Bath & North East Somerset Council		
MEETING	**Cabinet**	
MEETING DATE:	**19th July 2022**	EXECUTIVE FORWARD PLAN REFERENCE: E 3365
TITLE:	**Treasury Management Performance Report to 30th June 2022**	
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 30th June 2022 **Appendix 3** – Average monthly rate of return for 1st 3 months of 2022/23 **Appendix 4** – The Council's External Borrowing Position at 30th June 2022 **Appendix 5** – Arlingclose's Economic & Market Review Q1 of 2022/23 **Appendix 6** – Interest & Capital Financing Budget Monitoring 2022/23 **Appendix 7** – Summary Guide to Credit Ratings **Appendix 8** – Extract from Treasury Management Risk Register		

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 2022/23 for the first three months of 2022/23.

2 RECOMMENDATION

The Cabinet agrees that;

2.1 The Treasury Management Report to 30th June 2022, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.

2.2 The Treasury Management Indicators to 30th June 2022 are noted.

3 THE REPORT

Summary

3.1 The average rate of investment return for the first three months of 2022/23 is 1.00%, which is 0.09% above the benchmark rate which has averaged 0.91% over the period.

3.2 The Council's Prudential Indicators for 2022/23 were agreed by Council in February 2022 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

3.3 The Council's revenue budget for interest & capital financing costs for 2022/23 is currently forecast £250k under budget due to higher than budgeted investment income. This is due to both the increase in interest rates since the budget was set, along with the temporary high levels of cash balances currently held following the advance payment of grants and the profiling of capital expenditure. The breakdown of the 2022/23 revenue budget for interest and capital financing, and the forecast year end position is included in **Appendix 6**.

Summary of Returns

3.4 The Council's investment position as at 30th June 2022 is given in **Appendix 2**, along with the previous quarter's position for comparison. The balance of deposits as at 30th June 2022, compared to those as at 31st March 2022, are also set out in the pie charts in this appendix.

3.5 Gross estimated interest earned on investments totalled £225k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 1.00%, which was 0.09% above the benchmark rate of average 7 day SONIA (0.91%). This excess is mainly due to the £5m investment held in the CCLA Local Authority Property Fund and £5m invested in ESG focussed funds, which are long term strategic investment earning a higher estimated rate of interest of 3.70%, based on the first three months of 2022/23. The prior year comparators are also included in this appendix.

3.6 Following the discontinuation of published 7 Day LIBID rates, from 2022/23 onwards the Council will be benchmarking its investments rates to the average 7 Day SONIA (Sterling Overnight Index Average) rate as an alternative. This is being used as the comparative benchmark as SONIA can be seen as the average interest rate at which a selection of financial institutions lend to one another with a maturity of 1 day (overnight), therefore reflecting the callable nature of the majority of the Council's short-term investments.

Summary of Borrowings

3.7 The Council's external borrowing as at 30th June 2022 totalled £218.3 million and is detailed in **Appendix 4**. Due to the levels of cash balances currently held by the Council, there has not been any new borrowing taken out during the quarter. A summary of the current movement in borrowing during 2022/23 is shown in the following table:

2022/23 Borrowing Portfolio Movements	£m
2022/23 Opening Balance	**219.403**
New Loans Taken	0.000
Loans Repaid	0.000
PWLB Annuity Loan principal repayments	(1.116)
2022/23 Revised Balance	**218.287**

3.8 The Council's Capital Financing Requirement (CFR) as at 31st March 2022 was £328.2 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.

3.9 The difference between the CFR and the current borrowing of £218.3 million represents re-investment of the internal balances including reserves, reducing the in-year borrowing costs in excess of the potential investment returns.

3.10 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 2022 apportioned to Bath & North East Somerset Council is £10.5m. 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 3.7.

Strategic & Tactical Decisions

3.11 As shown in the charts in **Appendix 2**, the investment portfolio of £82.6 million as at 30th June 2022 is diversified across Money Market Funds, Local Authorities, the Government's Debt Mgt Account Deposit Facility, Strategic funds and in highly rated UK & Foreign Banks. The Council uses AAA rated Money Market funds to maintain short term liquidity.

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 30th June 2022 includes a total of £10m invested longer term, including £5m in ESG focussed funds and £5m in a property fund, as listed below:

- £5m CCLA Local Authorities Property Fund.
- £3m FP Foresight UK Infrastructure Income Fund.
- £2m VT Gravis Clean Energy Income Fund.

3.14 The Council also maintains a deposit of £5m in the Lloyd's Bank 95-day notice sustainability deposit account, in line with the ESG focussed short term deposit section of the 2022/23 Treasury Management Strategy.

3.15 The Council's average investment return for short-term investments is currently 0.67%, which is 0.42% above the budgeted level of 0.25%. The estimated average return on the £10m long-term strategic investments is estimated to be 3.7%, slightly above the budgeted rate of 3.5%. The combined average return on all investments is 1.00%. The current forecast is for an overachievement of interest income from investments of £250k due to the Council's cash balances being higher than was forecast when the budget was set, as well as recent increases in interest rates.

Investment Type	Average YTD Investment Return
Short Term Investments Total	**0.67%**
Long Term Strategic Investments (Estimated)*:	
CCLA Local Authorities Property Fund	3.4%
FP Foresight UK Infrastructure Income Fund	4.2%
VT Gravis Clean Energy Income Fund	3.8%
Long Term Strategic Investments Total (Est.)	**3.7%**
Overall Total (Estimated)	**1.00%**

* The investment returns on the Long Term Strategic Investments are currently estimates based on the previous quarter. The actual figure for the quarter is not available until several weeks after the quarter has finished.

Future Strategic & Tactical Issues

3.16 The Council's Treasury Management Advisor's economic and market review for the first quarter of 2022/23 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 2022/23 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.

Budget Implications

3.19 The breakdown of the 2022/23 revenue budget for interest and capital financing, and the forecast year end position based on the period April to June 2022, is included in **Appendix 6**. An overall underspend of £0.250m is currently forecast due to higher than budgeted investment income. This is due to both the increase in interest rates since the budget was set, along with the temporary high levels of cash balances currently held following the advance payment of grants and the profiling of capital expenditure.

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 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 is included the Treasury Management Strategy document for 2022/23, with the treasury team monitoring investment options permitted under the new guidelines.

7.3 As detailed under 3.14, the Council holds a £5m deposit balance in the Lloyd's 95-day sustainability account. 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 The Council also holds £5m in longer term investments, split across two ESG focussed Strategic Funds, as detailed under 3.13.

8 OTHER OPTIONS CONSIDERED

8.1 None

9 CONSULTATION

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

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Background papers	*2022/23 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.

	2022/23 Prudential Indicator	**Actual as at 30th June 2022**
Operational boundary – borrowing	£435m	£218.3m
Operational boundary – other long-term liabilities	£4m	£0m
Operational boundary – TOTAL	**£439m**	**£218.3m**
Authorised limit – borrowing	£464m	£218.3m
Authorised limit – other long-term liabilities	£4m	£0m
Authorised limit – TOTAL	**£468m**	**£218.3m**

2. Security: Average Credit Rating*
The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. A summary guide to credit ratings is set out at **Appendix 7**.

	2022/23 Prudential Indicator	**Actual as at 30th June 2022**
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AA+

* *The calculation excludes the strategic investment in the CCLA Local Authority Property Fund and ESG focussed Investment Funds, which are 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	**2022/23 Prudential Indicator**	**Minimum During Quarter**	**Date of minimum**
Minimum total Cash Available within 3 months	£15m	£57.4m	27-May-22

4. Interest rate exposures
This indicator is set to control the Council's exposure to interest rate risk. The upper limit represents the maximum one-year revenue impact of a 1% rise or fall in interest rates.

	2022/23 Prudential Indicator	Actual as at 30th June 2022
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £1m	+£0.643m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £1m	-£0.643m

The impact of this limit is that the Council should never be holding a maturity adjusted net debt / investment position on variable rates of more than £100m.

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates, which includes amounts which are maturing each year in PWLB annuity loans.

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 June 2022
	%	%	%
Under 12 months	50	Nil	2.3
12 months and within 24 months	50	Nil	0
24 months and within 5 years	75	Nil	0
5 years and within 10 years	75	Nil	6.9
10 years and within 25 years	100	25	49.8
Over 25 years	100		41.0

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date that the lender can demand repayment. For LOBO's, this is shown at the date of maturity.

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	2022/23 Prudential Indicator	Actual as at 30th June 2022
Limit on principal invested beyond 31st March 2023	£50m	£10m*
Limit on principal invested beyond 31st March 2024	£20m	£10m*
Limit on principal invested beyond 31st March 2025	£10m	£10m*

*The Council includes the CCLA LA Property Fund & two long term ESG focussed Investment Funds against this indicator as they are both held as Long Term Strategic Investments.

APPENDIX 2

The Council's Investment position at 30th June 2022

The term of investments is as follows:

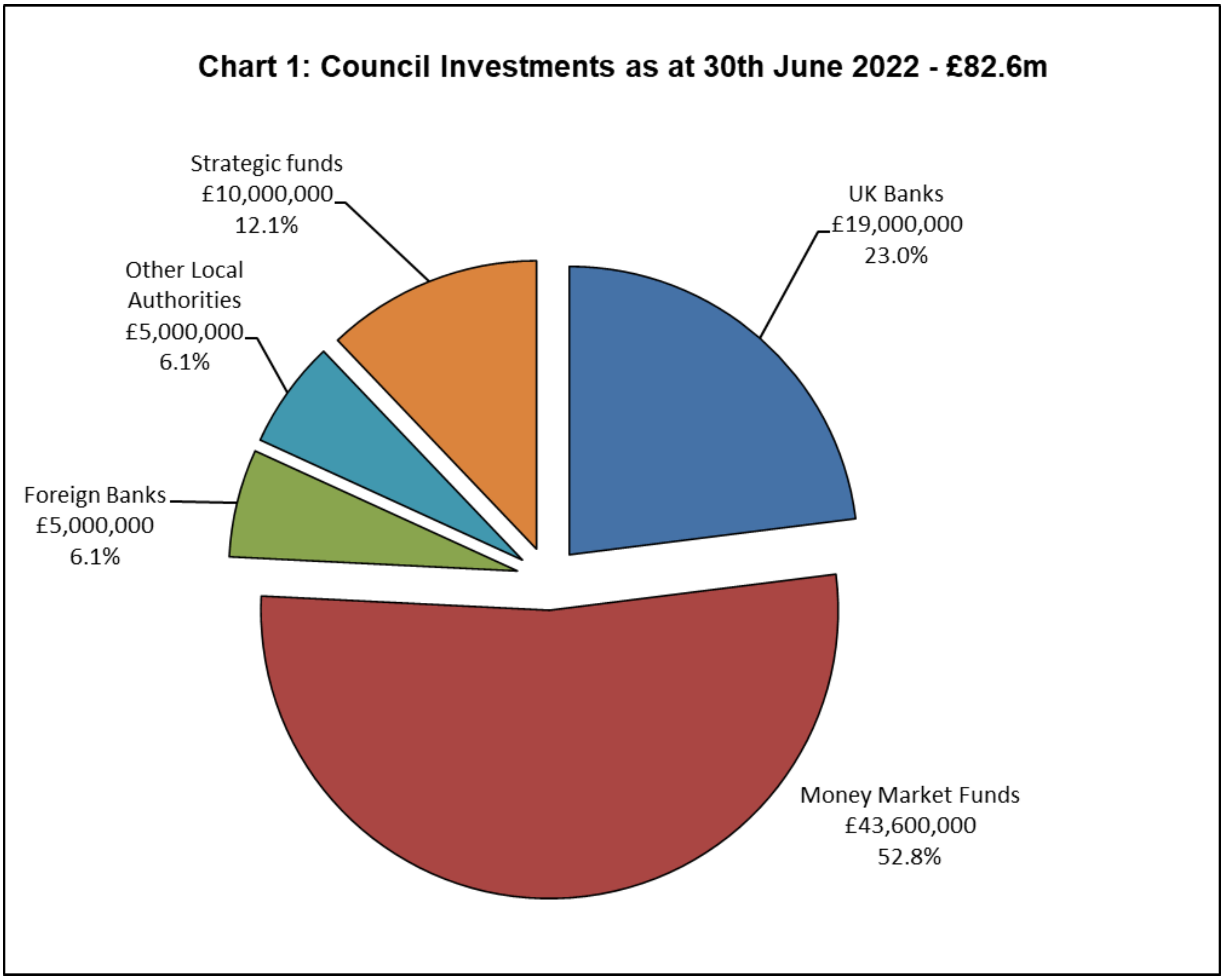
Term Remaining	**Balance at 30th Jun 2022**	**Comparator** Balance at 31st Mar 2022
	£m	**£m**
Notice (instant access funds)	57.6	49.2
Up to 1 month	5.0	0
1 month to 3 months	5.0	20.0
3 months to 6 months	5.0	0
6 months to 12 months	0	5.0
Strategic Funds	10.0	10.0
Total	**82.6**	**84.2**

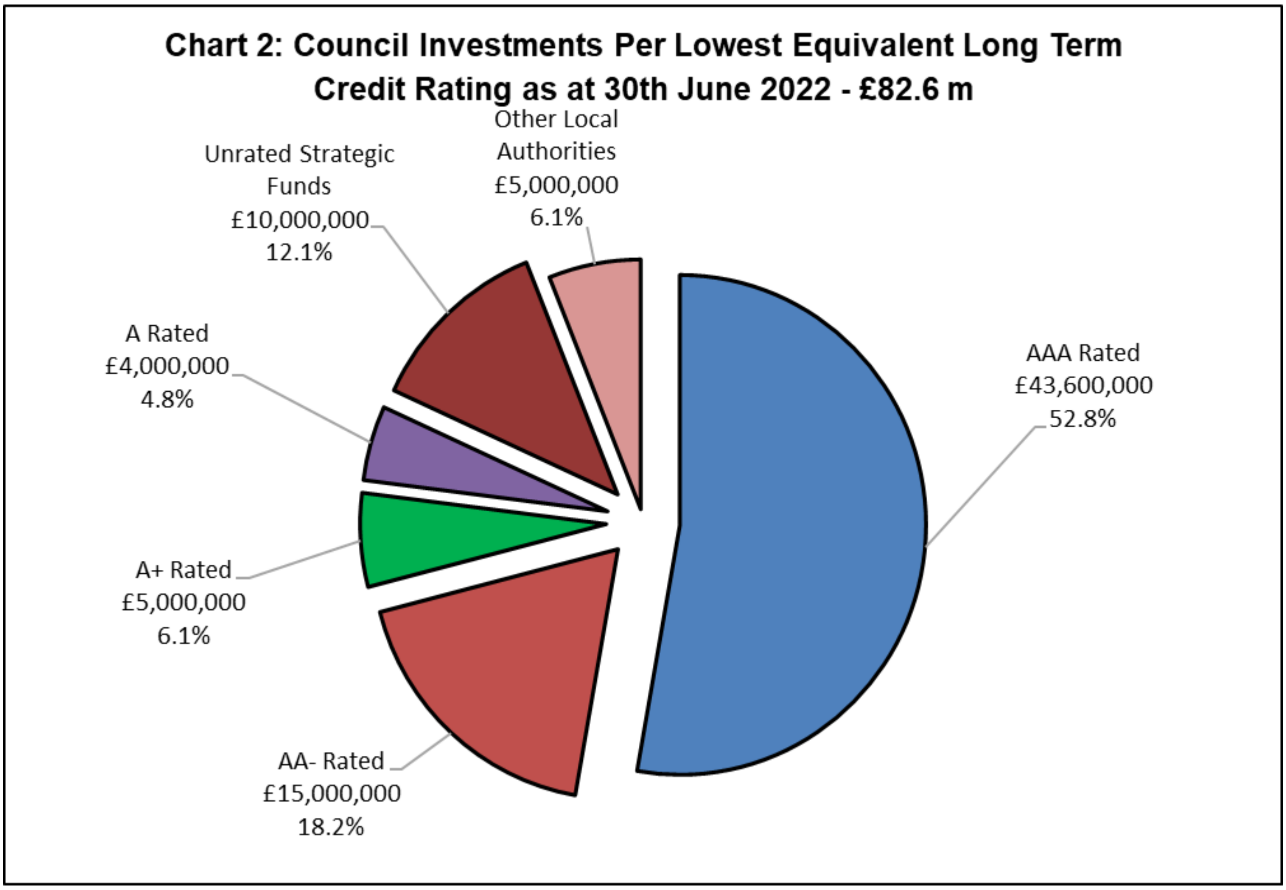
The investment figure is made up as follows:

	Balance at 30th Jun 2022	**Comparator** Balance at 31st Mar 2022
	£m	**£m**
B&NES Council	79.9	82.3
Schools	2.7	1.9
Total	**82.6**	**84.2**

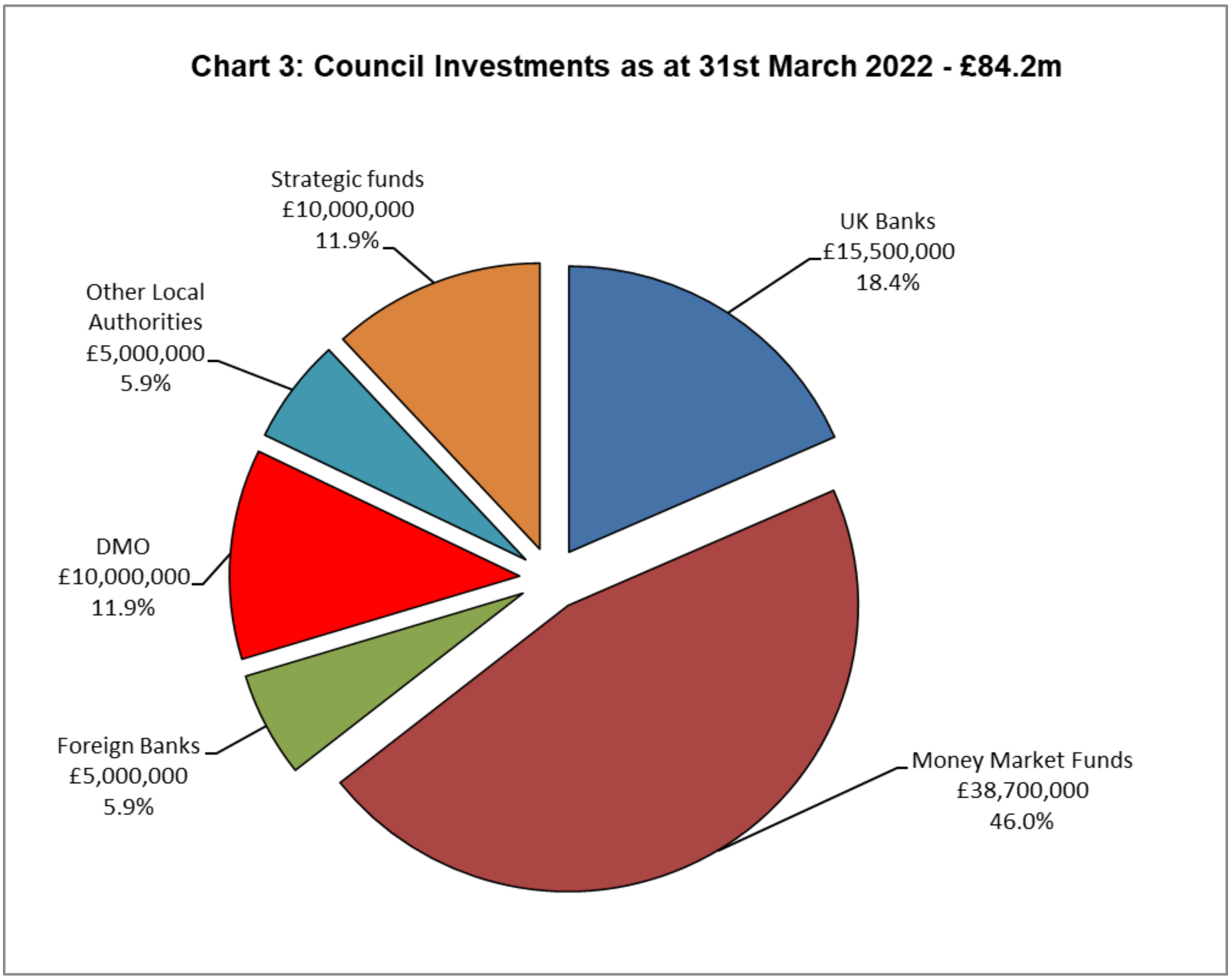
The Council had a total average net positive balance of £89.9m during the period April 2022 to June 2022.

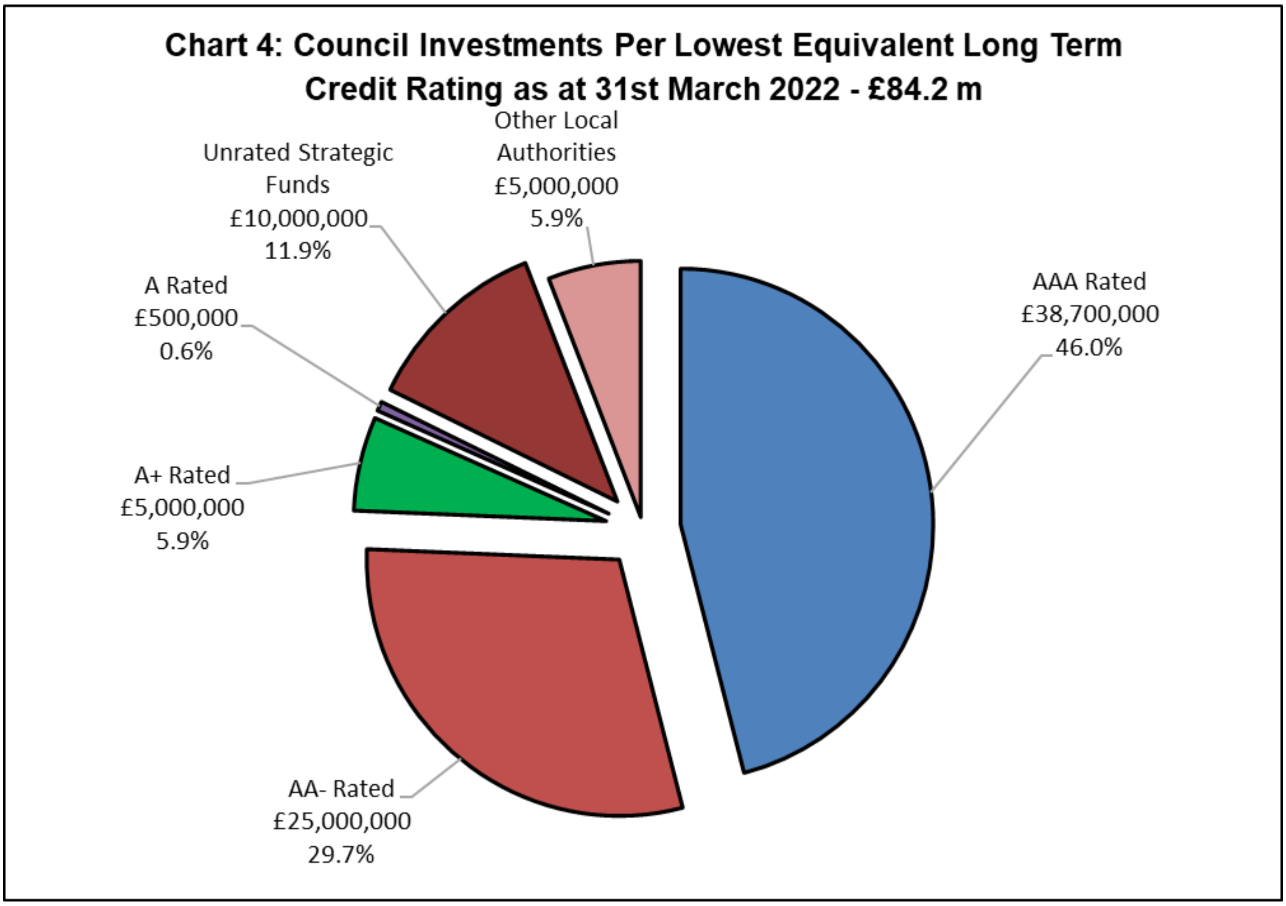
Charts 1 & 2 – Current Quarter





Charts 3 & 4 – Previous Quarter Comparators





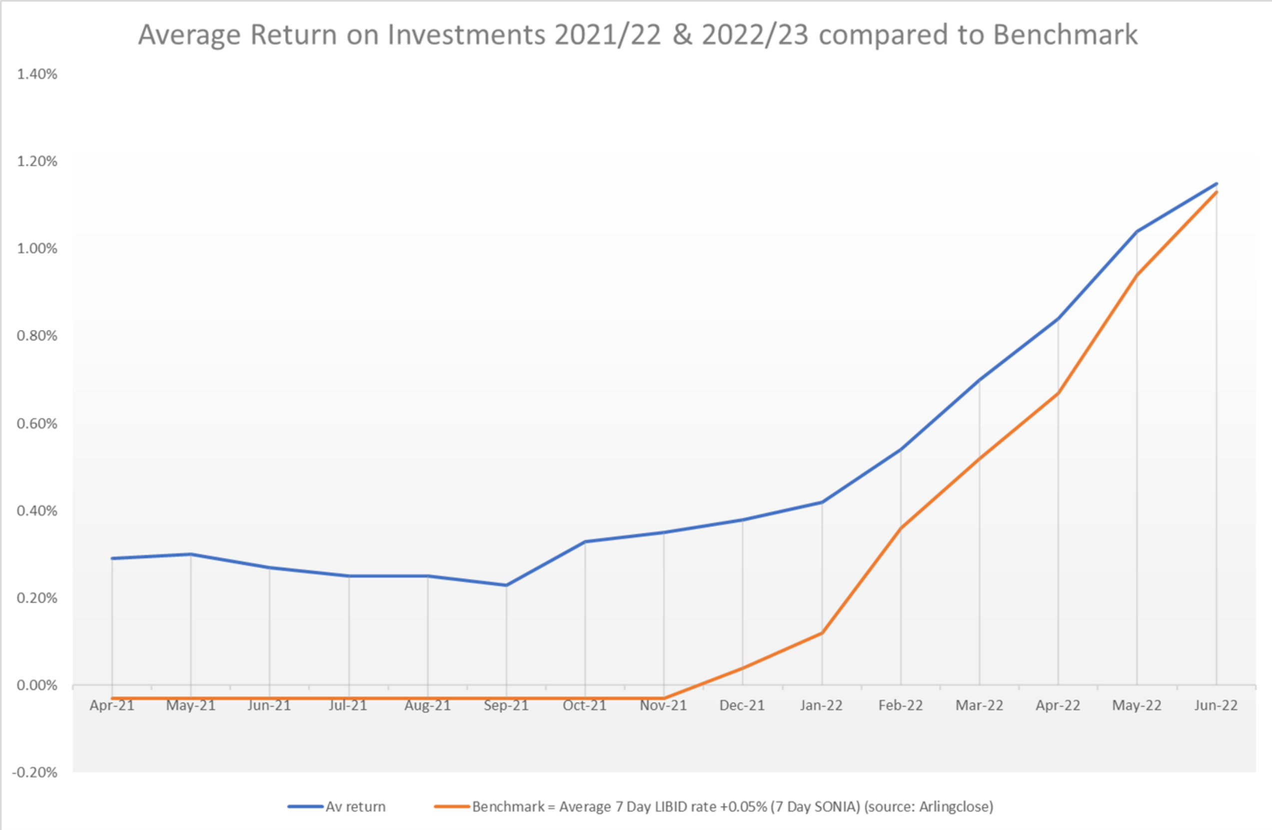
APPENDIX 3

Average rate of return on investments for 2022/23

	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2022	0.84%	0.67%	+0.17%
May 2022	1.04%	0.94%	+0.10%
June 2022	1.15%	1.13%	+0.02%
Average	**1.00%**	**0.91%**	**+0.09%**

For Comparison, the average rate of return on investments for 2021/22 was as follows:

	Av return	Benchmark = Average 7 Day LIBID rate +0.05% (7 Day SONIA – 0.08%)	Performance against Benchmark %
April 2021	0.29%	-0.03%	+0.32%
May 2021	0.30%	-0.03%	+0.33%
June 2021	0.27%	-0.03%	+0.30%
July 2021	0.25%	-0.03%	+0.28%
August 2021	0.25%	-0.03%	+0.28%
September 2021	0.23%	-0.03%	+0.27%
October 2021	0.33%	-0.03%	+0.36%
November 2021	0.35%	-0.03%	+0.38%
December 2021	0.38%	0.04%	+0.34%
January 2022	0.42%	0.12%	+0.30%
February 2022	0.54%	0.36%	+0.18%
March 2022	0.70%	0.52%	+0.18%
Average	**0.36%**	**0.06%**	**+0.30%**


Average Return on Investments 2021/22 & 2022/23 compared to Benchmark
1.40%
1.20%
1.00%
0.80%
0.60%
0.40%
0.20%
0.00%
-0.20%
Apr-21
May-21
Jun-21
Jul-21
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Jan-22
Feb-22
Mar-22
Apr-22
May-22
Jun-22
Av return
Benchmark = Average 7 Day LIBID rate +0.05% (7 Day SONIA) (source: Arlingclose)

APPENDIX 4

Council's External Borrowing at 30th June 2022

Lender	Amount outstanding @ 31st Mar'22	Change in Quarter	Amount outstanding @ 31st Mar'22	Start date	End date	Interest rate
	£	£	£			
Long term						
PWLB489142	10,000,000	-	**10,000,000**	15/10/2004	15/10/2034	4.75%
PWLB497233	5,000,000	-	**5,000,000**	12/05/2010	15/08/2035	4.55%
PWLB497234	5,000,000	-	**5,000,000**	12/05/2010	15/02/2060	4.53%
PWLB498834	5,000,000	-	**5,000,000**	05/08/2011	15/02/2031	4.86%
PWLB498835	10,000,000	-	**10,000,000**	05/08/2011	15/08/2029	4.80%
PWLB498836	15,000,000	-	**15,000,000**	05/08/2011	15/02/2061	4.96%
PWLB503684	5,300,000	-	**5,300,000**	29/01/2015	08/04/2034	2.62%
PWLB503685	5,000,000	-	**5,000,000**	29/01/2015	08/10/2064	2.92%
PWLB505122	16,546,973	(336,571)	**16,210,402**	20/06/2016	20/06/2041	2.36%
PWLB508126	8,929,760	(160,255)	**8,769,505**	06/12/2018	20/06/2043	2.38%
PWLB508202	9,640,378	(54,070)	**9,586,307**	12/12/2018	20/06/2068	2.59%
PWLB508224	4,456,620	(81,158)	**4,375,462**	13/12/2018	20/06/2043	2.25%
PWLB505744	8,196,276	-	**8,196,276**	24/02/2017	15/08/2039	2.28%
PWLB505966	8,422,529	-	**8,422,529**	04/04/2017	15/02/2042	2.26%
PWLB506052	7,157,675	-	**7,157,675**	08/05/2017	15/02/2042	2.25%
PWLB506255	6,676,572	(38,350)	**6,638,222**	10/08/2017	10/04/2067	2.64%
PWLB506729	8,765,234	(162,618)	**8,602,616**	13/12/2017	10/10/2042	2.35%
PWLB506995	8,789,303	(160,043)	**8,629,260**	06/03/2018	10/10/2042	2.52%
PWLB506996	9,072,753	(122,842)	**8,949,910**	06/03/2018	10/10/2047	2.62%
PWLB507749	8,934,808	-	**8,934,808**	10/09/2018	20/07/2043	2.42%
PWLB508485	19,364,192	-	**19,364,192**	11/02/2019	20/07/2068	2.52%
PWLB509840	9,149,528	-	**9,149,528**	04/09/2019	20/07/2044	1.40%
KBC Bank N.V *	5,000,000	-	**5,000,000**	08/10/2004	08/10/2054	4.50%
KBC Bank N.V *	5,000,000	-	**5,000,000**	08/10/2004	08/10/2054	4.50%
Commerzbank AG Frankfurt*	10,000,000	-	**10,000,000**	27/04/2005	27/04/2055	4.50%
Medium term						
Portsmouth C.C.	5,000,000	-	**5,000,000**	19/12/2019	19/12/2022	1.65%
Total Borrowing	**219,402,600**	**(1,115,907)**	**218,286,693**			

*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.

The "Change in Quarter" movement on some of the PWLB loans reflects that these loans have an annuity repayment profile, so repayments of principal are made on a 6 monthly basis throughout the life of the loans.

APPENDIX 5: Arlingclose Economic & Market Review

Economic background: Following Russia's invasion of Ukraine in February, global inflationary pressures have intensified sharply, leading to a sizeable deterioration in the outlook for world and UK growth.

The economic backdrop in the April-June quarter was characterised by higher oil, gas and commodity prices, fears of rising and persistent inflation and its damaging impact on consumers' cost of living, little indication of an imminent end to Russia-Ukraine hostilities and supply chain bottlenecks exacerbated by war in Ukraine and lockdowns in China.

Added to this was tough rhetoric and action by central bankers globally on fighting inflation through higher interest rates and quantitative tightening even as financial conditions became increasingly difficult for consumers, more so for those whose wages have not kept pace with inflation.

In the UK inflation remained elevated. Ofgem, the energy regulator, increased the energy price cap by 54% in April, equivalent to around £700 for a household with average energy consumption (the cap had already increased 12% back in October 2021). May data showed CPI edging higher to 9.1% while the core CPI rate, which removes energy, fuel and food was 5.9%. RPI rose to 11.7%.

The labour market continued to show signs of tightness as employers struggled to fill vacancies with workers with skill sets matching their requirements. The unemployment rate for April fell to 3.8% and is now below pre-pandemic levels. Pay growth was 6.8% for total pay (including bonuses) and 4.2% for regular pay; however, adjusted for inflation, growth in total pay was just 0.4%, whilst regular pay fell 2.2%.

Unsurprisingly, with disposable income squeezed and another energy cap increase due in October, consumer confidence plummeted to the level last seen during the 2008/09 financial crisis. Quarterly GDP growth was 0.8% in the January-March quarter and the Bank of England now expects a decline of 0.3% in Q2 2022.

Having increased interest rates by 0.25% in April, the Bank of England's Monetary Policy Committee on the 15th of June 2022 voted 6-3 to increase the official Bank Rate by 0.25% to 1.25%. Those members in the minority preferred to increase Bank Rate by 0.5%. Rises in the input and output producer price measures suggest further inflationary pressure is in the pipeline. The Bank of England is therefore unlikely to become complacent, so further rate rises look likely in the near term.

Annual inflation in the US rose to 8.6% in May, the highest in nearly 40 years. The Federal Reserve also stepped up its fight against inflation with a 0.5% hike in rates in May followed by a further increase of 0.75% in June, the latter its most aggressive hike since 1994 and higher than markets expected, taking policy rates to a range of 1.5% - 1.75%.

Inflation in the Eurozone also pushed higher to 8.1%, with energy price pressures a major contributor. Europe is heavily impacted by the energy crisis following the Russian invasion of Ukraine, but concerns about the Eurozone's peripheral members and highly indebted members states complicates the European Central Bank's response as it seeks to normalise monetary policy. The ECB stated it would end quantitative easing at the beginning of July and then increase interest rates by 0.25% later in the month, the first hike since 2011. The central bank's Governing Council also convened an emergency meeting in June to address 'fragmentation' risks.

Financial markets: Heightened uncertainty characterised financial market sentiment and bond yields were similarly volatile but with a general upward trend as concern over higher inflation and higher interest rates dominated.

Over the quarter the 5-year UK benchmark gilt yield rose from 1.41% to 2.04%, the 10-year gilt yield rose from 1.61% to 2.39% and the 20-year yield from 1.82% to 2.69%. The Sterling Overnight Rate (SONIA) averaged 0.8% over the period.

Credit review: In May, Moody's affirmed the long-term rating of Guildford Borough Council at Aa3, a reflection of the Council's solid track record of budgetary performance and high level of usable reserves, but changed the 'outlook' (the longer-term direction of travel) to negative. The agency downgraded the long-term rating of Warrington Borough Council from A2 to A3 and that of Transport for London (TfL) from A3 to Baa1.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2022/23

April 2022 to June 2022	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	8,031	8,031	0	
- Internal Repayment of Loan Charges	(13,052)	(13,052)	0	
- Ex Avon Debt Costs	980	980	0	
- Minimum Revenue Provision (MRP)	9,678	9,678	0	
- Interest on Balances	(425)	(675)	(250)	FAV
Total	**5,212**	**4,962**	**(250)**	**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 Risks

			Current Risk Score											Trend			
	Risk Nr	Description	Likelihood					Impact					This Period	Periods Ago			Management Action
			1	2	3	4	5	1	2	3	4	5					
			L		M	H		L		M	H			1	2	3	
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			6	6	6	6	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			9	9	4	4	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	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.				4				3			12	9	4	4	Liaise with Chief Finance Officer to ensure Inflation both current and projected forms part of the medium term financial planning framework.
4	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		12	12	12	12	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.
5	R09	Key Personnel - There is a risk that staff absence results in the inability to process Treasury Management transactions.			3					3			9	9	9	6	Produce & maintain a Business Continuity Plan to manage staff absences Provide refresher training and periodically ask secondary process operators to run the treasury process to ensure that there are a number of people able to perform the treasury activity