Bath & North East Somerset Council		
MEETING:	**Cabinet**	
MEETING DATE:	**4th November 2015**	
TITLE:	**Treasury Management Monitoring Report to 30th September 2015**	EXECUTIVE FORWARD PLAN REFERENCE: E 2768
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 2015
Appendix 3 – Average monthly rate of return for 1st 6 months of 2015/16
Appendix 4 – The Council's External Borrowing Position at 30th September 2015
Appendix 5 – Arlingclose's Economic & Market Review of first six months of 2015/16
Appendix 6 – Interest & Capital Financing Budget Monitoring 2015/16
Appendix 7 – Summary Guide to Credit Ratings

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 2015/16 for the first six months of 2015/16.

2 RECOMMENDATION

The Cabinet agrees that:

2.1 the Treasury Management Report to 30th September 2015, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the Treasury Management Indicators to 30th September 2015 are noted.

2.3 this Treasury Management Report and attached appendices are reported to November Council and December Corporate Audit Committee.

3 RESOURCE IMPLICATIONS

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 six months of 2015/16 is 0.47%, which is 0.06% above the benchmark rate.

5.2 The Council's Prudential Indicators for 2015/16 were agreed by Council in February 2015 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 2015 is given in **Appendix 2**. The balance of deposits as at 30th June 2015 and 30th September 2015 are also set out in the pie charts in this appendix.

5.4 The Council is the accountable body for the West of England Revolving Investment Fund (RIF) and received grant funding of £57 million at the end of the 2011/12 financial year. The Council acts as an agent and holds these funds on behalf of the West of England Local Enterprise Partnership until they are allocated in the form of repayable grants to the constituent Local Authorities to meet approved infrastructure costs. Since these funds are invested separately from the Council's cash balances and have been placed short term with the Debt Management Office and other Local Authorities, they are excluded from all figures given in this report. The value of the fund as at 30th September 2015 is £37.6 million (£40.0m as at 30th June 2015).

5.5 Gross interest earned on investments for the first six months totalled £153k. Net interest, after deduction of amounts due to Schools, the West of England Growth Points, CHC and other internal balances, is £103k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.47%, which was 0.06% above the benchmark rate of average 7 day LIBID +0.05% (0.41%).

5.6 The Council also currently holds £16.5m of Local Growth Fund grant as part of its balances. Interest earned from this is ringfenced to fund administration costs, and this interest is therefore excluded from the figures quoted above.

Summary of Borrowings

5.7 No new borrowing has taken place during 2015/16. The Council's Capital Financing Requirement (CFR) as at 31st March 2015 was £177 million with a projected total of £219 million by the end of 2015/16 based on the capital programme approved at February 2015 Council. This represents the Council's underlying need to borrow to finance capital expenditure, and demonstrates that the borrowing taken to date relates to funding historical capital spend.

5.8 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 2015 apportioned to Bath & North East Somerset Council is £13.95m. 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 5.6.

5.9 The borrowing portfolio as at 30th September 2015 is shown in **Appendix 4**.

Strategic & Tactical Decisions

5.10 As shown in the charts at **Appendix 2**, the investment portfolio has been diversified across UK Banks and Building Societies and very highly rated Foreign Banks. The Council also uses AAA rated Money Market funds to maintain very short term liquidity.

5.11 The Council continues to not hold any direct investments with banks in countries within the Eurozone reflecting both on the underlying debt issues in some Eurozone countries and the low levels of interest rates. The Council's investment counterparty list does not currently include any banks from Portugal, Ireland, Greece, Spain and Italy.

5.12 The Council's average investment return is in line with the budgeted level of 0.45%.

Future Strategic & Tactical Issues

5.13 Our treasury management advisors economic and market review for the second quarter 2015/16 is included in **Appendix 5**.

5.14 The Bank of England base rate has remained constant at 0.50% since March 2009. In the opinion of the Council's treasury advisors, Arlingclose, there will not be a rate rise until Q2 2016.

5.15 The benefits of the Council's current policy of internal borrowing are monitored regularly against the likelihood that long term borrowing rates are forecast to rise in future years. The focus is now on the rate of increase and the medium-term peak and, in this respect, the current forecast remains that rates will rise slowly and to a lower level than in the past.

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 September is included in **Appendix 6**. This is currently forecast to be on target for 2015/16.

5.17 This position will be kept under review during the remainder of the year, taking into account the Council's cash-flow position and the timing of any new borrowing required.

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 and Monitoring Officer.

8.2 Consultation was carried out via e-mail.

9 RISK MANAGEMENT

9.1 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 and Borrowing advice is provided by our Treasury Management consultants Arlingclose.

9.2 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. The Corporate Audit Committee carries out this scrutiny.

9.3 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	*2015/16 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.

	2015/16 Prudential Indicator	**2015/16 Actual as at 30th Sept. 2015**
	£'000	£'000
Borrowing	219,000	108,300
Other long term liabilities	2,000	0
Cumulative Total	**221,000**	**108,300**

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.

	2015/16 Prudential Indicator	**2015/16 Actual as at 30th Sept. 2015**
	£'000	£'000
Borrowing	182,000	108,300
Other long term liabilities	2,000	0
Cumulative Total	**184,000**	**108,300**

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.

	2015/16 Prudential Indicator	**2015/16 Actual as at 30th Sept. 2015**
	£'000	£'000
Fixed interest rate exposure	**182,000**	**88,300***

* 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 Lender exercise this option to increase the rate).

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.

	2015/16 Prudential Indicator	2015/16 Actual as at 30th Sept. 2015
	£'000	£'000
Variable interest rate exposure	**104,000**	**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.

	2015/16 Prudential Indicator	2015/16 Actual as at 30th Sept. 2015
	£'000	£'000
Investments over 364 days	**50,000**	**0**

6. Maturity Structure of borrowing
This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	2015/16 Actual as at 30th Sept. 2015
	%	%	%
Under 12 months	50	Nil	28*
12 months and within 24 months	75	Nil	7
24 months and within 5 years	75	Nil	9
5 years and within 10 years	100	Nil	0
10 years and above	100	Nil	56

* 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**.

	2015/16 Prudential Indicator	2015/16 Actual as at 30th Sept. 2015
	Rating	Rating
Minimum Portfolio Average Credit Rating	**A-**	**AA-**

APPENDIX 2

The Council's Investment position at 30th September 2015

The term of investments, from the original date of the deal, are as follows:

	Balance at 30th September 2015
	£'000's
Notice (instant access funds)	20,600
Up to 1 month	28,462
1 month to 3 months	10,000
Over 3 months	5,000
Total	**64,062**

The investment figure of £64.062 million is made up as follows:

	Balance at 30th September 2015
	£'000's
B&NES Council	30,484
B&NES CHC	9,572
West Of England Growth Points	133
Local Growth Fund	16,462
Schools	7,411
Total	**64,062**

The Council had a total average net positive balance of £65.3m during the period April 2015 to September 2015.

Chart 1: Council Investments (£64.1m) as at 30th September 2015

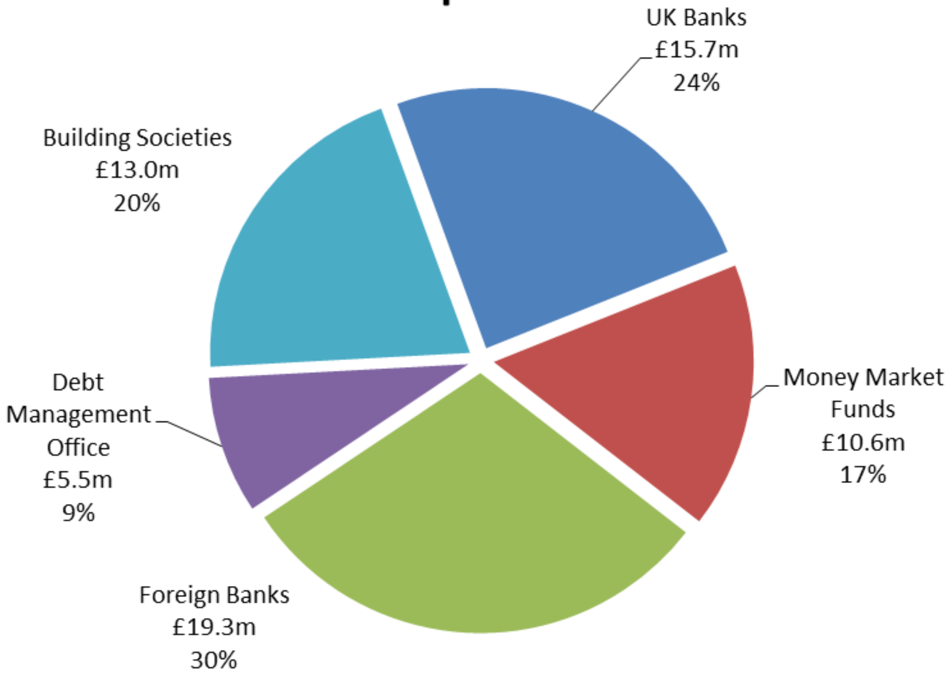
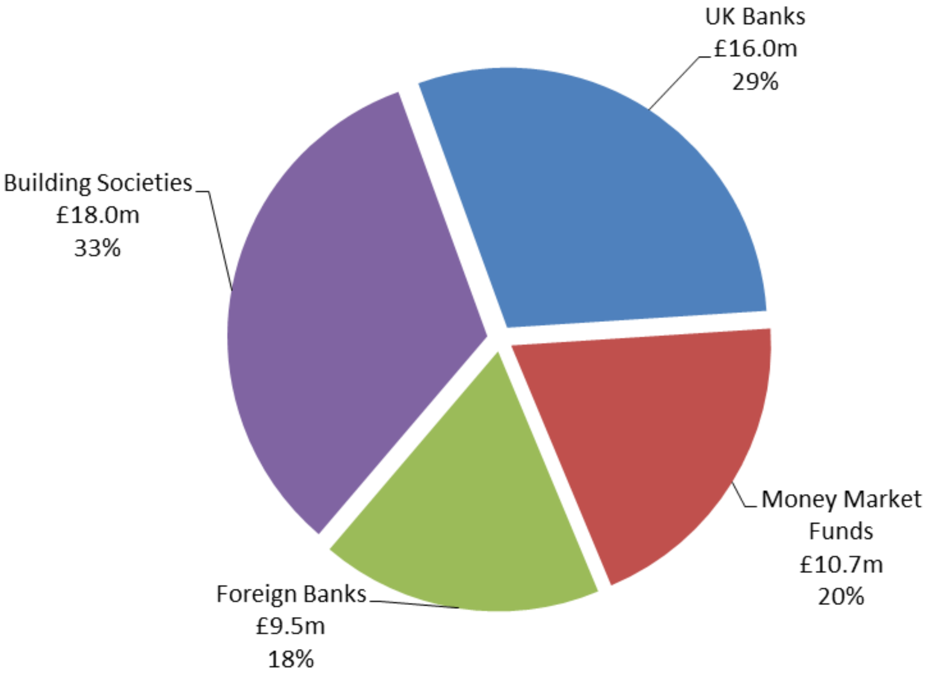


Chart 2: Council Investments (£58.9m) as at 30th June 2015



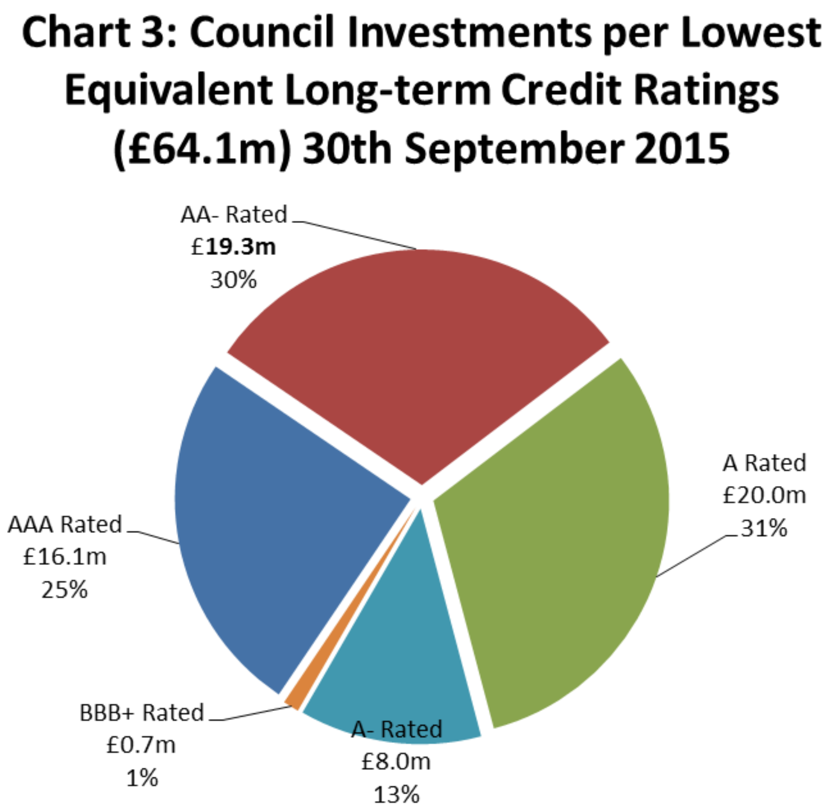


Chart 3: Council Investments per Lowest Equivalent Long-term Credit Ratings (£64.1m) 30th September 2015
AA- Rated £19.3m 30%
A Rated £20.0m 31%
AAA Rated £16.1m 25%
BBB+ Rated £0.7m 1%
A- Rated £8.0m 13%

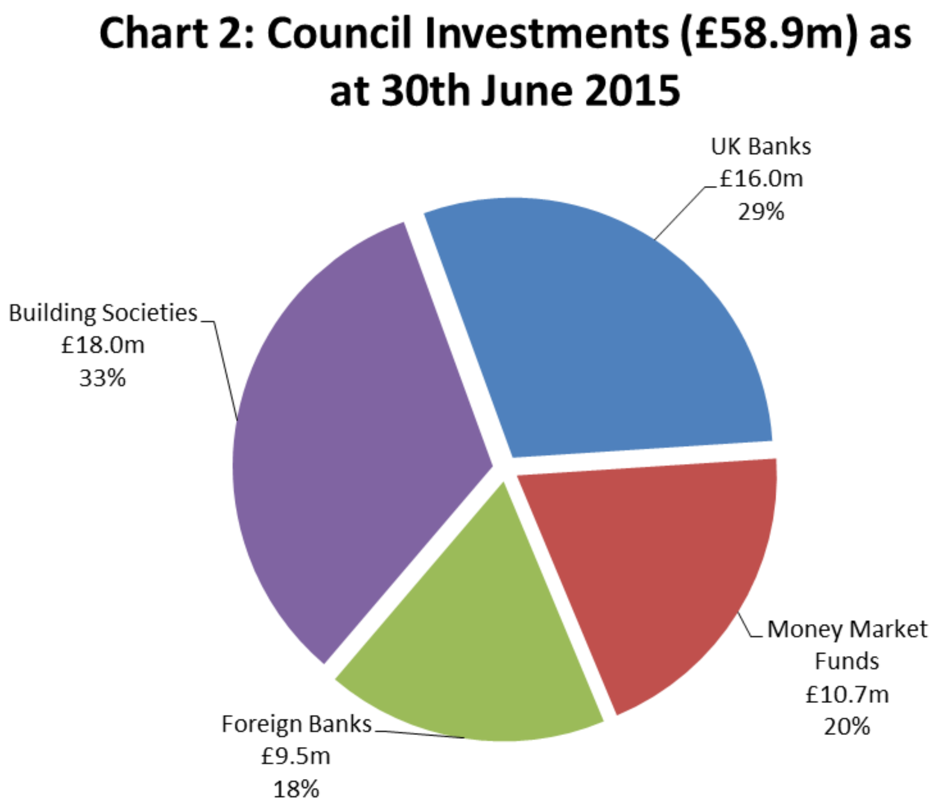


Chart 2: Council Investments (£58.9m) as at 30th June 2015
UK Banks £16.0m 29%
Building Societies £18.0m 33%
Money Market Funds £10.7m 20%
Foreign Banks £9.5m 18%

APPENDIX 3

Average rate of return on investments for 2015/16

	April %	May %	June %	July %	Aug. %	Sept. %	Average for Period
Average rate of interest earned	0.45%	0.46%	0.48%	0.48%	0.47%	0.48%	**0.47%**
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.40%	0.41%	0.41%	0.41%	0.41%	0.41%	**0.41%**
Performance against Benchmark %	+0.05%	+0.05%	+0.07%	+0.07%	+0.06%	+0.07%	**+0.06%**

APPENDIX 4

Councils External Borrowing at 30th September 2015

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%
PWLB	5,300,000	29/01/15	15/08/29	2.62%
PWLB	5,000,000	29/01/15	15/02/61	2.92%
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%
West Midland Police Authority	5,000,000	08/10/14	10/10/16	1.10%
Portsmouth City Council	3,000,000	15/10/14	17/10/16	1.08%
Wirral Metropolitan Borough Council	5,000,000	07/11/14	06/11/15	0.65%
Gloucestershire County Council	5,000,000	25/11/14	25/11/19	2.05%
Derbyshire County Council	5,000,000	28/11/14	27/11/15	0.65%
Gloucestershire County Council	5,000,000	19/12/14	19/12/19	2.05%
TOTAL	**108,300,000**			
TEMPORARY	**Nil**			
TOTAL	**108,300,000**			**3.64%**

*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. Should the lender use the option to change the rate, then at this point the borrower has the option to repay the loan without penalty.

APPENDIX 5

Economic and market review for April to September 2015 (provided by Arlingclose)

On 12th July, following a weekend European Union Summit, it was announced that the terms for a third bailout of Greece had been reached. The deal amounting to €86 billion was agreed under the terms that Greece would see tax increases, pension reforms and privatisations; the very reforms Tsipras had vowed to resist. This U-turn saw a revolt within the ruling Syriza party and on 27th August, Alexis Tsipras resigned from his post as Prime Minster of Greece after just eight months in office by calling a snap election, held on 20th September. This gamble paid off as Tsipras led his party to victory once again, although a coalition with the Independent Greeks was needed for a slim parliamentary majority. That government must now continue with the unenviable task of guiding Greece through the continuing economic crisis – the Greek saga is far from over.

The summer also saw attention shift towards China as the Shanghai composite index (representing China's main stock market), which had risen a staggering 50%+ since the beginning of 2015, dropped by 43% in less than three months with a reported $3.2 trillion loss to investors, on the back of concerns over growth and after regulators clamped down on margin lending activity in an effort to stop investors borrowing to invest and feeding the stock market bubble. Chinese authorities intensified their intervention in the markets by halting trading in many stocks in an attempt to maintain market confidence. They surprised global markets in August as the People's Bank of China changed the way the yuan is fixed each day against the US dollar and allowed an aggressive devaluation of the currency. This sent jitters through Asian, European and US markets impacting currencies, equities, commodities, oil and metals. On 24th August, Chinese stocks suffered their steepest one-day fall on record, driving down other equity markets around the world and soon becoming known as another 'Black Monday'. Chinese stocks have recovered marginally since and are trading around the same level as the start of the year. Concerns remain about slowing growth and potential deflationary effects.

UK Economy: The economy remained resilient over the quarter. GDP has now increased for nine consecutive quarters, breaking a pattern of slow and erratic growth from 2009. The annual rate for consumer price inflation (CPI) briefly turned negative in April, falling to -0.1%, before returning to 0.1%. In the May Quarterly Inflation Report, the Bank of England expected inflation to hover around zero in the near-term as falls in energy and food prices remained in the annual data series for now. The Bank was sanguine that that negative inflation would prove temporary without any damaging consequences for the UK economy. Further improvement in the labour market saw the ILO unemployment rate for March fall to 5.5% of the economically active population. Average earnings excluding bonuses rose 2.2% year/year.

The outcome of the UK general election, largely fought over the parties' approach to dealing with the consequences of the structural deficit and the pace of its removal, saw some very big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics.

The US economy slowed to 0.6% in Q1 2015 due to bad weather, spending cuts by energy firms and the effects of a strong dollar. However, Q2 GDP showed a large improvement at a twice-revised 3.9% (annualised). This was largely due to a broad recovery in corporate investment alongside a stronger performance from consumer and government spending and construction and exports. With the Fed's decision on US interest rate dependent upon data, GDP is clearly supportive. However it is not as simple as that and the Fed are keen to see inflation rise alongside its headline economic growth and also its labour markets. The Committee decided not to act at its September meeting as many had been anticipating but have signalled rates rising before the end of the year.

Market reaction: Equity markets initially reacted positively to the pickup in the expectations of global economic conditions, but were tempered by the breakdown of creditor negotiations in Greece. China led stock market turmoil around the globe in August, with the FTSE 100 falling by around 8% overnight on 'Black Monday'. Indices have not recovered to their previous levels but some improvement has been seen. Government bond markets were quite volatile with yields rising (i.e. prices falling) initially as the risks of deflation seemingly abated. Thereafter yields fell on the outcome of the UK general election and assisted by reappraisal of deflationary factors, before rising again. Concerns around China saw bond yields dropping again through August and September. Bond markets were also distorted by the size of the European Central Bank's QE programme, so large that it created illiquidity in the very markets in which it needed to acquire these bonds, notably German government bonds (bunds) where yields were in negative territory.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2015/16 (April to September)

April to September 2015	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	4,589	4,589	0	
- Internal Repayment of Loan Charges	(9,281)	(9,281)	0	
- Ex Avon Debt Costs	1,340	1,340	0	
- Minimum Revenue Provision (MRP)	6,559	6,559	0	
- Interest on Balances	(199)	(199)	0	
Sub Total - Capital Financing	**3,008**	**3,008**	**0**	

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.