This report will be made public on 4 September 2018.

Folkestone & Hythe District Council

Report Number **C/18/29**

To:	**Cabinet**
Date:	**12 September 2018**
Status:	**Non-Key Decision**
Head of Service:	**Charlotte Spendley, Head of Finance**
Cabinet Member:	**Councillor Malcom Dearden, Finance**

SUBJECT: **TREASURY MANAGEMENT ANNUAL REPORT 2017/18**

SUMMARY: This report reviews the council's treasury management activities for 2017/18, including the actual treasury management indicators. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

REASONS FOR RECOMMENDATION:
Cabinet is asked to agree the recommendations set out below because:-

a) Both CIPFA's Code of Practice on Treasury Management in the Public Services and their Prudential Code for Capital Finance in Local Authorities, together with the Council's Financial Procedure Rules, require that an annual report on treasury management is received by the Council after the close of the financial year.

RECOMMENDATION:
1. To receive and note Report C/18/29.

1. INTRODUCTION

1.1 The annual treasury report is a requirement of the council's reporting procedures. It covers the treasury activity for 2017/18 compared to the approved strategy for the year. It also summarises the actual treasury management indicators for 2017/18 compared to those approved by Full Council.

1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

1.3 Full Council approved the Treasury Management Strategy for 2017/18 on 22 February 2017 (report A/16/24 refers). On 11 October 2017 Cabinet received an update on the council's treasury management activities and projections against the approved treasury management indicators for 2017/18 (report C/17/48 refers).

1.4 The council's formal treasury management reporting arrangements comply with the requirements of the CIPFA's Treasury Management Code and also provide the opportunity for proper scrutiny of the council's treasury management activities.

2. ECONOMIC COMMENTARY

(Based on commentary supplied by Arlingclose Ltd, the council's Treasury Advisor)

2.1 **Economic Background** – Key Issues Summarised

2.1.1 The key issues affecting the UK economy over the past year are summarised below.

i) **Growth** - UK GDP grew by 1.8% for the calendar year 2017, unchanged from 2016. This was viewed as a better than anticipated outcome following forecasts after the EU Referendum outcome in June 2016 and, in part, reflected stronger international growth, particularly in the United States and re-emerging Eurozone economies.

ii) **Inflation** – Consumer Price Inflation (CPI) peaked at 3.1% in November 2017 due to rising import prices before falling back to 2.7% in February 2018.

iii) **Wages and Employment** - Real average earnings, after inflation, turned negative during the year before slowly recovering but this affected consumer spending. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018.

iv) **Business Investment** – this continued to be viewed as weak and was not helped by the political uncertainty following the surprise General Election in June 2017 and the on-going lack of clarity on Brexit.

v) **Bank Base Rate** – the Monetary Policy Committee (MPC) increased the Base Rate by 0.25% in November 2017, the first rate increase in ten years. The February 2018 Inflation Report indicated the MPC was keen to return inflation to the 2% target over about the next two years with the use of further limited Base Rate rises.

vi) **Eurozone & US** – Economic activity in the Eurozone gained momentum during the past year although the European Central Bank appear to be some way off normalising interest rates. The US economy grew steadily during the year in line with policy objectives of price stability and maximizing employment on track. Consequently, The Fed raised US interest rates twice in the year to a target range of 1.50% - 1.75% with further increases expected over the next year.

2.2 Financial Markets

2.2.1 The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

2.2.2 Gilt yields, which regulate borrowing rates through the Public Works Loan Board (PWLB), displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

2.2.3 The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

2.3 Credit Background

2.3.1 In the first quarter of the financial year, UK bank credit default swaps (CDS) reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

2.3.2 The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the authority would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months, advice the authority followed. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

2.3.3 Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.

2.4 Credit Rating Developments

2.4.1 The most significant change was the downgrade by Moody's to the UK sovereign rating in September 2017 from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

2.4.2 There were other changes to credit ratings issued by the major credit rating agencies during the year however, in broad terms, these had no significant impact on the authority's investment strategy or use of counterparties.

2.5 Other Developments

2.5.1 In February, Arlingclose advised clients against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget. The authority had no investments with NCC.

2.5.2 In March, following Arlingclose's advice, the authority removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for the financial year 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the authority's lending list.

3. LOCAL AUTHORITY REGULATORY CHANGES

3.1 Revised CIPFA Codes

3.1.1 CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the previous 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports going forward.

3.1.2 The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to Cabinet. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

3.1.3 In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is be identified and reported.

3.2 MHCLG Investment Guidance and Minimum Revenue Provision (MRP)

3.2.1 In February 2018 the Ministry of Housing, Communities and Local Government (MHCLG) published revised Guidance on Local Government Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

3.2.2 Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

3.2.3 The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

3.3 MiFID II

3.3.1 As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

3.3.2 The authority has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

3.4 Money Market Fund Regulation

3.4.1 The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

4. TREASURY POSITION AT 31 MARCH 2018

4.1 On 31 March 2018, the authority had net borrowing of £20.5m arising from its revenue and capital income and expenditure, a decrease on 2017 of £4.7m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m	2017/18 Movement £m	31.3.18 Actual £m
General Fund CFR	18.5	(0.4)	18.1
HRA CFR	47.4	-	47.4
Total CFR	**65.9**	**(0.4)**	**65.5**
Less: Usable reserves	(37.2)	(3.8)	(41.0)
Less: Working capital	(3.5)	(0.5)	(4.0)
Net borrowing	**25.2**	**(4.7)**	**20.5**

4.2 Net borrowing has decreased mainly due to an increase in usable reserves resulting from delays, in particular, to the HRA capital programme. This has increased the balances to for the HRA General Reserve and the Major Repairs Reserve.

4.3 The authority’s current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 March 2018 and the year-on-year change in show in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m

Long-term borrowing Short-term borrowing	57.8 1.7	(1.9) 0.2	55.9 1.9
Total borrowing	**59.5**	**(1.7)**	**57.8**
Long-term investments Short-term investments Cash and cash equivalents	(6.9) (22.5) (4.9)	(7.0) 2.7 1.3	(13.9) (19.8) (3.6)
Total investments	**(34.3)**	**(3.0)**	**(37.3)**
Net borrowing	**25.2**	**(4.7)**	**20.5**

Note: the figures in the table are from the balance sheet in the authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

4.4 The decrease in net borrowing is mainly due to the reprofiling of the authority's capital expenditure programme between 2017/18 and 2018/19. As the table above shows, there has been a net movement in investment funds to long-term investments. There are two main reasons for this. Firstly, the authority holds sufficient cash and short-term investments for the next 12 months. Secondly, the longer term investments are with counterparties and instruments providing credit quality at least equal to or better than that for the shorter investments and are also providing enhanced returns.

5. BORROWING ACTIVITY 2017/18

5.1 At 31 March 2018, the authority held £57.8m of loans, a reduction of £1.7m on the previous year, as part of its strategy for funding previous years' capital programmes. Following the introduction of the Housing Revenue Account (HRA) Self-Financing regime in 2012 the authority operates a two pool debt approach allocating its loans between the General Fund and HRA. The year-end borrowing position and the year-on-year change in show in table 3 below.

Table 3: Borrowing Position – Two Pool Debt Approach

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %
General Fund				
Public Works Loan Board	8.4	(0.7)	7.7	5.26%
Local authorities (long-term)	0.5	(0.5)	0.0	2.32%
Local authorities (short-term)	-	0.5	0.5	-
Total General Fund borrowing	8.9	(0.7)	8.2	5.09%
Housing Revenue Account				
Public Works Loan Board	50.6	(1.0)	49.6	3.36%
Total HRA borrowing	50.6	(1.0)	49.6	3.36%
Total borrowing	**59.5**	**(1.7)**	**57.8**	**3.61%**

5.2 The weighted average maturity of the overall loans portfolio at 31 March 2018 is 13.5 years.

5.3 The authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the authority's long-term plans change being a secondary objective.

5.4 In furtherance of these objectives no new borrowing was undertaken in 2017/18, while existing loans were allowed to mature without replacement. The authority's CFR exceeded its gross borrowing position by £7.7m at 31 March 2018, i.e. it used internal borrowing from its cash surpluses to meet this difference. This strategy enabled the authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

5.5 The "cost of carry" analysis performed by the authority's treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

5.6 **Debt Rescheduling** – Opportunities to undertake debt rescheduling were monitored throughout the year in conjunction with Arlingclose. However, as expected, PWLB interest rates did not reach a level where it would have been beneficial to undertake debt rescheduling to create a net saving in borrowing costs.

5.7 Temporary Borrowing

5.7.1 The authority can borrow temporarily at times to meet cash outflows not covered by receipts and to finance capital expenditure which will ultimately be met from long term loans or grant receipts due. During 2017/18 no temporary borrowing was undertaken.

6. INVESTMENT ACTIVITY 2017/18

6.1 The authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18, the authority's investment balance ranged between £34.3 and £58.0 million due to timing differences between income and expenditure. The authority had an average investment balance of £46.9m during 2017/18 generating a return of 1.02% over the year. The year-end investment position and the year-on-year change are shown in table 4 below. A list of the individual investments held at 31 March 2018 is shown in appendix 1 to this report.

Table 4: Investment Position

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m
Banks & building societies (unsecured)	13.0	(13.0)	-
Covered bonds (secured)	3.3	4.0	7.3
Government (incl. local authorities)	8.0	13.0	21.0
Money Market Funds	4.8	(1.2)	3.6
Other Pooled Funds	5.2	0.2	5.4
Total investments	**34.3**	**3.0**	**37.3**

6.2 Both the CIPFA Code and government guidance require the authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.3 These objectives have been met during the year demonstrated by the move away from unsecured investments in banks and building societies to more secure counterparties and instruments of other local authorities and covered bonds.

6.4 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 5 below.

Table 5: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM (days)	Income Return
FHDC					
31.03.2017	4.36%	AA-	61%	141	1.35%
30.06.2017	3.64%	AA-	51%	231	1.04%
30.09.2017	3.72%	AA-	42%	252	1.05%
31.12.2017	3.80%	AA-	50%	193	0.91%
31.03.2018	3.25%	AA-	12%	189	0.86%
FHDC average	**3.75%**	**AA-**	**43%**	**201**	**1.04%**
Similar LAs	**4.32%**	**AA-**	**61%**	**113**	**1.21%**
All LAs	**4.36%**	**AA-**	**61%**	**42**	**0.95%**

6.5 The investment benchmarking, which is a snapshot at the end of each quarter, demonstrates the authority had a similar risk profile as both its peer group and the wider local authority population in 2017/18 (measured against other Arlingclose clients only). Income returns were slightly below that for the peer group although just above the average for the total population.

6.6 The authority's best performing investment in 2017/18 continued to be its £5.4m externally managed pooled property fund. The CCLA Local Authorities' Property Fund generated a total net return of £250k or 4.7% compared to the average value of the fund during the year. Pleasingly, the capital value of the Authority's investment in the fund grew by £246k over the year generating total capital growth of £433k since the authority originally invested in it. Because this fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the authority's investment objectives is regularly reviewed. In light of the fund's continued impressive income return and the authority's latest cash flow forecasts, investment in this fund has been maintained for the year.

7. FINANCIAL SUMMARY

7.1 The following table summarises the authority's net interest cost for its treasury management activities in 2017/18 and shows the outturn is significantly lower than the approved estimate:

Table 6: Net Interest Cost

	2016/17 Actual	2017/18 Estimate	**2017/18 Actual**	**2017/18 Variance Estimate to Actual**
	£'000	£'000	**£'000**	**£'000**
Interest Paid	*2,217*	2,114	**2,110**	**(4)**
Interest Received(net of fees)	*(536)*	(323)	**(478)**	**(155)**
Net Interest	*1,681*	1,791	**1,632**	**(159)**
Net Impact				
General Fund	*35*	167	**44**	**(123)**
H.R.A	*1,646*	1,624	**1,588**	**(36)**
	1,681	1,791	**1,632**	**(159)**

7.2 The main reason for the reduction in the net interest cost is due to additional interest received from higher than anticipated usable reserves and other cash balances being invested during the year. This position has previously been reported to Cabinet as part of the authority's regular budget monitoring process.

8. OTHER NON-TREASURY HOLDINGS AND ACTIVITY

8.1 Although not classed as treasury management activities, the 2017 CIPFA Code now requires the authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. This includes the authority's investment in its wholly owned subsidiary company, Oportunitas Limited. These are summarised in the table below:

Table 7: Non-Treasury Holdings and Returns

Investment Type	**Value 31/03/18 £m**	**Income 2017/18 £'000**	**Rate of Return %**
Investment Property	8.0	182	2.27
Oportunitas loan & equity	3.6	154	4.27
Lloyds Bank - Local Authority Mortgage Scheme	1.0	23	2.32
Total	**12.6**	**359**	**2.84**

8.2 The rate of return on these is higher than that earned on treasury investments reflecting the additional risks to the authority of holding such investments.

9. COMPLIANCE WITH INVESTMENT LIMITS AND TREASURY INDICATORS

9.1 The Corporate Director for Customer, Support and Specialist Services is pleased to report that all treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment and borrowing limits and Treasury Indicators is demonstrated in appendix 2 to this report.

10. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

10.1 Legal Officer's Comments (DK)
There are no legal implications arising directly out of this report other than those clearly stated in the report itself.

10.2 Finance Officer's Comments (LW)
This report has been prepared by Financial Services and relevant financial implications are included within it.

10.3 Diversities and Equalities Implications
The report does not cover a new service or policy or a revision of either and therefore does not require an Equality Impact Assessment.

11. CONTACT OFFICER AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting:

Lee Walker, Group Accountant (Capital and Treasury Management)
Telephone: 01303 853593 Email: lee.walker@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Arlingclose Ltd – Model Treasury Management Annual Report Template

Appendices:
Appendix 1 – Investments held at 31 March 2018
Appendix 2 – Compliance with specific investment and borrowing limits and Treasury Indicators

APPENDIX 1 – INVESTMENTS HELD AT 31 MARCH 2018

Counterparty	Amount £	Terms	Interest Rate %
Banks and Building Societies (unsecured)			
Nil			
Covered Bonds (Secured)			
Yorkshire Building Society	1,666,460	Covered Fixed Rate Bond to 12/04/2018	0.57
Yorkshire Building Society	2,089,005	Covered Fixed Rate Bond to 12/04/2018	0.57
Royal Bank of Scotland	1,001,842	Covered Floating Rate Note to 15/05/2020	0.78
Royal Bank of Scotland	2,505,138	Covered Floating Rate Note to 15/05/2020	0.73
Government			
Eastleigh Borough Council	5,000,000	3 month Fixed Deposit to 02/05/2018	0.50
Merthyr Tydfil County Borough Council, Glamorgan	3,000,000	3 month Fixed Deposit to 26/06/2018	0.85
North Lanarkshire Council	5,000,000	6 month Fixed Deposit to 17/05/2018	0.50
Peterborough City Council	3,000,000	1 Year Fixed Deposit to 28/09/2018	0.40
London Borough of Croydon	5,000,000	2 Year Fixed Deposit to 31/05/2019	0.80
Money Market Funds			
Standard Life MMF	123,000	Money Market Fund instant access.	0.46
BNP Paribas MMF	3,510,000	Money Market Fund instant access.	0.46
Other Pooled Funds			
CCLA LA Property Fund	5,433,346	Commercial Property Fund	*4.7
Total Investments	**37,328,791**		
* Net of Fees			

APPENDIX 2 – COMPLIANCE WITH SPECIFIC INVESTMENT AND BORROWING LIMITS AND TREASURY INDICATORS

Compliance with specific investment limits is demonstrated in table 1 below.

Table 1: Specific Investment Limits

	2017/18 Maximum	31.3.18 Actual	2017/18 Limit	Complied
Any single UK organisation, except UK Government	£5m	£5m	£5m	✓
Any single non-UK organisation	-	-	£4m	✓
Individual foreign countries	-	-	£4m	✓
Foreign countries (maximum all non-UK investments)	£7m	-	£8m	✓
Any group of funds under the same management - UK	£5m	£5m	£10m	✓
Any group of funds under the same management – non-UK	-	-	£4m	✓
Registered Providers (total)	-	-	£10m	✓
Unsecured investments in Building Societies (total)	-	-	£5m	✓
Loans to unrated Corporates (total)	-	-	£5m	✓
Money Market Funds (total)	£24.1m	£3.6m	£25m	✓
Non-specified investments (total)	£13.9m	£13.9m	£35m	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 2 below.

Table 2: Debt Limits

£m	2017/18 Maximum	31.3.18 Actual	2017/18 Operational Boundary	2017/18 Authorised Limit	Complied
Borrowing	59.5	57.8	65.0	69.9	✓
PFI & finance leases	-	-	-	-	✓
Total debt	**59.5**	**57.8**	**65.0**	**69.9**	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. The total debt was not above the operational boundary during 2017/18.

Treasury Management Indicators

The authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.18 Actual	2017/18 Target	Complied
Portfolio average credit rating	AA-	A	✓

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
.

	31.3.18 Actual	2017/18 Target	Complied
Total cash available within 3 months	£20.4m	£5m	✓

Interest Rate Exposures: This indicator is set to control the authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed is shown in table 3 below:

Table 3: Interest Rate Exposures

	31.3.18 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	£50.9m	£63m	✓
Upper limit on variable interest rate exposure	(£30.4m)	£0m	✓

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

Maturity Structure of Borrowing: This indicator is set to control the authority's exposure to refinancing risk. Compliance with the upper and lower limits on the maturity structure of fixed rate borrowing is shown in table 4 below:

Table 4: Maturity Structure of Borrowing

	31.3.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3.3%	30%	0%	✓
12 months and within 24 months	1.9%	40%	0%	✓
24 months and within 5 years	13.2%	50%	0%	✓
5 years and within 10 years	34.6%	80%	0%	✓
10 years to 20 years	24.3%	100%	0%	✓
20 years to 30 years	10.6%	100%	0%	✓
30 years to 40 years	12.1%	100%	0%	✓
40 years to 50 Years	0%	100%	0%	✓

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.

Principal Sums Invested for Periods Longer than 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. Compliance with the limits on the long-term principal sum invested to final maturities beyond the period end is shown in table 5 below:

Table 5: Principal Sums Invested for Periods Longer than 364 days

At 31.3.18	**2017/18**	**2018/19**	**2019/20**
Actual principal invested for longer than 364 days	£5m	-	-
Limit on principal invested beyond 364 days	£20m	£15m	£10m
Complied	✓	✓	✓