

Bath & North East Somerset Council

MEETING	Corporate Audit Committee
MEETING DATE:	23rd September 2021
TITLE:	Treasury Management Outturn Report 2020/21
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 31 st March 2021 Appendix 3 – Average monthly rate of return for 2020/21 Appendix 4 – The Council’s External Borrowing Position at 31 st March 2021 Appendix 5 – Arlingclose’s Economic & Market Review Q4 of 2020/21 Appendix 6 – Interest & Capital Financing Budget Monitoring 2020/21 Appendix 7 – Summary Guide to Credit Ratings	

1 THE ISSUE

- 1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report after the end of each financial year.
- 1.2 This report gives details of performance against the Council’s Treasury Management Strategy and Annual Investment Plan for 2020/21.

2 RECOMMENDATION

The Corporate Audit Committee agrees that;

- 2.1 The Treasury Management Report to 31st March 2021, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.
- 2.2 The Treasury Management Indicators to 31st March 2021 are noted.

3 THE REPORT

Summary

- 3.1 The average rate of investment return for 2020/21 is 0.41%, which is 0.43% above the benchmark rate.
- 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 March 2021 is given in **Appendix 2**. The balance of deposits as at 31st December 2020 and 31st March 2021 are also set out in the pie charts in this appendix.
- 3.4 Gross interest earned on investments totalled £332k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.41%, which was 0.43% above the benchmark rate of average 7 day LIBID +0.05% (-0.02%). 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 (3.69% for 2020/21).
- 3.5 The level of return in 2020/21 was significantly lower than the previous financial year (0.41% in 2020/21 compared to 1.02% in 2019/20), which is due to decreases in interest rates across the globe resulting from the global pandemic. However as can be seen by the margin over the benchmark, actual performance against the benchmark of 0.43% in 2020/21 has remained similar to the 2019/20 rate of 0.44%.

Summary of Borrowings

- 3.6 The Council's external borrowing as at 31st March 2021 totalled £243.5 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 at that time. No further borrowing was taken during the remainder of the year as cash balances remained high.
- 3.7 The Council's Capital Financing Requirement (CFR) as at 31st March 2021 was £326.9 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 £243.5 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 2021 apportioned to Bath & North

East Somerset Council is £10.9m. 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 2021 is shown in **Appendix 4**.

Strategic & Tactical Decisions

3.11 As shown in the charts in **Appendix 2**, the investment portfolio is diversified across Money Market Funds, Local Authorities, the CCLA Property Fund and highly rated UK Banks to maintain very short term liquidity and had overall investments of £72.5m invested as at 31st March 2021.

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's investment portfolio as at 31st March 2021 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 did not make any additional longer-term investments this year.

3.14 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 direct investments in fossil fuel companies.

3.15 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 due diligence is being undertaken into specific funds for potential investment during 2021/22. The potential for making future ESG focussed investments is included in the 2021/22 Treasury Management Strategy, approved by Council in February 2021.

3.16 The Council's average investment return of 0.41% was below the budgeted level of 1.10%, although the impact of this is offset by the Council investment balances being higher than forecast and additional interest received from non-treasury activity.

Future Strategic & Tactical Issues

3.17 Our treasury management advisors full economic and market review for the year 2020/21 is included in **Appendix 5**.

3.18 The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

- 3.19 The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.
- 3.20 After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.
- 3.21 The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.
- 3.22 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.
- 3.23 The borrowing that took place in 2020/21 is therefore driven by a need to maintain an appropriate working cash balance rather than any immediate changes to interest rates.
- 3.24 Due to the high cash balances held by the Council at the end of 2020/21, a decision was made to repay the £15m one-year loan taken at the start of 2020/21 from the London Borough of Bromley upon its 1st April 2021 maturity date.
- 3.25 The Council is seeking advice from its treasury advisors on the potential option to make an early repayment of a £10m LOBO loan during 2021/22 as part of a debt rescheduling approach. This provides potential to make revenue savings and reduce risk by replacing the LOBO debt with a PWLB loan at a lower interest rate with the replacement loan duration more aligned to the Council's future borrowing profile. A financial appraisal is being undertaken into the restructuring options and the decision whether to proceed will be taken by the S151 Officer in line with the approved Treasury Management Strategy.

Borrowing update

- 3.26 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November, the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8%, provided that the borrowing Authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to

access the PWLB, except to refinance existing loans or externalise internal borrowing. As part of the borrowing process, Authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer.

- 3.27 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that the Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.
- 3.28 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.
- 3.29 As the Council is not currently planning to purchase any investment assets primarily for yield within the next three years, it is able to continue to access funding from the PWLB.
- 3.30 As of 6 April 2021, the 25 year PWLB certainty rate for annuity loans was 1.93% (2.44% as at 2 April 2020).
- 3.31 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

- 3.32 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 £2,323k is reported towards the Council's net revenue outturn, mainly related to the re-phasing of capital spend. This is following the review of the capital programme in response to 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. 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 The Council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

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

7.3 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 been received and due diligence is being undertaken into specific funds for potential investment during 2021/22.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

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

9.2 This report was also on the agenda for July 2021 Cabinet and Council.

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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 31 st March 2021
	£'000	£'000
Borrowing	457,000	243,457
Other long term liabilities	4,000	0
Cumulative Total	461,000	243,457

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 31 st March 2021
	£'000	£'000
Borrowing	427,000	243,457
Other long term liabilities	4,000	0
Cumulative Total	431,000	243,457

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 31 st March 2021
	£'000	£'000
Fixed interest rate exposure	427,000	223,457*

* 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 31 st March 2021
	£'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 31 st March 2021
	£'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 31 st March 2021
	%	%	%
Under 12 months	50	Nil	16.4%
12 months and within 24 months	50	Nil	2.1%
24 months and within 5 years	75	Nil	0.0%
5 years and within 10 years	100	Nil	6.2%
10 years and above	100	Nil	75.4%

* 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).

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 31 st March 2021
	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 March 2021

The term of investments is as follows:

Term Remaining	Balance at 31st March 2021
	£'000's
Notice (instant access funds)	47,500
Up to 1 month	5,000
1 month to 3 months	5,000
3 months to 6 months	0
6 months to 12 months	10,000
CCLA Property Fund (Strategic)	5,000
Total	72,500

The investment figure is made up as follows:

	Balance at 31st March 2021
	£'000's
B&NES Council	70,593
Schools	1,907
Total	72,500

The Council had a total average net positive balance of £82m during the period April 2020 to March 2021.

Chart 1: Council Investments as at 31st March 2021 - £72.5m

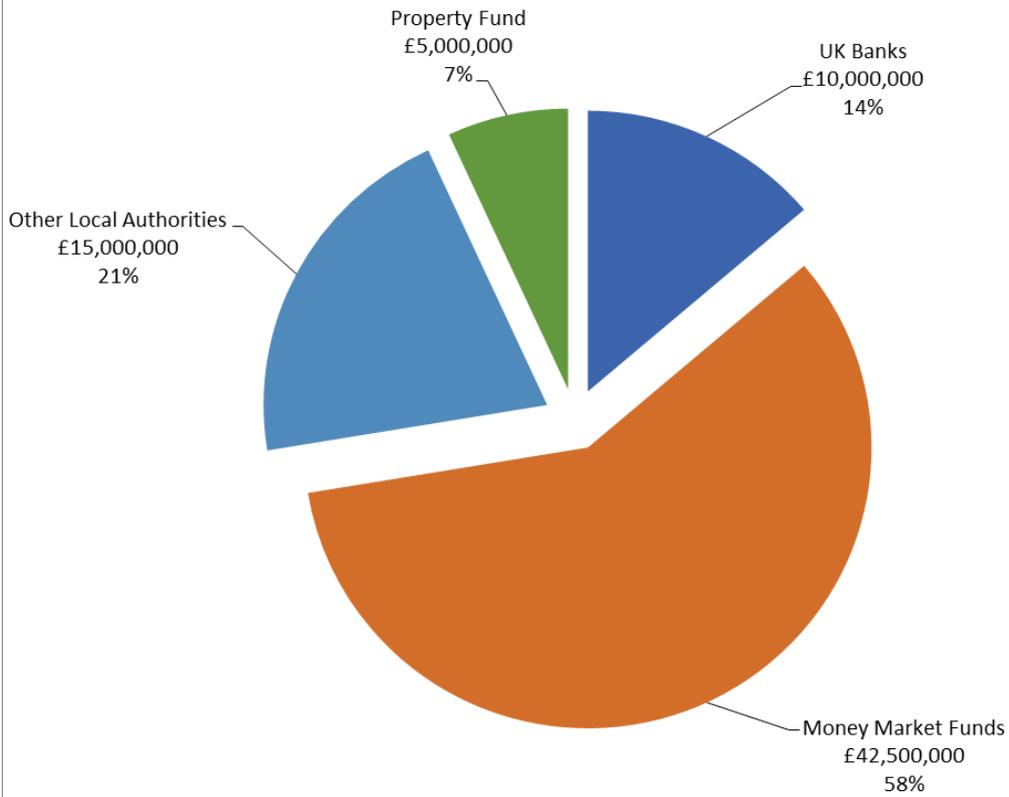


Chart 2: Council Investments as at 31st December 2020 - £81.5m

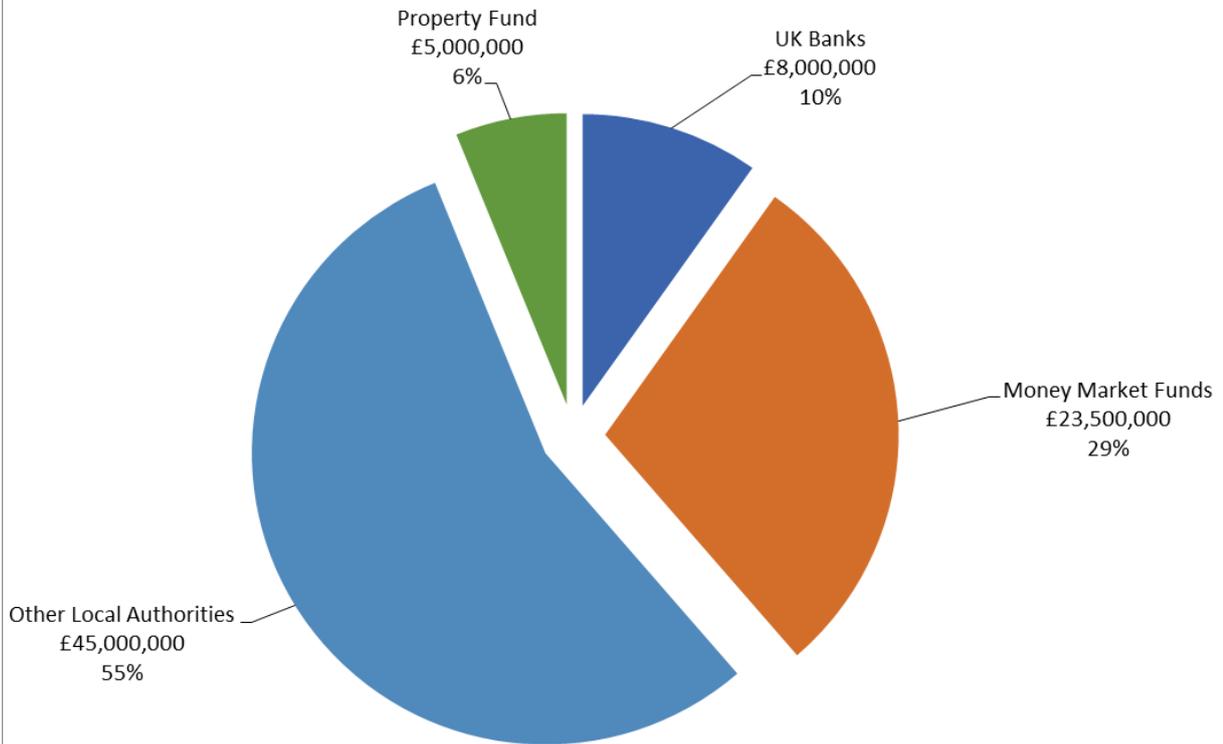


Chart 3: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st March 2021 - £72.5m

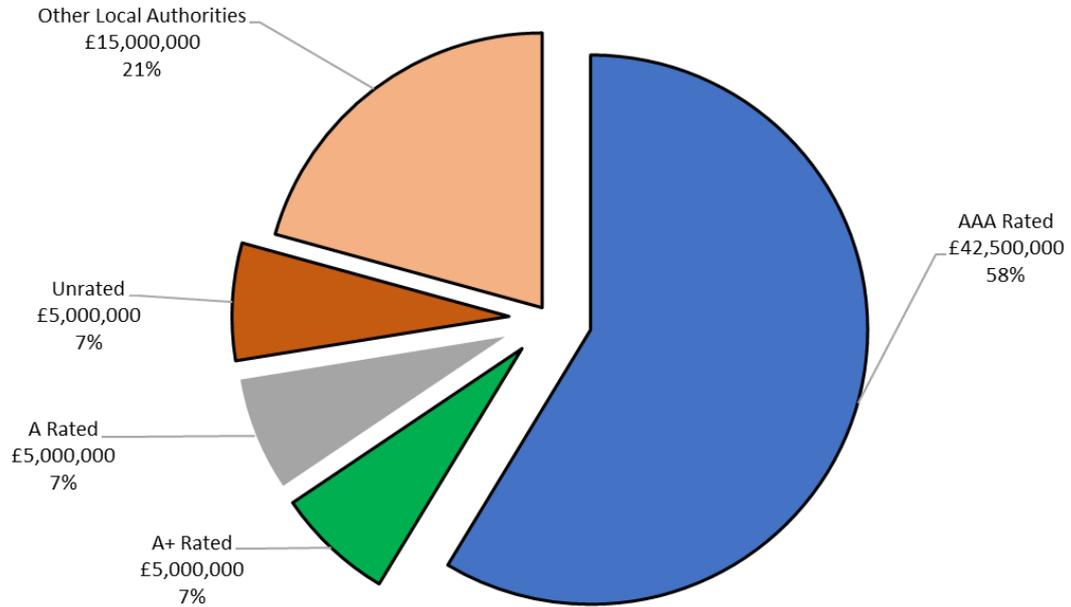
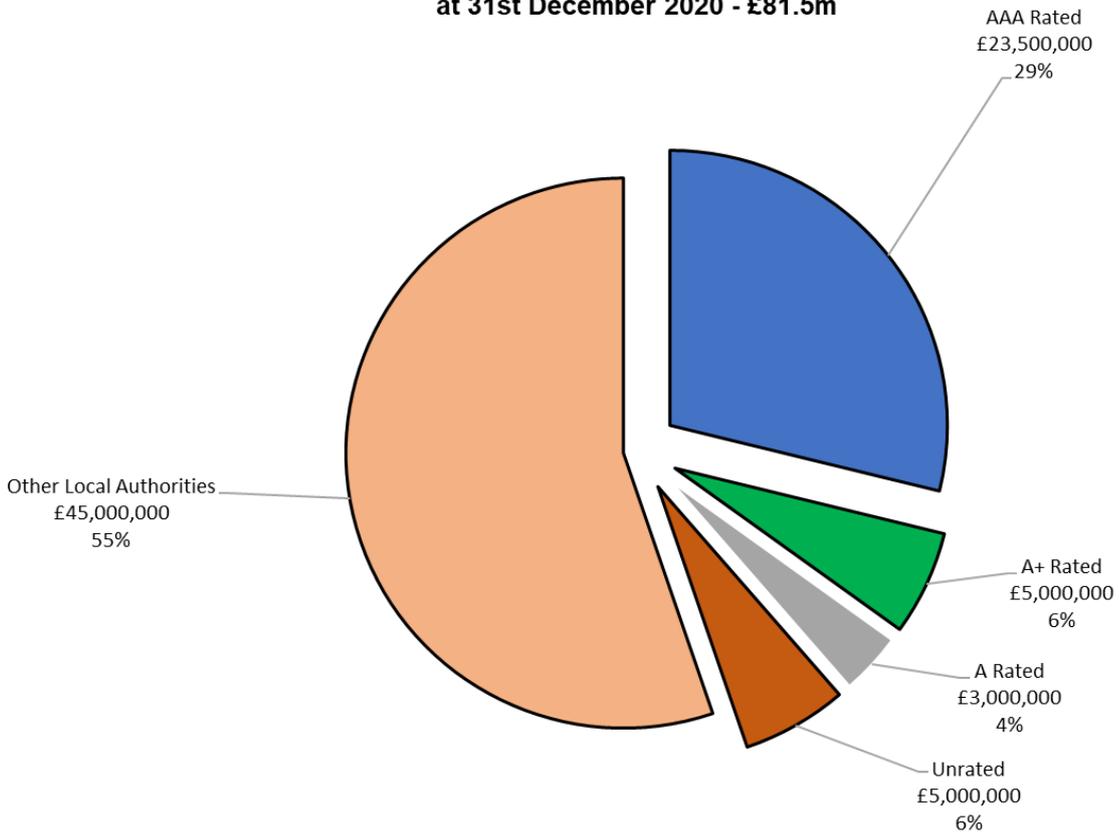


Chart 4: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st December 2020 - £81.5m



APPENDIX 3

Average rate of return on investments for 2020/21

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

APPENDIX 4

Council's External Borrowing at 31st March 2021

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	8,573,560	24/02/2017	15/08/2039	2.28%
PWLB505966	8,752,361	04/04/2017	15/02/2042	2.26%
PWLB506052	7,438,286	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	9,248,353	10/09/2018	20/07/2043	2.42%
PWLB508485	19,581,457	11/02/2019	20/07/2068	2.52%
PWLB509840	9,493,281	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%
Commerzbank AG Frankfurt*	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	243,456,749			

*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 2021

Economic background:

The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

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 on Christmas Eve. The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have helped protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over \$5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%. 1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative)

while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but 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 and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose 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.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2020/21 Outturn

April 2020 to March 2021	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Actual Spend or (Income) £'000	Actual over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	8,789	7,433	(1,355)	FAV
- Internal Repayment of Loan Charges	(9,001)	(9,501)	(500)	FAV
- Ex Avon Debt Costs	1,060	1,027	(34)	FAV
- Minimum Revenue Provision (MRP)	7,296	6,894	(402)	FAV
- Interest on Balances	(466)	(498)	(32)	FAV
Total	7,678	5,355	(2,323)	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.