Bath & North East Somerset Council

MEETING	**Council**	
MEETING DATE:	**23rd July 2020**	
TITLE:	**Treasury Management Outturn Report 2019/20**	
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 2020
Appendix 3 – Average monthly rate of return for 2019/20
Appendix 4 – The Council's External Borrowing Position at 31st March 2020
Appendix 5 – Arlingclose's Economic & Market Review Q4 of 2019/20
Appendix 6 – Interest & Capital Financing Budget Monitoring 2019/20
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 for 2019/20.

2 RECOMMENDATION

The Council agrees that;

2.1 The Treasury Management Report to 31st March 2020, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.

2.2 The Treasury Management Indicators to 31st March 2020 are noted**.**

3 THE REPORT

Summary

3.1 The average rate of investment return for 2019/20 is 1.02%, which is 0.44% above the benchmark rate.

3.2 The Council's Prudential Indicators for 2019/20 were agreed by Council in February 2019 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

Summary of Returns

3.3 The Council's investment position as at 31st March 2020 is given in **Appendix 2**. The balance of deposits as at 31st December 2019 and 31st March 2020 are also set out in the pie charts in this appendix.

3.4 Gross interest earned on investments totalled £607k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 1.02%, which was 0.58% above the benchmark rate of average 7 day LIBID +0.05% (0.53%).

3.5 The level of return in 2019/20 was significantly higher than the previous financial year (1.02% in 2019/20 compared to 0.73% in 2018/19) despite a relatively flat benchmark (0.58% compared to 0.56%). The increase in margin over the benchmark in 2019/20 is largely due to the £5m investment held in the CCLA Local Authority Property Fund, which is a long term strategic investment taken out in 2019/20 earning a higher rate of interest. This property fund generated £160k of the total £607k interest during the year with a rate of return of 3.9%.

Summary of Borrowings

3.6 The Council's external borrowing as at 31st March 2020 totalled £232.4 million and is detailed in Appendix 4. The Council did not take out any new borrowing in the final quarter of 2019/20. Over the course of the year the Council took out £10m of new long term loans with the PWLB.

3.7 The Council's Capital Financing Requirement (CFR) as at 31st March 2020 was £323.7 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.

3.8 The CFR represents the underlying need to borrow and the difference from the current borrowing of £232.4 million represents re-investment of the internal cash balances and reserves, reducing the in-year borrowing costs in excess of the potential investment returns.

3.9 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 2020 apportioned to Bath & North East Somerset Council is £11.4m. 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 3.6.

3.10 The borrowing portfolio as at 31st March 2020. is shown in Appendix 4.

Strategic & Tactical Decisions

3.11 As shown in the charts at **Appendix 2**, the investment portfolio is diversified across Money Market Funds, highly rated UK and Foreign Banks and other local councils. The Council uses AAA rated Money Market funds and a AA- call account to maintain very short term liquidity and had overall investments of £26.3m invested as at 31st March 2020.

3.12 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.

3.13 The Council has reviewed its current investment holdings with its Treasury Management advisors to assess whether any of the investments placed are directly related to companies involved in fossil fuel companies. It was confirmed that the Council does not currently invest directly in equities or certificates of deposits that were not issued by banks or building societies and does not have any investments in fossil fuel companies. The main area where there is a potential for this type of investment is in the strategic diversified income funds which the Council is considering as part of its longer term investment approach, as these funds invest part of their portfolio in equities. A review into the two funds the council is considering using has shown that direct investment in fossil fuel companies forms a low proportion of the overall fund's investments (between 4% and 8%). However, given the existing uncertainty's due to the Coronavirus, the Council has no immediate plans to pursue such investments at this stage.

3.14 The Council's average investment return of 1.02% is currently slightly below the budgeted level of 1.20%, although the impact of this is offset by the Council investment balances being higher than forecast.

Future Strategic & Tactical Issues

3.15 Our treasury management advisors full economic and market review for the fourth quarter 2019/20 is included in **Appendix 5**.

3.16 The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

3.17 GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

3.18 Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived ‘safe’ assets.

3.19 In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

3.20 The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

3.21 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.

3.22 The borrowing that has taken place in 2019/20 is therefore driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.

3.23 In light of the unfolding corona virus pandemic which was becoming apparent at the end of the financial year, the Council undertook the following actions to mitigate against potential cashflow pressures due to the impacts on Council service income streams from the lockdown measures that were introduced:

(1) Undertook short term borrowing of £15m from 1st April 2020 to increase liquidity, as at that point in time there was no confirmation of any government grant support to Local Authorities.

(2) In light of Arlingclose guidance, the Council gave notice on its 95 day notice call accounts, recalling £10m to reduce counterparty risk and increase liquidity.

(3) The Council has continued to closely follow Arlingclose guidance on investment strategy which has been very proactive in terms of managing financial risk.

PWLB Borrowing Rate Increase

3.24 On 9th October 2019, the PWLB increased the margin applied to loan rates by 100 basis points (1%) without warning; the new margin above gilts is now 180 basis points for certainty rate loans. This shift in policy was implemented by HM Treasury, who cite a substantial increase in the use of PWLB loans at some authorities in recent months, as the cost of borrowing has fallen to record lows, and state that HM Treasury is therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by

100bps (one percentage point) on top of usual lending terms. The deadline for responses to the consultation paper is 31st July 2020.

3.25 The PWLB has published a consultation paper seeking feedback from councils on the impact of this increase in rates and how lending from the PWLB may change moving forward. The consultation paper does not give any indication as to whether the increase in margin is likely to be reduced in the near future.

3.26 As of 2nd April 2020 the 25 year PWLB certainty rate was 2.44%.

3.27 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

3.28 A breakdown of the revenue budget showing interest and capital financing and the year end position based on the period April to March is included in **Appendix 6**. An overall underspend of £2,451k is reported towards the Council's net revenue outturn, mainly related to the re-phasing of capital spend leading to lower than forecast borrowing costs and minimum revenue provision (MRP) requirement. (Overall Outturn is reported elsewhere on the Agenda). This is partly offset by lower internal income related to service charges for funding debt costs in relation to the re-phased capital projects.

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.

7 CLIMATE CHANGE

7.1 This is a technical report for information only and does not directly link to climate change policy.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

9.1 Consultation has been carried out with the Cabinet Member for Resources, Section 151 Finance Officer and Monitoring Officer.

Contact person	*Andy Rothery - 01225 47 7103; Jamie Whittard - 01225 47 7213* *Andy_Rothery@BATHNES.GOV.UK ; Jamie_Whittard@BATHNES.GOV.UK*
Background papers	*2019/20 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.

	2019/20 Prudential Indicator	Actual as at 31st March 2020
	£'000	£'000
Borrowing	440,000	232,419
Other long term liabilities	2,000	0
Cumulative Total	**442,000**	**232,419**

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.

	2019/20 Prudential Indicator	Actual as at 31st March 2020
	£'000	£'000
Borrowing	409,000	232,419
Other long term liabilities	2,000	0
Cumulative Total	**411,000**	**232,419**

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.

	2019/20 Prudential Indicator	Actual as at 31st March 2020
	£'000	£'000
Fixed interest rate exposure	**409,000**	**212,419***

* 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.

	2019/20 Prudential Indicator	Actual as at 31st March 2020
	£'000	£'000
Variable interest rate exposure	**222,000**	**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.

	2019/20 Prudential Indicator	**Actual as at 31st March 2020**
	£'000	£'000
Investments over 364 days	**50,000**	**5,000**

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 2020**
	%	%	%
Under 12 months	50	Nil	8.8*
12 months and within 24 months	75	Nil	2.2
24 months and within 5 years	75	Nil	2.2
5 years and within 10 years	100	Nil	4.5
10 years and above	100	Nil	82.3

* 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**.

	2019/20 Prudential Indicator	**Actual as at 31st March 2020**
	Rating	Rating
Minimum Portfolio Average Credit Rating	**A-**	**AA+**

APPENDIX 2

The Council's Investment position at 31st March 2020

The term of investments is as follows:

Term Remaining as at 31st March 2020	**Balance at 31st March 2020**
	£'000's
Notice (instant access funds)	26,300
Up to 1 month	6,000
1 month to 3 months	20,000
Over 3 months	0
CCLA Property Fund (Strategic)	5,000
Total	**57,300**

The investment figure is made up as follows:

	Balance at 31st March 2020
	£'000's
B&NES Council	54,488
Schools	2,812
Total	**57,300**

The Council had a total average net positive balance of £56.7m during the period April 2019 to March 2020.

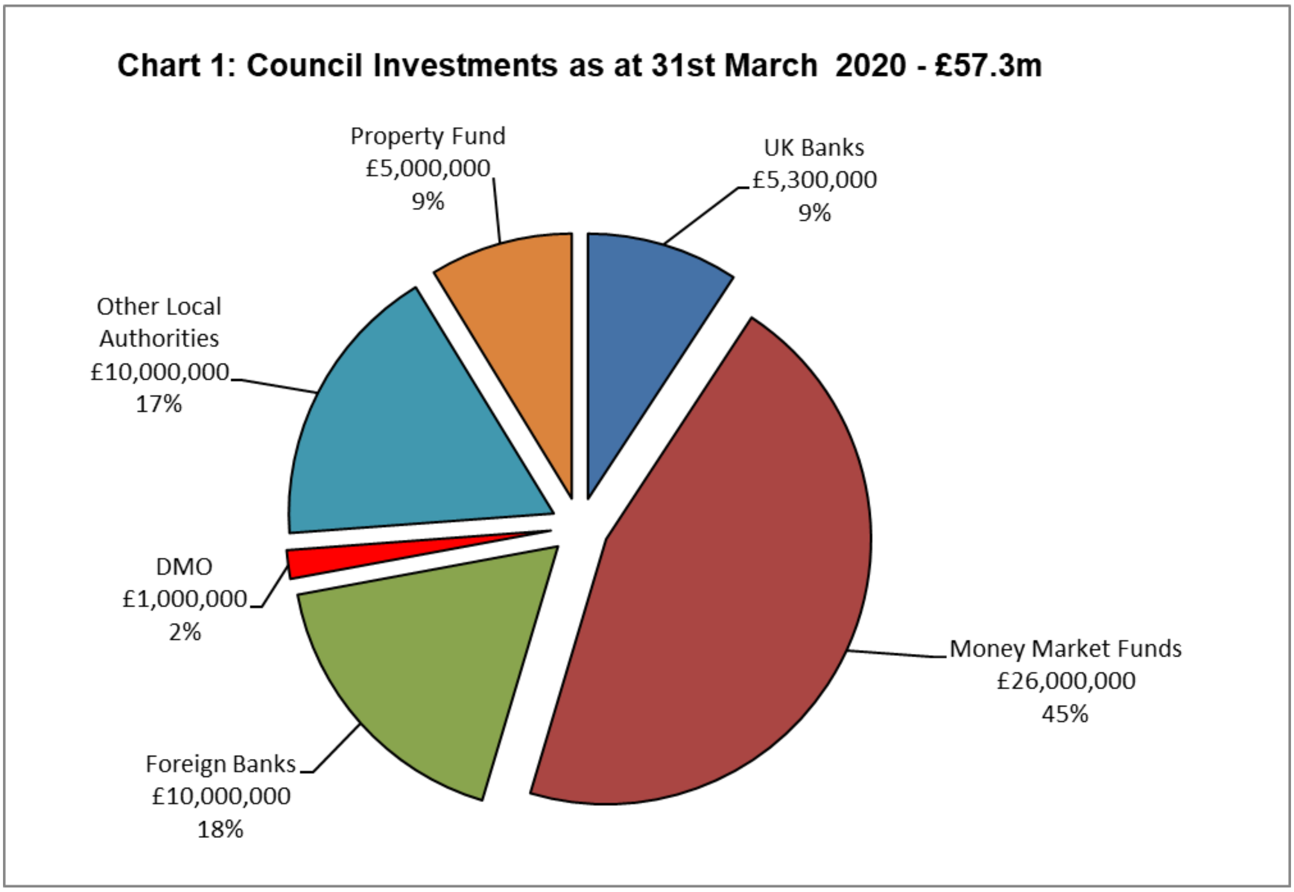


Chart 1: Council Investments as at 31st March 2020 - £57.3m
Property Fund
£5,000,000
9%
UK Banks
£5,300,000
9%
Other Local
Authorities
£10,000,000
17%
DMO
£1,000,000
2%
Money Market Funds
£26,000,000
45%
Foreign Banks
£10,000,000
18%

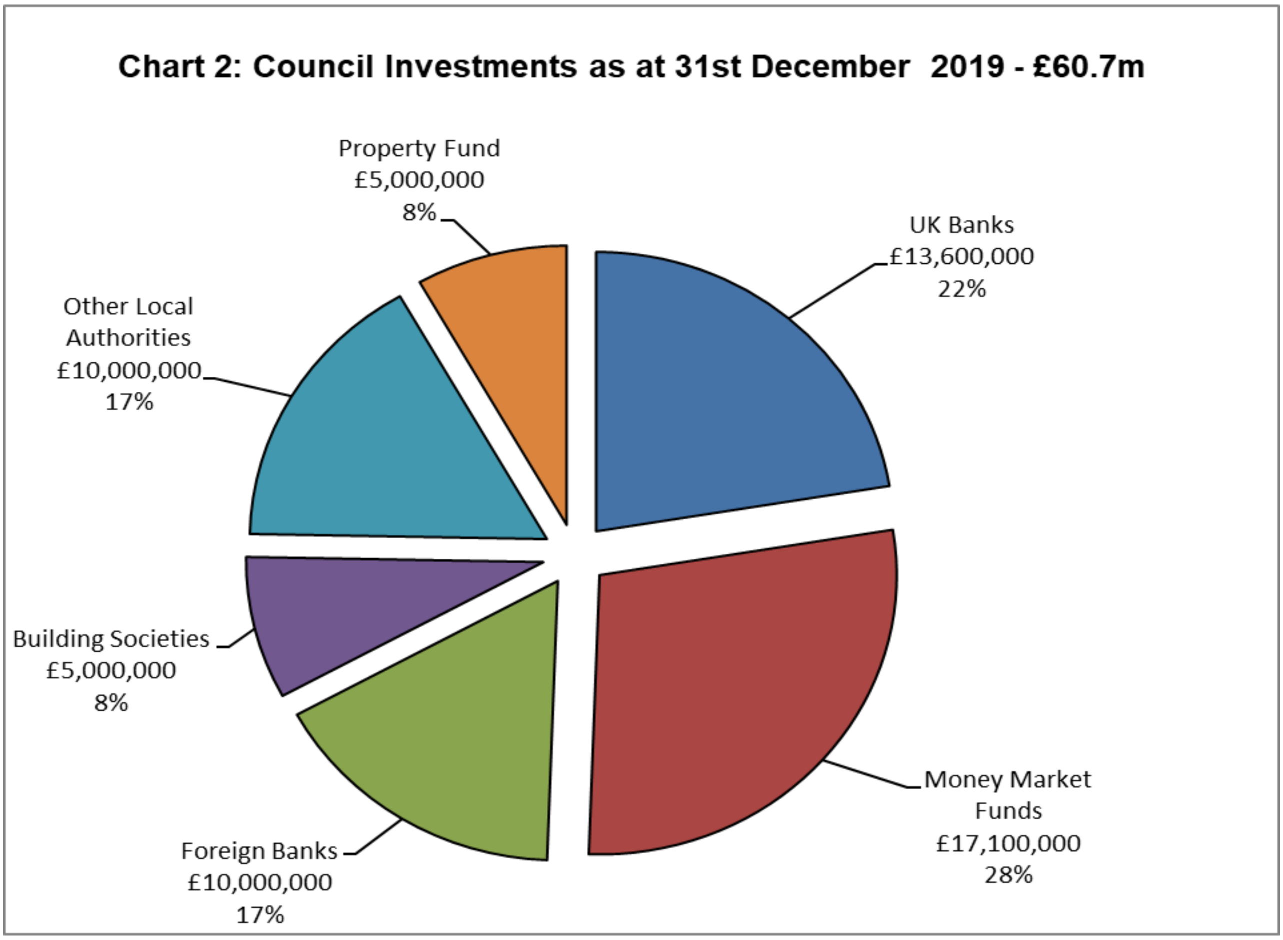


Chart 2: Council Investments as at 31st December 2019 - £60.7m
Property Fund
£5,000,000
8%
UK Banks
£13,600,000
22%
Other Local
Authorities
£10,000,000
17%
Building Societies
£5,000,000
8%
Money Market
Funds
£17,100,000
28%
Foreign Banks
£10,000,000
17%

Chart 3: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st March 2020 - £57.3m

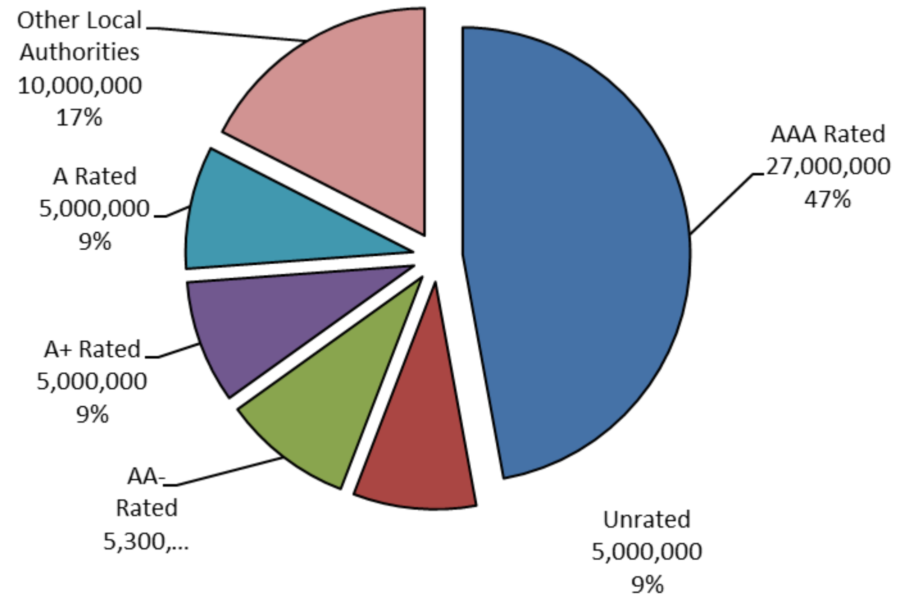
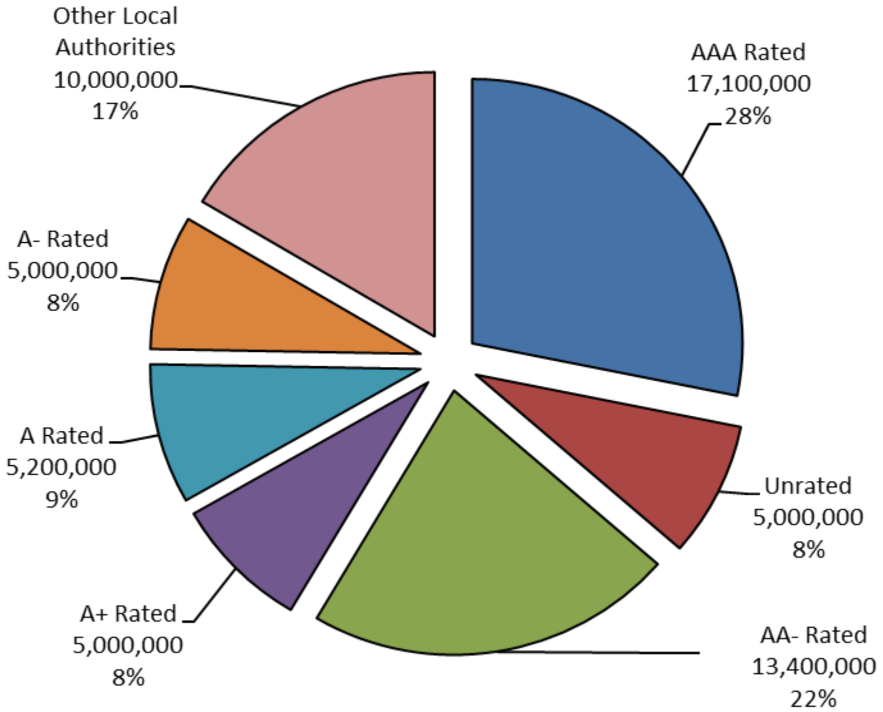


Chart 4: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st December 2019 - £60.7m



APPENDIX 3

Average rate of return on investments for 2019/20

	Av return	Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	Performance against Benchmark %
April	0.84%	0.62%	+0.22%
May	1.01%	0.62%	+0.39%
June	1.02%	0.62%	+0.40%
July	0.99%	0.61%	+0.38%
August	1.10%	0.61%	+0.49%
September	1.06%	0.62%	+0.44%
October	1.07%	0.62%	+0.45%
November	1.06%	0.62%	+0.45%
December	1.03%	0.62%	+0.41%
January	1.00%	0.60%	+0.40%
February	1.04%	0.61%	+0.43%
March	1.01%	0.23%	+0.78%
Average	**1.02%**	**0.58%**	**+0.44%**

APPENDIX 4
Council's External Borrowing at 31st March 2020

Lender	Amount (£)	Start date	Maturity date	Interest rate
KBC Bank N.V*	5,000,000	08/10/2004	08/10/2054	4.50%
KBC Bank N.V*	5,000,000	08/10/2004	08/10/2054	4.50%
Eurohypo Bank*	10,000,000	27/04/2005	27/04/2055	4.50%
PWLB	10,000,000	15/10/2004	15/10/2034	4.75%
PWLB	5,000,000	12/05/2010	15/08/2035	4.55%
PWLB	5,000,000	12/05/2010	15/02/2060	4.53%
PWLB	5,000,000	05/08/2011	15/02/2031	4.86%
PWLB	10,000,000	05/08/2011	15/08/2029	4.80%
PWLB	15,000,000	05/08/2011	15/02/2061	4.96%
PWLB	5,300,000	29/01/2015	08/04/2034	2.62%
PWLB	5,000,000	29/01/2015	08/10/2064	2.92%
PWLB	17,854,459	20/06/2016	20/06/2041	2.36%
PWLB	9,552,155	06/12/2018	20/06/2043	2.38%
PWLB	9,849,833	12/12/2018	20/06/2068	2.59%
PWLB	4,772,323	13/12/2018	20/06/2043	2.25%
PWLB	8,942,387	24/02/2017	15/02/2039	2.28%
PWLB	9,074,862	04/04/2017	15/02/2042	2.26%
PWLB	7,712,688	08/05/2017	15/02/2042	2.25%
PWLB	6,825,039	10/08/2017	10/04/2067	2.64%
PWLB	9,397,038	13/12/2017	10/10/2042	2.35%
PWLB	9,409,808	06/03/2018	10/10/2042	2.52%
PWLB	9,548,442	06/03/2018	10/10/2047	2.62%
PWLB	9,554,447	10/09/2018	20/07/2043	2.42%
PWLB	19,793,349	11/02/2019	20/07/2068	2.52%
PWLB	9,832,270	04/09/2019	20/07/2044	1.40%
Glouscestershire C.C.	5,000,000	25/11/2019	25/11/2021	1.50%
Portsmouth C.C.	5,000,000	19/12/2019	19/12/2022	1.65%
Total	**232,419,101**			

*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 March 2020

Economic background:

The UK's exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.
Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

Financial markets: Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

Credit review: In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ringfenced) remains the highest at 128bps and National Westminster Bank Plc (ringfenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.
While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2019/20 (April to March)

April to March 2020	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	9,106	7,291	(1,815)	FAV
- Internal Repayment of Loan Charges	(12,412)	(10,637)	1,775	ADV
- Ex Avon Debt Costs	1,100	1,098	(2)	FAV
- Minimum Revenue Provision (MRP)	8,403	6,145	(2,258)	FAV
- Interest on Balances	(620)	(771)	(151)	FAV
Total	**5,577**	**3,126**	**(2,451)**	**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.