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Appendix 2 – The Council’s Investment Position at 31st December 2020
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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 (subsequently updated in 2017), 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 nine months of 2020/21.

2 RECOMMENDATION

The Cabinet agrees that;

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

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

3 THE REPORT

Summary

3.1 The average rate of investment return for the first nine months of 2020/21 is 0.45%, which is 0.45% 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 31st December 2020 is given in **Appendix 2**. The balance of deposits as at 31st December 2020, compared to those as at 30th September 2020, are also set out in the pie charts in this appendix.

3.4 Gross interest earned on investments totalled £266k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.45%, which was 0.45% 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 (3.92% for the first nine months of 2020/21).

Summary of Borrowings

3.5 The Council's external borrowing as at 31st December 2020 totalled £244.4 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 £244.4 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 31st December 2020 is shown in **Appendix 4**.

Strategic & Tactical Decisions

3.10 As shown in the charts in **Appendix 2**, the investment portfolio of £81.5 million as at 31st December 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 31st December 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.

3.14 The Council commissioned Arlingclose to undertake a review of possible ESG (Environmental, Social and Corporate Governance) funds into which the Council could invest surplus treasury assets. The report has been received and is currently being reviewed. The potential for future ESG focussed investments is covered in the 2021/22 Treasury Management Strategy report which is also on this meetings agenda.

3.15 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 resulted in significant reductions in interest rates across the globe. The impact of the interest rate reduction is partly offset by the size of the Council's cash balances being higher than forecast when the budget was set leaving a current forecast underachievement in interest income of £20k.

Future Strategic & Tactical Issues

3.16 The Council's Treasury Management advisor's economic and market review for the third quarter of 2020/21 is included in **Appendix 5**.

3.17 The benefits of the Council's current policy of internal borrowing are monitored regularly against the likelihood that long term borrowing rates are forecast to rise in future years. The focus remains on the rate of increase and the medium-term peak.

3.18 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. Given the high levels of cash balances the Council is holding as at 31st December 2020 it is unlikely that any further borrowing will be required this financial year.

PWLB Borrowing Rate Margin Changes

3.19 On 9th October 2019, the PWLB increased the margin applied to loan rates by 100 basis points (1%) without warning, with the revised margin above gilts becoming 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 the months prior to the change, as the cost of borrowing had fallen to record lows, and stated that HM Treasury was therefore restoring interest rates to levels available in 2018, by increasing the margin that applied to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms.

3.20 On 26th November 2020, following the consultation feedback from Councils. the PWLB removed the 100 basis point surcharge with immediate effect, significantly reducing the cost of long term borrowing for the Council. Accompanied with the announcement to remove the surcharge however are some further controls and procedures around applying for PWLB loans. These are focussed on giving the PWLB information on what the borrowing will be used for to restrict any Council's seeking to borrow money to purchase assets primarily for yield in order to supplement income.

3.21 As of 31st December 2020, the 25 year PWLB certainty rate for annuity loans was 1.24% (2.25% as at 30 September 2020).

3.22 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

3.23 A breakdown of the revenue budget showing interest and capital financing and the forecast year end position based on the period April to December 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 his report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

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 to 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 maintains 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.

7.2 The Council commissioned Arlingclose to undertake a review of possible ESG (Environmental, Social and Corporate Governance) funds the Council could invest in. The report has now been received and is currently being reviewed.

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	*Gary Adams - 01225 477107; Gary_Adams@BATHNES.GOV.UK* *Jamie Whittard - 01225 477213; Jamie_Whittard@BATHNES.GOV.UK*
Background papers	*2020/21 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.

	2020/21 Prudential Indicator	**Actual as at 31st December 2020**
	£'000	£'000
Borrowing	457,000	244,373
Other long term liabilities	4,000	0
Cumulative Total	**461,000**	**244,373**

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 31st December 2020**
	£'000	£'000
Borrowing	427,000	244,373
Other long term liabilities	4,000	0
Cumulative Total	**431,000**	**244,373**

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 31st December 2020**
	£'000	£'000
Fixed interest rate exposure	**427,000**	**224,373***

* 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 31st December 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 31st December 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 December 2020**
	%	**%**	**%**
Under 12 months	**50**	**Nil**	**16.4%**
12 months and within 24 months	**50**	**Nil**	**2.0%**
24 months and within 5 years	**75**	**Nil**	**0.0%**
5 years and within 10 years	**100**	**Nil**	**4.1%**
10 years and above	**100**	**Nil**	**77.5%**

* 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 31st December 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 31st December 2020

The term of investments is as follows:

Term Remaining	**Balance at 31st December 2020**
	£'000's
Notice (instant access funds)	26,500
Up to 1 month	15,000
1 month to 3 months	20,000
3 months to 6 months	5,000
6 months to 12 months	10,000
CCLA Property Fund (Strategic)	5,000
Total	**81,500**

The investment figure is made up as follows:

	Balance at 31st December 2020
	£'000's
B&NES Council	78,696
Schools	2,804
Total	**81,500**

The Council had a total average net positive balance of £80m during the period April 2020 to December 2020.

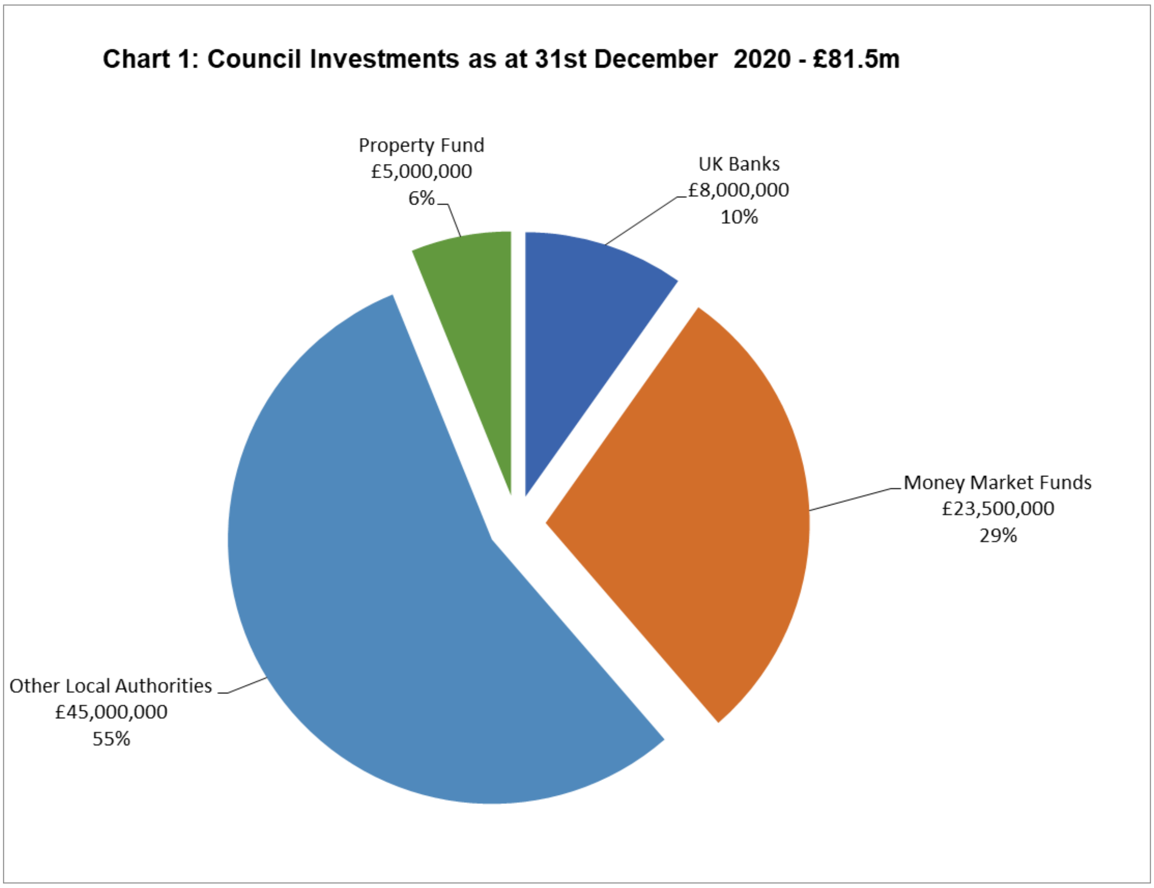
Chart 1: Council Investments as at 31st December 2020 - £81.5m
Property Fund
£5,000,000
6%
UK Banks
£8,000,000
10%
Money Market Funds
£23,500,000
29%
Other Local Authorities
£45,000,000
55%

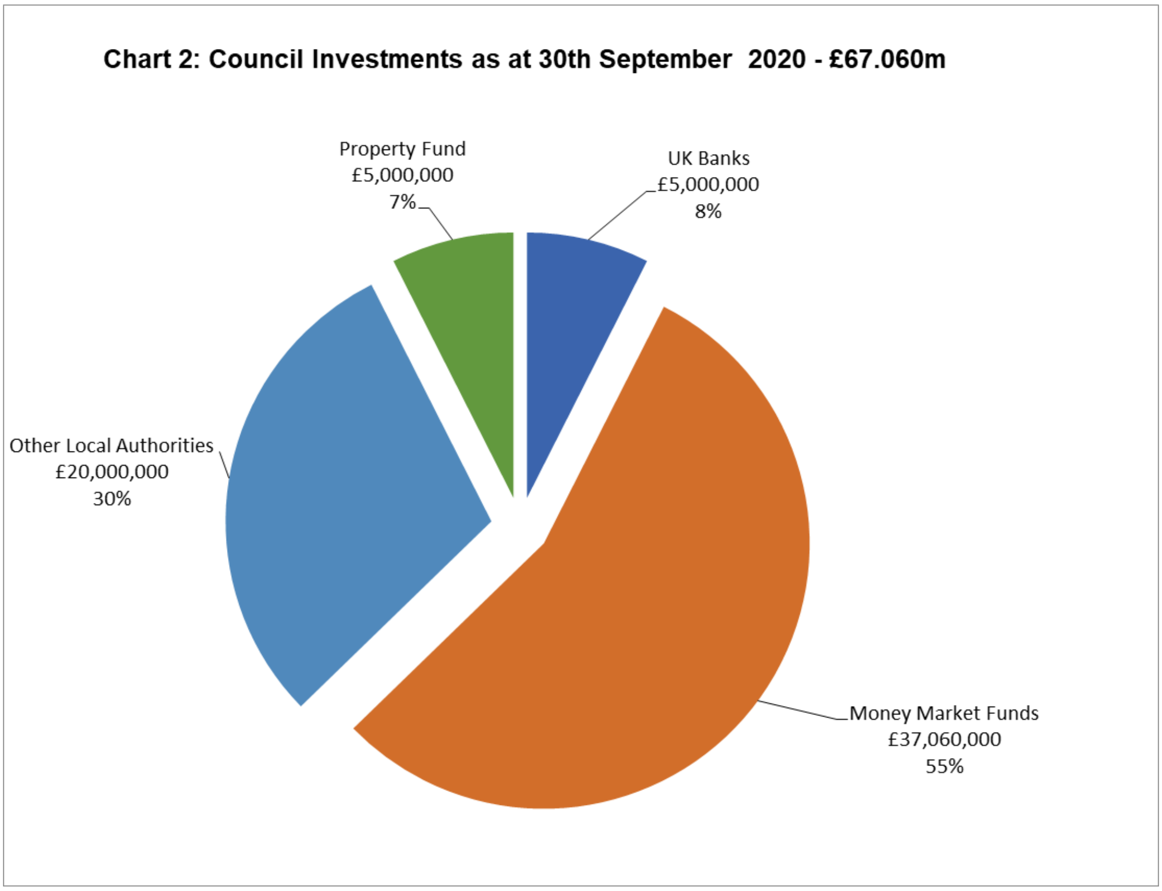
Chart 2: Council Investments as at 30th September 2020 - £67.060m
Property Fund
£5,000,000
7%
UK Banks
£5,000,000
8%
Other Local Authorities
£20,000,000
30%
Money Market Funds
£37,060,000
55%

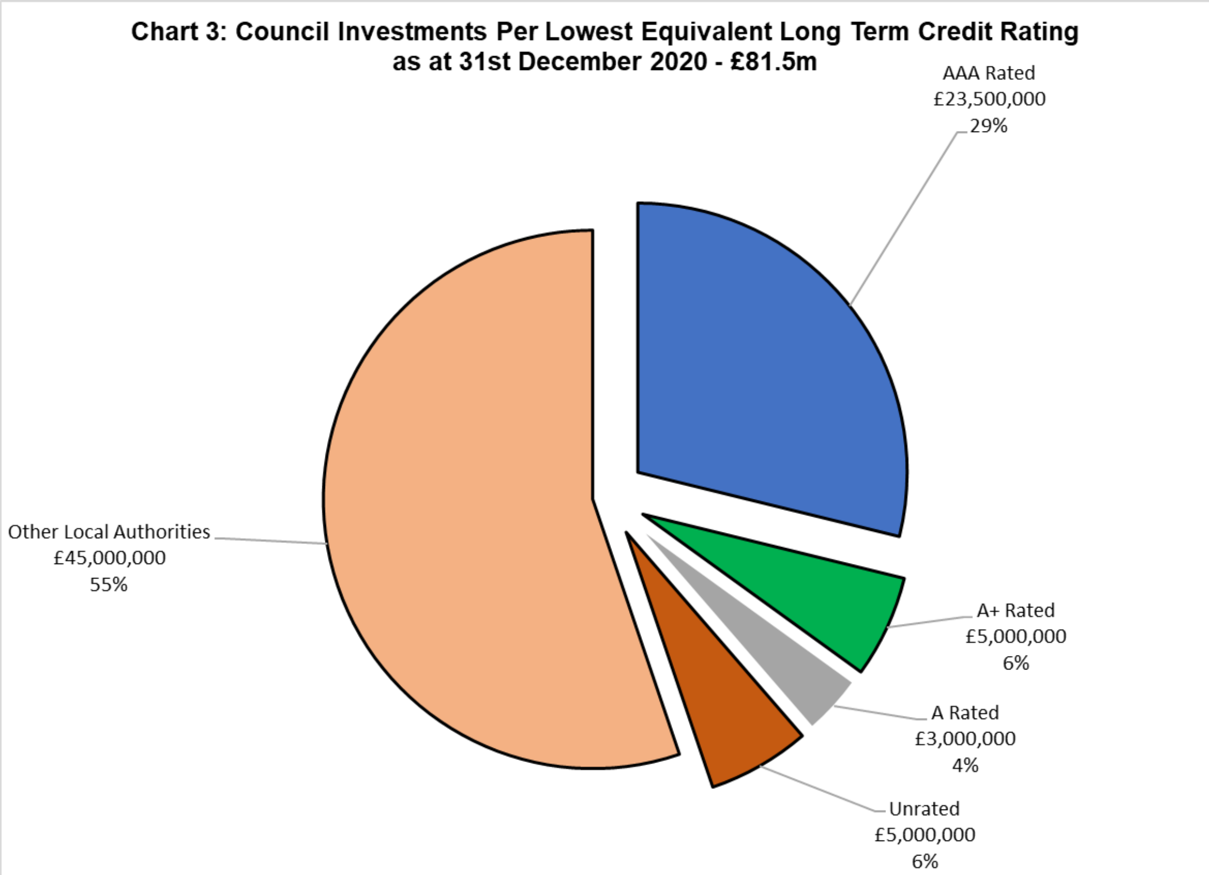
Chart 3: Council Investments Per Lowest Equivalent Long Term Credit Rating
as at 31st December 2020 - £81.5m
AAA Rated
£23,500,000
29%
Other Local Authorities
£45,000,000
55%
A+ Rated
£5,000,000
6%
A Rated
£3,000,000
4%
Unrated
£5,000,000
6%

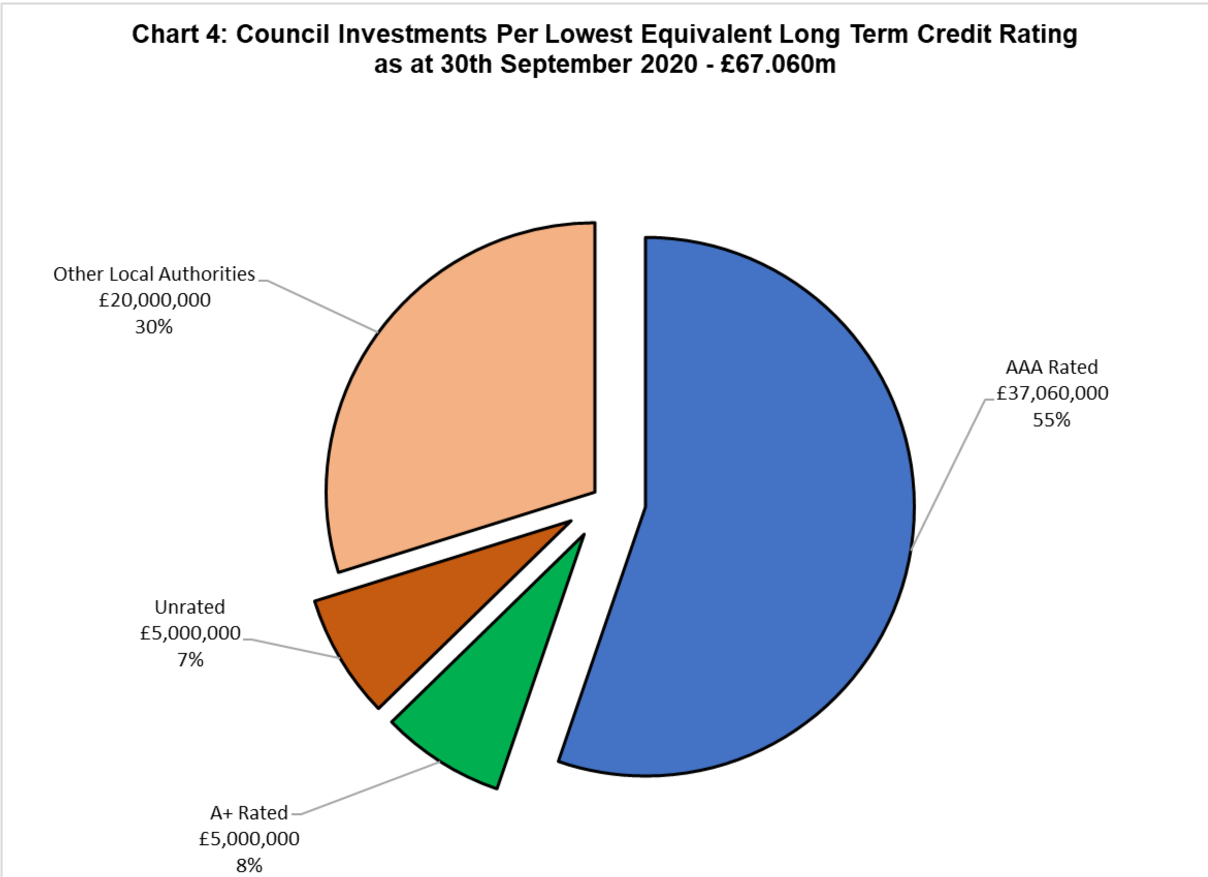
Chart 4: Council Investments Per Lowest Equivalent Long Term Credit Rating
as at 30th September 2020 - £67.060m
Other Local Authorities
£20,000,000
30%
AAA Rated
£37,060,000
55%
Unrated
£5,000,000
7%
A+ Rated
£5,000,000
8%

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

	Apr. %	**May %**	**Jun. %**	**Jul. %**	**Aug. %**	**Sep. %**
Average rate of interest earned	0.46%	0.60%	0.58%	0.54%	0.51%	0.45%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%
Performance against Benchmark %	+0.43%	+0.60%	+0.58%	0.54%	0.51%	0.45%

	Oct. %	**Nov. %**	**Dec. %**	**Average %**
Average rate of interest earned	0.36%	0.33%	0.32%	**0.45%**
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.00%	0.00%	0.00%	**0.00%**
Performance against Benchmark %	0.36%	0.33%	0.32%	**0.45%**

APPENDIX 4

Council's External Borrowing at 31st December 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	17,208,385	20/06/2016	20/06/2041	2.36%
PWLB508126	9,244,638	06/12/2018	20/06/2043	2.38%
PWLB508202	9,746,453	12/12/2018	20/06/2068	2.59%
PWLB508224	4,616,238	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	6,751,779	10/08/2017	10/04/2067	2.64%
PWLB506729	9,084,826	13/12/2017	10/10/2042	2.35%
PWLB506995	9,103,440	06/03/2018	10/10/2042	2.52%
PWLB506996	9,313,693	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	**244,372,995**			

*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)

External Context

Economic background: Some good news came during the quarter as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK Medicines and Healthcare products Regulatory Agency (MHRA) provided authorisation for emergency supply of two COVID-19 vaccines in December and the rollout to individuals in the highest priority groups began in earnest.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline Having been agreed with the European Union (EU) on Christmas Eve, the Brexit trade deal was voted through the House of Commons by 521 votes to 73 and then written into law after passing through the House of Lords and given royal assent.

The Bank of England (BoE) maintained Bank Rate at 0.1% during the quarter but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its December interest rate announcement, the BoE noted that plans to roll out COVID-19 vaccines would reduce some of the downside risks to the economic outlook but that recent rises in the number of infections is likely to lead to weaker GDP growth than had been predicted in its November Monetary Policy Report.

Government initiatives continued to support the economy as the furlough (Coronavirus Job Retention) scheme was extended once again to April 2021, supporting some 10 million jobs, and meaning that by then the government would have provided taxpayer support to jobs for over a year.

GDP growth rebounded by 16.0% (upwardly revised from first estimate of 15.5%) in Q3 2020 (Jul-Sep) according to the Office for National Statistics (ONS), pulling the annual growth rate up to -8.6% from -20.8% in Q2. Construction rose by a huge 41% over the quarter, services output was up almost 15% as was production output. However, recent monthly estimates of GDP have shown growth is slowing and only a 1.1% monthly rise was managed in September.

The headline rate of UK Consumer Price Inflation (CPI) rose to 0.3% year/year in November, below expectations (0.6%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.6% year/year (0.8% expected). The weaker-than-expected readings were due to falling prices for clothing as Black Friday deals started earlier than usual and for food and non-alcoholic drinks.

In the three months to October, labour market data showed the unemployment rate increased from 4.3% to 4.9% while wages rose 2.7% for total pay in nominal terms (2.8% for regular pay) and was up 1.9% in real terms (2.1% for regular pay). The employment rate fell to 75.2% from 75.8%. Unemployment is expected to increase strongly once the various government job support schemes come to an end, with the BoE predicting unemployment could peak at almost 8% in the second quarter of 2021.

The US economy rebounded at an annualised rate of 33.4% in Q3 2020 (Jul-Sep), fuelled by more than $3 trillion in pandemic relief. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25%.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Equity markets continued to rise, and the Dow Jones beat its pre-crisis peak on the back of continued outperformance by a small number of technology stocks. The FTSE indices continued to perform well, with the more internationally focused FTSE 100 getting back to around 60% of its pre-March level while the more UK-focused FTSE 250 was closer to 80% of its previous peak over the same period.

Ultra-low interest rates prevailed through the quarter. Gilt yields remained low but volatile over the period with the yield on some short-dated UK government bonds continuing to remain negative. The 5-year UK benchmark gilt yield started the October–December period at -0.07% and ended at -0.09% (with much volatility in between). The 10-year gilt yield fell from 0.23% to 0.19% over the same period but peaked at 0.40% in November during a volatile quarter. The 20-year fell from 0.76% to 0.69%. 1-month, 3-month and 12-month SONIA bid rates averaged -0.01%, 0.06% and 0.07% respectively over the three months.

At the end of December, the yield on 2-year US treasuries was around 0.12% while for 10-year treasuries the yield was 0.92%. German bund yields remain negative across most maturities.

Credit review: After rising in late October/early November, credit default swap spreads declined over the remaining period of the calendar year to broadly pre-pandemic levels and the gap in spreads between UK ringfenced and non-ringfenced entities remained. At the end of the period Barclays Bank Plc was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The ringfenced banks were trading between 33 and 36bps.

During the period Moody’s downgraded the UK sovereign rating to Aa3 with a Stable outlook which then impacted a number of other UK institutions, banks and local government. These included Cornwall Council and Guildford BC which were downgraded to Aa3.Transport for London, Aberdeen CC, Lancashire CC, Lloyds Bank and HSBC Bank downgraded to A1 and Warrington BC was downgraded to A2.

While the approval of two coronavirus vaccines is a credit positive, there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. 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.

Interest rate forecast: The Authority’s treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the first quarter of 2024.

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	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	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2020/21

April 2020 to December 2020	**YEAR END POSITION**			
	Budgeted Spend or (Income) £'000	**Forecast Spend or (Income) £'000**	**Forecast over or (under) spend £'000**	**ADV/FAV**
Interest & Capital Financing				
- Debt Costs	8,789	7,489	(1,300)	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	6,896	(400)	FAV
- Interest on Balances	(466)	(445)	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

			Current Risk Score										
	Risk Nr	Description	Likelihood					Impact					Management Action
			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 Chief Finance Officer. Consider short and medium term cash balances and cashflows to inform any short - medium term borrowing requirement.
2	R02	Interest Rate Risk - The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately			3				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 Chief Finance 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 Chief Finance Officer and external advisors to consider any issues / change in circumstances of counterparties.