<table>
<tr><td colspan="3">Bath & North East Somerset Council</td></tr>
<tr><td>MEETING</td><td colspan="2">Cabinet</td></tr>
<tr><td rowspan="2">MEETING DATE:</td><td rowspan="2">9th February 2023</td><td>EXECUTIVE FORWARD PLAN REFERENCE:</td></tr>
<tr><td>E 3367</td></tr>
<tr><td>TITLE:</td><td colspan="2">Treasury Management Performance Report to 31st December 2022</td></tr>
<tr><td>WARD:</td><td colspan="2">All</td></tr>
<tr><td colspan="3">AN OPEN PUBLIC ITEM</td></tr>
<tr><td colspan="3">List of attachments to this report:
Appendix 1 – Performance Against Prudential Indicators
Appendix 2 – The Council’s Investment Position at 31st December 2022
Appendix 3 – Average monthly rate of return for nine months to 31st December 2022
Appendix 4 – The Council’s External Borrowing Position at 31st December 2022
Appendix 5 – Arlingclose’s Economic & Market Review Q3 of 2022/23
Appendix 6 – Interest & Capital Financing Budget Monitoring 2022/23
Appendix 7 – Summary Guide to Credit Ratings
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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 2022/23 for the nine months up to 31st December 2022.

2 RECOMMENDATION

The Cabinet agrees that;

2.1 The Treasury Management Report to 31st December 2022, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.

2.2 The Treasury Management Indicators to 31st December 2022 are noted.

3 THE REPORT

Summary

3.1 The estimated average rate of investment return for the nine months to 31st December 2022 is 1.75%, which is 0.05% below the benchmark rate which has averaged 1.80% 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 £1.950m under budget, due to higher than budgeted investment returns due to interest rate rises and the continuing high levels of cash balances currently held following the advance payment of grants, a delay to borrowing requirements and associated interest costs, and a saving on Minimum Revenue Provision payments due to capital reprofiling. 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 31st December 2022 is given in **Appendix 2**, along with the previous quarter's position for comparison. The balance of deposits as at 31st December 2022, compared to those of the previous four quarters, are also set out in the charts in this appendix.

3.5 Gross estimated interest earned on investments totalled £1.07m. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 1.75%, which was 0.05% below the benchmark rate of average 7 day SONIA (1.80%). This shortfall is mainly due to existing short-term loans being locked in at a lower rate prior to the recent Bank of England base rate rises. These investments have matured during the quarter and in December, the average interest rate earned on investments exceeded the benchmark. 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 is 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 31st December 2022 totalled £211.2 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, and a fixed term loan of £5m was repaid during December. A summary of the current movement in borrowing during the quarter is shown in the following table:

Borrowing Portfolio Movements	£m
Balance as at 30th September 2022	**217.340**
New Loans Taken	0.000
Loans Repaid	(5.000)
PWLB Annuity Loan principal repayments	(1.129)
Balance as at 31st December 2022	**211.211**

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 £211.2 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 £54.8 million as at 31st December 2022 is diversified across Money Market Funds, Local Authorities, 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 31st December 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's average investment return for the nine months to 31st December 2022, for short-term investments, is currently 1.41%, which is 1.16% above the budgeted level of 0.25%. The estimated average return for the £10m long-term strategic investments is estimated to be 4.18%, 0.68% above the budgeted rate of 3.5%. The combined average return on all investments is 1.75%. The current forecast is for an overachievement of interest income from investments of £950k due to the recent increases in interest rates earned and the Council's cash balances being higher than was forecast when the budget was set.

Investment Type	Average YTD Investment Return
Short Term Investments Total	**1.41%**
Long Term Strategic Investments (Estimated)*:	
CCLA Local Authorities Property Fund	3.81%
/ FP Foresight UK Infrastructure Income Fund	4.80%
VT Gravis Clean Energy Income Fund	4.16%
Long Term Strategic Investments Total (Est.)	**4.18%**
Overall Total (Estimated)	**1.75%**

* The investment returns on the Long Term Strategic Investments are currently estimates based on the previous quarter. The actual return for the third quarter is not available until it's been declared a month after the quarter has finished.

Future Strategic & Tactical Issues

3.15 The Council's Treasury Management Advisor's economic and market review for the third quarter of 2022/23 is included in **Appendix 5**.

3.16 Interest rates ended quarter 3 at 3.5%, up 2.75% since April 2022 as the Bank of England's Monetary Policy Committee tackles inflation, as inflationary pressures are expected to remain high. As a result, Arlingclose's current interest rate forecast is for interest rate to continue to rise, peaking at 4.25 % by May 2023.

3.17 CPI headline inflation reached a high of 11.1% in October before falling back to 10.7% in November, showing tentative signs it may have peaked.

3.18 Bond markets have been extremely volatile so far this year and are expected to remain, driven by high inflation, high interest rates and continuing uncertainty. This has resulted in a high level of volatility in PWLB rates with the 5 year maturity certainty rate rising from 2.30% on 1st April 2022 to 4.48% on 30th December 2022, having peaked at 5.43% in September. Over the same period the 30-year maturity certainty rate rose from 2.6% to 4.8%.

3.19 The benefits of the Council's current policy of internal borrowing will continue to be monitored against forecast movements in borrowing rates and the Council's cash position. Any future borrowing decisions, should they be required during the remainder of the year, will be discussed with our treasury advisors in terms of duration and timing given the current volatility in the gilt market and PWLB interest rates.

Budget Implications

3.20 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 December 2022, is included in **Appendix 6**. An overall underspend of £1.950m is currently forecast due to higher than budgeted investment income, a delay in borrowing and a saving on MRP due to capital reprofiling. This is due to both the increase in investment 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 EQUALITIES

7.1 As this report contains performance information for noting only, an Equality Impact Assessment is not considered necessary.

8 CLIMATE CHANGE

8.1 The Council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

8.2 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.

8.3 The Council holds £5m in longer term investments, split across two ESG focussed Strategic Funds, as detailed under 3.13.

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

10.1 Consultation has been carried out with the Cabinet Member for Resources, Chief Finance Officer and Monitoring Officer.

Contact person	Gary Adams - 01225 477107; Jamie Whittard - 01225 477213 Gary_Adams@BATHNES.GOV.UK: Jamie_Whittard@BATHNES.GOV.UK
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 31st Dec. 2022
Operational boundary – borrowing	£435m	£211.2m
Operational boundary – other long-term liabilities	£4m	£0m
Operational boundary – TOTAL	**£439m**	**£211.2m**
Authorised limit – borrowing	£464m	£211.2m
Authorised limit – other long-term liabilities	£4m	£0m
Authorised limit – TOTAL	**£468m**	**£211.2m**

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 31st Dec. 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	£35.7m	23-Dec-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 31st Dec. 2022
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £1m	£0.399m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £1m	£0.399m

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 31st Dec. 2022
	%	%	%
Under 12 months	50	Nil	0
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	7.1
10 years and within 25 years	100	25	54.8
Over 25 years	100		38.1

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 31st Dec. 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 31st December 2022

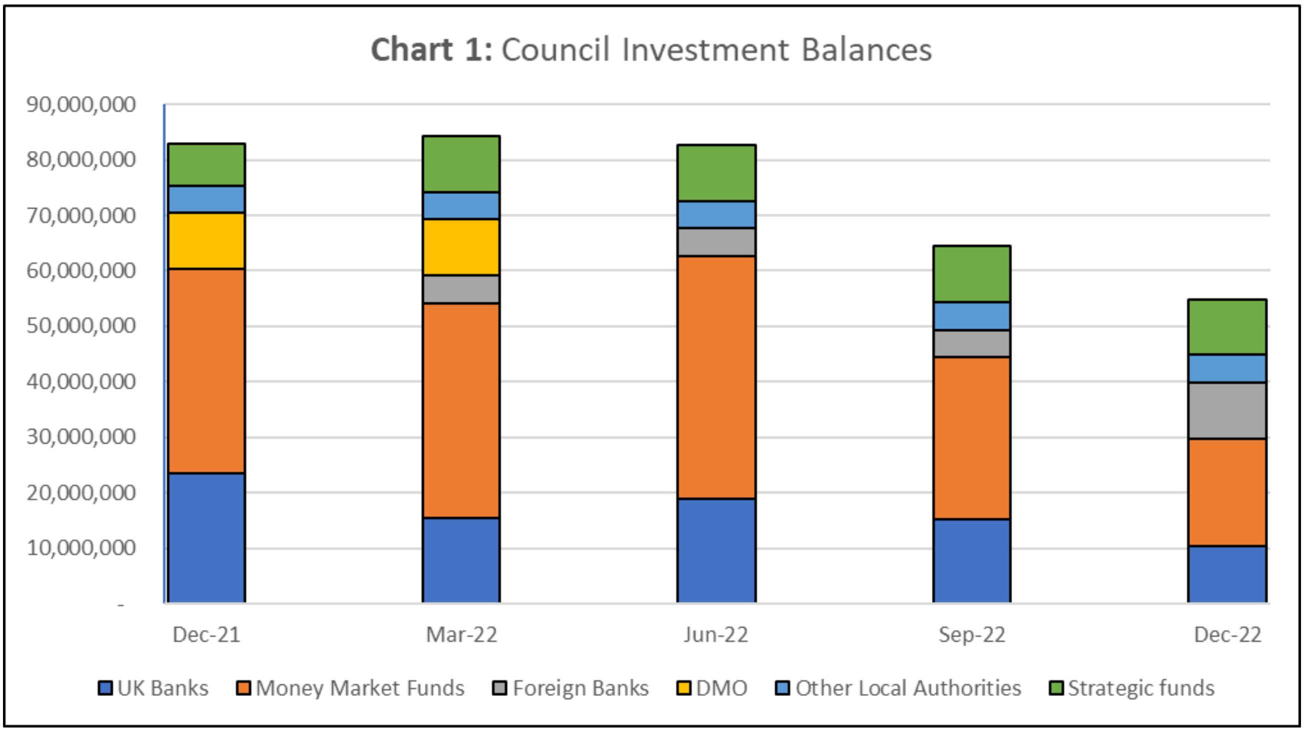
The term of investments is as follows:

Term Remaining	Balance at 31st Dec. 2022	Comparator Balance at 30th Sept 2022
	£m	£m
Notice (instant access funds)	29.8	39.4
Up to 1 month	0	5.0
1 month to 3 months	10.0	10.0
3 months to 6 months	5.0	0
6 months to 12 months	0	0
Strategic Funds	10.0	10.0
Total	**54.8**	**64.4**

The investment figure is made up as follows:

	Balance at 31st Dec. 2022	Comparator Balance at 30th Sept 2022
	£m	£m
B&NES Council	51.71	61.5
Schools	3.09	2.9
Total	**54.8**	**64.4**

The Council had a total average net positive balance of £81.6m during the period April 2022 to December 2022.



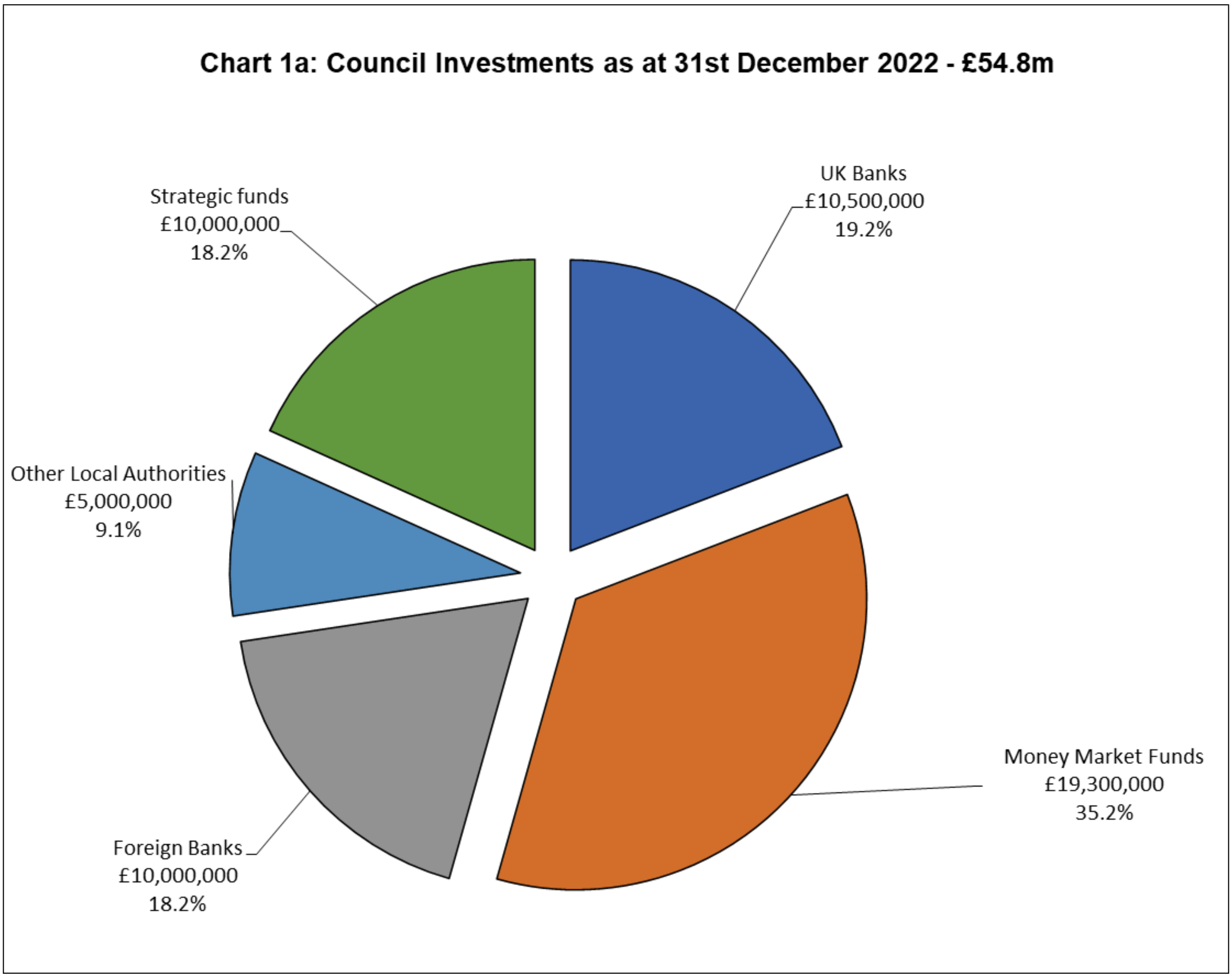


Chart 1a: Council Investments as at 31st December 2022 - £54.8m
UK Banks
£10,500,000
19.2%
Strategic funds
£10,000,000
18.2%
Other Local Authorities
£5,000,000
9.1%
Foreign Banks
£10,000,000
18.2%
Money Market Funds
£19,300,000
35.2%

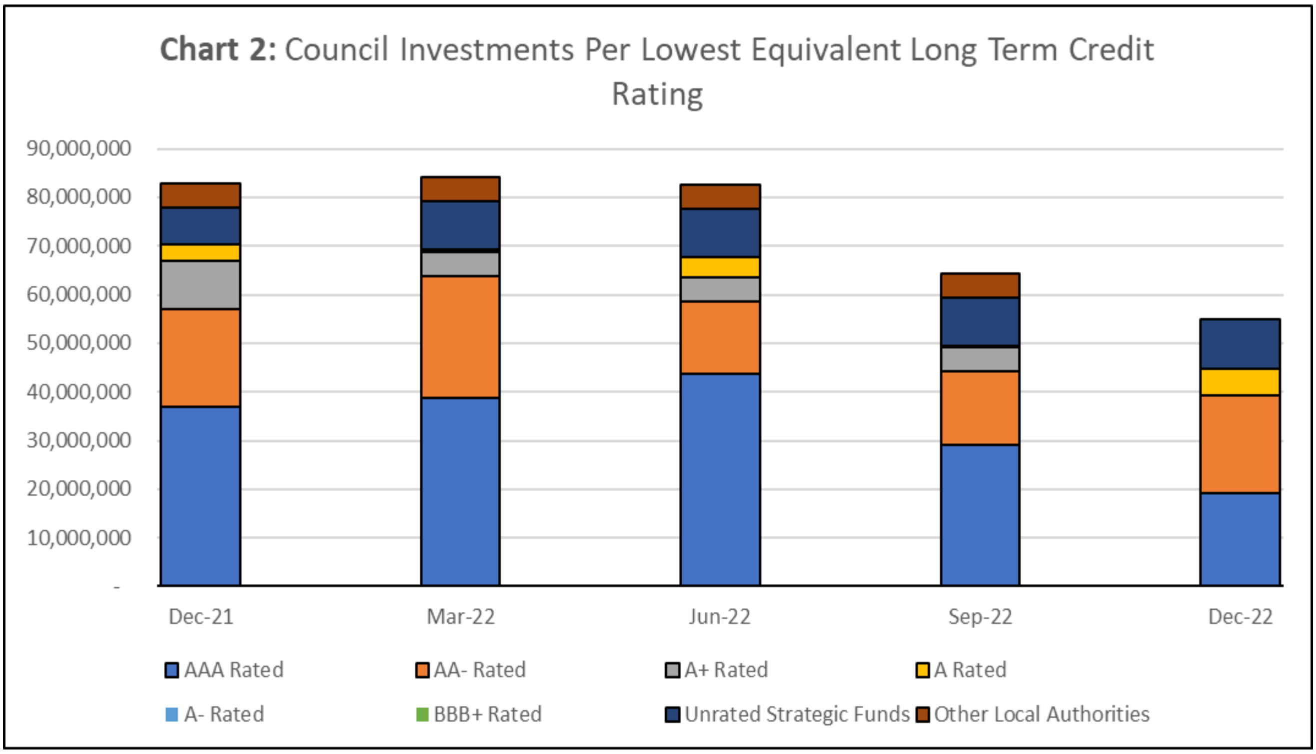
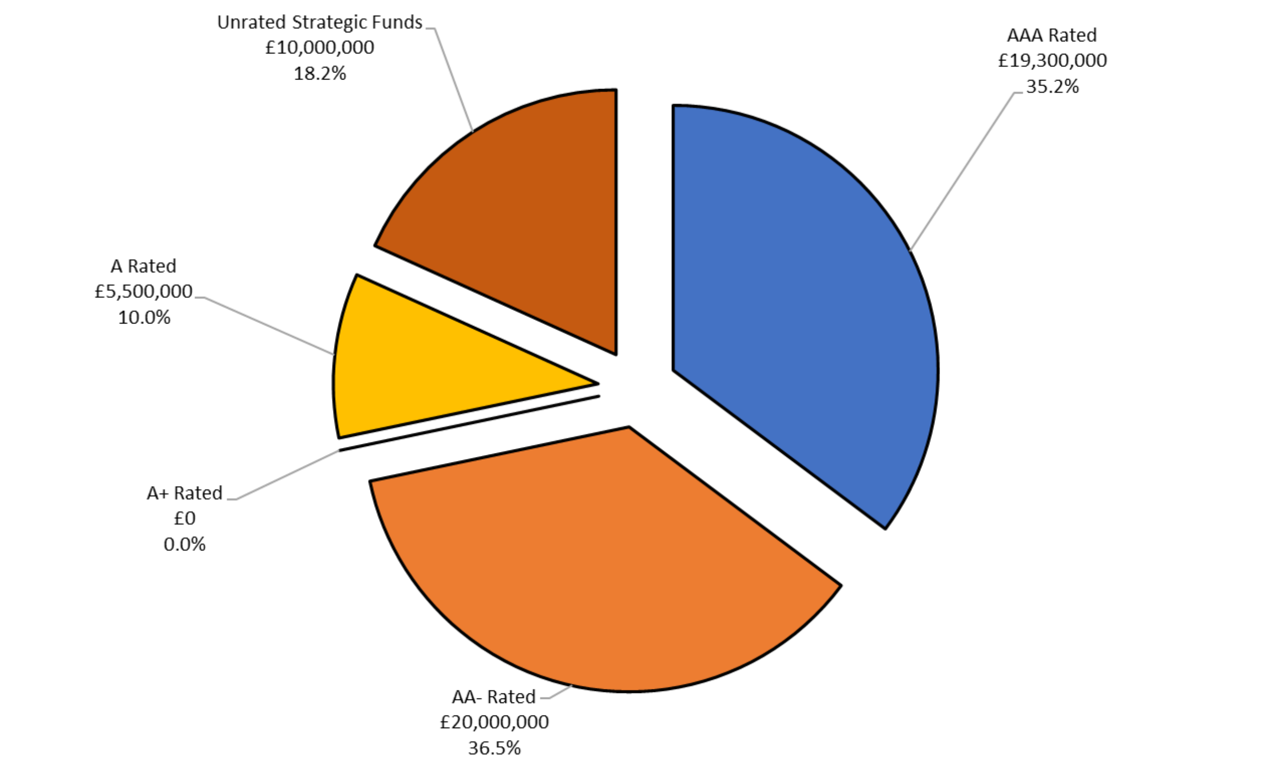


Chart 2: Council Investments Per Lowest Equivalent Long Term Credit Rating
90,000,000
80,000,000
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
-
Dec-21
Mar-22
Jun-22
Sep-22
Dec-22
AAA Rated
AA- Rated
A+ Rated
A Rated
A- Rated
BBB+ Rated
Unrated Strategic Funds
Other Local Authorities

Chart 2a: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st December 2022 - £54.8 m



APPENDIX 3

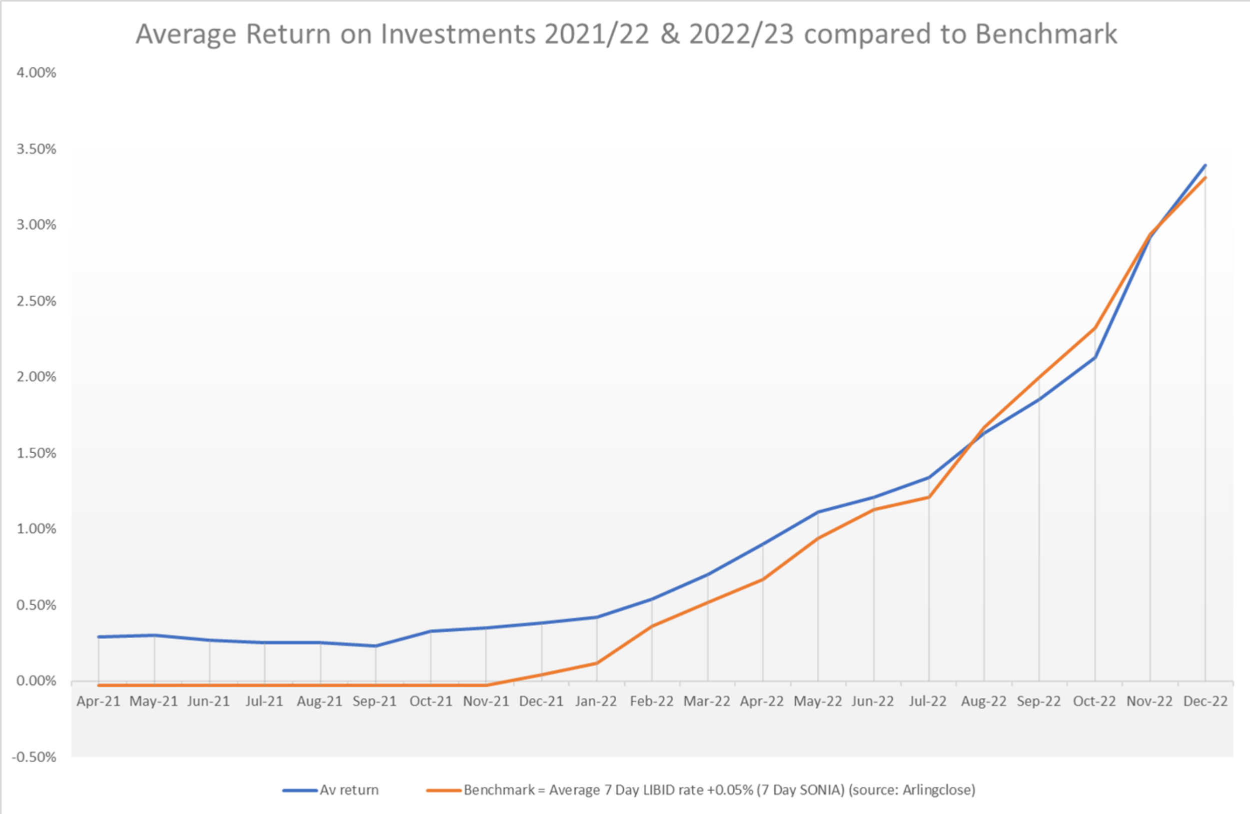
Average rate of return on investments for 2022/23

	Average rate of interest earned	Benchmark = Average 7 Day SONIA rate	Performance against Benchmark
April 2022	0.90%	0.67%	+0.23%
May 2022	1.11%	0.94%	+0.18%
June 2022	1.21%	1.13%	+0.08%
July 2022	1.34%	1.21%	+0.13%
August 2022	1.63%	1.67%	-0.04%
September 2022	1.85%	2.00%	-0.15%
October 2022#	2.13%	2.32%	-0.19%
November 2022#	2.92%	2.94%	-0.02%
December 2022#	3.39%	3.31%	0.08%
Average#	**1.75%**	**1.80%**	**-0.05%**

Includes **estimates** for Q3 Strategic Investments returns – actuals will not be known until after dispatch so will be updated in Q4 report.

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

	Average rate of interest earned	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
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
-0.50%
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
Jul-22
Aug-22
Sep-22
Oct-22
Nov-22
Dec-22
Av return
Benchmark = Average 7 Day LIBID rate +0.05% (7 Day SONIA) (source: Arlingclose)

APPENDIX 4

Council's External Borrowing at 31st December 2022

Lender	Amount outstanding @ 30th Sept 2022	Change in Quarter	Amount outstanding @ 30th Dec. 2022	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	16,210,402	(340,542)	**15,869,860**	20/06/2016	20/06/2041	2.36%
PWLB508126	8,769,505	(162,162)	**8,607,342**	06/12/2018	20/06/2043	2.38%
PWLB508202	9,586,307	(54,770)	**9,531,537**	12/12/2018	20/06/2068	2.59%
PWLB508224	4,375,462	(82,071)	**4,293,391**	13/12/2018	20/06/2043	2.25%
PWLB505744	8,004,402	-	**8,004,402**	24/02/2017	15/08/2039	2.28%
PWLB505966	8,254,813	-	**8,254,813**	04/04/2017	15/02/2042	2.26%
PWLB506052	7,014,998	-	**7,014,998**	08/05/2017	15/02/2042	2.25%
PWLB506255	6,638,222	(38,856)	**6,599,366**	10/08/2017	10/04/2067	2.64%
PWLB506729	8,602,616	(164,529)	**8,438,087**	13/12/2017	10/10/2042	2.35%
PWLB506995	8,629,260	(162,060)	**8,467,200**	06/03/2018	10/10/2042	2.52%
PWLB506996	8,949,910	(124,452)	**8,825,459**	06/03/2018	10/10/2047	2.62%
PWLB507749	8,775,184	-	**8,775,184**	10/09/2018	20/07/2043	2.42%
PWLB508485	19,253,502	-	**19,253,502**	11/02/2019	20/07/2068	2.52%
PWLB509840	8,975,845	-	**8,975,845**	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	**217,340,428**	**(6,129,442)**	**211,210,986**			

*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: The conflict in Ukraine continued to keep global inflation elevated and the UK and global economic outlook remains weak. Political uncertainty in the UK improved in the later part of the period following a change in government to what financial markets perceived as being more fiscally prudent.

The economic backdrop during the April to December period continued to be characterised by high energy and commodity prices, high inflation and the associated impact on consumers' cost of living, as well as little likelihood that the Russia-Ukraine hostilities will end any time soon. China started to lift some of its zero-Covid policy restrictions at the end of the period causing a sharp increase in infections, but also leading to questions over potential under reporting of the number of cases by the Chinese government due to how it is counting the figures.

Central Bank rhetoric and action continued to remain robust. The Bank of England, Federal Reserve and the European Central Bank all increased interest rates over the period and committed to fighting inflation, even in the face of potential recessions in those regions.

UK inflation remained high, but there were tentative signs it may have peaked. Annual headline CPI registered 10.7% in November, down modestly from 11.1% in October. RPI was 14% in November, down from 14.2% in October, but slightly above expectations for a larger fall to 13.9%.

The UK government under Rishi Sunak and Jeremy Hunt reversed some of the support to household energy bills announced under the previous Liz Truss leadership. The previous support package which would have seen average consumption cost £2,500 annually until 2024 was replaced by a less generous scheme which was only maintained at this level until March 2023, to be replaced by a higher cap of £3,000 per year for the typical household from April onwards.

The labour market remained tight but with some evidence of softening demand for new labour. The unemployment rate 3m/year for April-June was 3.8%, which declined to 3.6% in July-September and picked up again to 3.7% in October-December. The inactivity rate was 21.5% in the latest quarter, down by 0.1% compared to the previous period. Pay growth in October-December was 6.1% for both total pay (including bonuses) and for regular pay. Once adjusted for inflation, however, both measures fell by 2.7%.

Household disposable income remained under pressure, pushing consumer confidence down to a record low of –49 in September, but following months showed registered modest improvements to December's reading of –42. Quarterly GDP for the April-June quarter was revised upwards to 0.2% (from -0.1%), following revisions to household and government spending, but fell by -0.3% in the July-September quarter, a larger decline than the -0.2% predicted.

The Bank of England increased the official Bank Rate to 3.5% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with outsized hikes of 50bps in August and

September, 75bps in November and then another 50bps in December. November's rise was voted by a majority of 7-2, with one MPC member preferring a 0.5% rise and another a 0.25% rise. The December vote was 6-3, with two members preferring to keep Bank Rate on hold at 3% while one member wanted a larger increase of 0.75%. Once again, the Committee noted that domestic inflationary pressures are expected to remain strong and continuing rhetoric around combating inflation means further rate rises are predicted.

After hitting 9.1% in June, annual US inflation slowed for a further five consecutive months, with relatively strong falls in October to 7.7% and then in November to 7.1%. The Federal Reserve continued raising interest rates over the period with four consecutive increases of 0.75% in June, July, September, and November respectively, followed by 50bp in December taking policy rates to a range of 4.25% - 4.50%.

Eurozone CPI inflation hit a record-high of 10.6% y/y in October following rises in each month over the period. In November inflation fell to 10.1%, the first decline since June 2021. Energy prices remained the largest upward contribution to the price increase. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in December following two consecutive months of 0.75% rises, taking the deposit facility rate to 2% and the main refinancing rate to 2.5%.

Financial markets: Uncertainty remained a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates. In September and October, volatility in financial markets was significantly exacerbated by the fiscal plans of the then UK government (under Liz Truss), leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling. However, the subsequent change of government leadership to Rishi Sunak and Jeremy Hunt lead to gilts yields falling in November and December, albeit at higher levels compared to earlier in the period.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the calendar year at 3.62%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.67%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 4.03%. The Sterling Overnight Rate (SONIA) averaged 1.75% over the period.

Credit review: During the last few months of the period, in October Fitch revised the outlook on the UK sovereign to negative from stable following the largely unfunded fiscal package announced at the time, and a few weeks prior revised the outlook on HSBC to stable from negative.

Over the same timeframe Moody's also revised the UK sovereign to negative from stable, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks earlier in the year (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. These recommendations were unchanged at the end of the period.

Although local authorities remain under financial pressure, Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

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, 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 December 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	7,531	(500)	FAV
- Internal Repayment of Loan Charges	(13,052)	(13,052)	0	
- Ex Avon Debt Costs	980	980	0	
- Minimum Revenue Provision (MRP)	9,678	9,178	(500)	FAV
- Interest on Balances	(425)	(1,375)	(950)	FAV
Total	**5,212**	**3,262**	**(1,950)**	**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		1	2	3	
			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			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				4				3			12	12	9	9	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. Discussion with our treasury advisors on any new borrowing in terms of duration and timing given the current volatility in the gilt market and PWLB interest rates.
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	12	12	9	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	9	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