely to be the result of the phasing of cash flow. Investment periods are unlikely to be more than 6 months. This is the maximum % of total investments which can be over 364 days.

	2010/11 Prudential Indicator	**2010/11 Actual as at 30th Sep. 2010**
	%	%
Investments over 364 days	**25**	**0**

6. Maturity Structure of new fixed rate borrowing during 2010/11

	Upper Limit	**Lower Limit**	**2010/11 Actual as at 30th Sep. 2010**
	%	%	%
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 30th September 2010

	Balance at 30th September 2010
	£'000's
Notice (instant access funds)	22,000
Up to 1 month	18,800
1 month to 3 months	32,000
Over 3 months	20,000
Total	**92,800**

The investment figure of £92.8 million is made up as follows :

	Balance at 30th September 2010
	£'000's
B&NES Council	72,082
West Of England Growth Points	4,583
Schools	16,135
Total	**92,800**

The Council had an average net positive balance of £72.5m (including Growth Points Funding) during the period April 2010 to September 2010.

Chart 1: Investments as at 31st March 2010 (£69.3m)

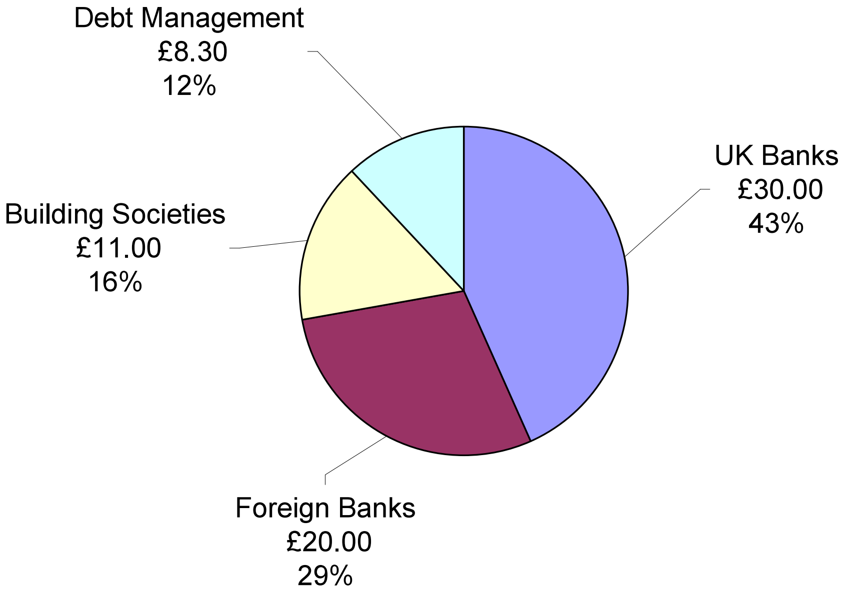


Chart 2: Investments as at 30th September 2010 (£92.8m)

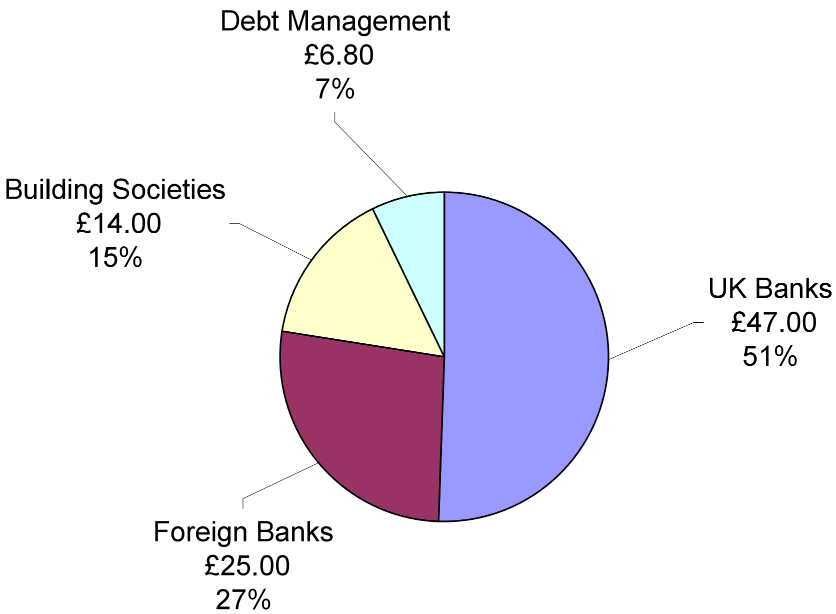


Chart 3: Investments per Fitch Long-Term Credit Ratings (£69.3m) - 31st March 2010

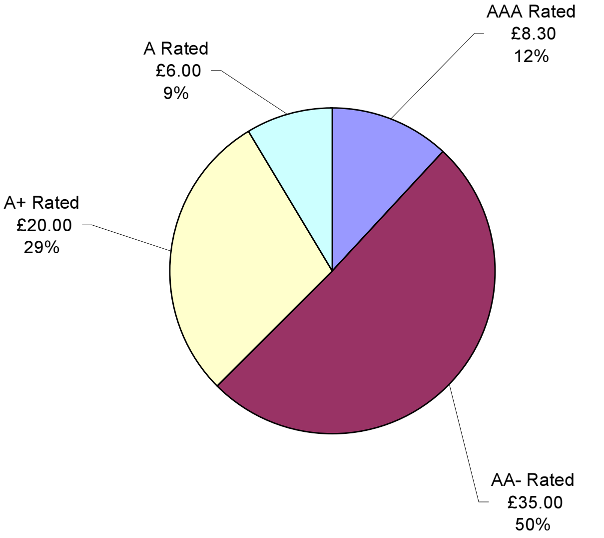
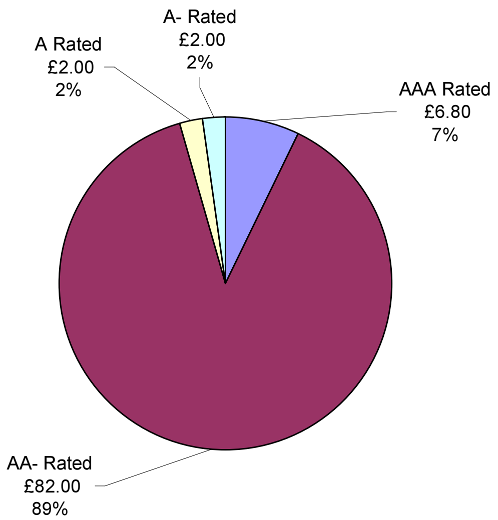


Chart 4: Investments per Fitch Long-Term Credit Ratings (£92.8m) - 30th September 2010



APPENDIX 3

Average rate of return on investments for 2010/11

	Apr %	May %	Jun %	Jul %	Aug %	Sep %	Average for Period
Average rate of interest earned	0.97%	0.94%	0.98%	1.01%	1.03%	1.03%	**0.99%**
Benchmark = Average 7 Day LIBID rate +0.05% (source: Sterling)	0.47%	0.48%	0.48%	0.48%	0.48%	0.48%	**0.47%**
Performance against Benchmark %	+0.50%	+0.46%	+0.50%	+0.53%	+0.55%	+0.55%	**0.52%**

APPENDIX 4
Councils External Borrowing at 30th September 2010

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
KBC Bank N.V*	5,000,000	2 yrs	3.15%	48 yrs	4.5%
KBC Bank N.V*	5,000,000	3 yrs	3.72%	47 yrs	4.5%
Eurohypo Bank*	10,000,000	3 yrs	3.49%	47yrs	4.5%
TOTAL	**90,000,000**				

*All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.5%. 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
Economic and market review for the six months to September 2010 (Sterling Consultancy Services)

The UK economy continued along the road to recovery during the first half of 2010/11, despite two shocks to consumer and business confidence. The near default of Greece prompted extreme financial market volatility, while the coalition government's emergency Budget outlined significant cuts in public spending.
GDP expanded 0.3% in Q1 and 1.2% in Q2. Manufacturers in particular benefited from the recovery in the global economy by increasing export volumes. The recovery was less impressive in the service sector due to depressed business and consumer confidence. Improved economic conditions did however help financial institutions repair some of the damage the recession caused to their balance sheets, alleviating credit risk concerns and to some extent re-opening frozen financial markets.
Inflation has remained above the Bank of England's target rate of 2% since late 2009. The CPI rate peaked in April at 3.7% and eased back over the past few months as the effects of a number of temporary factors waned. Despite inflation remaining over target, the Bank of England maintained Bank Rate at 0.5% to avoid the risk of a further downturn in economic growth, with just one MPC member voting for a rise in July and August.
Looking ahead, the economic recovery is expected to slow as government spending cuts and tax rises dampen demand. The Bank of England expects lower demand to weigh on inflation, eventually causing the CPI rate to fall below target in the medium term. The most recent Bank of England forecasts for GDP growth and inflation suggest little need for monetary tightening for some time.

APPENDIX 6
Interest & Capital Financing Costs – Budget Monitoring 2010/11 (April to September)

April to September 2010	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	1,897	1,764	(133)	FAV
- Ex Avon Debt Costs	1,610	1,610		
- Minimum Revenue Provision (MRP)	2,270	2,270		
- Interest on Balances	(560)	(660)	(100)	FAV
Sub Total - Capital Financing	**5,217**	**4,984**	(233)	**FAV**