Bath & North East Somerset Council		
MEETING:	**Cabinet**	
MEETING DATE:	**10th February 2016**	
TITLE:	**Treasury Management Monitoring Report to 31st December 2015**	EXECUTIVE FORWARD PLAN REFERENCE: E 2769
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 2015
Appendix 3 – Average monthly rate of return for 1st 9 months of 2015/16
Appendix 4 – The Council's External Borrowing Position at 31st December 2015
Appendix 5 – Arlingclose's Economic & Market Review Q3 of 2015/16
Appendix 6 – Interest & Capital Financing Budget Monitoring 2015/16
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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 2015/16 for the first nine months of 2015/16.

2 RECOMMENDATION

The Cabinet agrees that:

2.1 the Treasury Management Report to 31st December 2015, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the Treasury Management Indicators to 31st December 2015 are noted.

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 nine months of 2015/16 is 0.47%, which is 0.08% 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 31st December 2015 is given in **Appendix 2**. The balance of deposits as at 30th September 2015 and 31st December 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 current value of the fund is £35.3 million.

5.5 Gross interest earned on investments for the first nine months totalled £178k. Net interest, after deduction of amounts due to Schools, the West of England Growth Points, CHC and other internal balances, is £121k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.47%, which is 0.08% above the benchmark rate of average 7 day LIBID +0.05% (0.39%).

Summary of Borrowings

5.6 £10 million of annual borrowing matured during the third quarter of 2015/16. These funds were re-borrowed for a further 12 months at a more beneficial interest rate. The Council's total borrowing was £108.3 million as at 31st December 2015.

5.7 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 31st December 2015 is shown in **Appendix 4**.

Strategic & Tactical Decisions

5.10 As shown in the charts at **Appendix 2**, the proportion of investments in Foreign Banks increased during the quarter, reflecting new short term investments in very highly rated counterparties (AA-). To increase diversification, the Council invests in AAA rated Money Market funds, with a balance of £11.3m invested in these as at 31st December 2015.

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 running slightly above the budgeted level of 0.45%, although the impact is offset by the lower than budgeted investment balances held.

Future Strategic & Tactical Issues

5.13 Our treasury management advisors economic and market review for the third 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, falling oil prices and sub-target inflation (with CPI falling to 0.5% in December) is easing pressure on officials to act, though forward expectations are still focusing on a rate rise in Q3 2016.

5.15 In their opinion the lack of inflationary signals is expected to allow policymakers to hold off monetary tightening for longer than the market currently expects. However, the near-term risk is that the Bank Rate could rise sooner than anticipated.

5.16 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 is that rates will rise slowly and to a lower level than in the past.

Budget Implications

5.17 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 remain on target for 2015/16.

5.18 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 Finance and Efficiency, Chief 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* *1st Quarter Treasury Performance Report (Cabinet)* *2nd Quarter Treasury Performance Report (Cabinet)*
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 31st Dec. 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 31st Dec. 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 31st Dec. 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 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.

	2015/16 Prudential Indicator	2015/16 Actual as at 31st Dec. 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 31st Dec. 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 31st Dec. 2015**
	%	%	%
Under 12 months	50	Nil	28*
12 months and within 24 months	50	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 31st Dec. 2015**
	Rating	Rating
Minimum Portfolio Average Credit Rating	**A-**	**AA-**

APPENDIX 2

The Council's Investment position at 31st December 2015

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

	Balance at 31st Dec. 2015
	£'000's
Notice (instant access funds)	15,500
Up to 1 month	21,251
1 month to 3 months	21,000
Over 3 months	0
Total	**57,751**

The investment figure of £57.751 million is made up as follows:

	Balance at 31st Dec. 2015
	£'000's
B&NES Council	28,727
B&NES CHC	8,256
Local Government Fund	12,250
West Of England Growth Points	134
Schools	8,384
Total	**57,751**

The Council had an average net positive balance of £66.3m (including Growth Points & B&NES CHC Funding) during the period April 2015 to December 2015.

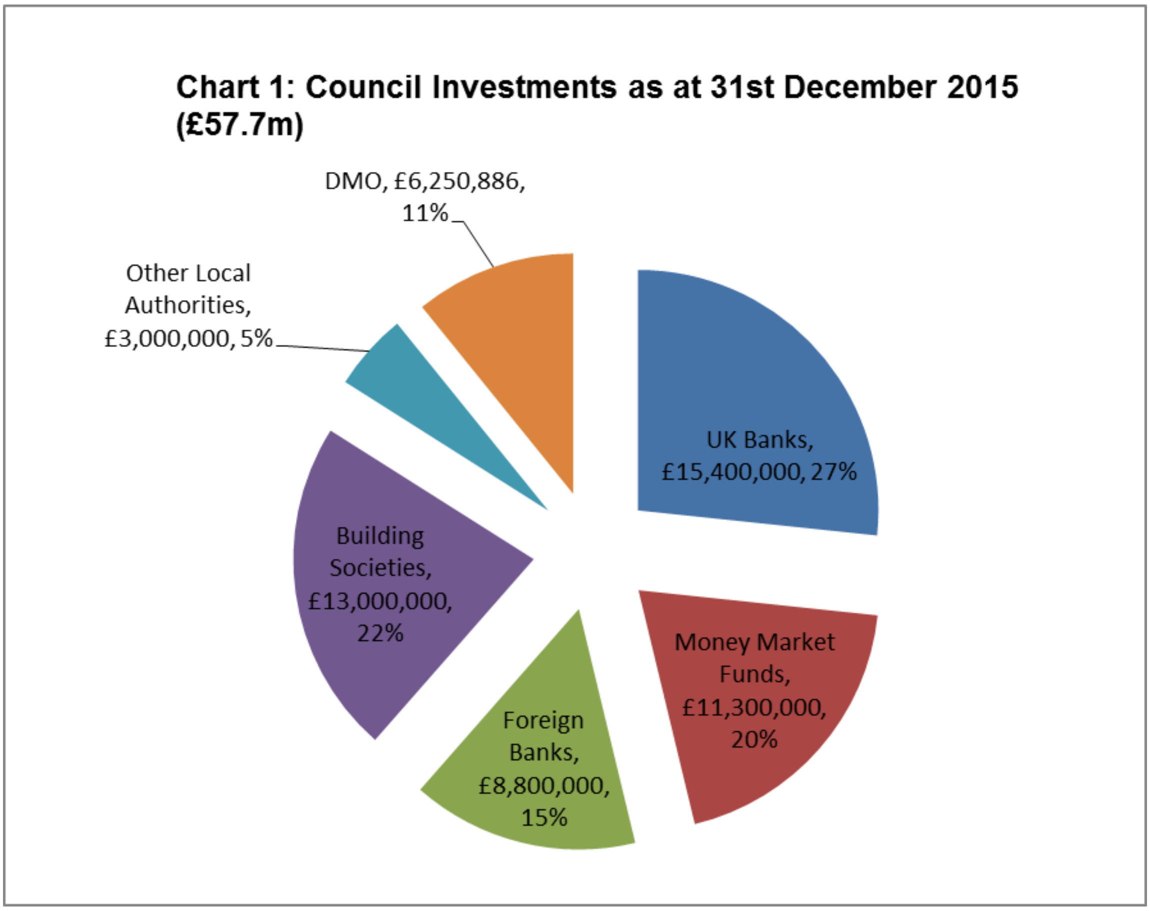


Chart 1: Council Investments as at 31st December 2015 (£57.7m)
DMO, £6,250,886, 11%
Other Local Authorities, £3,000,000, 5%
UK Banks, £15,400,000, 27%
Building Societies, £13,000,000, 22%
Money Market Funds, £11,300,000, 20%
Foreign Banks, £8,800,000, 15%

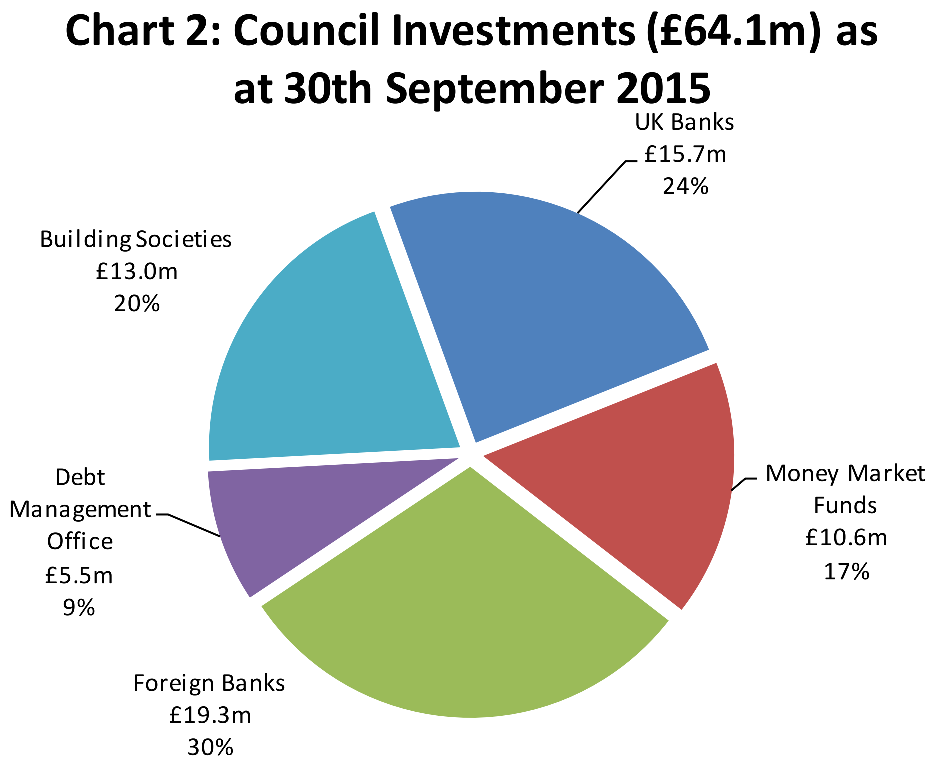


Chart 2: Council Investments (£64.1m) as at 30th September 2015
UK Banks £15.7m 24%
Building Societies £13.0m 20%
Debt Management Office £5.5m 9%
Money Market Funds £10.6m 17%
Foreign Banks £19.3m 30%

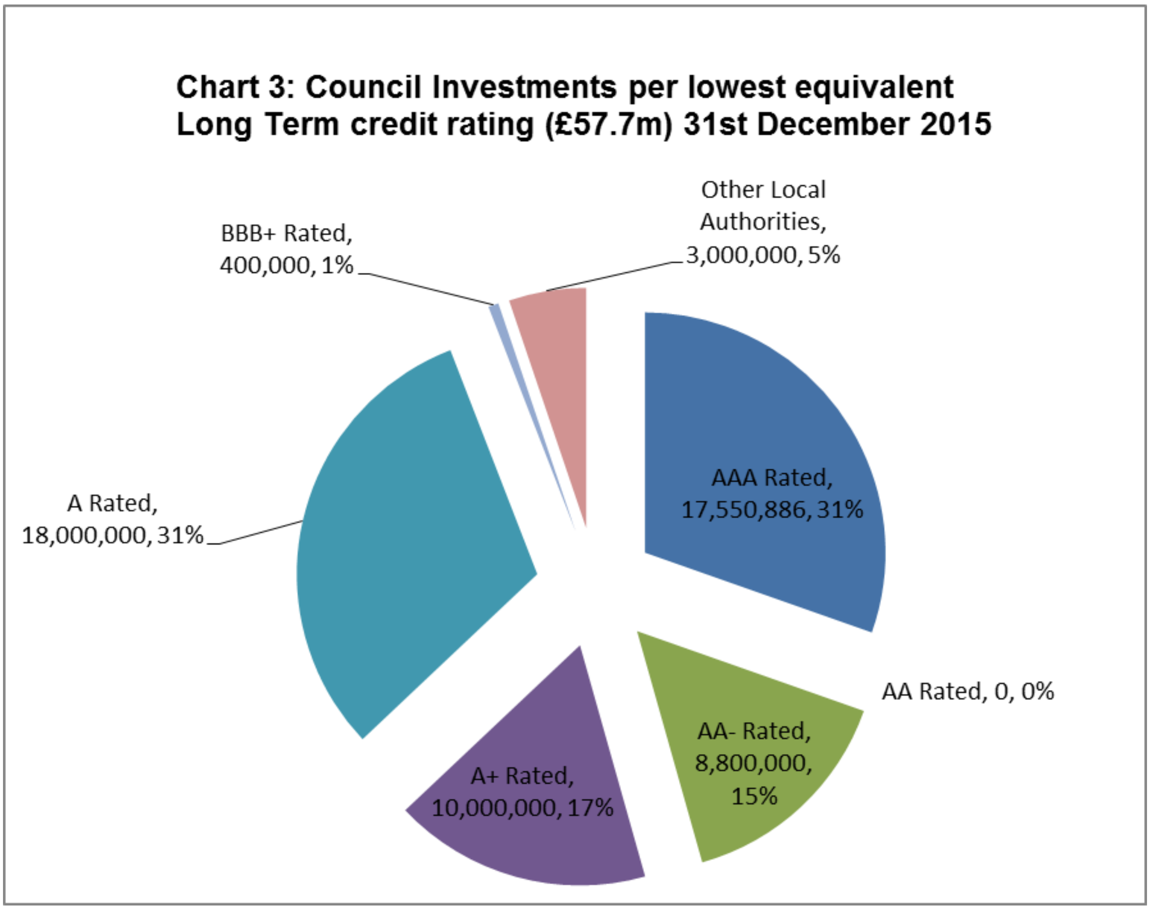
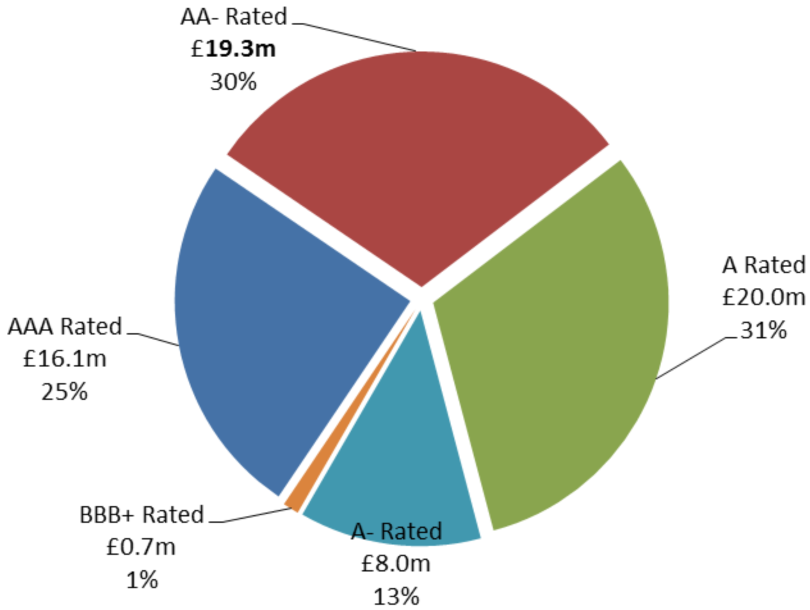


Chart 4: Council Investments per Lowest Equivalent Long-term Credit Ratings (£64.1m) 30th September 2015



APPENDIX 3

Average rate of return on investments for 2015/16

	April %	May %	June %	July %	Aug. %	Sept. %
Average rate of interest earned	0.45%	0.46%	0.48%	0.48%	0.47%	0.48%
Benchmark = Average 7 Day LIBID rate +0.05%)	0.40%	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 %

Continued…	Oct. %	Nov. %	Dec. %	Average for Period
Average rate of interest earned	0.46%	0.48%	0.49%	**0.47%**
Benchmark = Average 7 Day LIBID rate +0.05%)	0.41%	0.41%	0.41%	**0.41%**
Performance against Benchmark %	+0.05%	+0.07%	+0.08%	**+0.06%**

APPENDIX 4

Council's External Borrowing at 31st December 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%
London Borough of Ealing	5,000,000	21/10/15	19/10/16	0.60%
Gloucestershire County Council	5,000,000	25/11/14	25/11/19	2.05%
West Midland Police Authority	5,000,000	27/11/15	25/11/16	0.62%
Gloucestershire	5,000,000	19/12/14	19/12/19	2.05%

County Council				
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, however at this point the borrower also has the option to repay the loan without penalty.

APPENDIX 5

Economic and market review for October to December 2015 (provided by Arlingclose)

It was confirmed that output increased in three of the four main industrial groupings within the economy in Q3 2015 with only construction falling in this period.

Production output increased by 0.2% in Q3 2015 compared with Quarter 2 (Apr to June) 2015, this figure was unrevised from the previously published estimate. Within the production sub-industries, output from mining and quarrying, including oil and gas extraction, increased by 2.6%; manufacturing (the largest component of production) decreased by 0.4%, and electricity, gas, steam and air conditioning supply industries increased by 1.0%. Water supply and sewerage increased by 0.3%.

Construction output decreased by 1.9% in Q3 2015, this figure was revised downwards by 0.3 percentage points from the previously published estimate. Construction output fell by 0.1% between Quarter 3 2014 and Quarter 3 2015, again, this figure was unrevised from the previously published estimate.

The service industries increased by 0.6% in Q3 2015, this figure was revised downwards by 0.1 percentage points from the previous estimate, marking the eleventh consecutive quarter of positive growth. This follows a 0.5% increase in Quarter 2 2015.

With regards to the expenditure components of GDP, the largest negative contribution to GDP came from net trade, which contributed -1.0%, this figure was revised downwards by 0.5 percentage points from the previous estimate. Household final consumption expenditure contributed 0.6%, revised upwards by 0.1 percentage points, and general government final consumption expenditure contributed 0.1%, revised downwards by 0.2 percentage points. Business investment was estimated to have risen by 0.2% on the quarter and 0.6% on the year, both of these figures were unrevised.

APPENDIX 6

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

April to December 2015	YEAR END FORECAST			ADV/FAV
	Budgeted Spend or (Income) £'000	Forecast Spend or (Income) £'000	Forecast over or (under) spend £'000	
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.