North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 14 NOVEMBER 2019

SUBJECT OF REPORT: TREASURY MANAGEMENT MID-YEAR REPORT 2019/20

TOWN OR PARISH: ALL

OFFICER/MEMBER PRESENTING: RICHARD PENSKA, INTERIM S151 OFFICER

KEY DECISION: N/A

REASON:
This is a report to note for information.

RECOMMENDATIONS

The Audit Committee is asked:

- to note the treasury management in-year monitoring report to 30th September 2019.
- to note the treasury management indicators to 30th September 2019

1. SUMMARY OF REPORT

This report informs the Audit Committee of the council's;

- treasury management activities during the first six months of 2019/20 and confirms that the activities undertaken during the year have complied with both the requirements of the Accountability and Responsibility Framework and the approved Treasury Management Strategy approved by Council in February 2019.
- treasury management indicators for 2019/20, as required by CIPFA's Prudential Code for Capital Finance in Local Authorities.

2. POLICY

Part 1 (7) of the Financial Regulations, sets out the councils' policy framework with regards to treasury management activities.

Following the council's adoption of the 2011 edition of the CIPFA *Treasury Management in the Public Services: Code of Practice*, Members are required to approve an annual treasury management strategy before the start of each financial year and then to receive an in-year report and an annual report after the end of each financial year.

3. DETAILS

3.1 Treasury management activities are undertaken by officers within the Financial Management team of the Corporate Services Directorate. The remit of this team is broad and covers a range of day-to-day operational tasks relating to the management of cash-flows and resultant outcomes of borrowing and investment decisions, as well as setting the strategic direction required by the council to deliver its core services and cover key financial risks.

Headline Metrics for the period 1 April 2019 to 30 September 2019

3.2 The average rate of investment return for internally managed investments in 2019/20 is 0.89%, which is 0.32% above the benchmark rate. This excludes the 4.24% returns on external pooled funds.

3.3 Forecast gross interest income earned on all investments amounts to £1,359k against a budget of £925k.

3.4 No additional external borrowing has been undertaken during the period 1 April to 30 September 2019.

3.5 The council's Treasury Management Indicators for 2019/20 were agreed by Council in February 2019 and performance against the key indicators is shown in **Appendix 4**. All indicators are within target levels.

Summary of Investment Returns

3.6 The council's investment position as at 30th September 2019 is given in **Appendix 1**. The balance of deposits as at 30th September 2019 and 31st March 2019 are also set out in the tables in this Appendix. A comparison is also given showing the position as at 31st March 2019.

3.7 In **Appendix 1**, Table 1.3 compares the council's interest returns against a basket of 20 English unitary councils and against a wider basket of 139 local authorities. The council's rate of return at 30th September was 0.89%, which was 0.32% above the benchmark rate of average 7-day LIBID (0.57%), mainly due to the placement of several 6 to 12-month fixed term deposits in the first 6 months of the year. This rate is slightly lower than the fixed term deposit average rate (0.99%) referred to in **Appendix 2** as it also considers "instant access" deposits which are lower.

3.8 Forecast gross interest income earned on all investments amounts to £1,359k against a budget of £925k. **Appendix 2** details the investment performance of the different investment types, showing the interest earned over this period.

Summary of Borrowings

3.9 The council's external borrowing as at 30th September 2019 totalled £160.22 million and is detailed in **Appendix 3**. No new borrowing has been undertaken since 1 April 2019.

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 2019 apportioned to North Somerset Council is £13.0m. This borrowing is managed by an external body and treated in the council's Statement of Accounts as long term borrowing, it is included in the borrowing figures referred to in paragraph 3.9.

Strategic Issues - Investments

3.11 As shown in the charts at **Appendix 1,** the investment portfolio is diversified across Money Market Funds, Local Authorities, the CCLA Property Fund, highly rated UK and Foreign Banks and UK Building Societies. The council uses AAA rated Money Market funds to maintain very short-term liquidity and had overall investments of £112m invested as at 30th September 2019.

3.12 In **Appendix 1, Table 1.2** £13m is currently placed with the Debt Management Office (Government). This is MOD funding received and earmarked for the Winterstoke Bridge repair works. After Heads of Terms are finalised, the cash requirements profile may result in some of this money being placed in longer term investments until needed.

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

3.14 The council's average investment return from its in-house fixed term cash deposits is currently slightly below the target level of 1%, and this can be attributed to the rates being depressed against the backdrop of continuing uncertainty around Brexit. The inclusion of the £10m pooled investment funds returns of 4.24% has meant that overall the council's net returns have exceeded 1%.

Strategic Issues - Borrowing

3.15 In October 2019 the PWLB raised its base lending rates to local authorities by 1% overnight. This was not expected and saw several authorities who had originally planned to borrow from the PWLB needing to find alternative sources of funding. This provided a boost to the inter-local authority lending rates which the council was able to take advantage of, lending £14m in several tranches to several local authorities. The council's own current debt portfolio is protected from this increase as it is all at fixed rates. However, this PWLB rate increase may impact on the source and timing of future borrowing decisions.

3.16 The planned borrowing strategy for 2019/20 proposed that the council will consider PWLB borrowing as the primary source of finance for 'unsupported' capital projects and the UK Municipal Bonds Agency plc as the second source, with decisions being made at the appropriate time to ensure the best value for the taxpayer in terms of rates and potential risk.

3.17 Although the council's current long-term PWLB borrowing is held within fixed rate loans, variable rate borrowing could potentially be considered at some point in the future to hedge against interest rate risk within the investment portfolio.

3.18 It will be necessary to review borrowing requirements and rates throughout the financial year to determine the optimum time to borrow so that the lowest rates can be achieved.

Restructuring debt

3.19 Whilst in an environment of low interest rates the opportunity to repay PWLB borrowing using cash balances and realise any net gains is limited due to the size of the premiums repayable on early repayment and the loss of income from those cash balances. Previous calculations indicate the premium resulting from the early repayment of the council's portfolio could be between £10m to £35m depending on options.

3.20 For the same reasons above the early repayment of the councils share of the Ex-Avon loan debt would result in additional costs over and above the current interest payments. However, the transfer of this debt into North Somerset Council control is being discussed.

Economic Impacts

3.21 Our treasury management advisor's economic and market review for the first half of 2019/20 is included in **Appendix 5**.

3.22 The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.

3.23 The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether a deal is ultimately reached by 31st October.

Budget Implications

3.24 A breakdown of the revenue budget showing interest income and the forecast year end position based on the period April to September is included in **Appendix 2**. Investment is forecast to exceed budget at this stage of the financial year. The actual investment income out-turn will be heavily dependent on what happens to interest rates over the next 6 months, as well as any council funding decisions around the use of balances versus borrowing.

4. CONSULTATION

4.1 Consultation has been carried out with the Executive Member for Resources, Section 151 Finance Officer and Monitoring Officer.

5. FINANCIAL IMPLICATIONS

5.1 The financial implications are contained within the body of the report.

6. LEGAL POWERS AND IMPLICATIONS

6.1 This report is for information only.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

7.1 A review of the council's current investment holdings to assess any direct investment holdings in fossil fuel companies has confirmed that the council does not currently invest directly in equities in fossil fuel companies. With the potential to undertake a review in future of indirect investments.

8. RISK MANAGEMENT

8.1 The council does face significant types and degrees of risk in this area, from both internal and external sources. However, the council has implemented, and adheres to, strict policies and internal controls in order to mitigate such risks.

8.2 The council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return. Most of its surplus cash is therefore held as short-term investments and utilises the UK Government and highly rated banks and pooled funds where appropriate.

8.3 The council's primary objective for the management of its debt is to ensure its long-term affordability. Most of its loans have therefore been borrowed from the Public Works Loan Board at long-term fixed rates of interest.

8.4 However, the combination of short duration investments and long duration debt can expose the council to the risk of falling investment income during periods of low interest rates. This risk is partially mitigated by the inclusion of some longer-term investments and the option to prematurely repay some long-term loans.

8.5 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.

8.6 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 Audit Committee carries out this scrutiny.

9. EQUALITY IMPLICATIONS

9.1 Not applicable, this report is for information only.

10. CORPORATE IMPLICATIONS

10.1 None

11. OPTIONS CONSIDERED

11.1 None

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BACKGROUND PAPERS

Treasury Management Strategy 2019/20, Executive & Council – February 2019

APPENDICES

Appendix 1 Summary of External Investments at 30th September 2019
Appendix 2 The council's Investment and Interest monitoring position at 30th September 2019
Appendix 3 Summary of Borrowings
Appendix 4 Performance against Treasury Management Prudential Indicators
Appendix 5 External context provided by Arlingclose Ltd (treasury advisers)
Appendix 6 Summary Guide to Credit Ratings
Appendix 7 Glossary of Terms

Appendix 1 – Summary of External Investments at 30th September 2019

Table 1.1 Summary of External Investments as at (principal sums)				
	In-House Cash Deposits £m	In-House Pooled Funds £m	Tradition £m	**Total £m**
< 1 Year	92.0	0.0	10.0	**102.0**
> 1 Year	0.0	10.0	0.0	**10.0**
Total - 30th Sept 2019	**92.0**	**10.0**	**10.0**	**112.0**
Total - 31st March 2019	**60.5**	**10.0**	**10.0**	**80.5**

A1.1 The table below shows further analysis of the investments held at 31st March and 30th September 2019 which adhered to this Strategy.

Table 1.2 Analysis of External Investments (principal sums)			
	30/09/2019 £m	31/03/2019 £m	Movement £m
UK banks	**10.0**	5.0	5.0
Overseas	**15.0**	11.0	4.0
UK Building Societies	**30.0**	0.0	30.0
Money Market Funds	**0.0**	0.0	0.0
Debt management Office	**13.0**	6.0	7.0
Local Authorities	**34.0**	48.5	-14.5
Pooled Investment Funds	**10.0**	10.0	0.0
Total	**112.0**	**80.5**	**31.5**

A1.2 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in the table below.

Table 1.3 Investment Benchmarking – Treasury investments managed in-house					
	Credit Score	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**
31/03/2019	3.76	AA-	12%	104	0.95
30/09/2019	4.84	A+	50%	94	0.89
Similar LAs	**4.32**	**AA-**	**74%**	**41**	**0.80**
All LAs	**4.28**	**AA-**	**62%**	**28**	**0.83**

A1.3 The council's credit score is a numerical representation of the average credit rating of its counterparties, (AAA being 1, AA+ being 2, etc). The council's rating fluctuates around A+ and AA- which is comparable with other authorities and in line with the council's strategy. The council is less exposed to bail-in compared to the other authorities and its weighted average maturity is around 3 months at 30 September which is longer than the other authorities' average but also explains the higher returns from its fixed term cash deposit investments compared with those authorities.

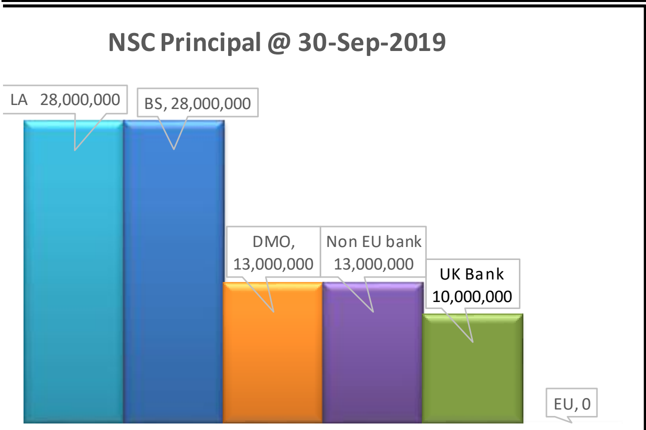
Appendix 2 -The council's Investment and Interest monitoring position at 30th September 2019

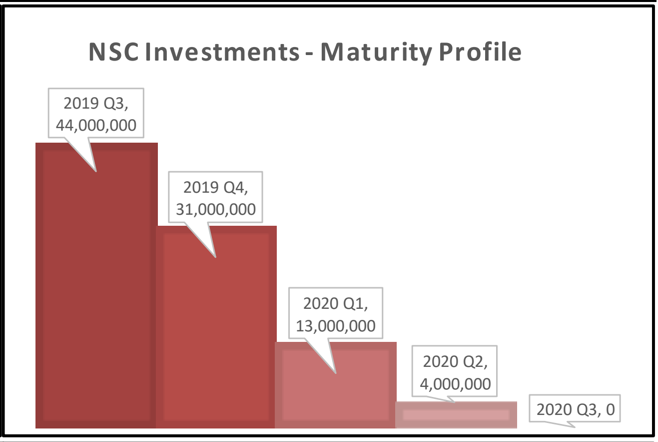
Monthly activity:

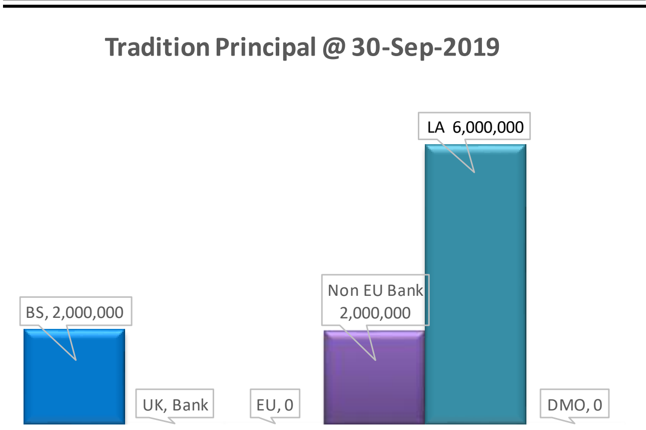
Investments - Total investments held as at 30 September 2019 -£112m - £15m matured in September and £19m was invested .
Borrowing - Current PWLB Borrowing is £147,222,500 including a £1m maturity in September.

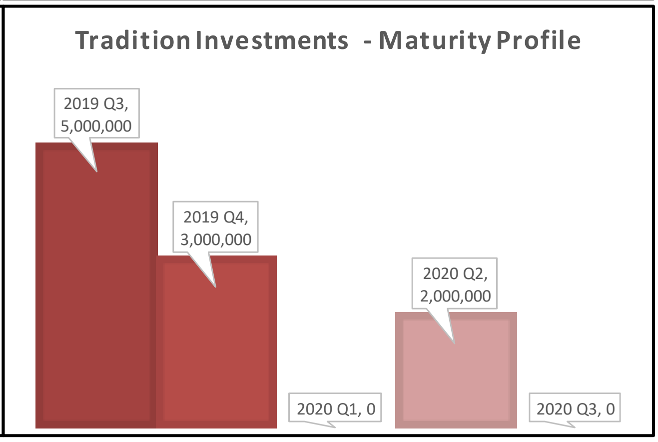
Interest Forecast compared to Budget 2019/20

Average Principal £	Average Duration (days)	Average % Return		Type	Budget £'000	Forecast £'000	Variance £'000	Potential Additional Variance £000
21,090,420	165.87	0.99	NSC Investments Income	FTCD	375	671	(296)	(135)
10,000,000	238.88	1.07	Tradition	FTCD	60	95	(35)	(13)
			MMF	Shares	16	33	(17)	(3)
			Deposit	VTCD	9	10	(1)	(10)
			CCLA	Shares	200	234	(34)	
			Multi Asset Funds Investec	Shares	113	178	(65)	
			Multi Asset Funds UBS	Shares	37	45	(8)	
			Pensions	Foregone Int	115	94	21	
					925	1,359	(434)	(161)









A2.1 News:

A2.2 At month-end the forecast positive budget variance was £434k, with a potential for a further £161k from future investments up to year-end.

A2.3 The Bank of England maintained the bank rate at 0.75% and in its "August Inflation Report" noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether a deal is ultimately reached by 31st October. The next bank rate decision will be on 7th November.

A2.4 Risks and Strategy:

A2.5 The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically. Arlingclose expects the bank rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.

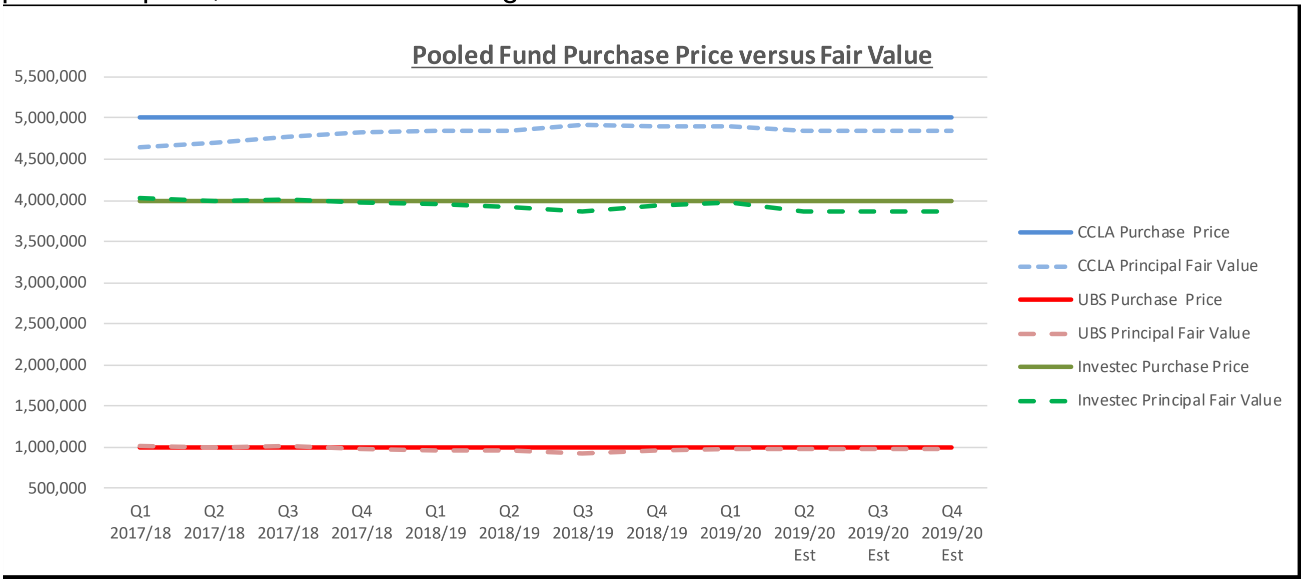
A2.6 UK banks are now much better capitalised than before the 2008 financial crisis, but governments have legislated against taxpayer-funded bailouts. Any bank or building society in financial trouble is now likely to be rescued via a bail-in, which if large enough, will result in losses for wholesale depositors.

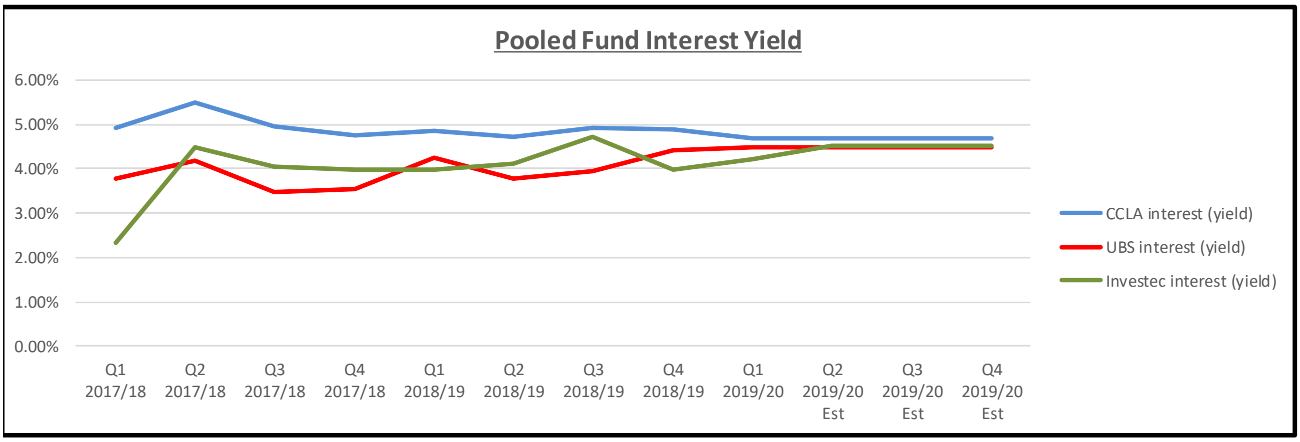
A2.7 The council's approved Investment Strategy provides enough flexibility to effectively manage activity and no amendment to the Investment Strategy is required.

A2.8 Current NSC Pooled Funds Held:

A2.9 CCLA (property fund) - £5m; Investec (multi-asset) - £4m; UBS (multi-asset) - £1m

A2.10 In the current market the funds fair value remains stable and slightly lower than the purchase price, all funds are running in line with current market trends.





A2.11 Approach for the rest of the year:

A2.12 The council will continue to invest in a broad number of counter parties for less than 12 months, in order to maximise flexibility and minimise exposure.

A2.13 October to December is traditionally when inter-local authority lending activity picks up but the reverse can be said during January to March when very little council tax is received, and in order to counteract some of the risks and uncertainty referred to above, the council will look to increase the relative percentage of local authority investments over the remaining months of 2019/20.

A2.14 There will be further scope to invest utilising the £13m currently held for the Winterstoke Road Bridge Project.

Appendix 3 – Summary of Borrowings

Long-term PWLB debt profile (principal only) as at 30th September 2019		
	Debt £m	Average Rate %
Less than 1 year	0.00	0.0
Between 1 and 2 years	0.34	4.75
Between 2 and 5 years	20.00	3.45
Between 5 and 10 years	36.93	3.66
Over 10 years	89.95	4.19
	147.22	4.00

A3.1 In addition, the council also has long-term borrowing obligations of £13m in respect of the former Avon County Council, although these loans are currently administered by Bristol City Council meaning that the council's overall long-term debt stands at £160.22m.

Appendix 4 - Performance against Treasury Management Prudential Indicators

A4.1 Introduction

A4.2 Having adopted both the CIPFA Treasury Management in the Public Services Code of Practice, and also the Prudential Code for Capital Finance in Local Authorities, the council is required follow the elements within the Guidance and set 'indicators' which demonstrate that it follows good practice and has implemented and operates within appropriate systems of control before making capital financing and treasury management decisions.

A4.3 Prudential Indicators: 'Prudential' Code

A4.4 The prudential code was updated in 2017 following consultation with local authorities to improve the transparency of investment decisions. Changes to the code include the requirement to produce a capital strategy and the inclusion of prudential indicators within the report to allow the reader to understand overall debt levels in conjunction with the capital programme and investment decisions and how this will be repaid.

A4.5 Treasury management is concerned with keeping enough but not excessive cash available to meet the council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed.

A4.6 The following Treasury Management prudential indicators were set for 2019/20 as part of the MTFP process. The estimates are shown below together with the actual indicators for 2019/20.

A4.7 Affordable borrowing limit

A4.8 The council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

A4.9 The following Treasury Management prudential indicators were set for 2019/20 as part of the MTFP process. The estimates are shown below together with the actual indicators for 2019/20.

A4.10 In respect of its external debt, the council approved the following authorised limit for its total external debt gross of investments for 2019/20. This limit separately identifies borrowing from other long-term liabilities such as finance leases or lease premium incentives. The actual level of external debt is shown and is well within the limits set at the start of the year.

Authorised Limit for External Debt	**2019/20 Limit £m**	**2019/20 Actual £m**
Borrowing – NSC	219	147.2
Other Long-Term Liabilities (Avon debt, leases, temporary borrowing etc)	55	36.3
Authority Total	**274**	**183.5**

A4.11 The council also approved the following operational boundary for external debt for the same period. The operational boundary for external debt was based on the same estimates as the authorised limit, but reflected estimates of the most likely, prudent, but not worst-case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements. As can be seen below, the actual level of external debt is well within the operational boundary set at the start of the year.

Operational Limit for External Debt	2019/20 Limit £m	2019/20 Actual £m
Borrowing – NSC	211	147.2
Other Long-Term Liabilities (Avon debt, leases, temporary borrowing etc)	50	36.3
Authority Total	**261**	**183.5**

A4.12 Treasury Management Indicators: '<u>Treasury Code</u>'

A4.13 <u>Interest rate exposures</u>

A4.14 The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also inform whether new borrowing is taken out at fixed or variable interest rates.

A4.15 <u>Maturity structure of borrowing</u>

A4.16 This indicator applies to the financial years 2019/20-2021/22. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. This indicator is set to control the council's exposure to refinancing risk. These limits are shown below, together with the actual percentage of borrowing that is maturing in each period.

Maturity Structure of Borrowing	Upper Limit	Lower Limit	Actual 2019/20	Complied?
Under 12 months	50%	0%	0.00%	Yes
12 months and within 24 months	30%	0%	0.23%	Yes
24 months and within 5 years	40%	0%	13.58%	Yes
5 years and within 10 years	50%	0%	25.08%	Yes
10 years and above	100%	0%	61.10%	Yes

A4.17 <u>Principal sums invested for periods longer than 364 days</u>

A4.18 The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The total principal sums invested to final maturities beyond the period end are shown below. The council is required to set a maximum amount to be invested beyond the end of the financial year for the forthcoming financial year and the following two years.

Principal sums invested for periods longer than 364 days	2019/20 £m	2020/21 £m	2021/22 £m
Upper Limit of Principal sums invested beyond the year	66	60	60
Actual principal sums invested beyond one year	10	10	10
Complied?	Yes	Yes	Yes

Appendix 5 - External context provided by Arlingclose Ltd (treasury advisers)

A5.1 Economic background:

A5.2 UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.

A5.3 The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.

A5.4 Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and has committed to leaving the EU on 31st October regardless of whether a deal is reached with the EU. Mr Johnson prorogued Parliament which led some MPs to put forward a bill requiring him to seek a Brexit extension if no deal is in place by 19th October. The move was successful and, having been approved by the House of Lords, was passed into law. The Supreme Court subsequently ruled Mr Johnson's suspension of Parliament unlawful.

A5.5 Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.

A5.6 The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether a deal is ultimately reached by 31st October.

A5.7 Financial markets:

A5.8 After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

A5.9 Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of September, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

A5.10 Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in September, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

A5.11 Credit background:

A5.12 Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.

A5.13 There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3, and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

Appendix 6 - 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 bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Appendix 7 – Glossary of Terms

Authorised Limit – the maximum amount of external debt at any one time in the financial year.

Bank Rate – the Bank of England base rate.

Capital Financing Requirement – financing needs of the council – i.e. the requirement to borrow.

CIPFA - the Chartered Institute of Public Finance and Accountancy. The institute is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work, in public service bodies, in the national audit agencies and major accountancy firms.

CLG – Communities and Local Government – see MHCLG.

Counterparty – the organisation the council is investing with.

Credit Rating – an assessment of the credit worthiness of an institution.

Creditworthiness – a measure of the ability to meet debt obligations.

Finance Lease - a finance lease is a lease that is primarily a method of raising finance to pay for assets, rather than a genuine rental. The latter is an operating lease. The key difference between a finance lease and an operating lease is whether the lessor (the legal owner who rents out the assets) or lessee (who uses the asset) takes on the risks of ownership of the leased assets. The classification of a lease (as an operating or finance lease) also affects how it is reported in the accounts.

Gilts – long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange.

LIBID – London Interbank BID Rate – the interest rate at which London banks are willing to borrow from one another.

MHCLG – Ministry of Housing, Communities and Local Government. The Government department that sets policy on supporting local government, communities and neighbourhoods, regeneration, housing, planning building and the environment and fire.

Minimum Revenue Provision - the minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.

Money Market - the market in which institutions borrow and lend.

Money Market Rates – interest rates on money market investments.

Operational Boundary – the most likely, prudent but not worst-case scenario of external debt at any one time.

Pooled Funds – investments are made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

Prudential Code – a governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.

Prudential Indicators – indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment.

PWLB (Public Works Loans Board) - a central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities can borrow to finance capital spending from this source.

Sovereign – the countries the council can invest in.

Treasury Management – the management of the council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities and the pursuit of optimum performance with those risks.

Treasury Management Practices – schedule of treasury management functions and how those functions will be carried out.

Variable Net Asset Value money market funds – the principal invested may fluctuate below that invested.