WIRRAL

CLLR JANETTE WILLIAMSON

CABINET

16 JULY 2018

TREASURY MANAGEMENT ANNUAL REPORT 2017/18

Councillor Janette Williamson, Cabinet Member for Finance and Resources, said:

"We have an excellent track record of investing public money to deliver a good return, and using the profits to support the services our residents rely on. I am pleased to bring this report to Cabinet which demonstrates this trend continuing.

An organisation the size of Wirral Council has a highly complex cashflow, with money coming in and out on a daily basis as services are provided and paid for. Our job is to manage those resources well, and make sure we maximise the interest we earn and the returns we can generate from sensible, targeted investments. Our approach has been in line with the practice common to all local authorities to increase inter authority lending.

The return we get from these investments supports our services and goes towards offsetting the continuing reductions in support from Central Government."

REPORT SUMMARY

The Authority's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires the production of annual Prudential Indicators and a Treasury Management Strategy Statement on likely financing and investment activity. The Code also recommends that Members are informed of treasury management activities at least twice a year.

This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance.

Proactive Treasury Management activity has resulted in savings of £6.8 million. This is £0.7 million more than the estimated £6.1 million reported in the Treasury mid-year review. The additional savings resulted due to a combination of increased investment income, securing lower cost loans and further Minimum Revenue Provision adjustments. The £6.8 million total saving consisted of:

- £4.6 million as a result of revising the in-year Minimum Revenue Provision (MRP) calculation.

- £2.2 million in year from interest costs not required due to the use of cashflow.

The level of outstanding long term borrowing that the Council has in regard to Capital expenditure continued to fall in 2017/18. The balance of £182 million at 31 March 2018 includes £32 million relating to Merseyside Residual Body debt (administered by the council on behalf of a group of authorities). There has been a reduction of £82 million since 1 April 2012. This reduction has resulted in lower interest costs for the Council.

The Council has complied with the Prudential Indicators as set out in the agreed Treasury Management Strategy for 2017/18.

This matter affects all Wards within the Borough.

The decisions in this report are key decisions.

RECOMMENDATIONS

1 That the Treasury Management Annual Report for 2017/18 be agreed.

2 That the revised CIPFA Treasury Management Code (2017) be approved.

3 That the saving of £6.8 million from capital financing activities in 2017/18 be noted.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

1.1 Wirral has adopted the CIPFA Code of Practice on Treasury Management ("the Code"), which includes regular update reports to Members of treasury activity. This report is the annual review for 2017/18.

1.2 Under the Council's Financial Regulations any surplus resources, including any additional income, are returned to General Fund Balances and so used to support the delivery of other Council services and maintain financial resilience.

2.0 OTHER OPTIONS CONSIDERED

2.1 There is a legal requirement to produce an Annual Report on Treasury Management activities so no other options have been considered.

3.0 BACKGROUND INFORMATION

3.1 Treasury management is defined by CIPFA as: "The management of the local authority investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3.2 Cabinet approves the Treasury Management Strategy at the start of each financial year. This identifies how it is proposed to finance capital expenditure, borrow and invest in the light of capital spending requirements, the interest rate forecasts and the expected economic conditions. During the year Cabinet receives a mid-year report on treasury management activities and at the end of each financial year an Annual Report.

ECONOMIC BACKGROUND

3.3 **Growth & Inflation**: The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar year 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies. The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018.

3.4 Whilst the economic growth consequences of leaving the EU remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, constrain investment intentions and tighten credit availability.

3.5 Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018.

3.6 **Monetary Policy**: The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the EU referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening.

3.7 **Market Reaction**: The increase in Bank Rate resulted in higher money markets rates. Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. Further evidence of such market volatility can be seen by looking back at the stock markets. 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.

3.8 **Impact on Wirral:** The underlying uncertainty surrounding the financial consequences of Brexit has dampened potential economic growth. This has resulted in the continuation of the low interest rate environment in which Treasury Management has been carried out. Low interest rates mean low investment returns, but an opportunity where possible to take advantage of equally low borrowing costs. Over the past year the Council has taken advantage of these low borrowing costs and achieved significant savings in the process.

BORROWING AND DEBT MANAGEMENT

3.9 The Authority's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31 March 2018 was £339.1 million.

	Balance at 01/04/17 £000	Matured Debt £000	New Borrowing £000	Balance at 31/03/18 £000
CFR	**332,378**			**339,074**
Outstanding Debt				
Short Term Capital Debt	11,494	(11,494)	9,965	9,965
Long Term Capital Debt	179,084	(7,582)	0	171,502
Total Capital Debt	**190,578**	**(19,076)**	**9,965**	**181,467**
Temporary Cashflow Loans	28,003	(28,003)	85,331	85,331
Other Long Term Liabilities	47,985	(2,620)	0	45,365
Total External Debt	**266,566**	**(49,699)**	**95,296**	**312,163**

3.10 The difference between the Capital Financing Requirement and the level of External Debt is the extent to which the Authority is 'internally borrowed'. This is where the Authority utilises its own resources rather than take on external borrowing.

3.11 Affordability and the "cost of carry" remained important influences on the borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained lower than long-term rates, it was more cost effective in the short-term to use internal resources instead.

3.12 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose, the treasury management advisers, assist the Authority with this 'cost of carry' and breakeven analysis.

3.13 The chief objective when borrowing is 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 long-term plans change, being a secondary objective.

3.14 Given the reductions in local government funding, the borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

3.15 As a consequence of the decision to borrow internally, the Authority's level of external long term borrowing has reduced significantly over recent years. The increase in total external debt during 2017/18, (see section 3.8), is the result of the Authority undertaking temporary cash flow loans over the year end period. Utilisation of the short term borrowing market has aided the policy of internal borrowing, whilst enabling the Council to have sufficient liquidity at a lower cost compared to the longer term loan market. Long term external borrowing reduced during the year by £9.0 million.

3.16 With external borrowing reducing, the annual cost of financing this debt has also fallen year on year, generating savings, as illustrated below. These cost reductions, coupled with the deferral of further borrowing costs through internal borrowing provided substantial one-off savings.

Year ending 31st March	Capital Financing Loans £m	Annual Interest Cost £m
2012	264.3	10.9
2013	247.2	10.5
2014	217.2	9.8
2015	204.2	9.4
2016	199.4	9.2
2017	190.9	9.1
2018	181.8	9.0

3.17 At 31 March 2018 the total external debt included £32.3 million for the Merseyside Residuary Body debt, which along with Wirral is repayable by other external organisations (£38.8 million at 31 March 2017). Wirral administer this debt on behalf of the constituent bodies, for a management fee, with the last loan repayable in March 2026.

3.18 The following table shows the long term loans repaid during the year.

Loans maturing in 2017/18	Principal £m	Fixed/ Variable	Rate %	Loan start date	Terms
PWLB	3.50	Fixed	5.00	March 2000	Maturity
PWLB	3.00	Fixed	5.38	June 2001	Maturity
PWLB	0.50	Fixed	3.04	February 2010	E I P
PWLB	0.50	Fixed	2.94	March 2010	E I P
PWLB	0.50	Fixed	1.89	October 2010	E I P
PWLB	0.50	Fixed	2.30	November 2011	E I P
SALIX	0.50	Fixed	0.00	October 2015	E I P
Total Maturing Borrowing	**9.00**				

Note: Equal Instalments of Principal (EIP) loans are loans that are repaid in equal instalments spread over the duration of the loan. Maturity loans are repaid in full at the maturity date of the loan.

3.19 The average rate of interest paid on long term borrowings as at 31 March 2018 was 5.83% (5.75% for 2016/17) and the average life is 29 years, the same as for 2016/17. It should be noted that the average rate calculation excludes the benefit received from the policy of using internal borrowing to delay borrowing for capital financing purposes. This incurs a £nil borrowing cost at the expense of foregone investment income (currently approximately 0.51%) and if included would reduce the average rate.

3.20 Temporary, short dated loans, predominantly from other local authorities remain affordable and attractive for periods of low cash flow. Engaging in the inter-local authority loan market has two main advantages to the authority:

- When looking to borrow money, there is a readily available supply of short-term cash available at low interest rates resulting in low interest costs
- If the opportunity arises to invest in a local authority, not only is the investment at a lower credit risk than compared to e.g. a bank deposit, but the interest rate obtainable is similar or higher.

3.21 Maximising opportunities, both in regard to borrowing and investment are key to good Treasury Management practice. This inter-local authority loan market is an important resource and according to MHCLG the popularity of inter-authority lending continued over the last year, rising by 30.0% to reach £9.1 billion at the year end.

Other Long-Term Liabilities

3.22 Other Long-Term Liabilities include the schools Private Finance Initiative (PFI) scheme and finance leases used to purchase vehicles plant and equipment. Under the International Financial Reporting Standards (IFRS) these items are now shown on the Balance Sheet as a Financial Liability and therefore need to be considered within any Treasury Management decision making process.

3.23 As at 31 March 2018 the PFI liability was valued at £45.4 million to be repaid by 2031.

Minimum Revenue Provision (MRP)

3.24 Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the Revenue Budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's Guidance (MHCLG) on Minimum Revenue Provision 2017 (a revision was issued in February 2018).

3.25 Revisions to the guidance included:

- The definition of prudent MRP being changed to "put aside revenue over time to cover the Capital Financing Requirement" (CFR);
- MRP 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 future change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

3.26 The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. MHCLG prescribe various options to calculate this repayment provision.

3.27 A revision to the method used to calculate the MRP charge was approved by Council on 11 December 2017 via the Treasury Management Mid-Year Report. This amendment resulted in a saving of £4.6 million during 2017/18.

3.28 In 2017/18 the decision to continue to use internal resources in lieu of borrowing for capital purposes, thereby delaying the charging of MRP costs and the reduction in borrowing costs as illustrated in section 3.15 has helped generate further savings of £2.2 million whilst complying with the Regulations. In future years the temporary use of internal funds will have to be replaced by increased external borrowing so provides a short-term saving.

INVESTMENT ACTIVITY

3.29 Both the CIPFA and the MHCLG's Investment Guidance require the Authority to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield. The following table summarises the investment activity during the year.

Investment Counterparty	Balance 01/04/17 £000	Investments Made £000	Maturities £000	Balance 31/03/18 £000	Credit Rating
UK Local Authorities	0	13,000	(8,000)	5,000	AA
Banks	11,000	13,000	(18,000)	6,000	AA-
	12,000	6,000	(12,000)	6,000	A
Building Societies	1,000	6,000	(4,000)	3,000	Unrated
Money Market Funds	25,030	402,969	(405,349)	22,650	AAA
Corporate	1,100	850	(300)	1,650	Unrated
Externally Managed Funds	2,000	7,000	(3,000)	6,000	AAA
Total	**52,130**	**448,819**	**(450,649)**	**50,300**	

Note 1: Any unrated Building Societies utilised have been independently assessed as credit worthy
Note 2: Unrated Corporate investments are cash flow facilities backed by suitable financial guarantees.

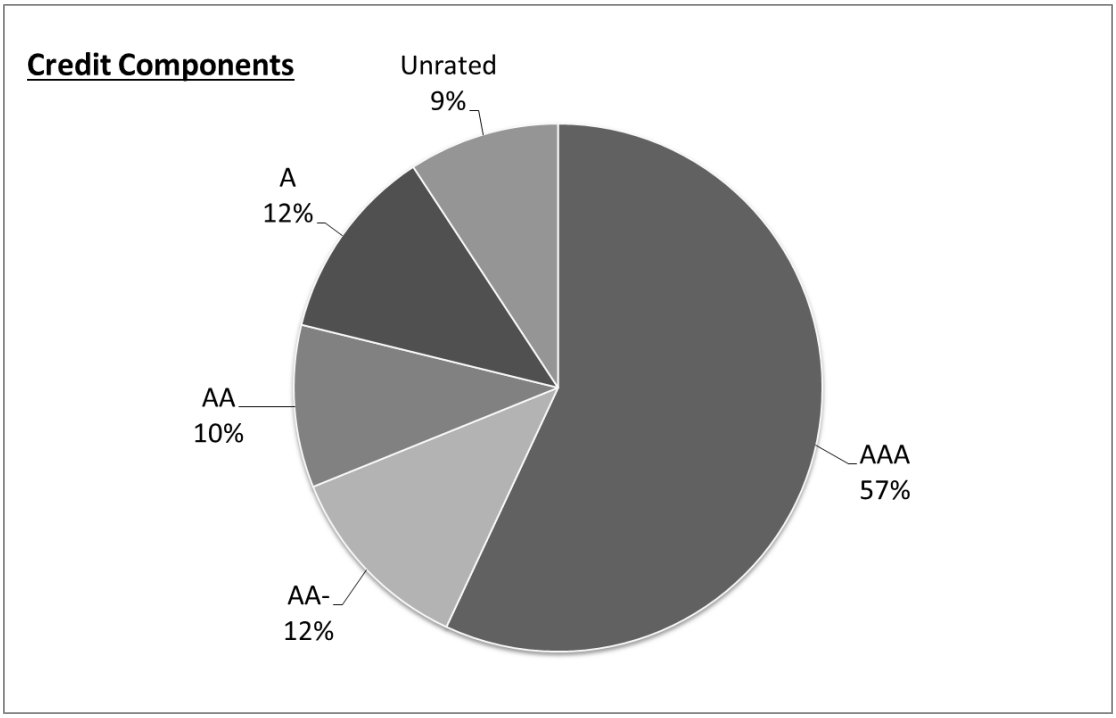
3.30 Security of capital remained the main investment objective. This was maintained by following the counterparty policy set out in the Treasury Management Strategy Statement for 2017/18 which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher that are based in the UK or a foreign country with a sovereign rating of AA+ or higher.

3.31 The creditworthiness of each counterparty was thoroughly assessed by the Authority's Treasury Management Advisors, Arlingclose who analysed factors such as:

- Credit ratings (the Authority's minimum long-term counterparty rating for 2017/18 was A- across rating agencies Fitch, S&P and Moody's)
- Financial Market indicators (e.g. Credit Default Swaps)
- Financial statements,
- Information on potential government support
- Reports in the quality financial press.

3.32 The following chart shows the credit composition of the Council's investment portfolio as at 31 March 2018:

Chart 1: Investment Portfolio – Credit Components



Note: *'Unrated' components relate to Building Societies and Corporate investments that despite the absence of a formal rating, are either deemed credit worthy due to analysis of their performance over a variety of credit metrics or backed by suitable financial guarantees. These institutions are subject to a lower counterparty limit than those with formal credit ratings.*

3.33 Investments with Banks and Building Societies were primarily Instant Access accounts and fixed-rate term deposits. The maximum duration of any new investment was constantly reviewed in line with the prevailing credit outlook during the year as well as market conditions.

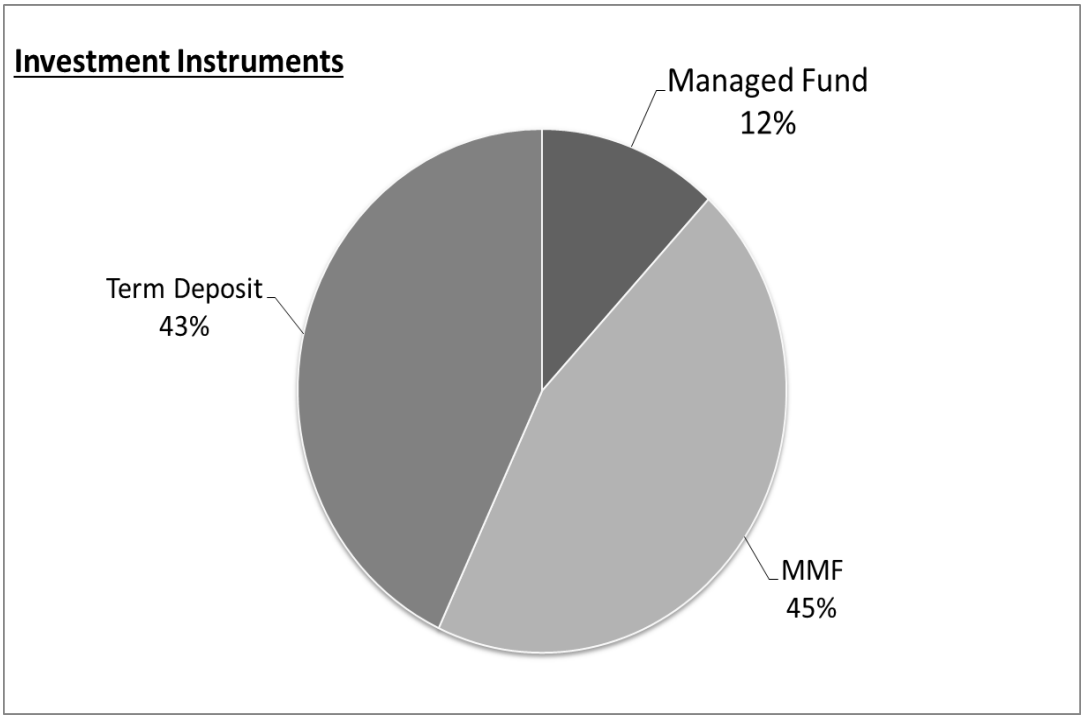
3.34 In keeping with the MHCLG Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and the use of Instant Access accounts.

3.35 The Authority also has investments in externally managed cash plus funds. These are funds managed by an external professional fund manager and consist of shares in a variety of different investments that the fund manager looks after. Using these funds helps to further diversify the Authority's investment portfolio and reduce credit exposure to any particular counterparty. The value of the shares in these funds can go up as well as down. These investments generate income for the Council that is received on a regular basis.

3.36 Although money can be redeemed from these funds at short notice, the Authority's intention is to hold them for the medium-term, to maximise their potential income generation. Their performance and suitability in meeting the Authority's investment objectives are monitored regularly and discussed with Arlingclose.

3.37 For diversification purposes the Treasury Management team invest in a variety of counterparties and financial instruments to help mitigate counterparty and liquidity risks. A summary of the instruments invested in follows:

Chart 2: Investment Portfolio – Financial Instruments



3.38 As stated in the Revenue Monitoring reports the budgeted investment income for the year estimated at £0.56 million was unlikely to be achieved. The final income for the year was £0.30 million with the reduction due to:-

a) The continuing policy of achieving larger savings by relying on internal borrowing to temporarily fund and thereby delay borrowing for the Capital Programme, which also reduces balances available to put into investments.
b) Low interest rates offered for investments.

3.39 The level of investment income does not reflect the savings of an estimated 2.5% on delayed borrowing for amounts internally borrowed. The UK Bank Rate stood at a historic low of 0.25% until November 2017 when the rate was raised to 0.50%. The return on investments, along with our policy of internally borrowing, reflects prevailing market conditions and the objective of optimising returns commensurate with the principles of security and liquidity.

Credit Rating Developments

3.40 The environment in which Treasury Management is carried out is ever evolving. The creditworthiness of counterparties has the potential to change at any time and it is important for the Authority to be able to react quickly to any changes in credit rating to ensure the ongoing security of its investments. The following notable credit events were dealt with over the past financial year.

3.41 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. Due to uncertainty regarding the future structure of banks that the Authority deals with, in May 2017 the council's treasury advisors (Arlingclose) advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months.

3.42 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.

3.43 In February, Northamptonshire County Council (NCC) were removed as an approved investment counterparty. 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. 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 2018/19.

Local Authority Regulatory Changes

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

3.45 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 a committee

3.46 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 to be identified and reported.

3.47 Markets in Financial Instruments Directive (MiFID II): This is EU legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded. One of the aims of the directive is to ensure organisations are only offered investment products suitable to their capabilities. As a result of this directive, 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.

3.48 The Authority met the conditions to opt up to professional status. The Authority will therefore continue to have access to a wider pool of investment products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. Being treated as a retail client would not have provided any additional protection for the Council and would have resulted in a restriction on investment opportunities.

COMPLIANCE WITH PRUDENTIAL INDICATORS

3.49 The Authority has complied with its Prudential Indicators for 2017/18, which were approved on 20 February 2017 as part of the Treasury Management Strategy Statement. Details can be found in the Appendix.

3.50 In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary report of the treasury management activity during 2017/18. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

4.0 FINANCIAL IMPLICATIONS

4.1 In the financial year 2017/18 proactive treasury management activities produced a one-off saving of £2.2 million. Adoption of the Annuity method for calculating MRP, as outlined above, increased this to £6.8 million.

4.2 Capital financing debt has reduced to £182 million, a decrease of £82 million since 2012, despite additional annual Capital commitments. This has also contributed to the generation of substantial savings.

4.3 Investment income has also helped to generate resources for service delivery.

5.0 LEGAL IMPLICATIONS

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management. This requires the annual production of Prudential Indicators and a Treasury Management Strategy Statement and the reporting of treasury management activities at least twice a year.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 The Council is responsible for treasury decisions and activity and none of these decisions are without risk. The successful identification, monitoring and control of risk are important and the main risks are:-

- Liquidity Risk (Inadequate cash resources).
- Market or Interest Rate Risk (Fluctuations in interest rate levels).
- Inflation Risk (Exposure to inflation).
- Credit and Counterparty Risk (Security of investments).
- Refinancing Risk (Impact of debt maturing in future years).
- Legal and Regulatory Risk.

8.0 ENGAGEMENT/CONSULTATION

8.1 There has been no specific consultation with regards to this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

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APPENDICES

Appendix 1 Prudential Indicators 2017/18
Appendix 2 Glossary of Terms

SUBJECT HISTORY

Council Meeting	Date
Treasury Management Annual Report 2016/17	16 June 2017
Treasury Management Strategy Statement 2017/18	20 February 2017
Treasury Management Mid-Year Report 2017/18	6 November 2017

APPENDIX 1

PRUDENTIAL INDICATORS 2017/18

(a) Capital Financing Requirement (CFR)

Estimates of the Authority's cumulative maximum external borrowing requirement for 2017/18 to 2019/20 are shown in the table below:

Capital Financing Requirement	**31/03/2018 Actual £m**	31/03/2019 Estimate £m	31/03/2020 Estimate £m
General Fund	**339.1**	367.0	370.0

Gross Debt and the Capital Financing Requirement:

In order to ensure that over the medium term, debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of Capital Financing Requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31/03/2018 Actual £m**	31/03/2019 Estimate £m	31/03/20 Estimate £m
Borrowing	**266.8**	296.7	310.5
PFI liabilities	**45.3**	42.8	40.3
Total Debt	**312.1**	339.5	350.8
Borrowing in excess of CFR?	**No**	**No**	**No**

Total debt is expected to remain below the CFR during the forecast period.

(b) Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases and the Private Finance Initiative that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

There were no breaches to the Authorised Limit and the Operational Boundary during 2017/18.

	Operational Boundary (Approved) 31/03/2018 £m	Authorised Limit (Approved) 31/03/2018 £m	**Actual External Debt 31/03/2018 £m**
Borrowing	424.0	434.0	266.8
Other Long-term Liabilities	58.0	63.0	45.3
Total	**482.0**	**497.0**	**312.1**

(c) Upper Limits for Fixed and Variable Interest Rate Exposure

These allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on the portfolio of investments.

Interest Rate Exposure	**Fixed Rate of Interest**	**Variable Rate of Interest**	**Total**
Borrowings	£266.8m	£0m	**£266.8m**
Proportion of Borrowings	100%	0%	**100%**
Upper Limit	100%	100%	
Investments	£21.7m	£28.6m	**£50.3m**
Proportion of Investments	43%	57%	**100%**
Upper Limit	100%	100%	
Net Borrowing	£245.1m	-£28.6m	**£216.5m**
Proportion of Total Net Borrowing	113%	-13%	**100%**

(d) Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	**Lower Limit**	**Upper Limit %**	**Actual Fixed Rate Borrowing at 31/03/18 £m**	**Actual Fixed Rate Borrowing at 31/03/18 %**
Under 12 months	0	80	95.3	35.7
12 months and within 24 months	0	50	2.7	1.0
24 months and within 5 years	0	50	21.3	8.0
5 years and within 10 years	0	50	18.4	6.9
10 years and over	0	100	129.1	48.4
Total			266.8	100.0

(e) Total principal sums invested for periods longer than 364 days

This indicator allows the Council to manage the risk inherent in investments longer than 364 days and for 2017/18 the limit was set at £60 million.

As at 31 March 2018 the Council had £1.3 million that potentially could be invested for longer than 364 days.

(f) Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and in particular, to consider the impact on Council Tax. The updated projections for 2018/19 and 2019/20 are included as a separate agenda item to this committee.

Expenditure	**31/03/18 Actual £m**	31/03/19 Estimate £m	31/03/20 Estimate £m
General Fund	**46.8**	**84.7**	**40.8**

Capital expenditure has or will be funded as follows:

Capital Financing	**31/03/18 Actual £m**	31/03/19 Estimate £m	31/03/20 Estimate £m
Capital receipts	**10.4**	11.8	0
Grants and Contributions	**17.8**	24.1	19.3
Revenue and Reserves	**0.2**	0	0
Unsupported borrowing	**18.4**	48.8	21.5
Total Funding	**46.8**	**84.7**	**40.8**

(g) Ratio of financing costs to net revenue stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The ratio is based on costs net of investment income.

Ratio of Finance Costs to Net Revenue Stream	**2017/18 Actual %**	**2018/19 Estimate %**	**2019/20 Estimate %**
Ratio	6.64	7.22	7.62

(h) Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council tax levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with the equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	**2017/18 Actual £**	**2018/19 Estimate £**	**2019/20 Estimate £**
Increase in Band D Council Tax	0.00	10.95	20.53

(i) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority adopted the principles of best practice.

The Council has previously approved the adoption of the CIPFA Treasury Management Code 2011 Edition. It is recommended that the Council formally approves adoption of the revised 2017 Code.

APPENDIX 2

GLOSSARY OF TERMS

Capital Financing Requirement (CFR): this is the amount of debt that has been accumulated to finance the Capital programme.

Cost of Carry: this is the cost or expense of maintaining a particular Treasury strategy. For Example, the Authority could take out a loan to fund its Capital programme at an interest rate of 3%, however until the cash is physically spent it is invested until needed. If the investment interest rate is only 1% then effectively the Council is paying a finance cost of 2% whilst the money is waiting to be spent. This expense is known as the 'Cost of Carry'.

Equal Instalments of Principal (EIP): a type of loan where each payment includes an equal amount in respect of loan principal, therefore the interest due with each payment reduces as the principal is eroded, and so the total amount reduces with each instalment

Liquidity: this is the ability to have access to cash as and when it is required.

Long Term Debt: debt which is incurred for a longer period of time i.e. longer than 12 months between the start and end date of the loan.

Money Market Fund (MMF): these are funds that invest in a variety of short term investments. When the Authority deposits money into these funds it theoretically invests in a wide range of different investment products, therefore further diversifying the investment portfolio. MMFs are used as an alternative to Instant Access accounts with banks/building societies to manage liquidity.

Managed Fund: these are investment funds that are managed externally by professional fund managers, rather than internally by the Treasury Management team.

Minimum Revenue Provision (MRP): this is the amount that the Authority sets aside each year to repay its debt associated with funding the Capital programme.

Prudence: the cautious and mindful management of resources

Short Term Debt: debt which is incurred only for a short period of time i.e. less than 12 months between the start and end date of the loan.

Term Deposit: a type of investment where the cash is invested for a set period of time that (as agreed between the two parties). The investment principal is only repaid at the end of this fixed term period.