Bath & North East Somerset Council	
MEETING	**Corporate Audit Committee**
MEETING DATE:	**5th July 2023**
TITLE:	**2022-23 Treasury Management Outturn Report**
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 31st March 2023 **Appendix 3** – Average monthly rate of return for 2022/23 **Appendix 4** – The Council's External Borrowing Position at 31st March 2023 **Appendix 5** – Arlingclose's Economic & Market Review 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 2021 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 within six months 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.

2 RECOMMENDATION

The Corporate Audit Committee agrees that;

2.1 The Treasury Management Report to 31st March 2023, prepared in accordance with the CIPFA Treasury Code of Practice, is noted.

2.2 The Treasury Management Indicators to 31st March 2023 are noted.

3 THE REPORT

Summary

3.1 The average rate of investment return for 1st April 2022 to 31st March 2023 is 2.09%, which is in 0.21% below the benchmark rate of 2.30% 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 £2.803m under budget, due to higher than budgeted investment returns due to interest rate rises during the year, 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 March 2023 is given in **Appendix 2**. The balance of deposits as at 31st March 2023 are set out in the charts in this appendix, along with the equivalent details for the previous quarters including quarter 4 2021/22 for comparison. The reduction in investment balances over the year includes the unwinding of government support grants the Council received during the pandemic, distribution of the energy rebate grant prepayment in quarter 1 2022/23 and capital project spend made in advance of borrowing.

3.5 Gross interest earned on investments totalled £1.38m. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period was 2.09%, which is below the benchmark rate of average 7 day SONIA (2.30%). This shortfall is mainly due to existing short-term loans being locked in at a lower rate prior to the Bank of England base rate rises. The strategic funds have consistently out performed the benchmark which has helped to reduce the variance between average rate of return and the benchmark.

3.6 The average rate of return of 2.09% in 2022/23 was higher than the 0.36% achieved in 2021/22 as the Bank of England have continued to raise interest rates during the year from 0.75% in April 2022 to 4.25% in March 2023 as it deals with inflationary pressures.

Summary of Borrowings

3.7 The Council's external borrowing as at 31st March 2023 totalled £210.25 million and is detailed in **Appendix 4**. Due to the levels of cash balances held by the Council, no new borrowing has been taken out during the year, and a fixed term loan of £5m was repaid in December 2022. A summary of the movement in borrowing during the final quarter and over the full year is shown in the following tables:

Borrowing Portfolio Movements	Quarter 4 2022/23 £m	Financial Year 2022/23 £m
Balance as at 1st April 2022	**-**	**219.403**
Balance as at 31st December 2022	**211.211**	**-**
New Loans Taken	0.000	0.000
Loans Repaid	0.000	(5.000)
PWLB Annuity Loan principal repayments	(0.957)	(4.149)
Balance as at 31st March 2023	**210.254**	**210.254**

3.8 The Council's Capital Financing Requirement (CFR) as at 31st March 2023 was £341.0 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 CFR represents the underlying need to borrow and the difference from the current borrowing of £210.3million 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 2023 apportioned to Bath & North East Somerset Council is £10.1m. 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 £42.30 million as at 31st March 2023 is diversified across Money Market Funds, Local Authorities, Strategic funds and in highly rated UK 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 £10m of the Council's investments are in externally managed strategic pooled funds where the objectives are regular revenue income and long term price stability. These investments have been made in the knowledge that there is a risk that capital value could move both up and down on a frequent basis.

This investment includes £5m in Environmental Social and Governance (ESG) focused 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.

2022 was a very difficult year for investors, against a backdrop of high and sticky inflation, rapid policy rates tightening and an increased risk of recession. Bonds had their worst year for performance in several decades with government bonds in particular having their worst year on record. Equities have also had a volatile year with periods of large sell off's during the year. Commercial property has not been immune either with higher bond yields and challenges in some segments of commercial real estate resulting in falling property values.

This has resulted in a decrease in valuations of the Council's strategic funds from a fair value of £10.30m at the end of 2021/2022 to £8.78m at the end of 2022/23. As shown in the table below:

	CCLA Local Authorities Property Fund	FP Foresight UK Infrastructure Income Fund	VT Gravis Clean Energy Income Fund	Total
Historic Cost	5,000,000	3,000,000	2,000,000	**10,000,000**
Fair Value as at:				
31/03/2023	4,342,727	2,586,831	1,852,212	**8,781,770**
31/03/2022	5,199,881	3,065,260	2,045,847	**10,310,988**

This change in valuation does not have an impact on the revenue account due to a statutory override and will instead go to an unusable reserve and will only be charged to revenue if/when the Council's holding in the pooled funds are sold or if the government removes the override. The next review of the statutory override will take place prior to the end of 2024/25.

3.14 The Council's average investment return for short-term investments was 1.77%, which is 1.52% above the budgeted level of 0.25%. The average return for the £10m long-term strategic investments is 4.17%, 0.67% above the budgeted rate of 3.50%. The combined average return on all investments is 2.09%.

Investment Type	Average YTD Investment Return
Short Term Investments Total	**1.77%**
Long Term Strategic Investments:	
CCLA Local Authorities Property Fund	3.76%
FP Foresight UK Infrastructure Income Fund	4.82%
VT Gravis Clean Energy Income Fund	4.20%
Long Term Strategic Investments Total (Est.)	**4.17%**
Overall Total	**2.09%**

3.15 The combined impact of the higher than budgeted returns, along with the Council investment balances being higher than forecast and additional interest received from non-treasury activity, resulted in £957k of additional interest income above the budgeted level.

Future Strategic & Tactical Issues

3.16 The Council's Treasury Management Advisor's economic and market review for 2022/23 is included in **Appendix 5**.

3.17 Interest rates ended the financial year at 4.25% up 3.50% since April 2022 as the Bank of England's Monetary Policy Committee tackles inflation, while inflation is expected to fall in 2023 it is still expected to exceed the 2% target rate. As a result, Arlingclose's current interest rate forecast is for interest rate to continue to rise, peaking at 4.75% over the summer of 2023.

3.18 CPI headline inflation reached a high of 11.1% in October before falling back to 10.1% in March 2023, showing tentative signs it may have peaked.

3.19 Bond markets have been extremely volatile so far this year and are expected to remain so, 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 4.31% on 31 March 2023, having peaked at 5.43% in September. Over the same period the 30-year maturity certainty rate rose from 2.62% to 4.66%.

3.20 The Council did not take out any borrowing in 2022/23 and was instead able to make use of internal borrowing. However with cash balances forecasted to continue to decrease, external borrowing is expected to be required in 2023/24. Any borrowing decisions will be discussed with our treasury advisors in terms of duration and timing given current market conditions.

3.21 As mentioned in 3.13 Strategic Investment valuations do not currently have an impact on the revenue account as a result of a statutory override, although this override is currently due to run out on 31 March 2025. Current indications are that this is unlikely to be extended, so from 2025/26 any unrealised gains or losses will be charged against revenue. With this in mind, the Council has in place a Capital Financing Reserve which can be used to help mitigate any future revenue impacts should the statutory override be removed. This reserve is being topped up when strategic investment income exceeds the amount budgeted, in line with the Treasury Management Strategy, as it did in 2022/23 resulting in £60,000 being added to the reserve.

Budget Implications

3.22 The breakdown of the 2022/23 revenue budget and the year end position for interest and capital financing, is included in **Appendix 6**. An overall underspend of £2.803m is reported towards the Council's net revenue outturn, as a result of higher than budgeted investment income, a delay in borrowing and a saving on MRP due to capital reprofiling.

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 has been included the Treasury Management Strategy document for 2022/23 and 2023/24, 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.

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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 31st March 2023**
Operational boundary – borrowing	£435m	£210.3m
Operational boundary – other long-term liabilities	£4m	£0m
Operational boundary – TOTAL	**£439m**	**£210.3m**
Authorised limit – borrowing	£464m	£210.3m
Authorised limit – other long-term liabilities	£4m	£0m
Authorised limit – TOTAL	**£468m**	**£210.3m**

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 31st March 2023**
	Rating	Rating
Minimum Portfolio Average Credit Rating	A-	AAA-

***** *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 year**	**Date of minimum**
Minimum total Cash Available within 3 months	£15m	£17.4m	29-Mar-23

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 Mar 2023**
Upper limit on one-year revenue impact of a 1% rise in interest rates	+/- £1m	£0.298m
Upper limit on one-year revenue impact of a 1% fall in interest rates	+/- £1m	£0.298m

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.

<table>
<tr><th></th><th>Upper Limit</th><th>Lower Limit</th><th>Actual as at 31st March 2023</th></tr>
<tr><td></td><td>%</td><td>%</td><td>%</td></tr>
<tr><td>Under 12 months</td><td>50</td><td>Nil</td><td>0</td></tr>
<tr><td>12 months and within 24 months</td><td>50</td><td>Nil</td><td>0</td></tr>
<tr><td>24 months and within 5 years</td><td>75</td><td>Nil</td><td>0</td></tr>
<tr><td>5 years and within 10 years</td><td>75</td><td>Nil</td><td>7.1</td></tr>
<tr><td>10 years and within 25 years</td><td>100</td><td rowspan="2">25</td><td>54.7</td></tr>
<tr><td>Over 25 years</td><td>100</td><td>38.2</td></tr>
</table>

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.

* 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	2022/23 Prudential Indicator	Actual as at 31st March 2023
Limit on principal invested beyond 31st March 2023	£50m	£15m*
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 March 2023

The term of investments is as follows:

Term Remaining	**Balance at 31st March 2023**	**Comparator**	
		Balance at 31st December 2022	**Balance at 31st March 2022**
	£m	**£m**	**£m**
Notice (instant access funds)	27.3	29.8	49.2
Up to 1 month	5.0	0	0
1 month to 3 months	0.0	10.0	20.0
3 months to 6 months	0.0	5.0	0
6 months to 12 months	0.0	0	5.0
Strategic Funds	10.0	10.0	10.0
Total	**42.3**	**54.8**	**84.2**

The investment figure is made up as follows:

	Balance at 31st March 2023	**Comparator**	
		Balance at 31st December 2022	**Balance at 31st March 2022**
	£m	**£m**	£m
B&NES Council	40.45	51.71	82.30
Schools	1.86	3.09	1.90
Total	**42.30**	**54.80**	**84.20**

The Council had a total average net positive balance of £74.6 during the period April 2022 to March 2023.

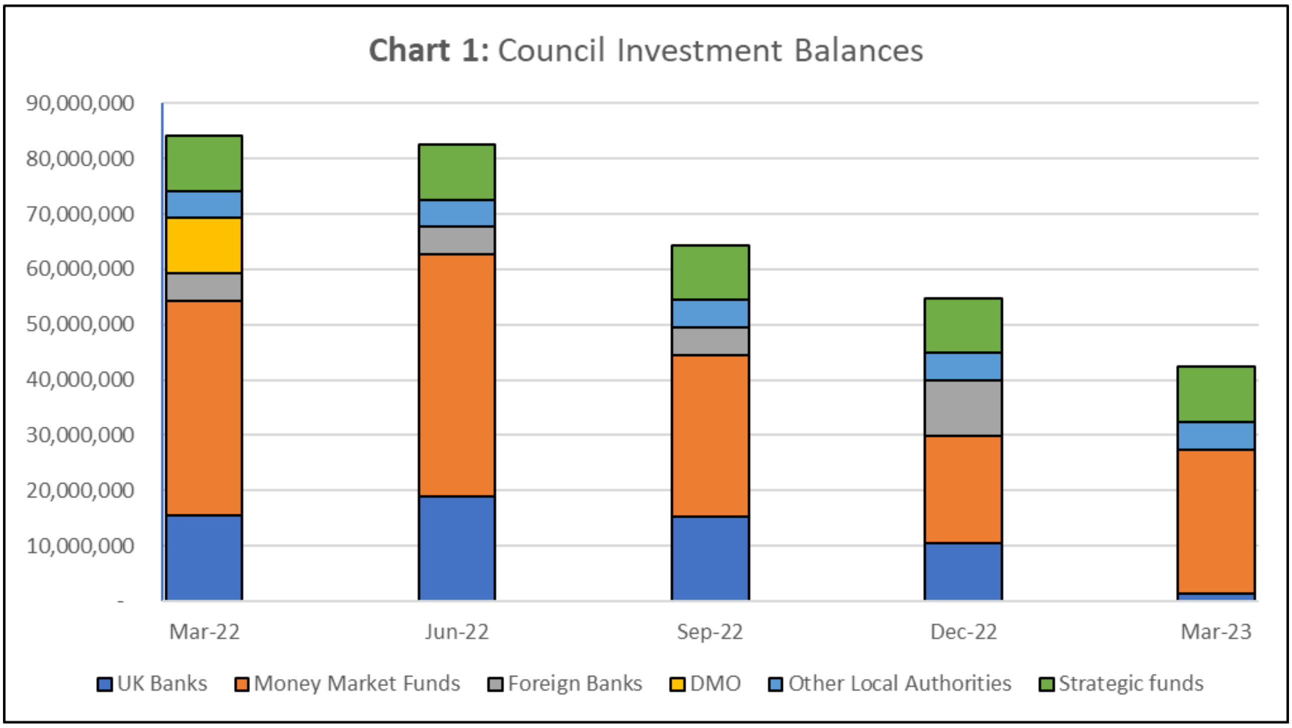


Chart 1: Council Investment Balances
90,000,000
80,000,000
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
-
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23
UK Banks
Money Market Funds
Foreign Banks
DMO
Other Local Authorities
Strategic funds

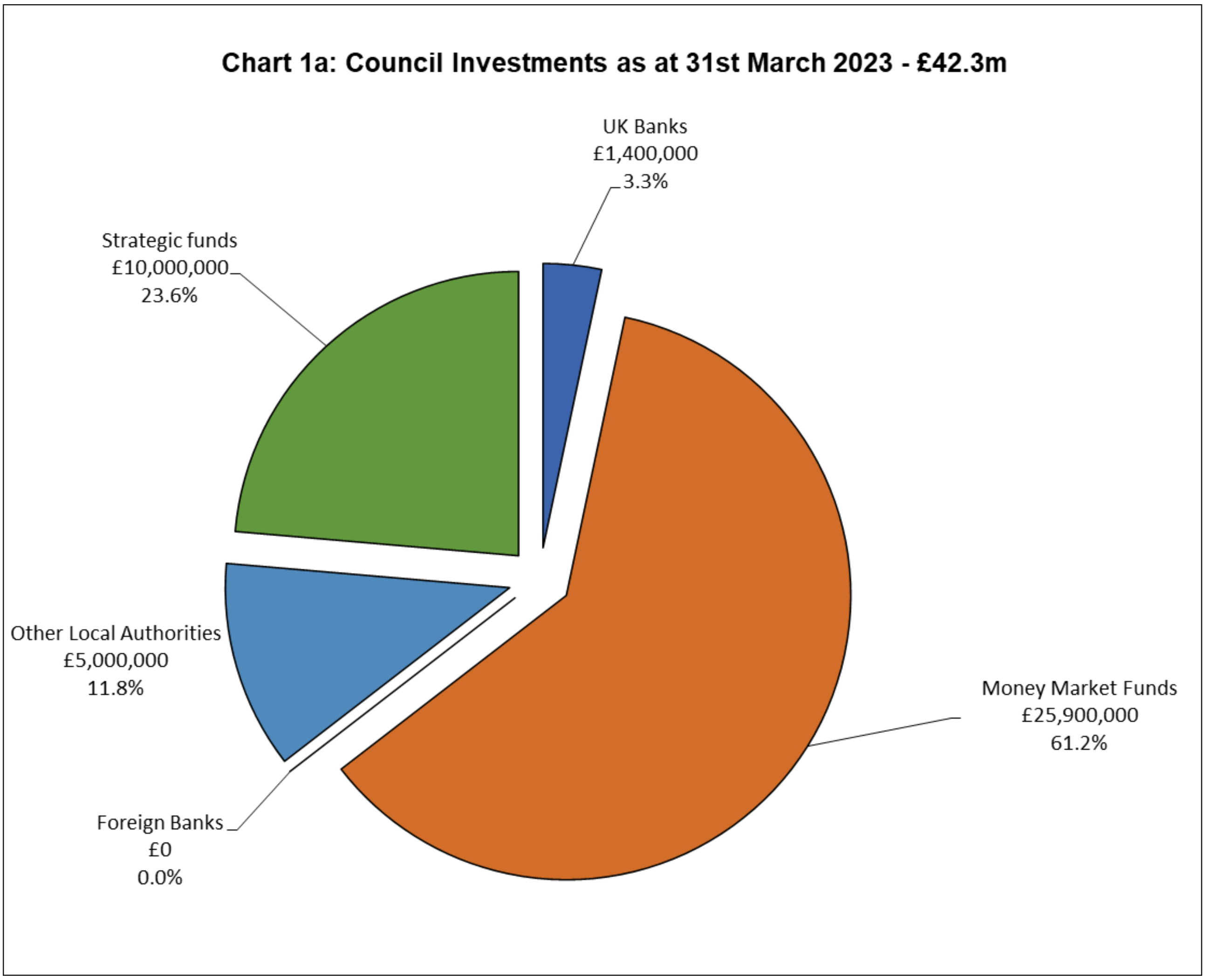


Chart 1a: Council Investments as at 31st March 2023 - £42.3m
UK Banks
£1,400,000
3.3%
Strategic funds
£10,000,000
23.6%
Other Local Authorities
£5,000,000
11.8%
Money Market Funds
£25,900,000
61.2%
Foreign Banks
£0
0.0%

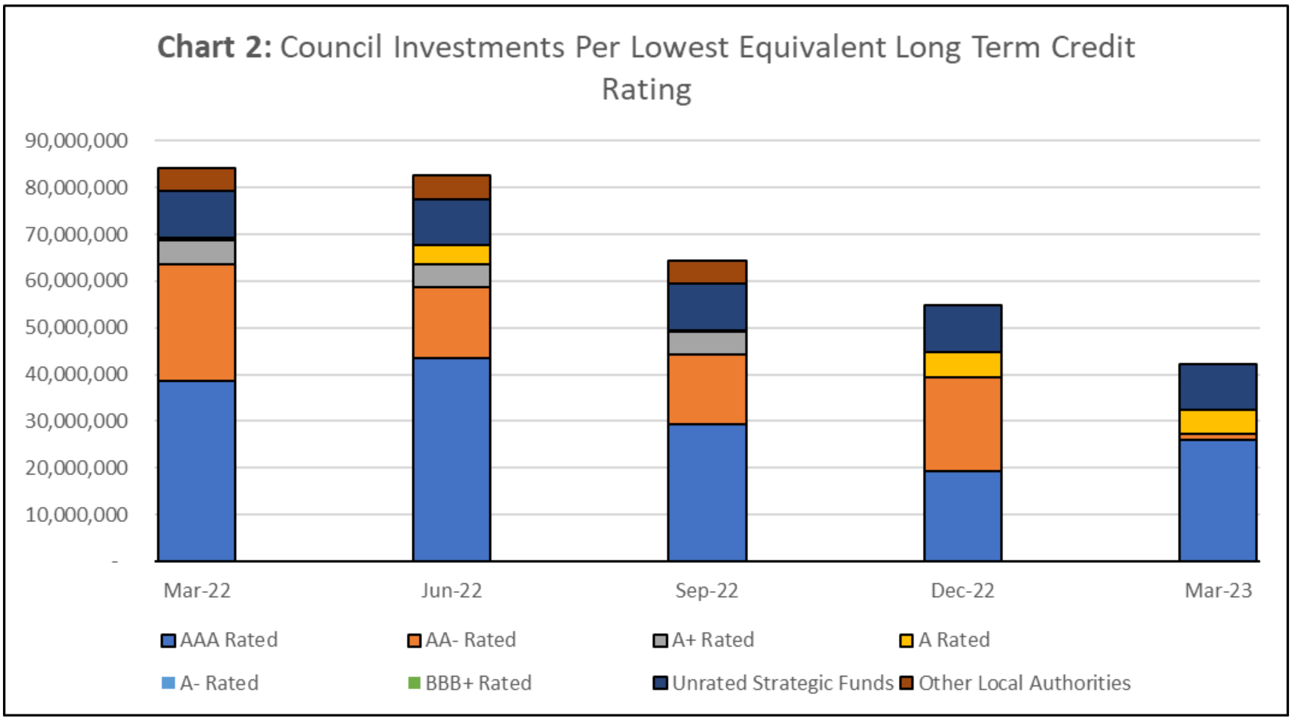


Chart 2: Council Investments Per Lowest Equivalent Long Term Credit Rating
90,000,000
80,000,000
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
-
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23
AAA Rated
AA- Rated
A+ Rated
A Rated
A- Rated
BBB+ Rated
Unrated Strategic Funds
Other Local Authorities

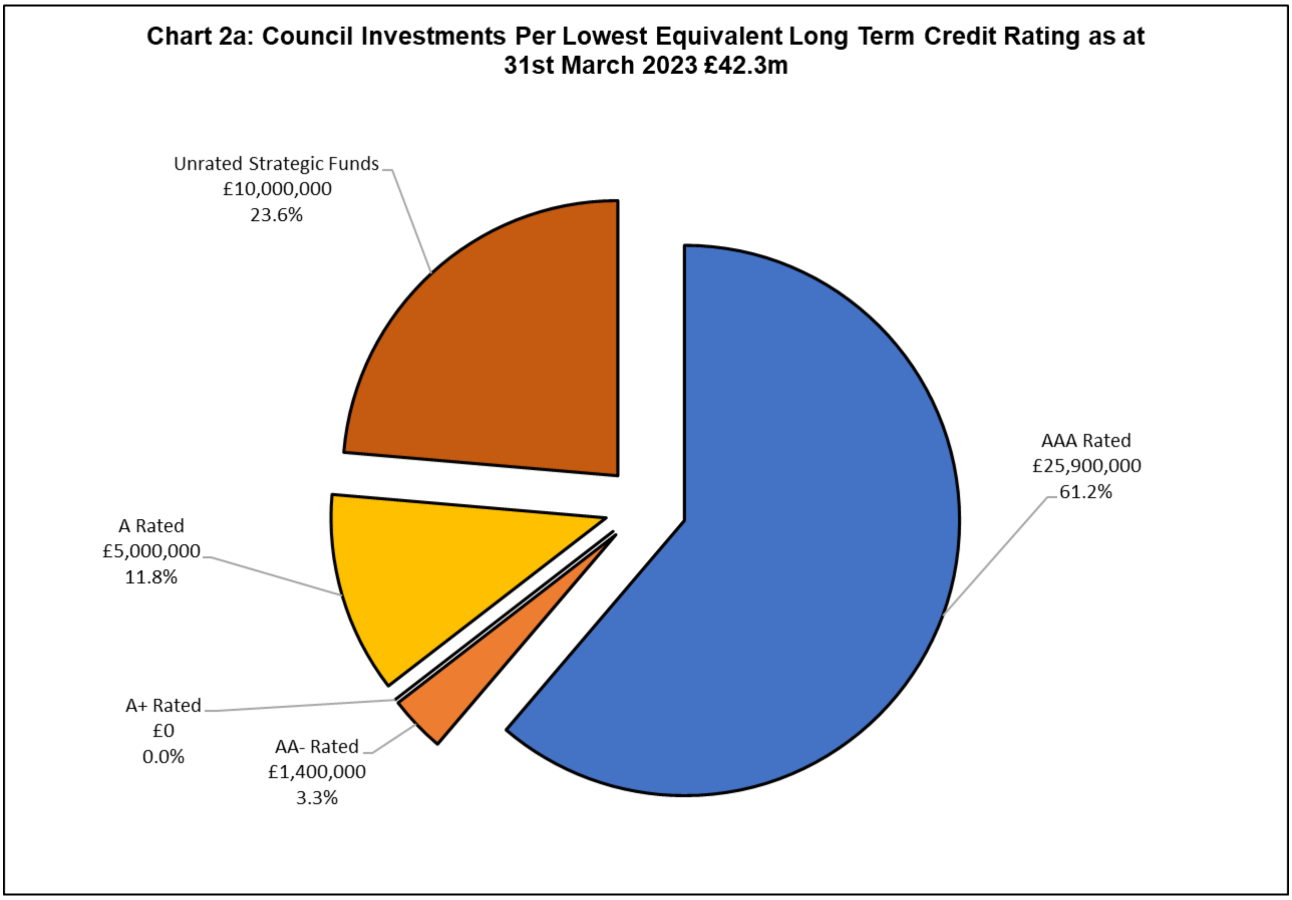


Chart 2a: Council Investments Per Lowest Equivalent Long Term Credit Rating as at 31st March 2023 £42.3m
Unrated Strategic Funds £10,000,000 23.6%
AAA Rated £25,900,000 61.2%
A Rated £5,000,000 11.8%
A+ Rated £0 0.0%
AA- Rated £1,400,000 3.3%

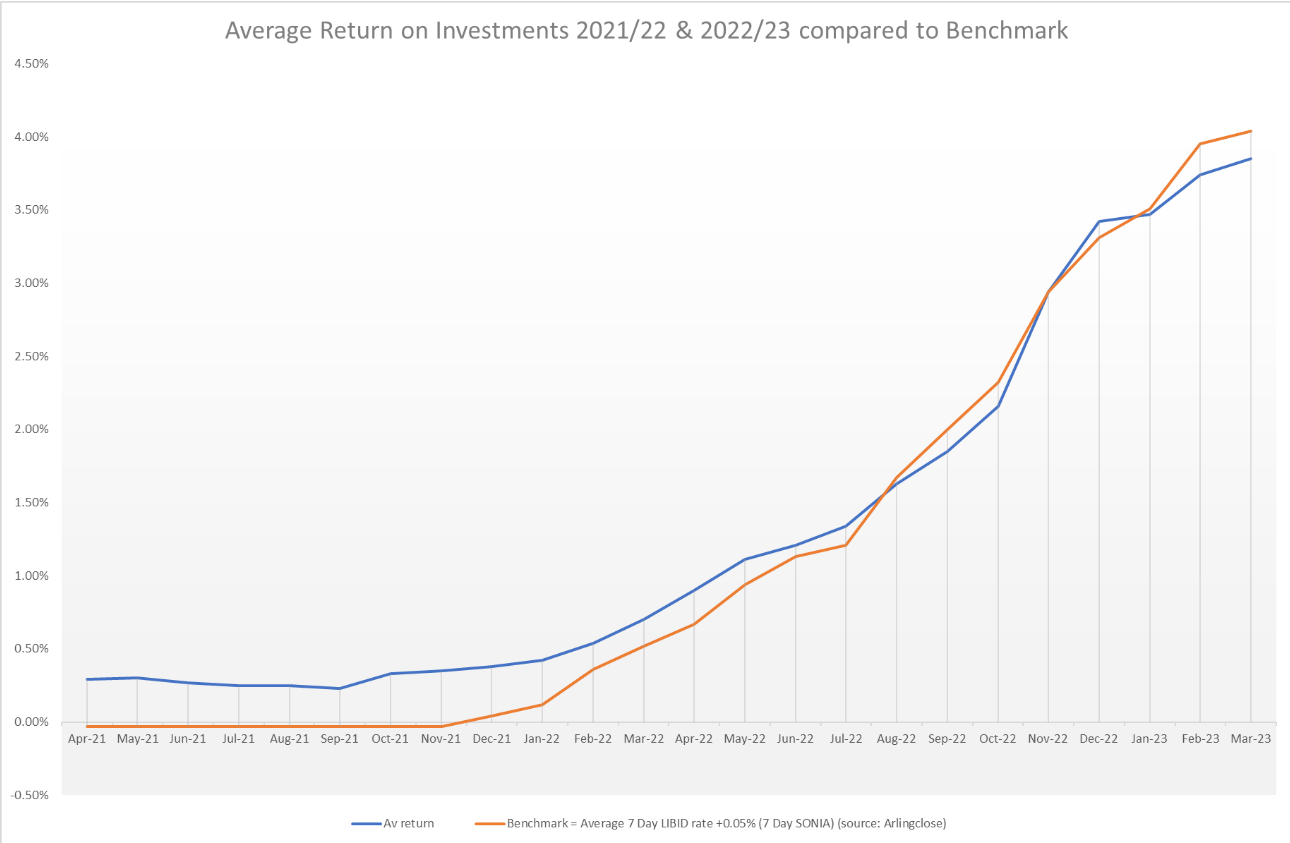
APPENDIX 3

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	2.16%	2.32%	-0.16%
November 2022	2.94%	2.94%	0.00%
December 2022	3.42%	3.31%	+0.11%
January 2023	3.47%	3.51%	-0.04%
February 2023	3.74%	3.95%	-0.21%
March 2023	3.85%	4.04%	-0.19%
Average#	**2.09%**	**2.30%**	**-0.21%**

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
4.50%
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 Jan-23 Feb-23 Mar-23
Av return
Benchmark = Average 7 Day LIBID rate +0.05% (7 Day SONIA) (source: Arlingclose)

APPENDIX 4

Council's External Borrowing at 31st March 2023

Lender	Amount outstanding @ 30th Dec. 2022	Change in Quarter	Amount outstanding @ 31st March 2023	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	15,869,860	(0)	**15,869,859**	20/06/2016	20/06/2041	2.36%
PWLB508126	8,607,342	0	**8,607,342**	06/12/2018	20/06/2043	2.38%
PWLB508202	9,531,537	(0)	**9,531,537**	12/12/2018	20/06/2068	2.59%
PWLB508224	4,293,391	0	**4,293,391**	13/12/2018	20/06/2043	2.25%
PWLB505744	8,004,402	(194,061)	**7,810,341**	24/02/2017	15/08/2039	2.28%
PWLB505966	8,254,813	(169,611)	**8,085,202**	04/04/2017	15/02/2042	2.26%
PWLB506052	7,014,998	(144,283)	**6,870,715**	08/05/2017	15/02/2042	2.25%
PWLB506255	6,599,366	0	**6,599,366**	10/08/2017	10/04/2067	2.64%
PWLB506729	8,438,087	(0)	**8,438,087**	13/12/2017	10/10/2042	2.35%
PWLB506995	8,467,200	0	**8,467,200**	06/03/2018	10/10/2042	2.52%
PWLB506996	8,825,459	(0)	**8,825,459**	06/03/2018	10/10/2047	2.62%
PWLB507749	8,775,184	(161,555)	**8,613,628**	10/09/2018	20/07/2043	2.42%
PWLB508485	19,253,502	(112,085)	**19,141,417**	11/02/2019	20/07/2068	2.52%
PWLB509840	8,975,845	(174,899)	**8,800,947**	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.	-	-	-	19/12/2019	19/12/2022	1.65%
Total Borrowing	**211,210,986**	**(956,494)**	**210,254,492**			

*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 war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

Financial markets: Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit review: Early in the period, Moody's affirmed the long-term rating of Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.

In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive. In September S&P revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.

The following month Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, 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.

During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

As 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.

Local authorities remain under financial pressure, but 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.

APPENDIX 6

Interest & Capital Financing Costs – Budget Monitoring 2022/23

April 2022 to March 2023	YEAR END POSITION Budgeted Spend or (Income) £'000	 Actual Spend or (Income) £'000	 Actual over or (under) spend £'000	ADV/FAV
Interest & Capital Financing				
- Debt Costs	8,031	6,921	(1,110)	FAV
- Internal Repayment of Loan Charges	(14,008)	(14,208)	(200)	FAV
- Ex Avon Debt Costs	980	948	(32)	FAV
- Minimum Revenue Provision (MRP)	9,678	9,174	(504)	FAV
- Interest on Balances*	(425)	(1,382)	(957)	FAV
Total	**4,256**	**1,455**	**(2,803)**	**FAV**

*this is after the transfer of £60,000 to the Capital Financing Reserve to go towards smoothing any gains or losses on valuation of the strategic funds should the statutory override not be extended when it currently runs out on 31/05/2025

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					4		16	12	12	12	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