Report

Audit Committee

Part 1

Date: 24 May 2018

Subject **Treasury Management covering the Financial Year 2017/18**

Purpose This report is to inform the Council of treasury activities undertaken for the financial year ending 31 March 2018.

Author HoF / AHoF

Ward All

Summary In line with the agreed Treasury Management Strategy, the Council continues to be both a short term investor of cash and borrower to manage day-to-day cash flows. Current forecasts indicate that in the future, temporary borrowing will continue to be required to fund normal day to day cash flow activities.

The first half of the year saw the successful sale of the Friars Walk development which allowed borrowing which had been undertaken in relation to the loan provided to Queensberry Newport Ltd to be repaid. All borrowing in relation to this development are now fully repaid, and this has meant that loan borrowing for the year has fallen from £209.2m to £147.5m during the year.

All borrowing and investments undertaken during the year was expected and within the Council's agreed limits for 2017/18.

Proposal That Audit Committee:

1. **note and provide comment on the Annual Report on Treasury Management for the Financial Year 2017/18.**
2. **note and provide comment that 2017/18 Prudential Indicators for Treasury Management were in line with those set by Council in March 2018.**

Action by HoF / AHoF

Timetable Immediate

This This report was prepared after consultation with:

- Treasury Advisors
- Head of Finance

Signed

Background

1. In June 2009 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

2. This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

3. The Authority has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

4. The 2017/18 Treasury Management Strategy was approved by the Council as part of the overall Medium Term Financial Plan and 2017/18 budget in March 2017 and can be viewed via the following link

   https://msmodgovdb01.corporate.newport/ieListDocuments.aspx?CId=130&MId=6528&Ver=4

5. This report presents the following information.

   - details of capital financing, borrowing, debt rescheduling and investment transactions
   - reports on the risk implications of treasury decisions and transactions
   - details the outturn position on treasury management transactions in 2017/2018
   - confirms compliance with treasury limits set and Prudential code

BORROWING STRATEGY / ACTIVITY

Short and Long Term Borrowing

1. Whilst the Council has significant long term borrowing requirements, the Council's current strategy of funding capital expenditure is through reducing investments ('internal borrowing') rather than undertaking new borrowing i.e. we defer taking out new long term borrowing and fund capital expenditure from 'day to day positive cash-flows / cash represented by reserves' for as long as we can.

   By using this strategy the Council can also minimise cash holding at a time when counterparty risk remains relatively high. The interest rates achievable on the Council's investments are also significantly lower than the current rates payable on long term borrowing and this remains the main reason for our current 'internally borrowed' strategy.

2. Whilst the strategy minimises investment counterparty risk, the risk of interest rate exposure is increased as the current low longer term borrowing rates may rise in the future. The market position is being constantly monitored in order to minimise this risk.

3. As anticipated, as shown in Table 2 in Appendix B, during the year the amount of borrowing has reduced by £61.7m, this relates mainly to the Council's own borrowing associated with the making of loans to develop Friar's Walk. This reduction in borrowing followed the sale of the Friars Walk development and all borrowing in relation to this was able to be fully repaid in July 2017. The borrowing associated with this loan was always kept separate from the Council's other borrowing requirements shown in Appendix B.

4. No further long term loans have been taken out during the financial year. However, the Council does undertake additional borrowing on a short term basis in order to cover normal day to day cash flow activity.

5. Appendix B summarises the Council's debt position as at 31 March 2018. The changes in debt outstanding relate to the raising and repaying of temporary loans.

6. In regards to LOBOs, no loans were called during the period. All £30m outstanding is subject to potential change of interest rates by the lender (which would automatically trigger a right to the Council to repay these loans) prior to the end of this financial year. Should a change of interest rate be requested, then it will be considered in detail and a decision on how we proceed will be made in conjunction with our treasury advisors.

INVESTMENTS ACTIVITY / POSITION

7. The Council's strategies in this area of Treasury Management are (i) to be a short term and relatively low value investor and (ii) investment priorities should follow the priorities of security, liquidity and yield, in that order.

   The Council's strategy of being a s/t and relatively low value investor has been maintained, though the repayment of the Friar's Walk loans has increased cash holdings temporarily. In line with our borrowing strategy, this will be allowed to reduce over the next year or so. As at 31 March 2018, there was a £21.0m balance of short-term investments.

8. This was anticipated and reported in the 2017/18 TM strategy report at March 2017. All investments are placed on a temporary basis and are placed in high security institutions, in line with our other strategy in this area, dealing with our investing priorities of (i) security (ii) liquidity and (iii) yield, in that order. At the 31 March 2018 £20.0m was placed with various local authorities and £1.0m with Bank of Scotland Call Account with the maximum maturity date of 21 June 2018.

9. January 2018 saw the implementation in the UK of the second Markets in Financial Instruments Directive (MiFID II), where firms will be obliged to treat all local authorities as retail clients unless they opt up to professional client status and meet certain criteria. All Councils have historically been 'professional clients' but this directive required a formal decision to 'opt – up' to this status, even though it just maintained the current status – this was approved by Council in their February 2018 meeting. Maintaing this status requires certain criteria to be met – one of which includes holding a minimum of £10m investment balance. . This is still a relatively small balance within the context of the Council's finances and cash-flows and still allows us to pursue current strategies on borrowing and investments. This is further discussed in Appendix A.

10. It is anticipated that our investment balances will remain well above the minimum £10m, until the start of 2019/20, when the stock issue of £40m will be due, at this point the Council will need re-finance and undertake new long-term borrowing.

11. The Council does not hold any long-term (more than 364 days) investments as at 31 March 2018.

OTHER YEAR-END TREASURY MATTERS

Economic background and Counter Party Update

12. Appendix A outlines the underlying economic environment during the first half of the financial year, as provided by the Council's Treasury Management Advisors 'Arlingclose'.

13. As discussed previously in this report the Council does not have any long-term investments, and the investments that it currently undertakes is mainly with other local authorities which are deemed very

secure, therefore the risk is currently limited. There were no significant changes in credit ratings advised in the first half of the financial year that had implications for the approved lending list. The long term rating of Santander UK, the Council's bankers, remains at A; above the Council's minimum level of A-.

Regulatory Updates

14. The implementation of MiFID II in January 2018 is further detailed in Appendix A.

15. 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.

16. The updated 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. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

17. The Authority expects to produce the Capital Strategy alongside its Treasury Management Strategy during 2018/19.

Compliance with Prudential Indicators approved by Council

18. The Authority measures and manages its exposures to treasury management risks using various indicators which can be found in Appendix B. The Authority has complied with the Prudential Indicators for 2017/18, set in March 2017 as part of the Treasury Management Strategy. Details of treasury-related Prudential Indicators can be found in Appendix B.

Minimum Revenue Provision (MRP) Policy

19. In January 2018, Council approved the change to the MRP policy which was to be implemented in 2017/18. This saw a reduced MRP charge on supported borrowing from 4% reducing balance to 2.5% straight line basis. This was brought to Audit Committee prior to being approved at Council, with Audit Committee's comments being included in the report. The reduced charge gave an underspend to the Council of £2.4m, which has been subsequently moved to an earmarked reserve to support the Medium Term Financial Plan.

Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Investment counterparty not repaying investments	High but depending on investment value	Low	The Council only invests with Institutions with very high credit scores. It employs advisors to monitor money market movements and changes to credit scores and acts immediately should things change adversely. The lower levels of funds available for	Members, Head of Finance, Treasury staff, based on advice from treasury advisors

			investment will also alleviate the risk.	
Interest Rates moving adversely against expectations	Low	Low	Despite recent increase in the bank rate to 0.5%, future expectations for higher short term rates are subdued. The Treasury strategy approved allows for the use of short term borrowing once investment funds are exhausted to take advantage of these low rates.	Head of Finance, Treasury staff, treasury advisors
Due to change in MRP policy, pressure on cash resources increases so that external borrowing required	Medium	Medium	When re-financing of the stock issue comes in to place, thought will be given to the impact on the reduction of cash in the organisation to repay borrowing and the revenue implication of this.	Head of Finance, Treasury staff, treasury advisors

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

It is the Council's policy to ensure that the security of the capital sums invested is fully recognised and has absolute priority. The Council follows the advice of the Welsh Governments that any investment decisions take account of security, liquidity and yield in that order.

Options Available and considered

The Prudential Code and statute requires that, during and at the end of each financial year, reports on these matters are presented to Council for approval. Thus the only option available is consider the report and provide comments to the Council.

Preferred Option and Why

Note the contents of the report in relation to Treasury activities and all Treasury Indicators met.

Provide any comments necessary to Cabinet and Council on the contents of the report.

Comments of Chief Financial Officer

Decisions made on treasury matters will be made with a view to comply with the Treasury Management Strategy, Prudential Indicators, taking advice, where needed, from our Treasury Advisers.

Comments of Monitoring Officer

There are no legal implications. The in year and annual treasury management report is consistent with relevant Chartered Institute of Public Finance and Accountancy Guidance, Treasury Management principles and the Council's investment Strategy.

Comments of Head of People and Business Change
There are no staffing implications within the report. As the proposed changes to the MRP policy now look to charge this over the life of the asset it is in keeping with the sustainability principles within the Well-being of Future Generations Act and helps support better medium to long term planning.

Comments of Cabinet Member
The Leader of the Council, as lead member for strategic finance confirms she has been consulted on the report, including the proposals to change the MRP policy and maintain our current professional client status in relation to Treasury activities.

Local issues
N/A

Scrutiny Committees
N/A

Equalities Impact Assessment and the Equalities Act 2010
No issues

Children and Families (Wales) Measure
No issues

Wellbeing of Future Generations (Wales) Act 2015
As noted in paragraph 38, the change to the MRP policy brings improvements compared to the existing policy in relation to this Act.

Crime and Disorder Act 1998
No issues

Consultation
As noted in the report – the report was reviewed by the Audit Committee. Their comments are summarised in paragraph 40 above

Background Papers
Treasury Management Strategy report to Audit Committee January 2017.
Report to Council March 2017: 2017/18 Budget and Medium Term Financial Plan
Half year Report to Audit Committee

Dated:

APPENDIX A

External Context *(latest data as at 09/4/18)*

Economic commentary

2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 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. 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. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

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 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. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

Financial markets: 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.

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. 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.

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.

Credit background:

Credit Metrics

In the first quarter of the financial year, UK bank credit default swaps 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.

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 will be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

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.

Money Market Fund regulation: 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.

Credit Rating developments

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

Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.

S&P downgraded Transport for London to AA- from AA following a deterioration in its financial position.

Other developments:

In February, Arlingclose advised against lending to Northamptonshire County Council . They 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 FY 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.

<u>Local Authority Regulatory Changes</u>

<u>Revised CIPFA Codes:</u> 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.

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. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

The Authority expects to produce the Capital Strategy alongside its Treasury Management Strategy during 2018/19.

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.

There have been no moves yet by Welsh Government on proposed changes to the Guidance on Local Authority Investments. The Authority is however aware of the MHCLG's changes to the Investment Guidance for English authorities.

<u>Amendments to Capital Finance Legislation:</u> The Welsh Government published the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 in March 2018. It amends and clarifies erstwhile regulations so that investments in corporate bonds and shares in FCA (Financial Conduct Authority) approved UCITS (Undertakings for the Collective Investment of Transferable Securities) funds, Real Estate Investment Trusts (REITs) and investment schemes approved by HM

Treasury are no longer treated as capital expenditure. This legislation came into effect in the 2017/18 financial year. It enables the Authority to invest in these instruments, if appropriate for the Authority's circumstance and objectives, without the potential revenue cost of MRP (Minimum Revenue Provision) and without the proceeds from sale being considered a capital receipt.

MiFID II: 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.

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. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

APPENDIX B

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 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	276.1	5.3	281.4
Less: Other debt liabilities *	-47.4	2.3	-45.1
Borrowing CFR	**228.7**	**7.6**	**236.3**
Less: Usable reserves	-107.2	5.1	-102.1
Less: Working capital	85.4	(93.1)	(7.7)
Net borrowing	**206.9**	**-80.4**	**126.5**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

Net borrowing has decreased overall this is, due to a rise in the CFR as new capital expenditure was higher than the financing applied including minimum revenue provision; together with a decrease in usable reserves, all offset by a significant fall in working capital due to the repayment of Friars Walk debt.

The Authority's strategy was 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 31st March 2018 and the year-on-year change in show in table 2 below.

Table 2: Treasury Management Summary

Newport City Council Debt	Outstanding as at 31/03/17 £m	Movement £m	Outstanding as at 31/03/18 £m
Public Works Loans Board	71.1	(0.6)	70.5
Market Loans	35.0	0	35.0
Stock Issue	40.0	0	40.0
Total Long Term Loans	**146.1**	**(0.6)**	**145.5**
Temporary Debt	63.1	(61.1)	2.0
Total Borrowing	**209.2**	**(61.7)**	**147.5**
Short-Term Investments	**(2.3)**	**(18.7)**	**(21.0)**
Net borrowing	**206.9**	**(80.4)**	**126.5**

The decrease in net borrowing in table 1 has translated into a rise in investment balances due to the high costs of repaying the Authority's long-term borrowing early. Following the sale of Friars Walk, the temporary debt in relation to Queenberry loans was paid off in full during the year with the receipt. Additional cash over and above this borrowing has been invested on a short-term, secured basis until such time it is required to fund capital financing or re-finance maturing debt. This is likely to be reduced down to £10 million (amount required for MiFID II) when the refinancing of stock issue takes place in 2019/20.

Borrowing Strategy during the half year

At 31 March 2018 the Authority held £147.5m of loans, (a decrease of £61.7m on 31/3/2017), as part of its strategy for funding previous years' capital programmes. The year-end borrowing position is show in table 3 below.

Table 3: Borrowing Position

	31.3.17 Balance £m	Movement £m	31.3.18 Balance £m	31.3.18 Weighted average rate %	31.3.18 Weighted average maturity Years
Public Works Loan Board	71.1	(0.6)	70.5	4.45	16
Banks (LOBO)	30.0	0	30.0	4.302	36
Banks (fixed-term)	5.0	0	5.0	3.77	60
Stock Issue	40.0	0	40.0	8.875	1
Local authorities (long-term)	0	0	0	-	-
Local authorities (short-term)	63.1	(61.1)	2.0	0.7%	0
Total borrowing	**209.2**	**(61.7)**	**147.5**	**5.52%**	**17**

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

In furtherance of these objectives, no new long term borrowing was in 2017/18. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

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

The Authority continues to hold £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half of 2017/18.

Other Debt Activity

After £2.6m repayment of prior years' Private Finance liabilities, total debt other than borrowing stood at £45.1m on 31st March 2018, taking total debt to £192.5m.

Investment Activity

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2017/18 the Authority's investment balance ranged between £0.6m and £96 million (due to sale of Friars Walk receipt) due to timing differences between income and expenditure. The investment position during the half year is shown in table 4 below.

Table 4: Investment Position

	31.3.17 Balance £m	Movement £m	31.3.18 Balance £m	31.3.18 Weighted average rate %	31.3.18 Weighted average maturity Years
Banks & building societies (unsecured)	2.3	(1.3)	1.0	0.4	0
Government (incl. local authorities)	0	20.0	20.0	0.6	0.17
Total investments	**2.3**	**18.7**	**21.0**	**0.22**	**0.17**

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.

Compliance Report

The Head of Finance 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 limits is demonstrated in table 7 below.

Table 7: Investment Limits

	31.3.18 Actual (£m)	2017/18 Limit (£m)	Complied
Banks Unsecured	**1.5**	**£5m**	✓
Banks Secured	**0**	**£10m**	✓
Government	**20.0**	**Unlimited**	✓
Corporates	**0**	**£5m**	✓
Registered Providers	**0**	**£5m**	✓
Unsecured investments with Building Societies	**0**	**£5m**	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	2017/18 Maximum (£m)	31.3.18 Actual (£m)	2017/18 Operational Boundary (£m)	2017/18 Authorised Limit (£m)	Complied
Borrowing	209	148	288	308	✓
PFI & finance leases	46	45	46	46	✓
Total debt	**255**	**193**	**334**	**354**	✓

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.

Treasury Management Indicators

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

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 proportion of net principal borrowed was:

	31.3.18 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	100%	100%	✓
Upper limit on variable interest rate exposure	0	50%	✓

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. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	2%	80%	0%	✓
12 months and within 24 months	29%	70%	0%	✓
24 months and within 5 years	4%	70%	0%	✓
5 years and within 10 years	24%	50%	0%	✓
10 years and within 20 years	7%	30%	0%	✓
20 years and within 30 years	10%	20%	0%	✓
30 years and within 40 years	15%	20%	0%	✓
40 years and within 50 years	2%	20%	0%	✓
50 years and above	7%	20%	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. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2017/18	**2018/19**	**2019/20**
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	5	5	5
Complied	✓	✓	✓