Bath & North East Somerset Council		
DECISION MAKER:	**Cllr Malcolm Hanney, Cabinet Member for Resources & Deputy Leader**	
DECISION DATE:	**On or after 19th February 2011**	EXECUTIVE FORWARD PLAN REFERENCE: E 2163
TITLE:	**Treasury Management Monitoring Report to 31st December 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 31st December 2010
Appendix 3 – Average monthly rate of return for 1st 9 months of 2010/2011
Appendix 4 – The Council's External Borrowing Position at 31st December 2010
Appendix 5 – Sterling Consultant's Economic & Market Review 1st 9 months of 2010/11
Appendix 6 – Interest & Capital Financing Budget Monitoring 2010/11

1 THE ISSUE

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

2 RECOMMENDATION

2.1 That the Cabinet Member accepts the Treasury Management report to 31st December 2010, prepared in accordance with the CIPFA Treasury Code of Practice, and notes the performance.

3 FINANCIAL IMPLICATIONS

3.1 Included in 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 nine months of 2010/11 is 0.53% above the benchmark rate.

5.2 The Councils 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 31st December 2010 is given in **Appendix 2**. The balance of deposits as at 30th September 2010 & 31st December 2010 is also set out in the pie charts in this appendix.

5.4 Gross interest earned on investments for the first three months totalled £721k. Net interest, after deduction of amounts due to West of England Growth Points, PCT and schools, is £557k. **Appendix 3** details the investment performance, the average rate of interest earned over this period was 1.01%, which is 0.53% above the benchmark rate of average 7 day LIBID +0.05% (0.48%).

Summary of Borrowings

5.5 No new borrowing has taken place in the third quarter of 2010/11. The previous borrowing (reported in the April to June 2010 Treasury Management Monitoring Report) took the Council's total borrowing to £90 million. 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.

5.6 The current borrowing portfolio is shown in **Appendix 4**.

Strategic & Tactical Decisions

5.7 As shown in the charts in **Appendix 2**, the amount invested with the Debt Management Office continues to remain between 0-10% of total investments. Short term investments of £3m 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

5.8 Our treasury management advisors economic and market review for the third quarter 2010/11 is included in **Appendix 5**.

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

5.10 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

5.11 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 shows a current forecast underspend of £330k in 2010/11. During the year, the Council tightened controls on expenditure where doubts over funding existed. This caused a 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.

5.12 Options to create a Capital Financing Smoothing Reserve from and underspend which arises in capital financing costs in 2010/11, due to the profiling of the borrowing costs compared to the Capital Programme spend, are being considered by Officers. This timing difference is caused where a Service starts to repay its borrowing costs when capital spending begins, but the spend is initially funded by internal borrowing until the Council's cash balances require the planned external funding to be taken

6 RISK MANAGEMENT

6.1 The report author and Cabinet member have fully reviewed the risk assessment related to the issue and recommendations, in compliance with the Council's decision making risk management guidance.

6.2 The Council's lending & borrowing list was agreed prior to the start of the financial year and the 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.

7 EQUALITIES

7.1 An equalities impact assessment has not been carried out as this is an information only 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 *Cabinet members; Section 151 Finance Officer;*

10.2 This report has been circulated to the Cabinet Member for Resources and the Divisional Director - Finance for comments and clearance.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 Corporate;

12 ADVICE SOUGHT

12.1 The Council's Section 151 Officer (Divisional Director - Finance) has had the opportunity to input to this report and has cleared it for publication.

Contact person	Jamie Whittard – Tel: 01225 477213
Background papers	*Treasury Management Strategy & Annual Investment Plan 2010/11.* *Treasury Outturn Report 2009/10.*
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 31st Dec. 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 31st Dec. 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 31st Dec. 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 31st Dec. 2010**
	£'000	£'000
Variable interest rate exposure	**20,000**	**-56,100**

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 31st Dec. 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 31st Dec. 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 31st December 2010

	Balance at 31st December 2010
	£'000's
Notice (instant access funds)	17,100
Up to 1 month	19,000
1 month to 3 months	10,000
Over 3 months	30,000
Total	**76,100**

The investment figure of £76.1 million is made up as follows :

	Balance at 31st December 2010
	£'000's
B&NES Council	53,101
West Of England Growth Points	8,832
Schools	14,167
Total	**76,100**

The Council had an average net positive balance of £80.1m (including Growth Points Funding) during the period April 2010 to December 2010.

Chart 1: Investments as at 31st December 2010 (£76.1m)

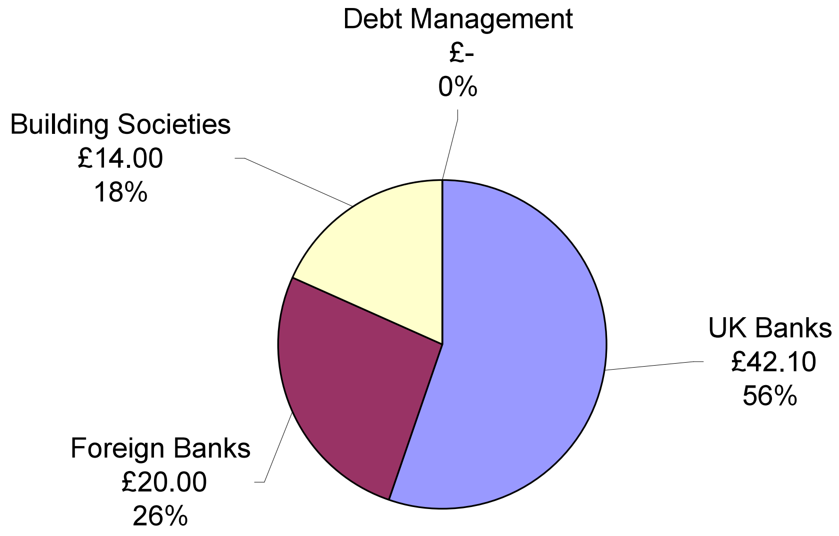


Chart 2: Investments as at 30th September 2010 (£92.8m)

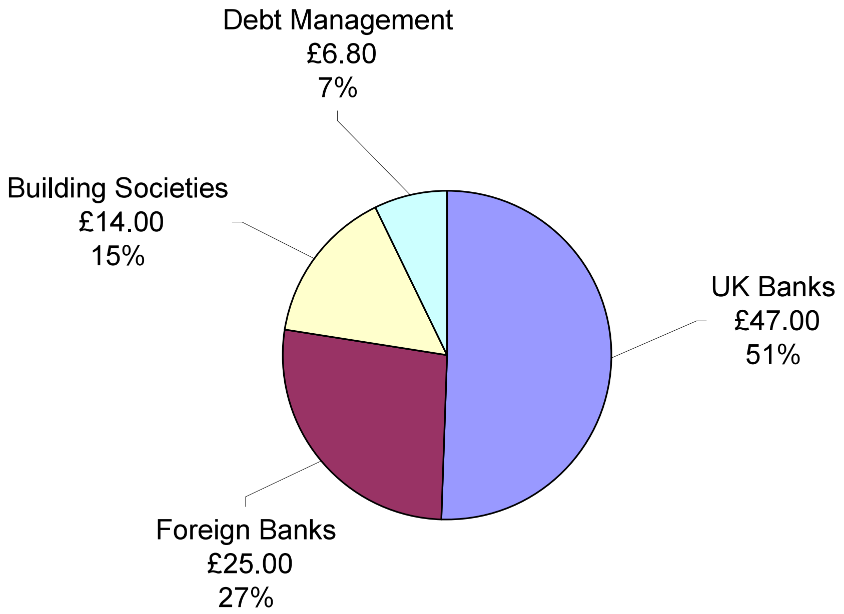


Chart 3: Investments per Fitch Long-Term Credit Ratings (£76.1m) - 31st December 2010

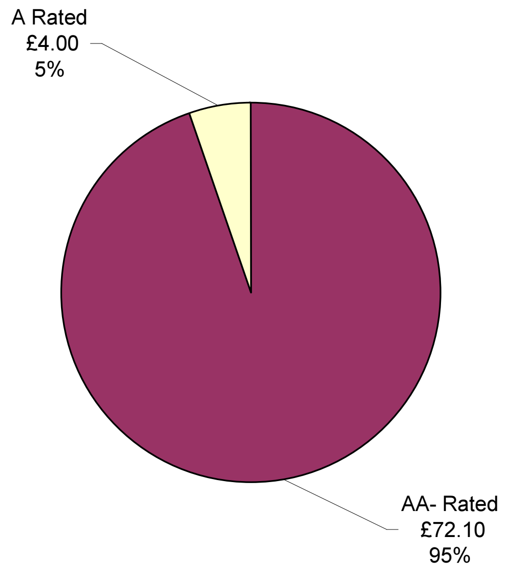
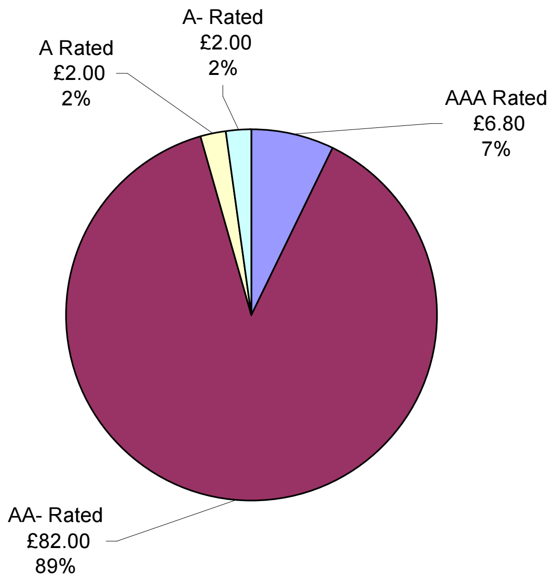


Chart 4: Investments per Fitch Long-Term Credit Ratings (£92.8m) - 30th September 2010



APPENDIX 3

Average rate of return on investments for 2010/11

	Apr %	May %	Jun %	Jul %	Aug %	Sep %
Average rate of interest earned	0.97%	0.94%	0.98%	1.00%	1.03%	1.03%
Benchmark = Average 7 Day LIBID rate +0.05% **(source: Sterling)**	0.47%	0.48%	0.48%	0.48%	0.48%	0.48%
Performance against Benchmark %	+0.50%	+0.46%	+0.50%	+0.52%	+0.55%	+0.55%

	Oct %	Nov %	Dec %	Average for Period
Average rate of interest earned	1.01%	1.04%	1.05%	**1.01%**
Benchmark = Average 7 Day LIBID rate +0.05% **(source: Sterling)**	0.48%	0.48%	0.49%	**0.48%**
Performance against Benchmark %	+0.53%	+0.58%	+0.58%	**+0.53%**

APPENDIX 4

Councils External Borrowing at 31st December 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 three months to December 2010 (Sterling Consultancy Services)

The global economic recovery continued during the second half of 2010, although unevenly across different regions. Asia remained the engine of recovery and growing inflationary pressure led many countries in the region to tighten monetary policy. The US recovery, however, remained in doubt, with modest economic growth doing little to boost inflation or bring down stubbornly high unemployment. In an effort to boost activity, the Federal Reserve controversially engaged upon another round of quantitative easing. In Europe, German manufacturing was booming due to high demand from Asia for its high quality goods. Concerns about the fiscal health of the more peripheral Eurozone members remained, however, culminating in the bailout of Ireland and further funding pressure on Portugal, Spain and Italy.

The UK recovery slowed as expected in Q3, with GDP growth of 0.7% compared to Q2 growth of 1.1%. While a further slowdown in growth was expected in Q4, the extreme wintry weather in December caused a surprise 0.5% fall in GDP. Despite slower economic activity and rising unemployment, inflationary pressure continued to build due to sharp rises in the prices of various commodities, increasing the pressure on the Bank of England to tighten monetary policy. December CPI was significantly above the Bank's target at 3.7%. Monetary policymakers maintained their dovish stance in January, but financial markets now expect earlier monetary tightening to dampen inflation expectations.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2010/11 (April to December)

April to December 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	1,897		
- Ex Avon Debt Costs	1,610	1,480	(130)	FAV
- Minimum Revenue Provision (MRP)	2,270	2,270		
- Interest on Balances	(560)	(760)	(200)	FAV
Sub Total - Capital Financing	**5,217**	**4,887**	**(330)**	**FAV**