Bath & North East Somerset Council	
MEETING	**Council**
MEETING DATE:	**18th November 2021**
TITLE:	**Treasury Management Performance Report to 30th September 2021**
WARD:	All
AN OPEN PUBLIC ITEM	

List of attachments to this report:

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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 for 2021/22 for the first six months of 2021/22.

2 RECOMMENDATION

The Council agrees that;

2.1 The Treasury Management Report to 30th September 2021, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.

2.2 The Treasury Management Indicators to 30th September 2021 are noted.

3 THE REPORT

Summary

3.1 The average rate of investment return for the first six months of 2021/22 is 0.27%, which is 0.28% above the benchmark rate which is currently -0.01%.

3.2 The Council's Prudential Indicators for 2021/22 were agreed by Council in February 2021 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 2021 is given in **Appendix 2**. The balance of deposits as at 30th September 2021, compared to those as at 30th June 2021, are also set out in the pie charts in this appendix.

3.4 Gross interest earned on investments totalled £105k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 0.27%, which was 0.28% above the benchmark rate of average 7 day LIBID +0.05% (-0.01%). 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 of 3.4% based on the first six months of 2021/22.

Summary of Borrowings

3.5 The Council's external borrowing as at 30th September 2021 totalled £226.4 million and is detailed in **Appendix 4**. On 1st April 2021, the Council repaid £15.0 million of short term borrowing from a local authority, which had been borrowed last year 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 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.

3.7 The difference between the CFR and the current borrowing of £226.4 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 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 3.5.

3.9 The borrowing portfolio as at 30th September 2021 is shown in **Appendix 4**.

Strategic & Tactical Decisions

3.10 As shown in the charts in **Appendix 2**, the investment portfolio of £93.1 million as at 30th September 2021 is diversified across Money Market Funds, Local Authorities, the Government's Debt Mgt Account Deposit Facility, the CCLA Property Fund and in highly rated UK Banks. The Council uses AAA rated Money Market funds to maintain short term liquidity.

3.11 On the 9th August 2021 a deposit of £5m was made to the Lloyd's 95-day notice sustainability deposit account, in line with the ESG focussed short term deposit section of the approved 2021/22 Treasury Management Strategy.

3.12 On the 27th of September 2021 Handlesbanken plc, a UK domiciled bank, was added back onto the list of authorised counterparties recommended by our Treasury Management Advisors. In line with the limits set out in the Treasury Management Strategy, the Council can now return to using Handelsbanken to make deposits of up to £10m, due to their AA- credit rating.

3.13 The Council does not hold any direct investments with banks in countries within the Eurozone reflecting both on the underlying debt issues in some Eurozone countries and the low levels of interest rates.

3.14 The Council's investment portfolio as at 30th September 2021 includes a total of £5m invested longer term in the CCLA Local Authorities Property Fund.

3.15 The potential for making future ESG focussed investments was included in the 2021/22 Treasury Management Strategy for the first time and was approved by Council in February 2021. 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. This report was reviewed and a presentation to Officers and Members took place during August 2021 to present the findings and recommendations.

3.16 Following the review, the s151 Officer has agreed the investment of £5m split across the following two ESG focussed funds;

- VT Gravis Clean energy income fund; &
- FP Foresight UK Infrastructure fund

Deposit accounts for these two funds are in the process of being set up, with a view to making the investments on a staged approach over the coming months in order to minimise the impacts of market price volatility.

3.17 The Council's average investment return for short-term investments is currently 0.05%, in line with the budgeted level of 0.05%. The return on the £5m long-term strategic investment in the CCLA Local Authority Property Fund is estimated to be in line with the budgeted rate of 3.5%. The current forecast is for an overachievement of interest income from investments of £30k due to the Council's cash balances being higher than was forecast when the budget was set.

Future Strategic & Tactical Issues

3.18 The Council's Treasury Management Advisor's economic and market review for the second quarter of 2021/22 is included in **Appendix 5**.

3.19 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.

3.20 Any additional borrowing to take place in 2021/22 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.

3.21 Following the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes, in September 2021 CIPFA issued the revised Prudential Code and Treasury Management Code of Practice and Guidance Notes in draft form, and opened the latest consultation process on their proposed changes. The proposed changes include clarifications over the purpose and affordability of borrowing and some additional prudential indicators.

3.22 Once finalised, these changes will be incorporated into the Council's Treasury Management Strategy.

Borrowing update

3.23 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. No further borrowing has been taken during the first two quarters.

3.24 In Q1 the Council sought advice from its treasury advisors on the opportunity to make an early repayment of a £10m LOBO loan during 2021/22 as part of a debt rescheduling approach. In consultation with the Cabinet Member for Economic Development & Resources, the s151 Officer made the decision to pursue this restructuring, on the basis that it will provide revenue savings and reduce risk by replacing the LOBO debt with a shorter duration PWLB loan more aligned to the Council's future borrowing profile. The process for this restructuring has now started and the lending bank is currently undertaking due diligence work. It is hoped that this restructuring can be completed in Q3, subject to finalisation of this due diligence work.

3.25 HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:

- Capital expenditure incurred or committed to before 26th November 2020 will not affect access to the PWLB even if this was for an 'investment asset bought primarily for yield'.

- Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as an investment for service delivery purposes.

- Capital spending and financing plans should be submitted by local authorities via an online return. These open for the new financial year on 1st March and remain open all year. The returns require assurance from the s151 officer that the authority does not intend to but investment assets primarily for yield. Returns must be updated if there is a change of more than 10% on original plans.

- Local authorities purchasing investment assets primarily for yield can still access the PWLB but only for the purposes of refinancing existing loans or externalising internal borrowing.

- Additional detail on the sanctions which can be imposed for inappropriate use of PWLB lending. These could include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

Budget Implications

3.26 A breakdown of the revenue budget showing interest and capital financing and the forecast year end position based on the period April to September 2021 is included in **Appendix 6**. An overall underspend of £0.690m is currently forecast, mainly related to the temporary high levels of cash balances currently held, resulting in a delay in the need to borrow and therefore incurring lower than budgeted interest costs.

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.

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 As detailed under 3.11, a £5m deposit in the Lloyd's 95-day sustainability account was made during the quarter. This account is a deposit product of Lloyds Bank which helps to support ESG focussed projects by offering discounted funding rates to projects with a green/sustainable goal.

7.4 As detailed under 3.15 & 3.16, accounts are currently being set up with two ESG funds with a view to making £5m in long term investments.

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.

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Background papers	*2021/22 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. Treasury Borrowing limits
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.

The Authorised limits for external debt include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over and above the operational limit for unusual cash movements.

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. This level also factors in the proposed approach to use internal cash-flow and future capital receipts as the preferred financing method for the capital programme.

	2021/22 Prudential Indicator	Actual as at 30th Sep 2021
Operational boundary – borrowing	£408m	£226.4m
Operational boundary – other long-term liabilities	£4m	£0m
Operational boundary – TOTAL	**£412m**	**£226.4m**
Authorised limit – borrowing	£438m	£226.4m
Authorised limit – other long-term liabilities	£4m	£0m
Authorised limit – TOTAL	**£442m**	**£226.4m**

2. 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**.

	2021/22 Prudential Indicator	Actual as at 30th Sept 2021
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA+

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

3. Liquidity
The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	2021/22 Prudential Indicator	Minimum During Quarter	Date of minimum
Minimum liquid cash balance in period	£15m	£42m	1st July

4. Interest rate exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed.

	2021/22 Prudential Indicator	Actual as at 30th Sept 2021
Upper limit on fixed interest rate exposures	£408m	£206.4m
Upper limit on variable interest rate exposures	£184m	£20m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

The Fixed rate limit is the 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.

The Variable rate limit is the maximum amount of total borrowing which can be at variable interest rates.

5. Maturity Structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk.

	Upper Limit	Lower Limit	Actual as at 30th Sep 2021
	%	%	%
Under 12 months	50	Nil	11.0
12 months and within 24 months	50	Nil	2.2
24 months and within 5 years	75	Nil	0
5 years and within 10 years	75	Nil	6.6
10 years and within 25 years	100	25	49.3
Over 25 years	100		30.9

* 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.

6. Upper limit for total principal sums invested for over 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2021/22 Prudential Indicator	Actual as at 30th Sep 2021
Limit on principal invested beyond 31st March 2022	£50m	£5m*
Limit on principal invested beyond 31st March 2023	£20m	£5m*
Limit on principal invested beyond 31st March 2024	£10m	£5m*

*The Council includes the CCLA LA Property Fund against this indicator as it is held as a Long Term Strategic Investment.

APPENDIX 2

The Council's Investment position at 30th September 2021

The term of investments is as follows:

Term Remaining	**Balance at 30th Sep 2021**
	£m
Notice (instant access funds)	43.1
Up to 1 month	20.0
1 month to 3 months	20.0
3 months to 6 months	5.0
CCLA Property Fund (Strategic)	5.0
Total	**93.1**

The investment figure is made up as follows:

	Balance at 30th September 2021
	£m
B&NES Council	90.2
Schools	2.9
Total	**93.1**

The Council had a total average net positive balance of £80.3m during the period April 2021 to September 2021.

Chart 1: Council Investments as at 30th September 2021 - £93.1m

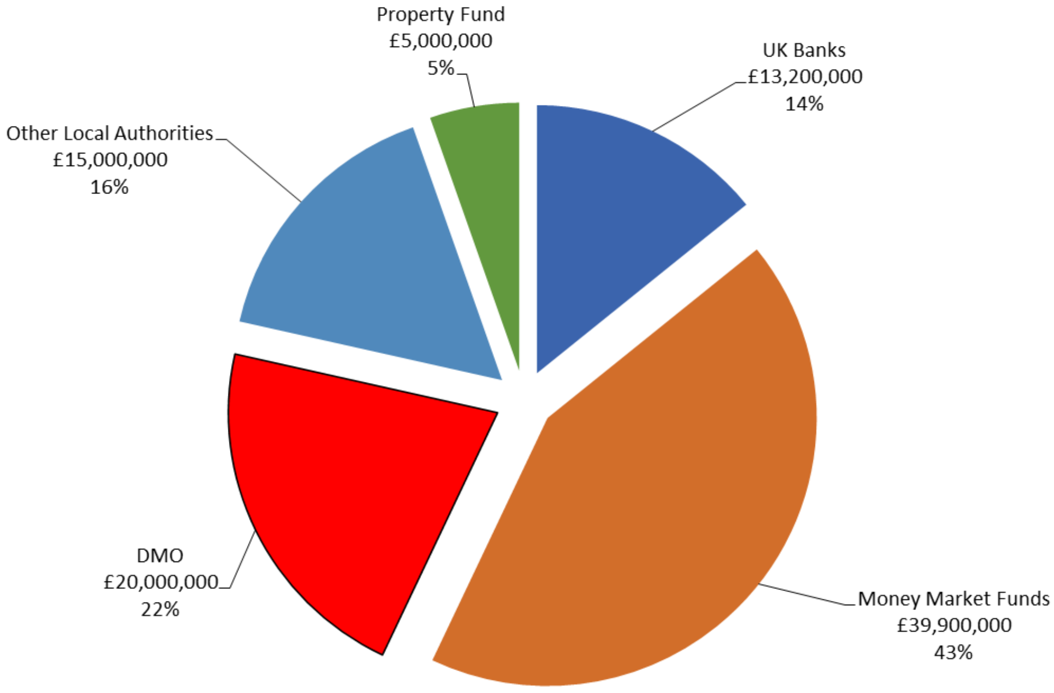


Chart 2: Council Investments as at 30th June 2021 - £71.9m

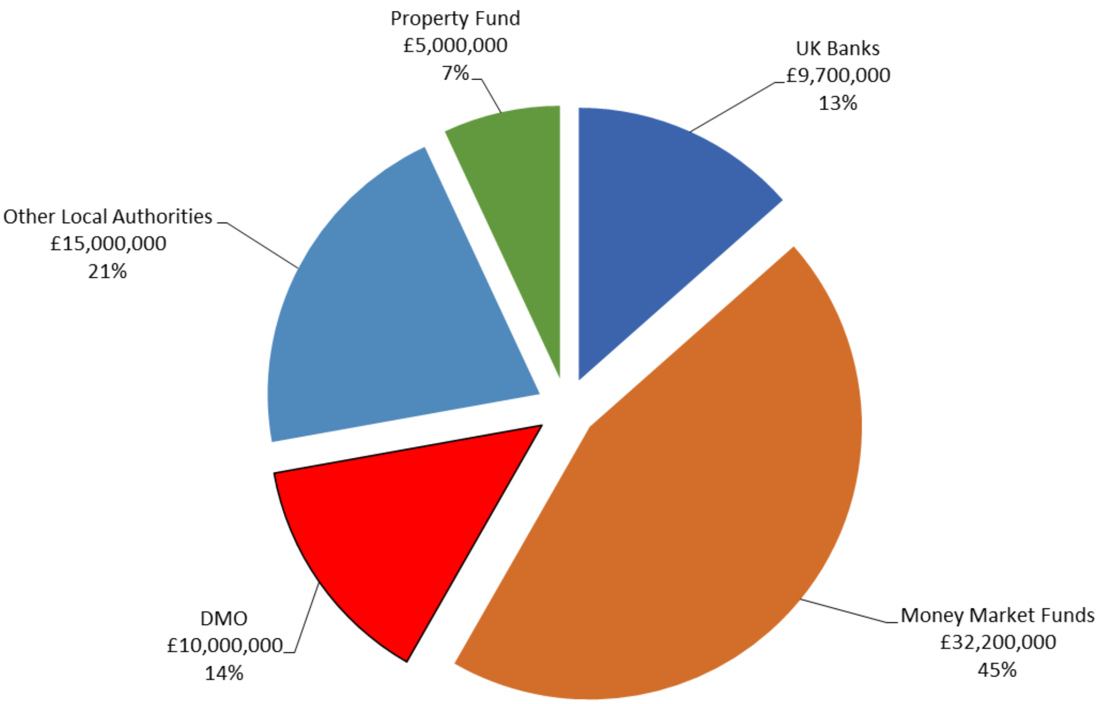


Chart 3: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 30th September 2021 - £93.1 m

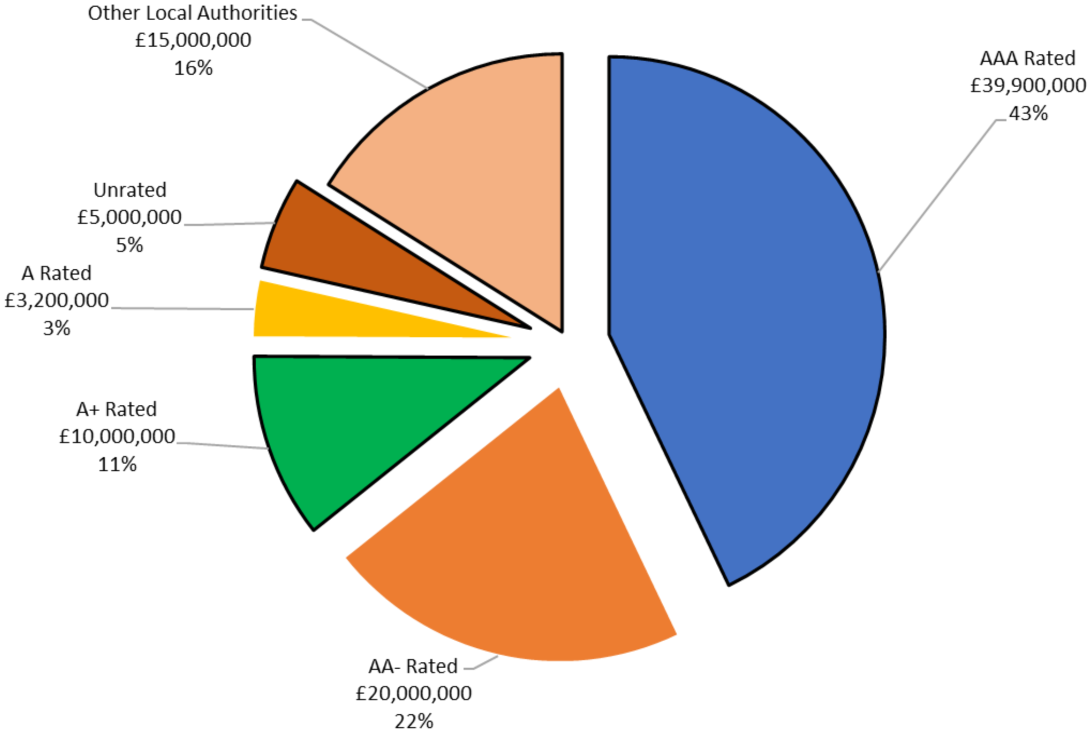
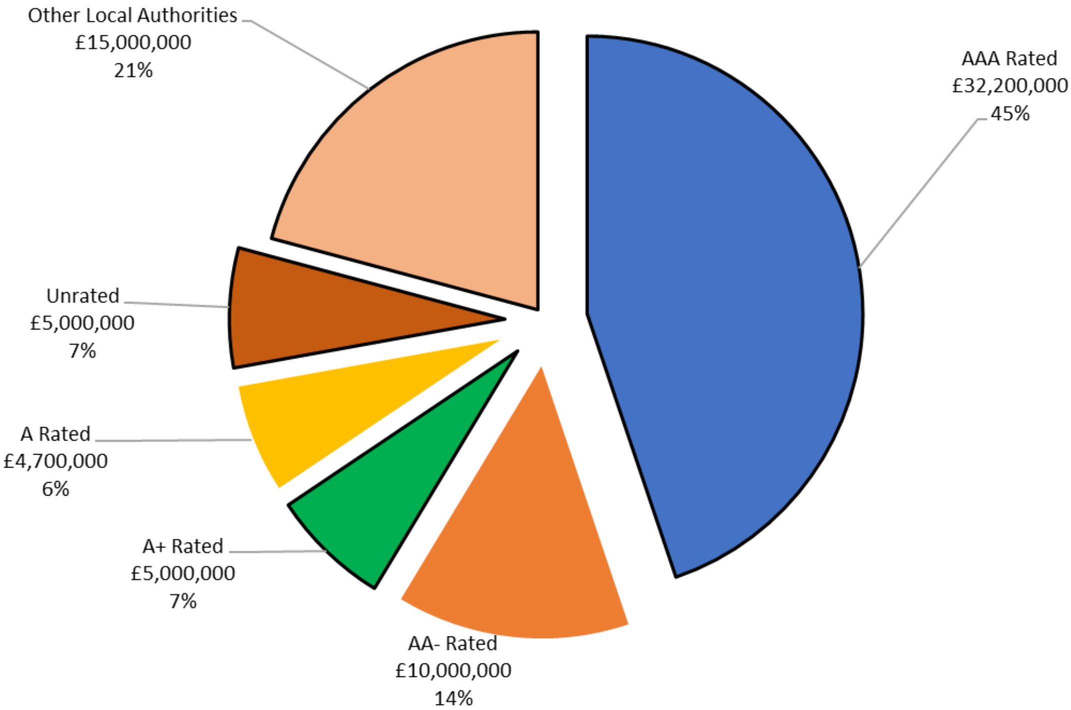


Chart 4: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 30th June 2021 - £71.9 m



APPENDIX 3

Average rate of return on investments for 2021/22

	Apr. %	May %	Jun. %	Jul. %	Aug. %	Sep. %	Average
Average rate of interest earned	0.29	0.30	0.27	0.24	0.25	0.23	0.27%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	-0.03	-0.03	-0.03	-0.03	-0.03	0.13	-0.01%
Performance against Benchmark %	+0.32	+0.33	+0.30	+0.29	+0.30	+0.10	+0.28%

APPENDIX 4

Council's External Borrowing at 30th September 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	16,879,619	20/06/2016	20/06/2041	2.36%
PWLB508126	9,088,130	06/12/2018	20/06/2043	2.38%
PWLB508202	9,693,756	12/12/2018	20/06/2068	2.59%
PWLB508224	4,536,875	13/12/2018	20/06/2043	2.25%
PWLB505744	8,385,987	24/02/2017	15/08/2039	2.28%
PWLB505966	8,588,372	04/04/2017	15/02/2042	2.26%
PWLB506052	7,298,766	08/05/2017	15/02/2042	2.25%
PWLB506255	6,714,422	10/08/2017	10/04/2067	2.64%
PWLB506729	8,925,963	13/12/2017	10/10/2042	2.35%
PWLB506995	8,947,355	06/03/2018	10/10/2042	2.52%
PWLB506996	9,194,007	06/03/2018	10/10/2047	2.62%
PWLB507749	9,092,523	10/09/2018	20/07/2043	2.42%
PWLB508485	19,473,504	11/02/2019	20/07/2068	2.52%
PWLB509840	9,322,004	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				
Portsmouth C.C.	5,000,000	19/12/2019	19/12/2022	1.65%
Short term				
Gloucestershire C.C.	5,000,000	25/11/2019	25/11/2021	1.50%
Total Borrowing	**226,441,283**			

*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: Arlingclose's Economic & Market Review Q2 of 2021/22

Economic background: The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.

The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.

The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

Financial markets: Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10 year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.

The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

Arlingclose's Economic Outlook for the remainder of 2021/22 (based on the October 2021 interest rate forecast)

Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.

Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.

The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.

While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.

The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.

Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.

The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2021/22

April 2021 to September 2021	**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	8,049	7,419	(630)	FAV
- Internal Repayment of Loan Charges	(10,338)	(10,338)	0	
- Ex Avon Debt Costs	1,020	990	(30)	FAV
- Minimum Revenue Provision (MRP)	8,307	8,307	0	
- Interest on Balances	(208)	(238)	(30)	FAV
Total	**6,830**	**6,140**	**(690)**	**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					3			Monitor interest rates on a monthly basis and compare with budget to determine impact on Council finances and report through monthly Treasury Dashboard. Report implication of interest rate changes to Cabinet 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.			3					3			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.