

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 Mar. 2016
	£'000	£'000
Borrowing	219,000	118,300
Other long term liabilities	2,000	0
Cumulative Total	221,000	118,300

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 Mar. 2016
	£'000	£'000
Borrowing	182,000	118,300
Other long term liabilities	2,000	0
Cumulative Total	184,000	118,300

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 Mar. 2016
	£'000	£'000
Fixed interest rate exposure	182,000	98,300

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 Mar. 2016

	£'000	£'000
Variable interest rate exposure	104,000	20,000*

* 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).

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 Mar. 2016
	£'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 Mar. 2016
	%	%	%
Under 12 months	50	Nil	25*
12 months and within 24 months	50	Nil	15
24 months and within 5 years	75	Nil	9
5 years and within 10 years	100	Nil	0
10 years and above	100	Nil	51

* 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 Mar. 2016
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA

8. Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	2015/16 Prudential Indicator	2015/16 Actual as at 31st Mar. 2016
Total cash available within 3 months	£15m	£35.6m

APPENDIX 2

The Council's Investment position at 31st March 2016

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

	Balance at 31st Mar. 2016
	£'000's
Notice (instant access funds)	6,900
Up to 1 month	15,665
1 month to 3 months	13,000
Over 3 months	0
Total	35,565

The investment figure of £35.56 million is made up as follows:

	Balance at 31st Mar. 2016
	£'000's
B&NES Council	8,394
B&NES CHC	8,256
LGF	12,250
West Of England Growth Points	134
Schools	6,531
Total	35,565

The following fixed term investments were undertaken during 2015/16 with a maturity date in the following financial year:

Institution	Amount	Rate	Start Date	Maturity Date	Long Term Credit Rating
Development Bank of Singapore	£5.000m	0.60%	04/01/16	04/04/16	AA-
Barnsley Council	£3.000m	0.40%	15/01/16	15/04/16	-
Stirling Council	£2.400m	0.45%	05/02/16	29/04/16	-
DMO	£0.266m	0.25%	05/02/16	29/04/16	AAA
Development Bank of Singapore	£5.000m	0.55%	31/03/16	30/06/16	AA-
Lloyds	£5.000m	0.57%	31/03/16	30/06/16	A+
DMO	£5.000m	0.25%	31/03/16	08/04/16	AAA
Glasgow City Council	£3.000m	0.45%	31/03/16	30/06/16	-
Total	£28.666m		-	-	

The balance of £6.9m was held in call accounts as at 31st March 2016.

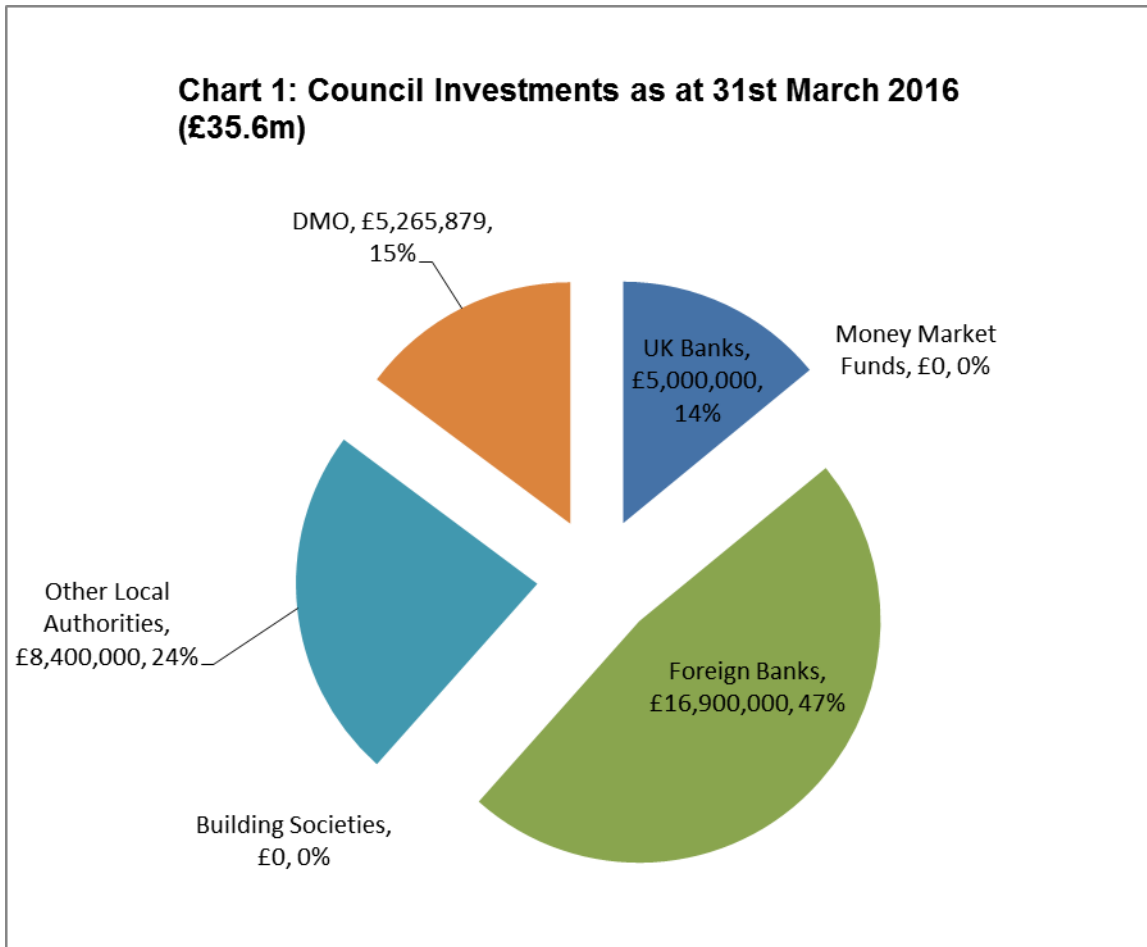


Chart 2: Council Investments as at 31st December 2015 (£57.7m)

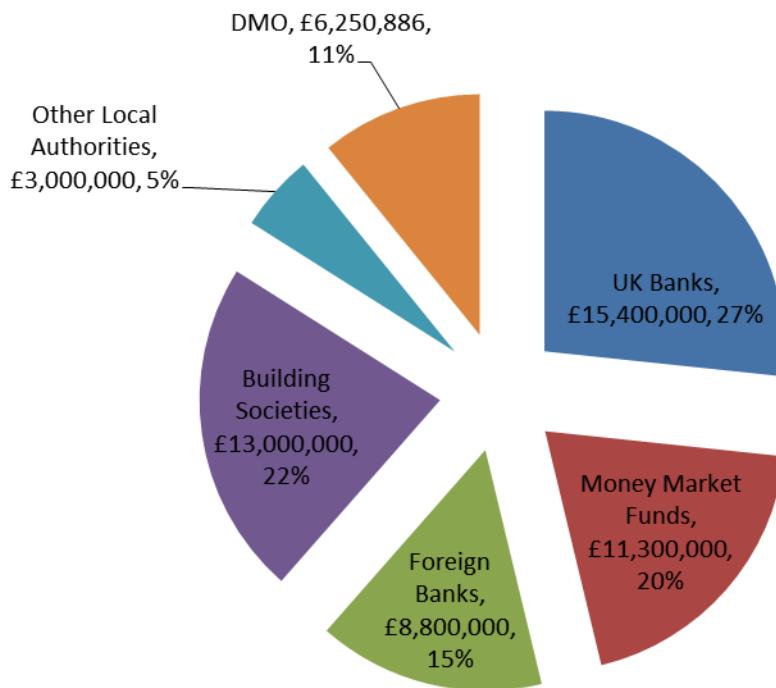


Chart 3: Council Investments per lowest equivalent Long Term credit rating (£35.6m) 31st March 2016

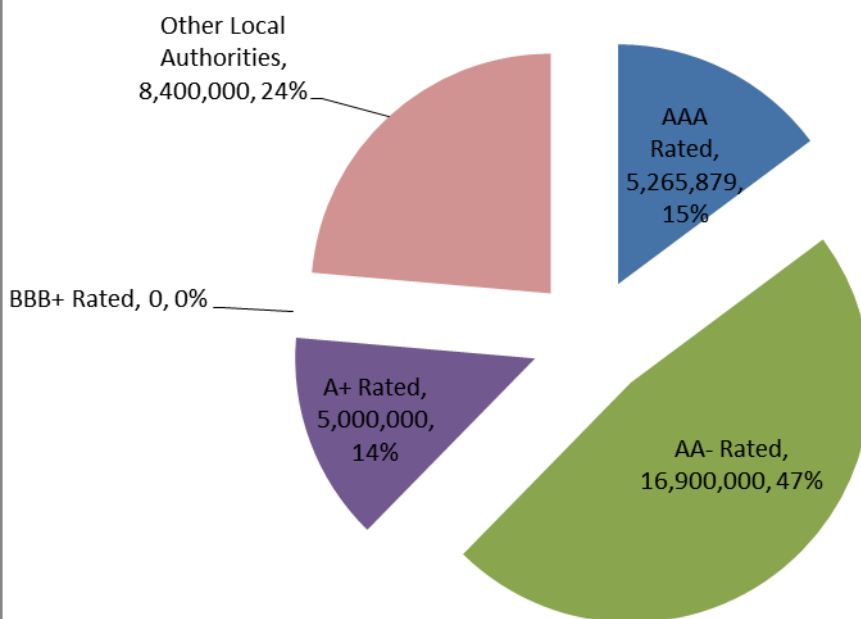
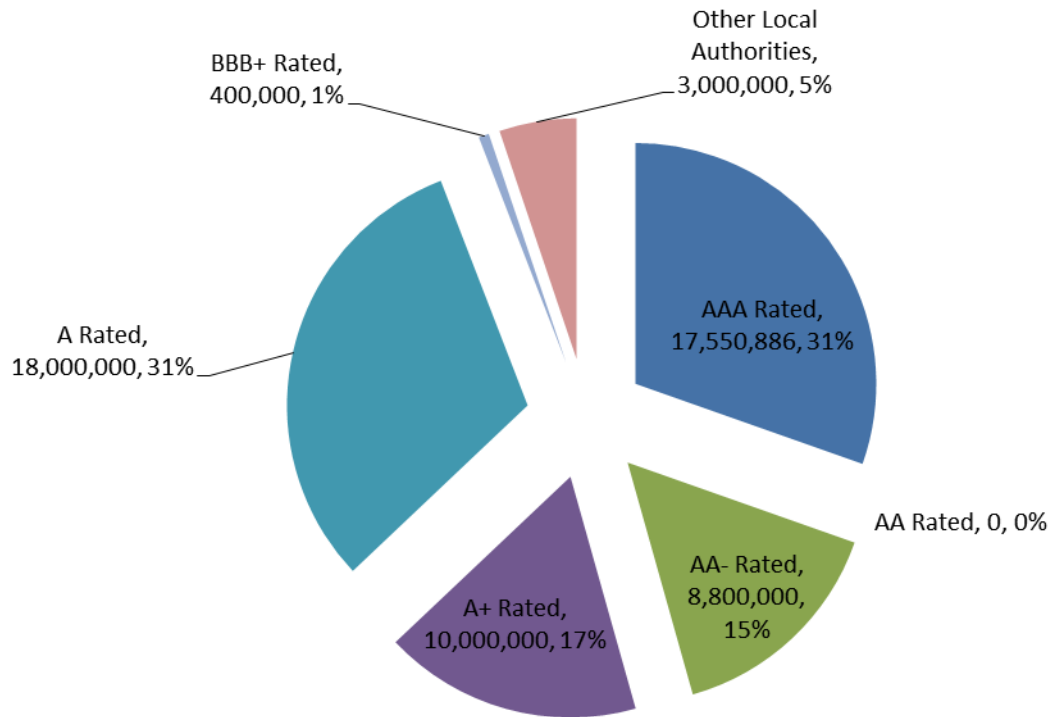


Chart 4: Council Investments per lowest equivalent Long Term credit rating (£57.7m) 31st December 2015



APPENDIX 3

Average rate of return on investments for 2015/16

	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Ave. for Period
Average rate of interest earned	0.45%	0.46%	0.48%	0.48%	0.47%	0.48%	0.46%	0.48%	0.49%	0.45%	0.46%	0.49%	0.47%
Benchmark = 7 Day LIBID + 0.05% (LIBID Source - Arlingclose)	0.40%	0.41%	0.41%	0.41%	0.41%	0.41%	0.41%	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%	0.05%	0.07%	0.08%	0.04%	0.05%	0.08%	0.06%

APPENDIX 4

Councils External Borrowing at 31st March 2016

Lender	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	08/04/34	2.62%
PWLB	5,000,000	29/01/15	08/10/64	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%
Gloucestershire County Council	5,000,000	25/11/14	25/11/19	2.05%
Gloucestershire County Council	5,000,000	19/12/14	19/12/19	2.05%
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%
West Midland Police Authority	5,000,000	27/11/15	25/11/16	0.62%
London Borough of Brent	5,000,000	16/3/2016	14/6/2016	0.55%
Royal Borough of Kensington & Chelsea	5,000,000	21/3/2016	20/09/2016	0.52%
TOTAL	118,300,000			3.37%

*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

Counterparty Update (Provided by Arlingclose)

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits. As part of this, Bank Nederlandse Gemeeten was moved to the list of bond issuers from the unsecured bank lending list and assigned an increased recommended duration limit of 5 years. Interest rates are likely to stay low for longer making long-term bonds an increasingly attractive option. The Council did not make use of these long-term investment options during 2015/16.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Authority therefore exploring secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits.

In addition the Council has invested £50k in shares in the Local Capital Finance Company created to enable local authority bond issues to take place in the future, but has not used this option during 2015/16.

APPENDIX 6

Annual Economic Review 2015/16 (Provided by Arlingclose)

Growth, Inflation, Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome

of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy: The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its Inflation Reports and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

APPENDIX 7

Interest & Capital Financing Costs – Budget Monitoring 2015/16 (Outturn)

April 2015 to March 2016	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Actual Spend or (Income) £'000	Actual over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	4,589	4,120	(469)	FAV
- Internal Repayment of Loan Charges	(9,281)	(8,828)	453	ADV
- Ex Avon Debt Costs	1,340	1,288	(52)	FAV
- Minimum Revenue Provision (MRP)	6,559	6,095	(464)	FAV
- Interest on Balances	(199)	(199)	0	
Sub Total - Capital Financing	3,008	2,476	(532)	FAV

APPENDIX 8

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 an issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.