| Bath & North East Somerset Council | | |
|---|---|---|
| MEETING: | **Cabinet** | |
| MEETING DATE: | **27 June 2018** | |
| TITLE: | **Treasury Management Outturn Report 2017/18** | EXECUTIVE FORWARD PLAN REFE RENCE: E 3074 |
| 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 2018
**Appendix 3** – Average monthly rate of return for 2017/18
**Appendix 4** – The Council's External Borrowing Position at 31st March 2018
**Appendix 5** – Arlingclose's Economic & Market Review of 2017/18
**Appendix 6** – Interest & Capital Financing Budget Monitoring 2017/18
**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 2017/18.

## 2 RECOMMENDATION

The Cabinet agrees that:

2.1 the Treasury Management Report to 31st March 2018, prepared in accordance with the CIPFA Treasury Code of Practice, is noted

2.2 the Treasury Management Indicators to 31st March 2018 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 2017/18 is 0.30%, which is 0.04% above the benchmark rate.

5.2 The Council's Prudential Indicators for 2017/18 were agreed by Council in February 2017 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 March 2018 is given in **Appendix 2**. The balance of deposits as at 31th December 2017 and 31st March 2018 are also set out in the pie charts in this appendix.

5.4 The Council was the accountable body for the West of England Revolving Investment Fund (RIF) and Local Growth Fund. This function has now transferred to the West of England Combined Authority (WECA) and all balances were also transferred.

5.5 Gross interest earned for 2017/18 totalled £382k. Net interest, after deduction of amounts due to Schools, Local Growth Fund and other internal balances, is £370k.

5.6 **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.30%, which was 0.04% above the benchmark rate of average 7 day LIBID +0.05% (0.26%). Performance from Money Market Funds in the period covering November to March slightly lagged behind the benchmark due to the proportion of these funds invested at fixed rates prior to the change in base rate.

### Summary of Borrowings

5.7 The Council's external borrowing as at 31st March 2018 totalled £192.5million and is detailed in Appendix 4. £20million of new PWLB annuity borrowing was arranged during the final quarter to maintain appropriate cashflow balances.

5.8 The Council's Capital Financing Requirement (CFR) as at 31st March 2018 was £247.1 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.

5.9 The CFR represents the underlying need to borrow and the difference from the current borrowing of £192.5 million, represents re-investment of the internal balances of reserves, reducing the in-year borrowing costs in excess of the potential investment returns.

5.10 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 2018 apportioned to Bath & North East Somerset

Council is £12.3m. 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 5.7.

5.11 The borrowing portfolio as at 31st March 2018 is shown in **Appendix 4**.

**Strategic & Tactical Decisions**

5.12 As shown in the charts at **Appendix 2**, the investment portfolio is usually diversified across Money Market Funds, investments with Local Authorities and highly rated Foreign Banks. The Council uses AAA rated Money Market funds to maintain very short term liquidity and had overall investments of £37.7m invested as at 31st March 2018.

5.13 The Council does 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.

5.14 The Council's average investment return was in line with the budgeted level of 0.30%.

**Future Strategic & Tactical Issues**

5.15 Our treasury management advisors economic and market review for 2017/18 is included in **Appendix 5**.

5.16 The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening although the MPC has stopped short of committing itself to the timing of the next increase in rates,

5.17 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.

5.18 The borrowing that has taken place in 2017/18 is therefore driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.

5.19 **Budget Implications**

5.20 A breakdown of the revenue budget for interest and capital financing and the forecast year end position based on the period April to March is included in **Appendix 6** This shows an overall underspend of £404k in 2017/18, reflecting savings from capital programme slippage delaying the need to borrow and a lower Minimum Revenue Provision (MRP) requirement.

## 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.

| | |
|---|---|
| **Contact person** | *Giles Oliver - 01225 477022; Andrew Stanton - 01225 477209; Giles_Oliver@Bathnes.gov.uk; Andrew_Stanton@bathnes.gov.uk;* |
| **Background papers** | *2017/18 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.

| | 2017/18 Prudential Indicator | Actual as at 31st March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Borrowing | 338,000 | 192,465 |
| Other long term liabilities | 2,000 | 0 |
| **Cumulative Total** | **340,000** | **192,465** |

**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.

| | 2017/18 Prudential Indicator | Actual as at 31st March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Borrowing | 306,000 | 192,465 |
| Other long term liabilities | 2,000 | 0 |
| **Cumulative Total** | **308,000** | **192,465** |

**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.

| | 2017/18 Prudential Indicator | Actual as at 31st March 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Fixed interest rate exposure** | **306,000** | **172,465(*)** |

* 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.

| | 2017/18 Prudential Indicator | Actual as at 31st March 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Variable interest rate exposure** | **206,000** | **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.

| | **2017/18 Prudential Indicator** | **Actual as at 31st March 2018** |
|---|---|---|
| | £'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** | **Actual as at 31st March 2018** |
|---|---|---|---|
| | % | % | % |
| Under 12 months | 50 | Nil | 9.6 |
| 12 months and within 24 months | 75 | Nil | 0 |
| 24 months and within 5 years | 75 | Nil | 5.2 |
| 5 years and within 10 years | 100 | Nil | 0 |
| 10 years and above | 100 | Nil | 85.2 |

* 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**.

| | **2017/18 Prudential Indicator** | **Actual as at 31st March 2018** |
|---|---|---|
| | Rating | Rating |
| **Minimum Portfolio Average Credit Rating** | **A-** | **AAA-** |

**APPENDIX 2**

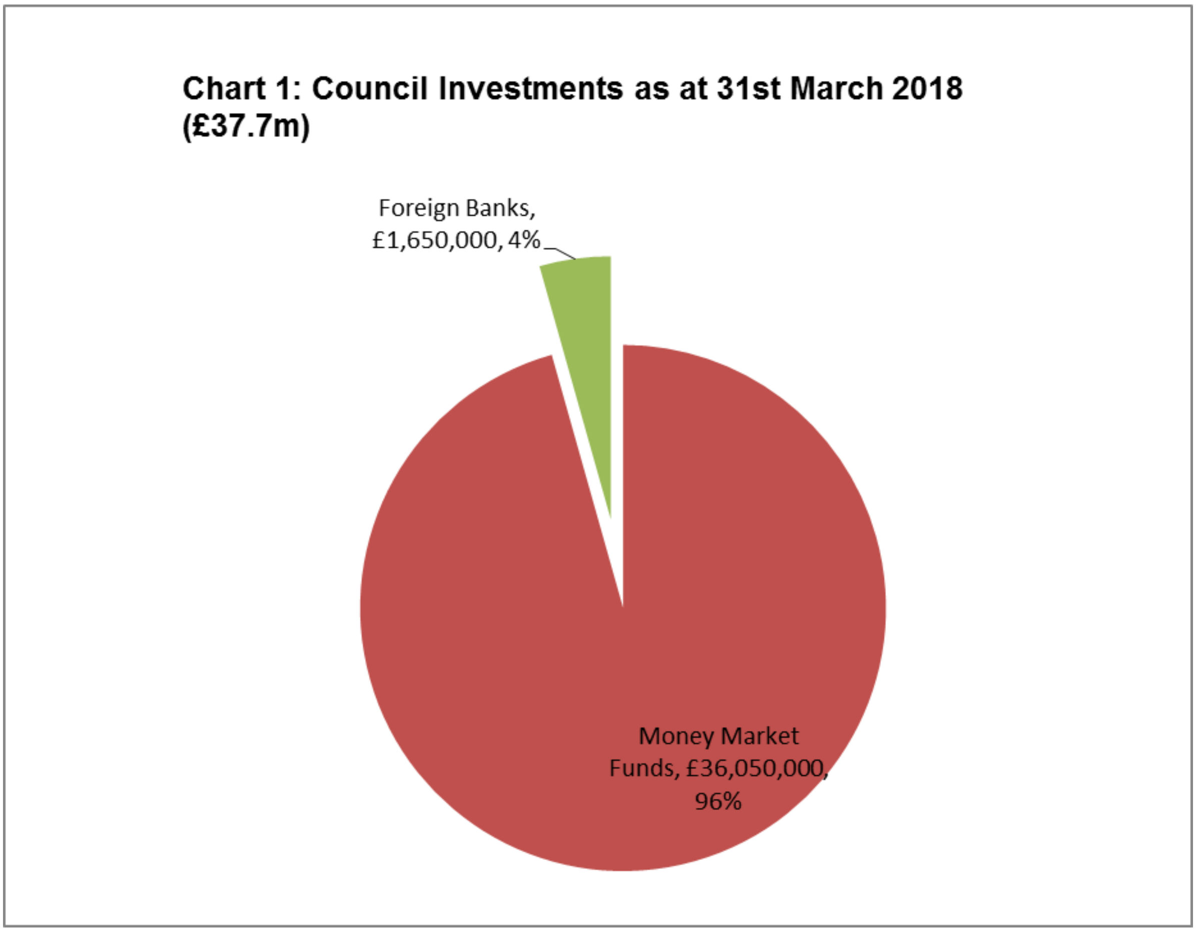
**The Council's Investment position at 31st March 2018**
The term of investments, from the original date of the deal, are as follows:

| As per Weekly | **Balance at 31st March 2018** |
|---|---|
| | £'000's |
| Notice (instant access funds) | 37,700 |
| 1 month to 3 months | 0 |
| Over 3 months | 0 |
| **Total** | **37,700** |

The investment figure of £37.7 million is made up as follows:

| | **Balance at 31st March 2018** |
|---|---|
| | £'000's |
| B&NES Council | 33,424 |
| Schools | 4,266 |
| **Total** | **37,700** |

The Council had a total average net positive balance of £33.541m during the period April 2017 to March 2018.



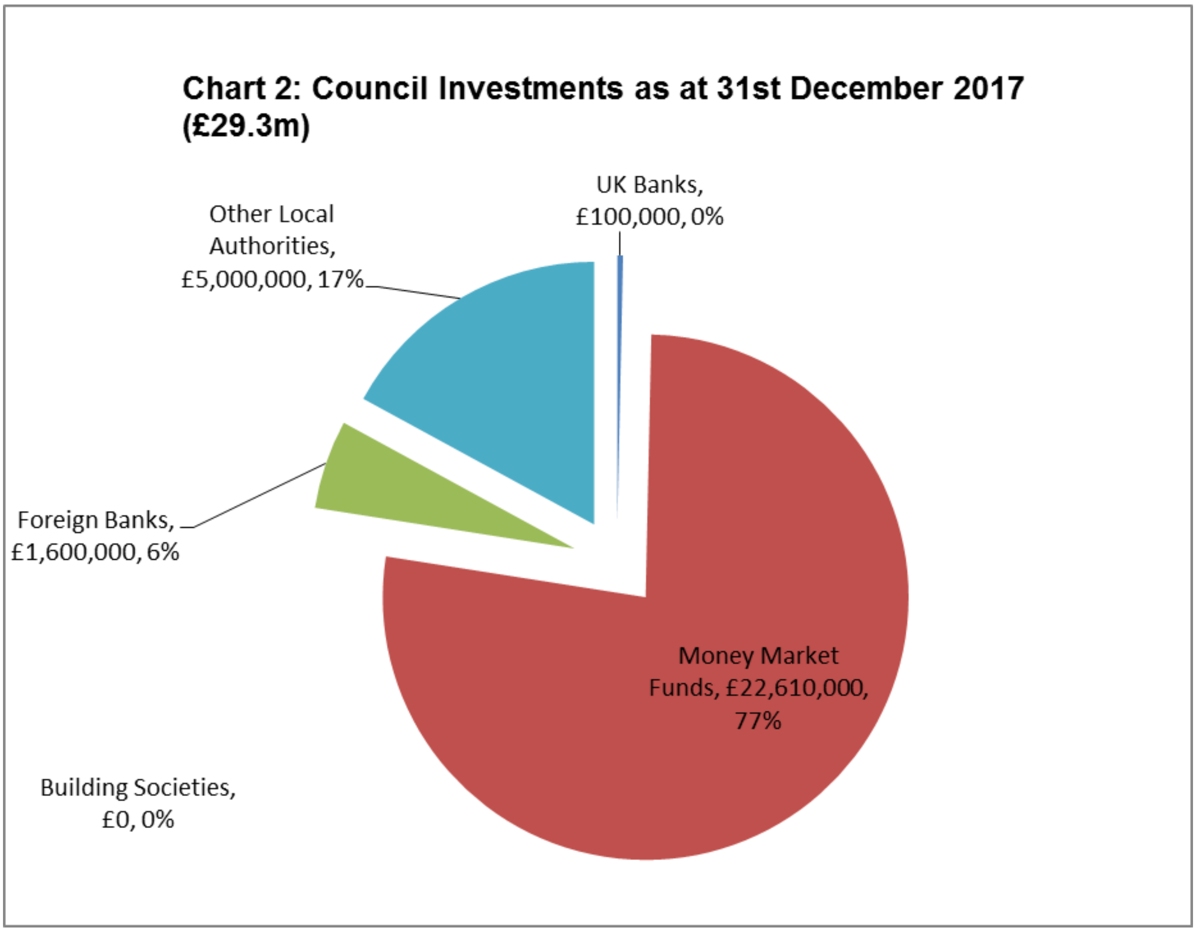


Chart 2: Council Investments as at 31st December 2017 (£29.3m)
UK Banks, £100,000, 0%
Other Local Authorities, £5,000,000, 17%
Foreign Banks, £1,600,000, 6%
Money Market Funds, £22,610,000, 77%
Building Societies, £0, 0%

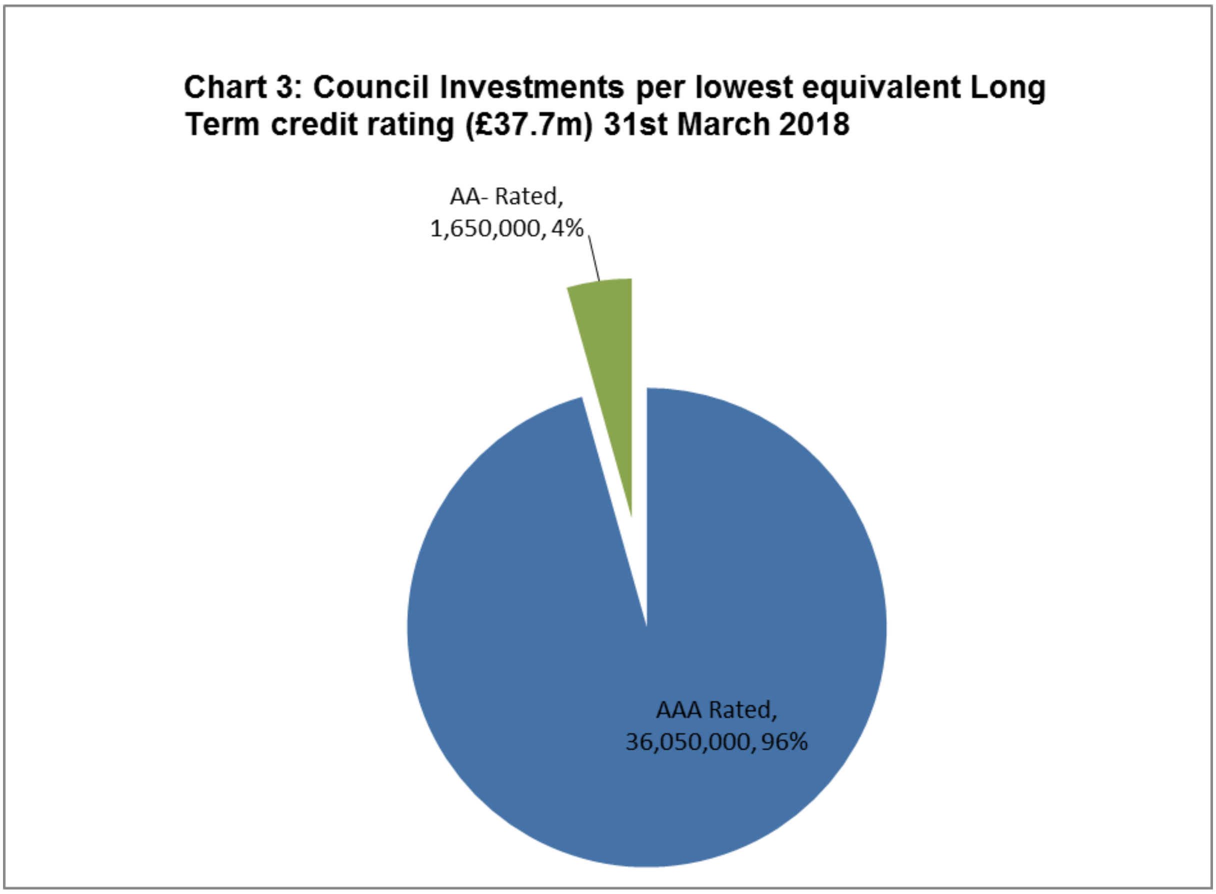


Chart 3: Council Investments per lowest equivalent Long Term credit rating (£37.7m) 31st March 2018
AA- Rated, 1,650,000, 4%
AAA Rated, 36,050,000, 96%

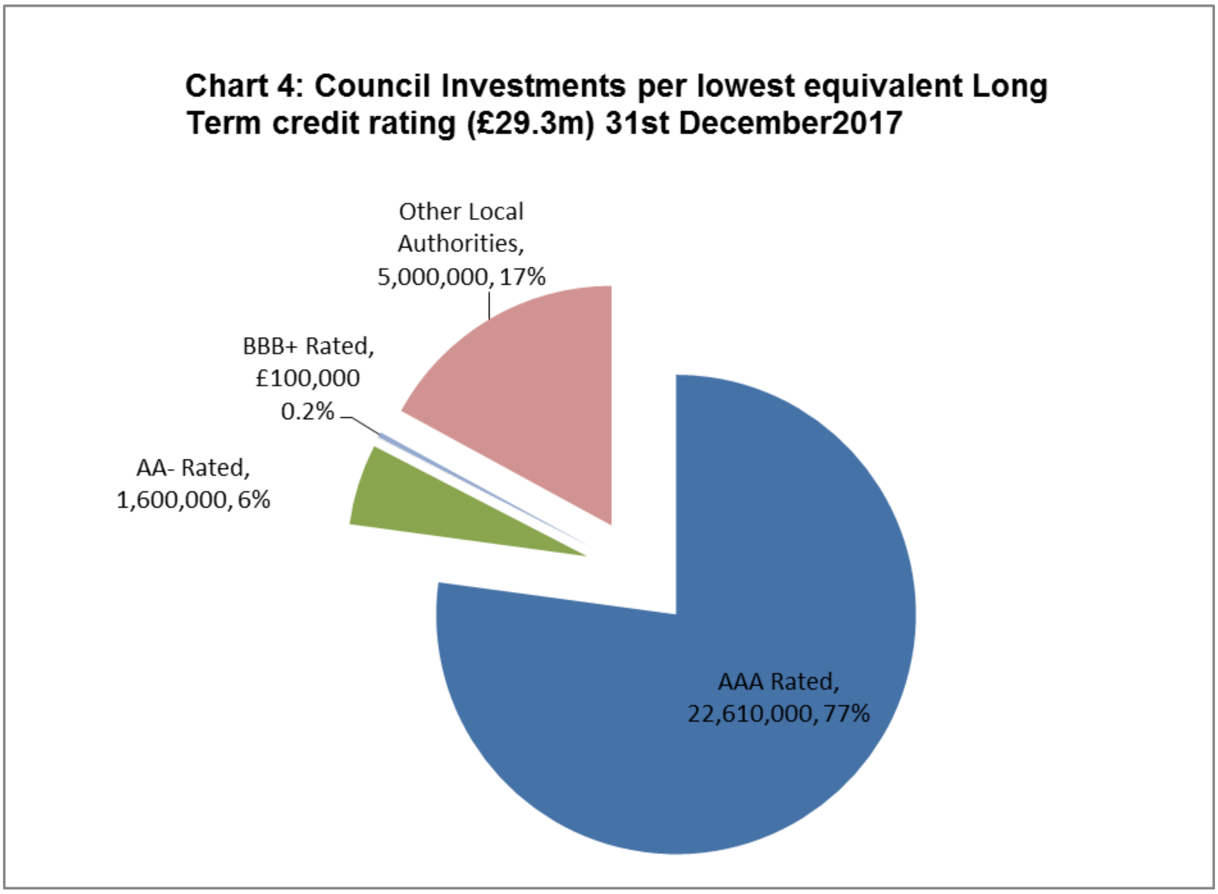


Chart 4: Council Investments per lowest equivalent Long Term credit rating (£29.3m) 31st December2017
Other Local Authorities, 5,000,000, 17%
BBB+ Rated, £100,000 0.2%
AA- Rated, 1,600,000, 6%
AAA Rated, 22,610,000, 77%

**APPENDIX 3**

**Average rate of return on investments for 2017/18**

| | April % | May % | June % | July % | Aug % | Sept % |
|---|---|---|---|---|---|---|
| **Average rate of interest earned** | 0.34% | 0.24% | 0.24% | 0.22% | 0.24% | 0.24% |
| **Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)** | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% |
| **Difference %** | 0.18% | 0.08% | 0.08% | 0.06% | 0.08% | 0.08% |

| (Cont) | Oct % | Nov % | Dec % | Jan % | Feb % | Mar % | Average for Period |
|---|---|---|---|---|---|---|---|
| **Average rate of interest earned** | 0.26% | 0.33% | 0.34% | 0.36% | 0.40% | 0.40% | **0.30%** |
| **Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)** | 0.17% | 0.40% | 0.41% | 0.41% | 0.41% | 0.41% | **0.26%** |
| **Difference %** | 0.09% | -0.07% | -0.07% | -0.05% | -0.01% | -0.01% | **+0.04%** |

**APPENDIX 4**

**Councils External Borrowing at 31st March 2018**

| LONG TERM | Amount | Start | Maturity Date | Interest Rate |
|---|---|---|---|---|
| PWLB | 10,000,000 | 15/10/04 | 15/10/34 | 4.75% |
| PWLB | 5,000,000 | 12/05/10 | 15/08/35 | 4.55% |
| PWLB | 5,000,000 | 12/05/10 | 15/02/60 | 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% |
| PWLB | 19,102,011 | 20/06/16 | 20/06/41 | 2.36% |
| PWLB | 9,655,424 | 24/02/17 | 16/02/40 | 2.28% |
| PWLB | 9,698,525 | 04/04/17 | 15/02/42 | 2.26% |
| PWLB | 8,243,412 | 08/05/17 | 15/02/42 | 2.25% |
| PWLB | 6,965,920 | 10/08/17 | 10/04/67 | 2.64% |
| PWLB | 10,000,000 | 13/12/17 | 10/10/42 | 2.35% |
| PWLB | 10,000,000 | 06/03/18 | 10/10/42 | 2.52% |
| PWLB | 10,000,000 | 06/03/18 | 10/10/47 | 2.62% |
| 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 CC | 5,000,000 | 25/11/14 | 19/12/19 | 2.52% |
| Gloucestershire CC | 5,000,000 | 19/12/14 | 19/12/19 | 2.62% |
| **Sub Total** | **173,965,291** | | | |
| | | | | |
| **TEMPORARY** | | | | |
| Tameside Metropolitan | 6,000,000 | 25/04/17 | 20/04/18 | 0.49% |
| West of England Combined Authority | 10,000,000 | 25/04/17 | 24/04/18 | 0.55% |
| PCC For Hampshire | 2,500,000 | 28/07/17 | 27/07/18 | 0.41% |
| **Sub Total** | **18,500,000** | | | |
| | | | | |
| **Total** | **192,465,291** | | | |

*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 31st March 2018 (provided by Council's Treasury Advisors Arlingclose)**

## Economic commentary

2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was likely. (which subsequently this has been postponed).

In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in

2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

**Financial markets:** The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

**Credit background:**

Credit Metrics

In the first quarter of the financial year, UK bank credit default swaps reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would will be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.

**Money Market Fund regulation:** The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Credit Rating developments

The most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.

S&P downgraded Transport for London to AA- from AA following a deterioration in its financial position.

**Local Authority Regulatory Changes**

**Revised CIPFA Codes:** CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions. The Authority expects to produce this in the near future.

In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is be identified and reported.

**MHCLG Investment Guidance and Minimum Revenue Provision (MRP):** In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

**MiFID II:** As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.
The Authority has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

**APPENDIX 6**

**Interest & Capital Financing Costs – Budget Monitoring 2017/18 (April to March)**

| April to March 2018 | YEAR END POSITION Budgeted Spend or (Income) £'000 | Actual Spend or (Income) £'000 | Over or (under) spend £'000 | ADV/FAV |
|---|---|---|---|---|
| **Interest & Capital Financing** | | | | |
| - Debt Costs | 6194 | 5,353 | (841) | FAV |
| - Internal Repayment of Loan Charges | (8,830) | (7,326) | 1,504 | ADV |
| - Ex Avon Debt Costs | 1,190 | 1,190 | 0 | - |
| - Minimum Revenue Provision (MRP) | 5,278 | 4,264 | (1,014) | FAV |
| - Interest on Balances | (317) | (370) | (53) | FAV |
| **Sub Total - Capital Financing** | **3,515** | **3,112** | **(404)** | **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 - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business. |