

Bath & North East Somerset Council

MEETING	Corporate Audit Committee
MEETING DATE:	26th November 2020
TITLE:	Treasury Management Performance Report to 30th September 2020
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 30 th September 2020 Appendix 3 – Average monthly rate of return for 1 st 6 months of 2020/21 Appendix 4 – The Council’s External Borrowing Position at 30 th September 2020 Appendix 5 – Arlingclose’s Economic & Market Review Q2 of 2020/21 Appendix 6 – Interest & Capital Financing Budget Monitoring 2020/21 Appendix 7 – Summary Guide to Credit Ratings Appendix 8 – Extract from Treasury Management Risk Register	

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 for 2020/21 for the first six months of 2020/21.

2 RECOMMENDATION

The Corporate Audit Committee agrees that;

- 2.1 The Treasury Management Report to 30th September 2020, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.
- 2.2 The Treasury Management Indicators to 30th September 2020 are noted.

3 THE REPORT

Summary

- 3.1 The average rate of investment return for the first three months of 2020/21 is 0.53%, which is 0.53% above the benchmark rate which is currently 0.00%.
- 3.2 The Council's Prudential Indicators for 2020/21 were agreed by Council in February 2020 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 30th September 2020 is given in **Appendix 2**. The balance of deposits as at 30th September 2020, compared to those as at 30th June 2020, are also set out in the pie charts in this appendix.
- 3.4 Gross interest earned on investments totalled £206k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.53%, which was 0.53% above the benchmark rate of average 7 day LIBID +0.05% (0.00%). This excess is mainly due to the £5m investment held in the CCLA Local Authority Property Fund, which is a long term strategic investment earning a higher rate of interest (3.43% for the first half of 2020/21).

Summary of Borrowings

- 3.5 The Council's external borrowing as at 30th September 2020 totalled £245.4 million and is detailed in **Appendix 4**. On 1st April 2020, the Council borrowed £15.0m short term from a local authority for general cashflow requirements, and to lower liquidity risks arising from uncertainties surrounding the Covid-19 pandemic.
- 3.6 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.
- 3.7 The CFR represents the underlying need to borrow, and the difference between that and the current borrowing of £245.4 million represents re-investment of the internal balances including reserves, reducing the in-year borrowing costs in excess of the potential investment returns.
- 3.8 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 3.5.
- 3.9 The borrowing portfolio as at 30th September 2020 is shown in **Appendix 4**.

Strategic & Tactical Decisions

- 3.10 As shown in the charts in **Appendix 2**, the investment portfolio of £67.1 million as at 30th September 2020 is diversified across Money Market Funds, Local Authorities, the CCLA Property Fund and highly rated UK Banks. The Council uses AAA rated Money Market funds and highly rated UK Bank call accounts to maintain very short term liquidity.
- 3.11 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.
- 3.12 The Council's investment portfolio as at 30th September 2020 includes a total of £5m invested longer term in the CCLA Local Authorities Property Fund. Given the difficult economic climate and uncertainty over future cashflows, the Council is unlikely to make any further longer term investments this year.
- 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 activities. 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 was 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 was 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%). Following the review, the Council has no immediate plans to pursue such investments at this stage.
- 3.14 The Council's average investment return is currently below the budgeted level of 1.1%. This is largely due to the budgeted level being set before the Covid-19 pandemic, which led to the significant reductions in interest rates across the globe. The impact of the interest rate reduction is mostly offset by the size of the Council's cash balances being higher than was forecast when the budget was set leaving a current forecast underachievement of interest income of £20k.

Future Strategic & Tactical Issues

- 3.15 The Council's Treasury Management advisor's economic and market review for the second quarter of 2020/21 is included in **Appendix 5**.
- 3.16 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.
- 3.17 Any additional borrowing to take place in 2020/21 will therefore be balanced between a need to maintain an appropriate working cash balance and taking advantage of favourable movements in long term borrowing rates.

PWLB Borrowing Rate Increase

- 3.18 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.
- 3.19 The PWLB published a consultation paper seeking feedback from Councils on the impact of this increase in rates and on 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.
- 3.20 As of 30th September 2020, the 25 year PWLB certainty rate for annuity loans was 2.25%.
- 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 forecast year end position based on the period April to September 2020 is included in **Appendix 6**. An overall underspend of £2.180m is currently forecast, mainly related to the re-phasing of capital spend following the review of the capital programme as a result of the Covid 2020/21 financial recovery plan leading to lower than forecast borrowing costs and minimum revenue provision (MRP) requirement.

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.
- 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 market 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.

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.
- 9.2 This report was also presented to November 2020 Cabinet & November 2020 Council.

Contact person	<i>Gary Adams - 01225 477107; Gary_Adams@BATHNES.GOV.UK</i> <i>Jamie Whittard - 01225 477213; Jamie_Whittard@BATHNES.GOV.UK</i>
Background papers	<i>2020/21 Treasury Management & Investment Strategy</i>
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.

	2020/21 Prudential Indicator	Actual as at 30th September 2020
	£'000	£'000
Borrowing	457,000	245,449
Other long term liabilities	4,000	0
Cumulative Total	461,000	245,449

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.

	2020/21 Prudential Indicator	Actual as at 30th September 2020
	£'000	£'000
Borrowing	427,000	245,449
Other long term liabilities	4,000	0
Cumulative Total	431,000	245,449

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.

	2020/21 Prudential Indicator	Actual as at 30th September 2020
	£'000	£'000
Fixed interest rate exposure	427,000	225,449*

* 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.

	2020/21 Prudential Indicator	Actual as at 30 th September 2020
	£'000	£'000
Variable interest rate exposure	214,000	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.

	2020/21 Prudential Indicator	Actual as at 30 th September 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 30 th September 2020
	%	%	%
Under 12 months	50	Nil	15.5*
12 months and within 24 months	50	Nil	2.2
24 months and within 5 years	75	Nil	2.2
5 years and within 10 years	100	Nil	4.4
10 years and above	100	Nil	75.7

* 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**.

	2020/21 Prudential Indicator	Actual as at 30 th September 2020
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AAA-

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

APPENDIX 2

The Council's Investment position at 30th September 2020

The term of investments is as follows:

Term Remaining	Balance at 30th September 2020
	£'000's
Notice (instant access funds)	37,060
Up to 1 month	10,000
1 month to 3 months	10,000
3 months to 6 months	5,000
CCLA Property Fund (Strategic)	5,000
Total	67,060

The investment figure is made up as follows:

	Balance at 30th September 2020
	£'000's
B&NES Council	64,110
Schools	2,950
Total	67,060

The Council had a total average net positive balance of £75m during the period April 2020 to September 2020.

Chart 1: Council Investments as at 30th September 2020 - £67.060m

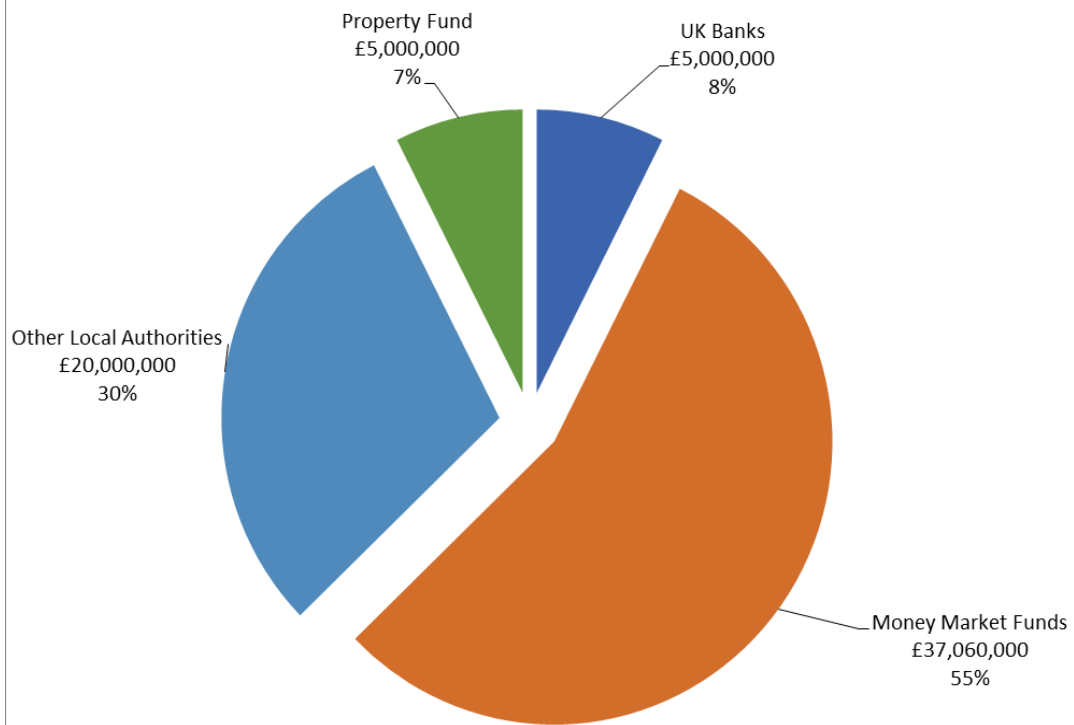


Chart 2: Council Investments as at 30th June 2020 - £62.0m

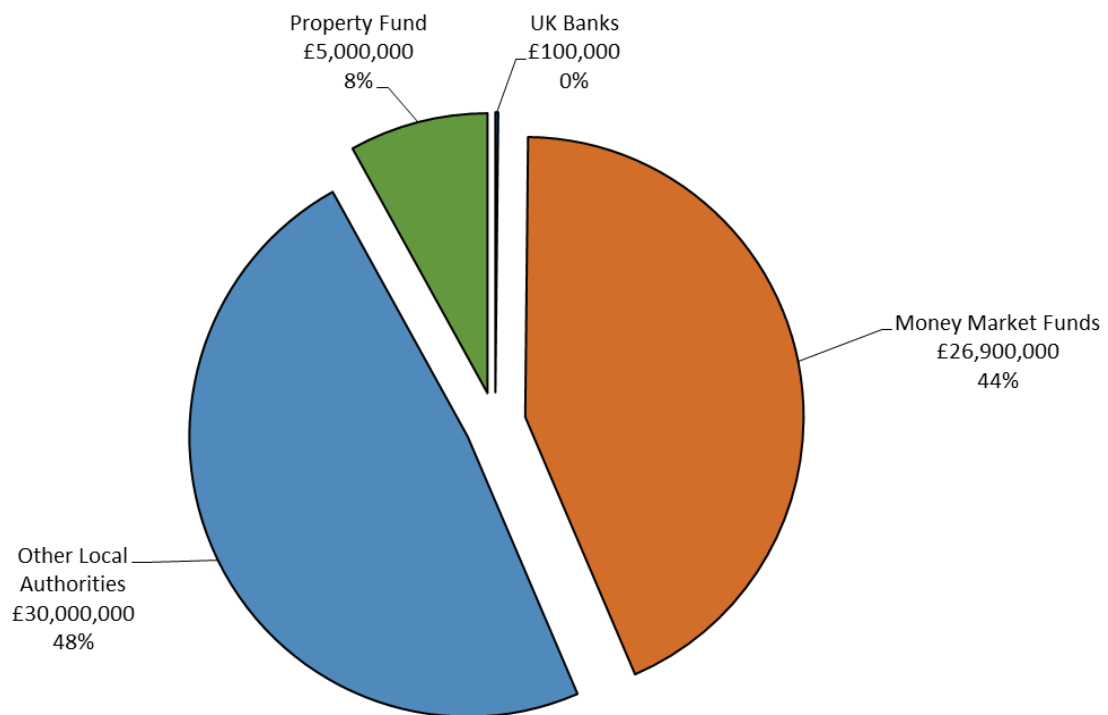


Chart 3: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 30th September 2020 - £67.060m

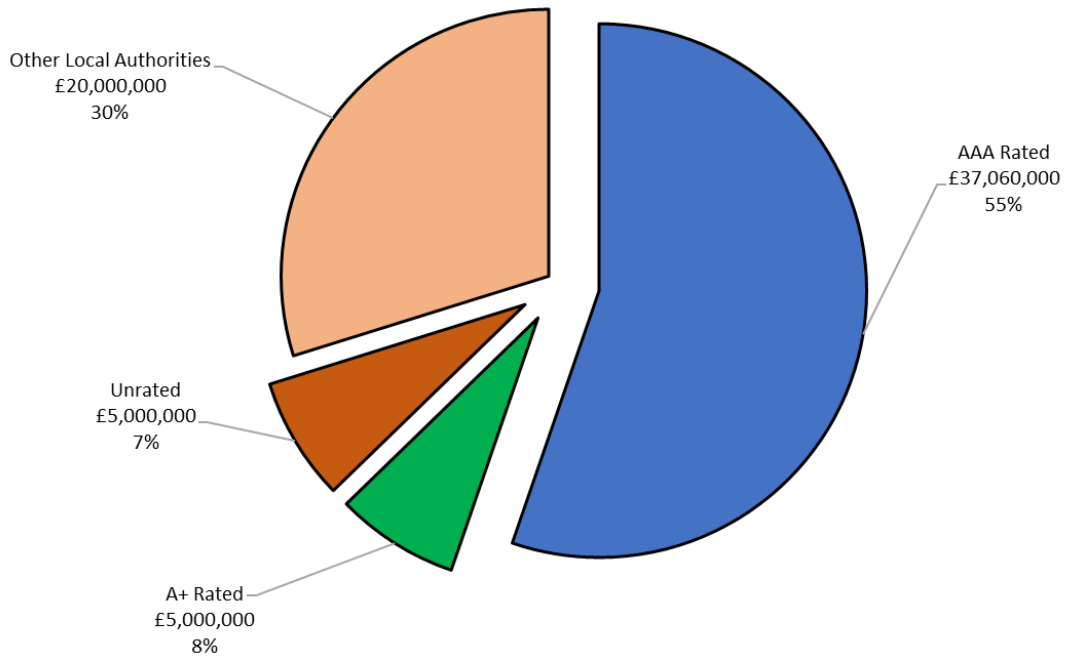
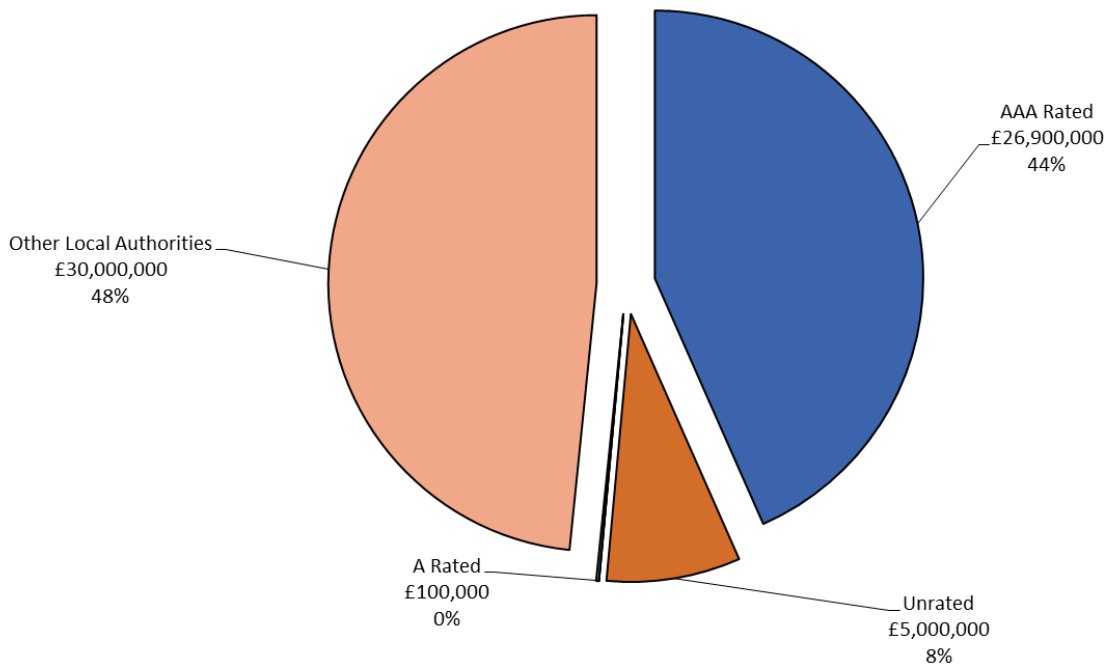


Chart 4: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 30th June 2020 - £62.0m



APPENDIX 3**Average rate of return on investments for 2020/21**

	Apr. %	May %	Jun. %	Jul. %	Aug. %	Sep. %	Average %
Average rate of interest earned	0.55%	0.59%	0.58%	0.53%	0.50%	0.48%	0.53%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Performance against Benchmark %	+0.51%	+0.59%	+0.58%	0.53%	0.50%	0.48%	0.53%

APPENDIX 4

Council's External Borrowing at 30th September 2020

Lender	Amount outstanding	Start date	End date	Interest rate
Long term				
PWLB489142	10,000,000	15/10/2004	15/10/2034	4.75%
PWLB497233	5,000,000	12/05/2010	15/08/2035	4.55%
PWLB497234	5,000,000	12/05/2010	15/02/2060	4.53%
PWLB498834	5,000,000	05/08/2011	15/02/2031	4.86%
PWLB498835	10,000,000	05/08/2011	15/08/2029	4.80%
PWLB498836	15,000,000	05/08/2011	15/02/2061	4.96%
PWLB503684	5,300,000	29/01/2015	08/04/2034	2.62%
PWLB503685	5,000,000	29/01/2015	08/10/2064	2.92%
PWLB505122	17,533,317	20/06/2016	20/06/2041	2.36%
PWLB508126	9,399,306	06/12/2018	20/06/2043	2.38%
PWLB508202	9,798,475	12/12/2018	20/06/2068	2.59%
PWLB508224	4,694,717	13/12/2018	20/06/2043	2.25%
PWLB505744	8,759,019	24/02/2017	15/08/2039	2.28%
PWLB505966	8,914,518	04/04/2017	15/02/2042	2.26%
PWLB506052	7,576,255	08/05/2017	15/02/2042	2.25%
PWLB506255	6,788,649	10/08/2017	10/04/2067	2.64%
PWLB506729	9,241,844	13/12/2017	10/10/2042	2.35%
PWLB506995	9,257,583	06/03/2018	10/10/2042	2.52%
PWLB506996	9,431,831	06/03/2018	10/10/2047	2.62%
PWLB507749	9,402,320	10/09/2018	20/07/2043	2.42%
PWLB508485	19,688,066	11/02/2019	20/07/2068	2.52%
PWLB509840	9,663,367	04/09/2019	20/07/2044	1.40%
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%
Medium term				
Gloucestershire 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%
Short term				
London Borough of Bromley	15,000,000	01/04/2020	01/04/2021	1.50%
Total Borrowing	245,449,266			

*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 update (Provided by Arlingclose)

The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.

In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is 'moderately' above the 2% average target, particularly given it has been below target for most of the last decade.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

Financial markets: Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.

Credit review: Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like. The institutions on Arlingclose’s counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

Arlingclose outlook for remainder of 2020/21

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, coronavirus has not been suppressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Q3.

However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have priced in a chance of negative Bank Rate.

Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2020/21

April 2020 to September 2020	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Forecast Spend or (Income) £'000	Forecast over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	8,789	7,589	(1,200)	FAV
- Internal Repayment of Loan Charges	(9,029)	(9,529)	(500)	FAV
- Ex Avon Debt Costs	1,060	1,060	0	
- Minimum Revenue Provision (MRP)	7,296	6,796	(500)	FAV
- Interest on Balances	(466)	(446)	20	ADV
Total	7,650	5,470	(2,180)	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 Market Risks

	Risk Nr	Description	Current Risk Score										Management Action
			Likelihood					Impact					
			1	2	3	4	5	1	2	3	4	5	
			L	M	H	L	M	H					
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			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 DD Finance. 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		2				2				Monitor interest rates on a monthly basis and compare with budget to determine impact on Council finances and report through Monthly Finance Dashboard. Report implication of interest rate changes to Cabinet Member for Resources 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	R03	Exchange Rate Risk - The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.	1					2				Treasury Management Policies clearly record the need to eliminate currency exchange rate risks .	
4	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.		2				2				Liaise with S151 Officer to ensure Inflation both current and projected forms part of the medium term financial planning framework.	
5	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	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 S151 Officer and external advisors to consider any issues / change in circumstances of counterparties.	