Bath & North East Somerset Council	
MEETING	**Council**
MEETING DATE:	**21st July 2022**
TITLE:	**Treasury Management Outturn Report 2021/22**
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 March 2022 **Appendix 3** – Average monthly rate of return for 2021/22 **Appendix 4** – The Council's External Borrowing Position at 31st March 2022 **Appendix 5** – Arlingclose's Economic & Market Review Q4 of 2021/22 **Appendix 6** – Interest & Capital Financing Budget Monitoring 2021/22 **Appendix 7** – Summary Guide to Credit Ratings **Appendix 8** – Extract from Treasury Management Risk Register	

1 THE ISSUE

1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), 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 for 2021/22.

2 RECOMMENDATION

The Council agrees that;

2.1 The Treasury Management Report to 31st March 2022, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.

2.2 The Treasury Management Indicators to 31st March 2022 are noted.

3 THE REPORT

Summary

3.1 The average rate of investment return for 2021/22 is 0.36%, which is 0.30% above the benchmark rate.

3.2 The Council's Prudential Indicators for 2021/22 were agreed by Council in February 2021 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

3.3 The Council's revenue budget for interest & capital financing costs was £1.078m under budget in 2021/22, mainly related to the high levels of cash balances held through the year, resulting in a delay in the need to borrow and therefore incurring lower than budgeted interest costs. A breakdown of the revenue budget year-end position is detailed in **Appendix 6**.

Summary of Returns

3.4 The Council's investment position as at 31st March 2022 is given in **Appendix 2**. The balance of deposits as 31st March 2022 are also set out in the pie charts in this appendix, along with the equivalent details for the previous quarter and 31st March 2021 for comparatives.

3.5 Gross earnings on treasury investments totalled £311k during 2021/22. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.36%, which was 0.30% above the benchmark rate* of average 7 day LIBID +0.05% (0.06%). This excess is mainly due to the £5m long term investment balance held in the CCLA Local Authority Property Fund, and a combined £5m invested across two long term ESG focused funds during 2021/22, which have contributed £235k of the total investment income during the year. The previous year's details are also included in the appendix for comparison.

* Following the discontinuation of LIBID rates in December 2021, the benchmark of 7 day LIBID + 0.05% has been changed for the final quarter to 7 day SONIA - 0.08%. The SONIA -0.08% benchmark has been selected following a comparison across the first three quarters of the year when LIBID was available, which showed that this rate was the closest match.

3.6 The average rate of return of 0.36% in 2021/22 was lower than the 0.41% achieved in 2020/21 due to the continued pressures on financial markets mainly due to the COVID-19 pandemic. The lag on the impact of interest rate decreases at the start of 2020/21 resulted in higher returns during that comparable period, and during 2021/22 there was a lag in the impact of the Bank of England rate rises filtering through to our investment returns. The Council is however now seeing rate rises across our investments and deposit accounts, and it is anticipated that this, as well as the increased strategic longer term investment balance of £10m, will lead to higher investment returns in future periods.

Summary of Borrowings

3.7 The Council's external borrowing as at 31st March 2022 totalled £219.4 million and is detailed in **Appendix 4**, along with the previous quarter for comparative purposes. Short term local authority loans of £15m and £5m were repaid during the year with no replacement borrowing being taken due to the Council's high cash balances. A summary of the movement in borrowing during 2021/22 is shown in the following table.

2021/22 Borrowing Portfolio Movements	**£m**
2021/22 Opening Balance	**243.457**
New Loans Taken	0.000
Loans Repaid	(20.000)
PWLB Annuity Loan principal repayments	(4.054)
2021/22 Closing Balance	**219.403**

3.8 The Council's Capital Financing Requirement (CFR) as at 31st March 2022 was £328.2 million. 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.

3.9 The CFR represents the underlying need to borrow and the difference from the current borrowing of £219.4 million represents re-investment of the internal cash balances and reserves, reducing the in-year borrowing costs in excess of the potential investment returns.

3.10 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 2022 apportioned to Bath & North East Somerset Council is £10.5m. Since this borrowing is managed by an external body 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 3.7.

Strategic & Tactical Decisions

3.11 As shown in the charts in **Appendix 2**, the investment portfolio was £84.2m as at 31st March 2022. Investments are diversified across Money Market Funds, Local Authorities, the Government's Debt Mgt Account Deposit Facility, Strategic funds and in highly rated UK Banks. The Council uses Money Market Funds to maintain short term liquidity.

3.12 The Council has a deposit of £5m in the Lloyd's Bank 95-day notice sustainability deposit account, in line with the ESG focussed short term deposit section of the approved 2021/22 Treasury Management Strategy.

3.13 The Council's investment portfolio as at 31st March 2022 includes a total of £10m invested in longer term strategic funds. These investments are as follows:

- £5m CCLA Local Authorities Property Fund.
- £3m FP Foresight UK Infrastructure Income Fund.
- £2m VT Gravis Clean Energy Income Fund.

3.14 The Council's average investment return for short-term investments was 0.09%, which was above the budgeted level of 0.05%. The average return on the long-term strategic investments was 3.99%, which was also above the budgeted rate of 3.50%. The combined average return on all investments was 0.36%. The summary of these returns is shown in the following table:

Investment Type	Average Investment Return
Short Term Investments Total	0.09%
Longer Term Strategic Investments:	
CCLA Local Authorities Property Fund	3.43%
FP Foresight UK Infrastructure Income Fund	4.31%*
VT Gravis Clean Energy Income Fund	3.92%*
Longer Term Strategic Investments Total	3.99%
Overall Total	**0.36%**

* The average investment return shown in the table for the two ESG focussed funds have been adjusted to remove the impact of the timing in the quarter of the initial investment. This is due to the way the Fund allocates quarterly investment returns in the first quarter of investment.

3.15 The combined impact of the higher than budgeted returns, along with the Council investment balances being higher than forecast (including the increased investments in long-term strategic investments), and additional interest received from non-treasury activity, resulted in £140k of additional interest income above the budgeted level.

Future Strategic & Tactical Issues

3.16 Our treasury management advisors full economic and market review for the year 2021/22 is included in **Appendix 5**.

3.17 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 remains on the rate of increase and the medium-term peak.

3.18 Due to the high cash balances held by the Council during the year, £20m of short term borrowing from other Local Authorities that reached maturity during 2021/22 were not replaced, therefore reducing the Council's overall total borrowing.

Borrowing Update

3.19 In Q1 the Council sought advice from its treasury advisors on the opportunity to make an early repayment of a £10m LOBO loan during 2021/22 as part of a debt rescheduling approach. In consultation with the Cabinet Member for Economic Development & Resources, the Chief Finance Officer made the decision to pursue this restructuring, on the basis that it could provide revenue savings and reduce risk by replacing the LOBO debt with a shorter duration PWLB loan more aligned to the Council's future borrowing profile.

3.20 During the period the lender of the LOBO carried out their due diligence on the Council prior to execution of the repayment, interest rates increased. Upon re-assessment of the repayment with updated interest rates, it was assessed that it no longer appeared to be a value for money exercise, and it was decided that the Council would not proceed at this time. It was agreed that in their monitoring of future interest rate changes, our treasury advisors would conduct a future assessment on a repayment option should interest rates move in a way which would make the deal more favourable.

3.21 In line with the Council's Treasury Management advisor's advice, the Council will continue to consider borrowing rates offered by alternative lenders, including other Local Authorities, alongside PWLB rates in order to minimise, where possible, its costs of borrowing.

Budget Implications

3.22 A breakdown of the revenue budget showing interest and capital financing and the year-end position based on the period covering April 2021 to March 2022 is included in **Appendix 6**. An overall underspend of £1.078m is reported towards the Council's net revenue outturn, mainly related to the temporary high levels of cash balances currently held, resulting in a delay in the need to borrow and therefore incurring lower than budgeted interest costs.

4 STATUTORY CONSIDERATIONS

4.1 This report is for information only.

5 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

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

6 RISK MANAGEMENT

6.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

6.2 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. As a result of the coronavirus pandemic, the frequency of updates and recommended actions from Arlingclose has increased, the Council has been acting on all recommendations in a timely manner.

6.3 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.

6.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year. An extract from the risk register, detailing how the top 5 risks are managed, is included as **Appendix 8**.

7 CLIMATE CHANGE

7.1 The Council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

7.2 An ESG section was added to the Treasury Management Strategy document for the 2021/22 period and the treasury team will actively consider investment options permitted under the new guidelines.

7.3 As detailed under 3.12, a £5m deposit in the Lloyd's 95-day sustainability account was made during the quarter. This account is a deposit product of Lloyds Bank which helps to support ESG focussed projects by offering discounted funding rates to projects with a green/sustainable goal.

7.4 As detailed under 3.13, the second of 2 purchases in two ESG focussed funds have now taken place, bringing the Council's position to £5m in long term ESG focussed investment funds.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Economic Development & Resources, Chief Finance Officer and Monitoring Officer.

9.2 This report is also on the agenda for July 2022 Cabinet and Corporate Audit Committee.

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Background papers	*2021/22 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. Treasury Borrowing limits

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.

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

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. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2021/22 Prudential Indicator	Actual as at 31st Mar 2022
Operational boundary – borrowing	£408m	£219.4m
Operational boundary – other long-term liabilities	£4m	£0m
Operational boundary – TOTAL	**£412m**	**£219.4m**
Authorised limit – borrowing	£438m	£219.4m
Authorised limit – other long-term liabilities	£4m	£0m
Authorised limit – TOTAL	**£442m**	**£219.4m**

2. 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**.

	2021/22 Prudential Indicator	Actual as at 31st Mar 2022
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA+

* *The calculation excludes the strategic investment in the CCLA Local Authority's Property Fund which is unrated.*

3. Liquidity

The Authority 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.

Liquidity risk indicator	2021/22 Prudential Indicator	Minimum During Year	Date of minimum
Minimum liquid cash balance in period	£15m	£40.7m	28th Mar

4. Interest rate exposures.
This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed.

	2021/22 Prudential Indicator	Actual as at 31st Mar 2022
Upper limit on fixed interest rate exposures	£408m	£199.4m
Upper limit on variable interest rate exposures	£184m	£20m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

The Fixed rate limit is the 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.

The Variable rate limit is the maximum amount of total borrowing which can be at variable interest rates.

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

	Upper Limit	Lower Limit	Actual as at 31st Mar 2022
	%	%	%
Under 12 months	50	Nil	11.4
12 months and within 24 months	50	Nil	0
24 months and within 5 years	75	Nil	0
5 years and within 10 years	75	Nil	6.8
10 years and within 25 years	100	25	50.0
Over 25 years	100		31.8

* 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.

6. Upper limit for total principal sums invested for over 364 days
The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2021/22 Prudential Indicator	Actual as at 31st Mar 2022
Limit on principal invested beyond 31st March 2022	£50m	£10m*
Limit on principal invested beyond 31st March 2023	£20m	£10m*
Limit on principal invested beyond 31st March 2024	£10m	£10m*

*The Council includes the CCLA LA Property Fund & two long term ESG Investments against this indicator as they are both held as Long Term Strategic Investments.

APPENDIX 2

The Council's Investment position at 31st March 2022

The term of investments is as follows:

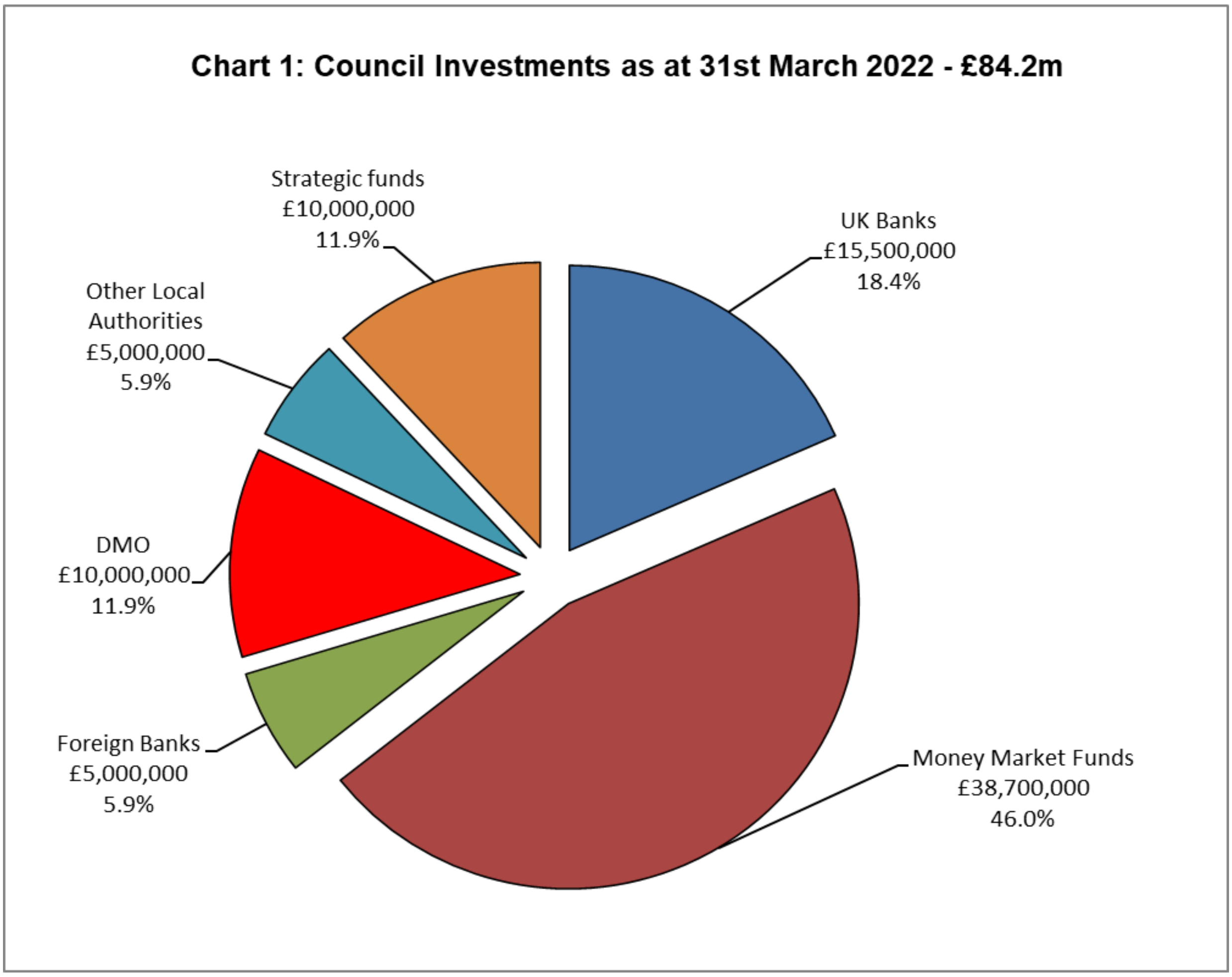
Term Remaining	Balance at 31st Mar 2022	Comparators: Balance at 31st Dec 2021	Comparators: Balance at 31st Mar 2021
	£m	£m	£m
Notice (instant access funds)	49.2	50.4	47.5
Up to 1 month	0	0	5.0
1 month to 3 months	20.0	15.0	5.0
3 months to 6 months	0	5.0	0
6 months to 12 months	5.0	5.0	10.0
Strategic Funds	10.0	7.5	5.0
Total	**84.2**	**82.9**	**72.5**

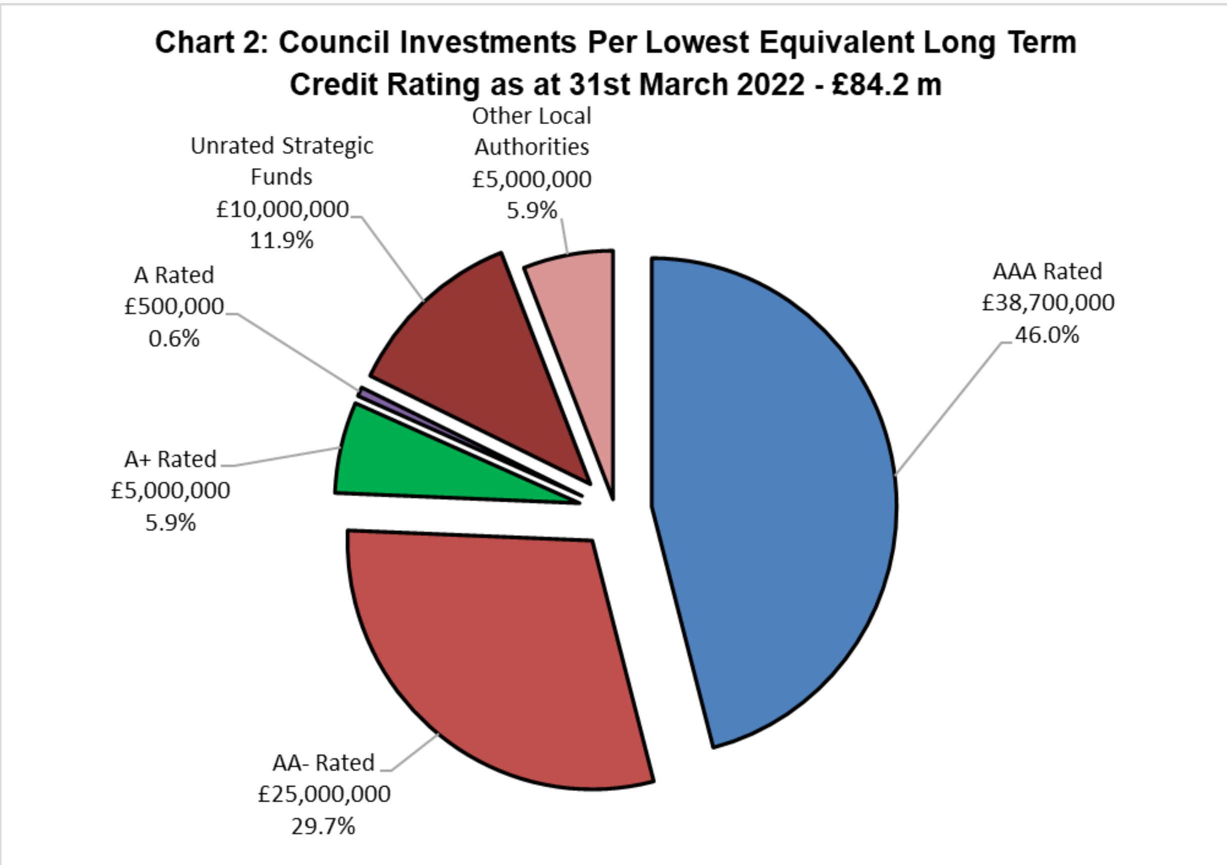
The investment figure is made up as follows:

	Balance at 31st Mar 2022	Comparators: Balance at 31st Dec 2021	Comparators: Balance at 31st Mar 2021
	£m	£m	£m
B&NES Council	82.3	80.3	70.6
Schools	1.9	2.6	1.9
Total	**84.2**	**82.9**	**72.5**

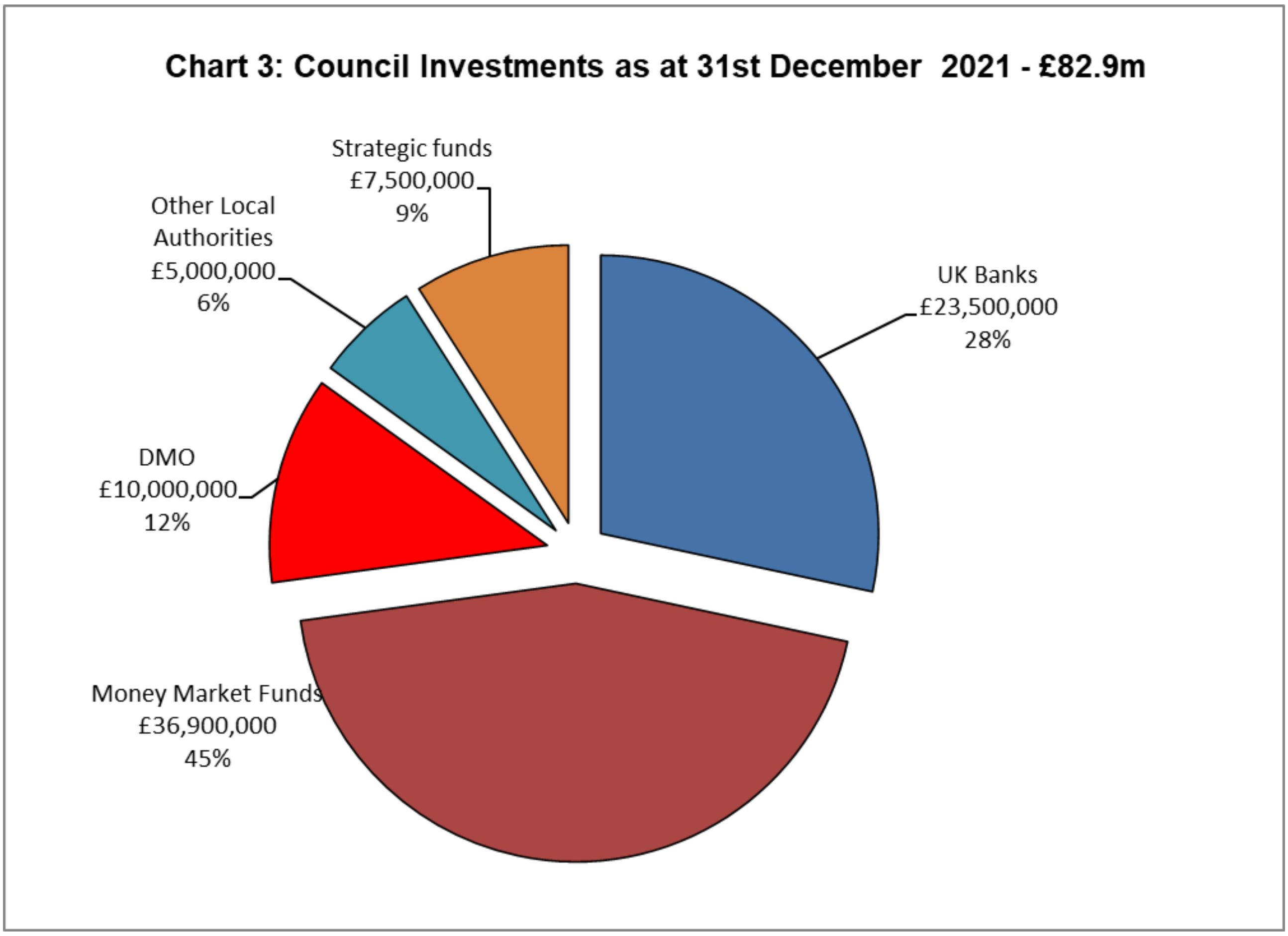
The Council had a total average net positive investment balance of £86.1m during the period April 2021 to March 2022.

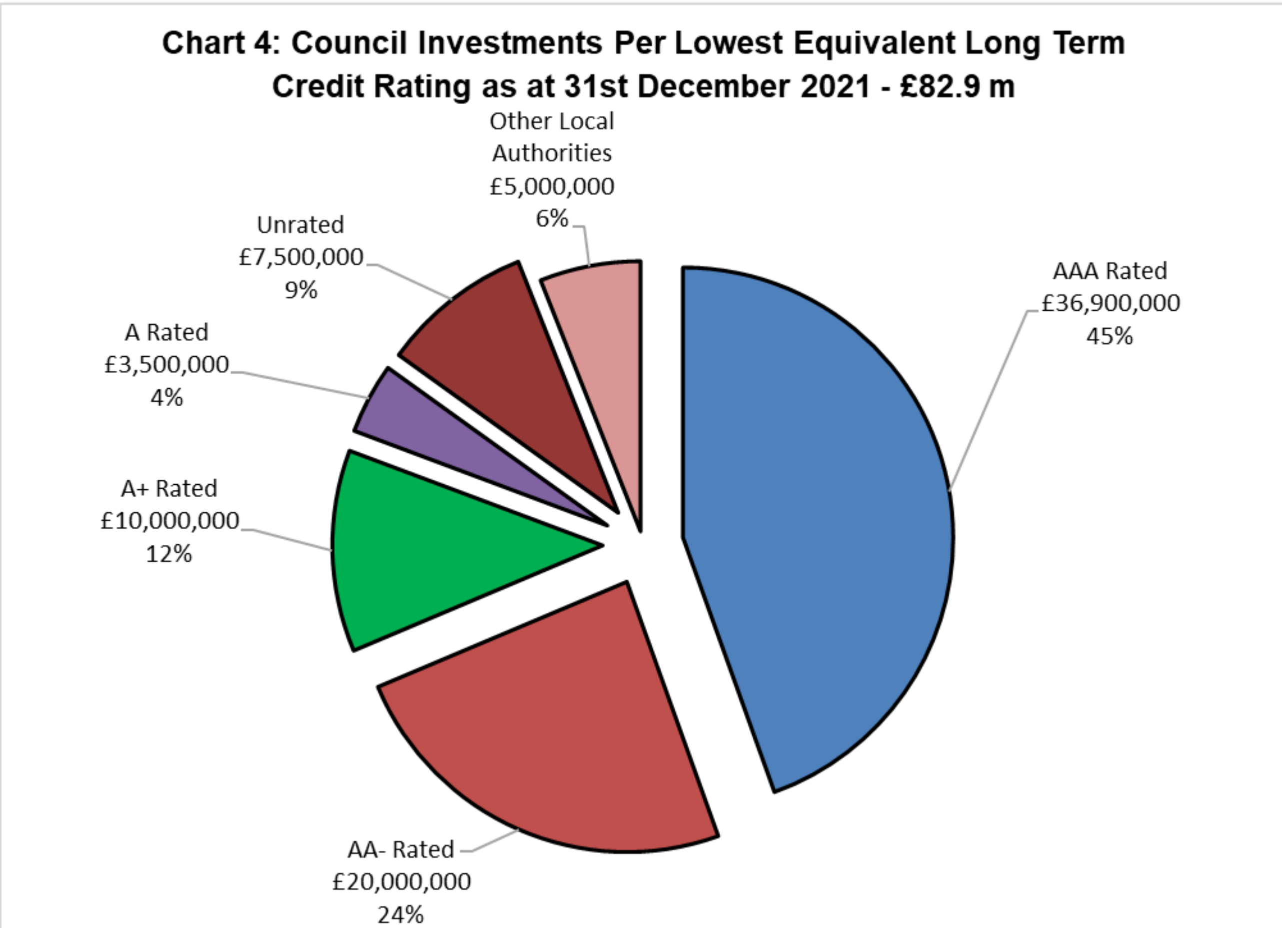
Charts 1 & 2 – Current Quarter





Charts 3 & 4 – Pervious Quarter Comparators





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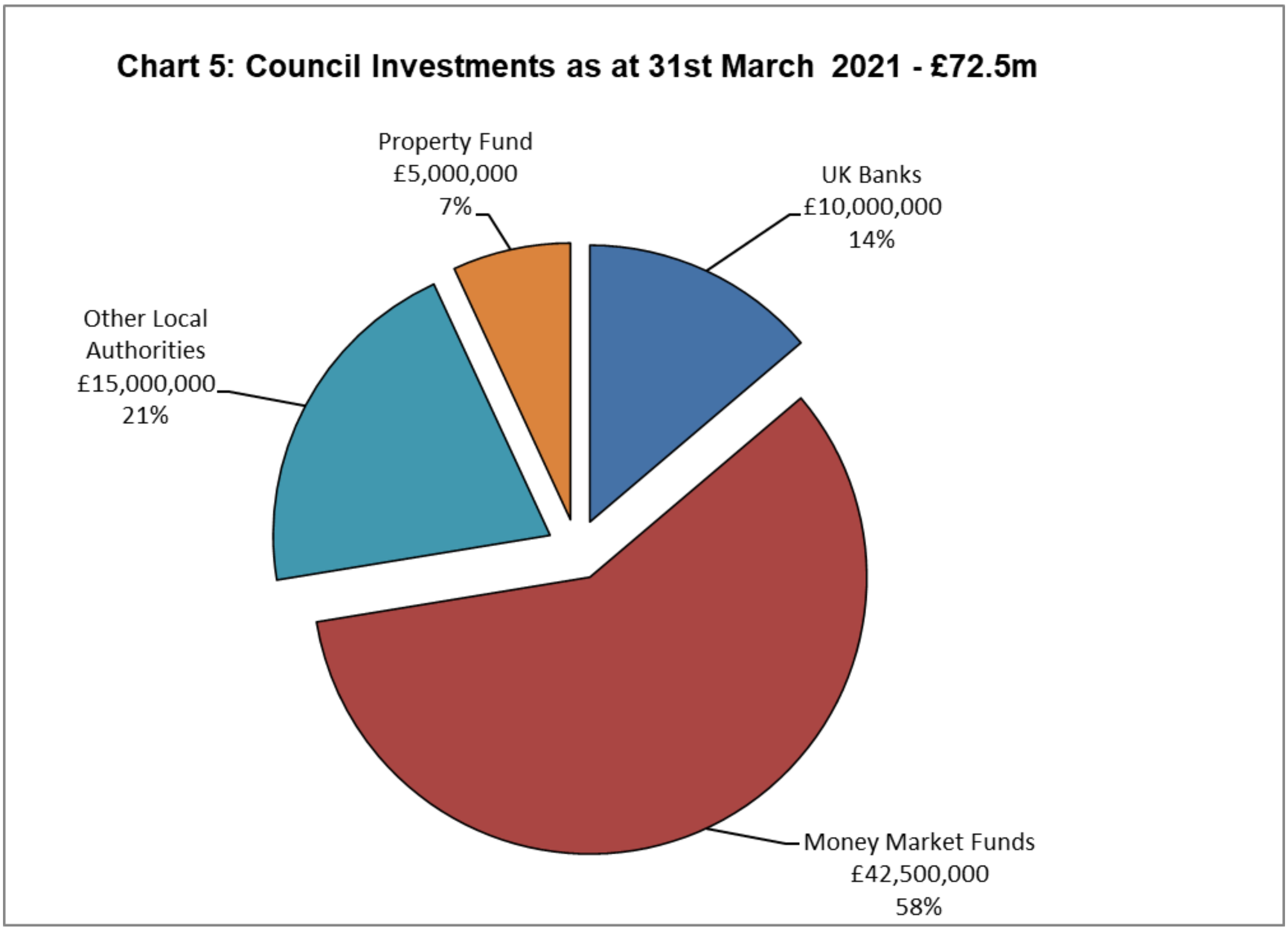
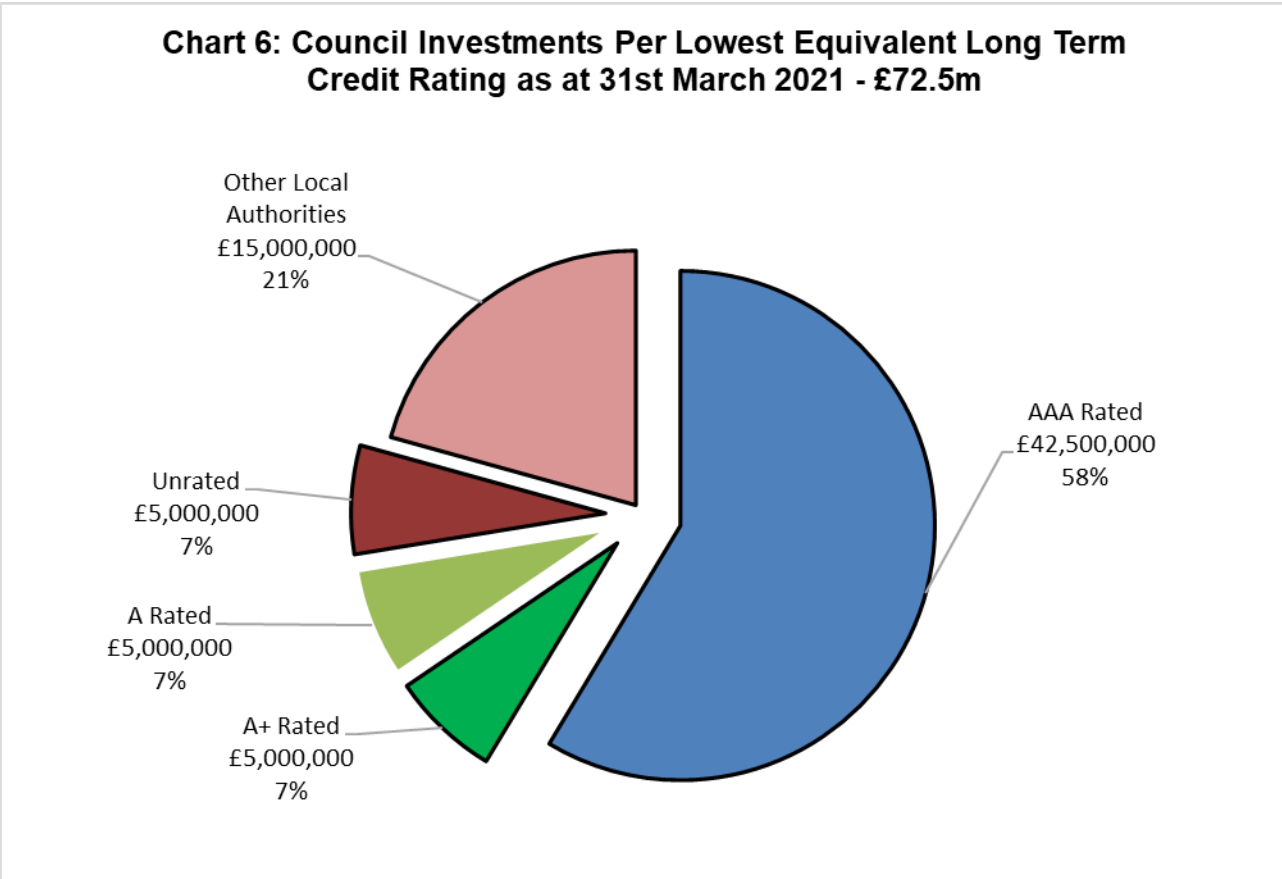
Charts 5 & 6 – Start of Year Comparators





APPENDIX 3

Average rate of return on investments for 2021/22

	Av return	Benchmark = Average 7 Day LIBID rate +0.05% (7 Day SONIA – 0.08%) (source: Arlingclose)	Performance against Benchmark %
April	0.29%	-0.03%	+0.32%
May	0.30%	-0.03%	+0.33%
June	0.27%	-0.03%	+0.30%
July	0.25%	-0.03%	+0.28%
August	0.25%	-0.03%	+0.28%
September	0.23%	-0.03%	+0.27%
October	0.33%	-0.03%	+0.36%
November	0.35%	-0.03%	+0.38%
December	0.38%	0.04%	+0.34%
January	0.42%	0.12%	+0.30%
February	0.54%	0.36%	+0.18%
March	0.70%	0.52%	+0.18%
Average	**0.36%**	**0.06%**	**+0.30%**

For Comparison, the average rate of return on investments for 2020/21 was as follows:

	Av return	Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	Performance against Benchmark %
April	0.46%	0.03%	+0.43%
May	0.60%	0.00%	+0.60%
June	0.58%	-0.02%	+0.60%
July	0.54%	-0.01%	+0.55%
August	0.51%	-0.02%	+0.52%
September	0.45%	-0.02%	+0.47%
October	0.36%	-0.03%	+0.39%
November	0.33%	-0.03%	+0.36%
December	0.32%	-0.04%	+0.36%
January	0.23%	-0.04%	+0.27%
February	0.28%	-0.04%	+0.32%
March	0.32%	-0.03%	+0.35%
Average	**0.41%**	**-0.02%**	**+0.43%**


Average Return on Investments 2020/21 & 2021/22 compared to Benchmark
0.80%
0.70%
0.60%
0.50%
0.40%
0.30%
0.20%
0.10%
0.00%
-0.10%
Apr-20
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21
Apr-21
May-21
Jun-21
Jul-21
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Jan-22
Feb-22
Mar-22
Average Return on Investments
Benchmark Rate 7 day LIBID/SONIA

APPENDIX 4
Council's External Borrowing at 31st March 2022

Lender	Amount outstanding @ 31st Dec'21	Change in Quarter	Amount outstanding @ 31st Mar'22	Start date	End date	Interest rate
Long term						
PWLB489142	10,000,000	-	**10,000,000**	15/10/2004	15/10/2034	4.75%
PWLB497233	5,000,000	-	**5,000,000**	12/05/2010	15/08/2035	4.55%
PWLB497234	5,000,000	-	**5,000,000**	12/05/2010	15/02/2060	4.53%
PWLB498834	5,000,000	-	**5,000,000**	05/08/2011	15/02/2031	4.86%
PWLB498835	10,000,000	-	**10,000,000**	05/08/2011	15/08/2029	4.80%
PWLB498836	15,000,000	-	**15,000,000**	05/08/2011	15/02/2061	4.96%
PWLB503684	5,300,000	-	**5,300,000**	29/01/2015	08/04/2034	2.62%
PWLB503685	5,000,000	-	**5,000,000**	29/01/2015	08/10/2064	2.92%
PWLB505122	16,546,973	-	**16,546,973**	20/06/2016	20/06/2041	2.36%
PWLB508126	8,929,760	-	**8,929,760**	06/12/2018	20/06/2043	2.38%
PWLB508202	9,640,378	-	**9,640,378**	12/12/2018	20/06/2068	2.59%
PWLB508224	4,456,620	-	**4,456,620**	13/12/2018	20/06/2043	2.25%
PWLB505744	8,385,987	(189,711)	**8,196,276**	24/02/2017	15/08/2039	2.28%
PWLB505966	8,588,372	(165,842)	**8,422,529**	04/04/2017	15/02/2042	2.26%
PWLB506052	7,298,766	(141,090)	**7,157,675**	08/05/2017	15/02/2042	2.25%
PWLB506255	6,714,422	(37,850)	**6,676,572**	10/08/2017	10/04/2067	2.64%
PWLB506729	8,925,963	(160,729)	**8,765,234**	13/12/2017	10/10/2042	2.35%
PWLB506995	8,947,355	(158,052)	**8,789,303**	06/03/2018	10/10/2042	2.52%
PWLB506996	9,194,007	(121,254)	**9,072,753**	06/03/2018	10/10/2047	2.62%
PWLB507749	9,092,523	(157,716)	**8,934,808**	10/09/2018	20/07/2043	2.42%
PWLB508485	19,473,504	(109,313)	**19,364,192**	11/02/2019	20/07/2068	2.52%
PWLB509840	9,322,004	(172,476)	**9,149,528**	04/09/2019	20/07/2044	1.40%
KBC Bank N.V *	5,000,000	-	**5,000,000**	08/10/2004	08/10/2054	4.50%
KBC Bank N.V *	5,000,000	-	**5,000,000**	08/10/2004	08/10/2054	4.50%
Commerzbank AG Frankfurt*	10,000,000	-	**10,000,000**	27/04/2005	27/04/2055	4.50%
Medium term						
Portsmouth C.C.	5,000,000	-	**5,000,000**	19/12/2019	19/12/2022	1.65%
Total Borrowing	**220,816,633**	**(1,414,033)**	**219,402,600**			

*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.

The "Change in Quarter" movement on some of the PWLB loans reflects that these loans have an annuity repayment profile, so repayments of principal are made on a 6 monthly basis throughout the life of the loans.

APPENDIX 5

Economic and market review for April to March 2022

Economic background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in

January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp in increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated it plan to reduce its asset purchase programme which could start by May 2022.

Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review: In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2021/22 Outturn

April 2021 to March 2022	**YEAR END POSITION** **Budgeted Spend or (Income) £'000**	**Actual Spend or (Income) £'000**	**Actual over or (under) spend £'000**	**ADV/FAV**
Interest & Capital Financing				
- Debt Costs	8,049	7,091	(958)	FAV
- Internal Repayment of Loan Charges	(10,338)	(10,338)	0	
- Ex Avon Debt Costs	1,020	987	(33)	FAV
- Minimum Revenue Provision (MRP)	8,307	8,360	53	ADV
- Interest on Balances	(208)	(348)	(140)	FAV
Total	**6,830**	**5,752**	**(1,078)**	**FAV**

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

APPENDIX 8

Extract from Treasury Management Risk Register – Top 5 Risks

			Current Risk Score											Trend			
	Risk Nr	Description	Likelihood					Impact					This Period	Periods Ago			Management Action
			1	2	3	4	5	1	2	3	4	5					
			L		M	H		L		M	H			1	2	3	
1	R01	Liquidity Risk - The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised.		2						3			6	6	6	6	Obtain approval of annual Treasury Management Strategy by February Council. Carry out weekly reviews of investment portfolio and planned actions. Carry out monthly dashboard meeting with Chief Finance Officer. Consider short and medium term cash balances and cashflows to inform any short - medium term borrowing requirement.
2	R02	Interest Rate Risk - The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately			3					3			9	9	4	4	Monitor interest rates on a monthly basis and compare with budget to determine impact on Council finances and report through monthly Treasury Dashboard. Report implication of interest rate changes to Cabinet as part of quarterly Treasury Management Performance Report. Explore alternative potential investment products following new freedoms - including corporate bonds, gilts, Certificate of Deposits etc.
3	R04	Inflation Risk - The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.				4				3			12	9	4	4	Liaise with Chief Finance Officer to ensure Inflation both current and projected forms part of the medium term financial planning framework.
4	R05	Credit and Counterparty Risk - The risk of failure by a third party to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources.			3						4		12	12	12	12	Complete annual review of Counterparty List with external advisors to feed into Treasury Management Strategy. Regular review of counterparty financial standing through use of credit ratings, credit default swap rates and national press coverage and liaison with Chief Finance Officer and external advisors to consider any issues / change in circumstances of counterparties.
5	R09	Key Personnel - There is a risk that staff absence results in the inability to process Treasury Management transactions.			3					3			9	9	9	6	Produce & maintain a Business Continuity Plan to manage staff absences Provide refresher training and periodically ask secondary process operators to run the treasury process to ensure that there are a number of people able to perform the treasury activity