APPENDIX 4

Lewes District Council

Annual Treasury Management Report 2017/2018

Contents

1. Background

1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury management report. The report must review treasury management activities and set out the final position of the Council's Treasury Prudential Indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

1.2 The Council defines its Treasury Management activities as:

> *"the management of the Council's 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."*

1.3 The Council agreed its Treasury Management Strategy Statement and Investment Strategy 2017/2018 to 2019/2020 at its meeting in February 2017.

2. Overall Summary of Activity 2017/2018

2.1 The table below lists the key elements of the 2017/2018 Strategy and records actual performance against each one of them.

Key Element	Target in Strategy	Actual Performance	
Borrowing			
Underlying need to borrow (CFR) at year end	£84.016 million	£77.214 million	-
Internal borrowing at year end	£27.343 million	£20.541 million	-
New external long-term borrowing in year	None anticipated	None undertaken	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken	✓
Interest payments on external borrowing	£1.730 million	£1.724 million	✓
Investments			
Minimum counterparty credit ratings for unsecured investments	Long-term BBB+- (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A	✓
Interest receipts from external investments	£0.104m	£0.068m	-
Appointment of Investment Consultants			
Independent Treasury Adviser to be retained	Arlingclose to be retained as Treasury Adviser	Arlingclose retained as Treasury Adviser	✓

Key Element	Target in Strategy	Actual Performance	
Reporting and Training			
Reports to be made to Audit and Standards Committee and Cabinet	Every regular meeting	Every regular meeting.	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Staff training September 2017	-

2.2 For those who are looking for more than this overall confirmation that all treasury management and investment activity in 2017/2018 has been carried out in accordance with the Council's agreed Strategy, the remainder of this report explores each of the key elements in more depth. Appendix A gives details of the final position on each of the Prudential Indicators, and Appendix B explores the Economic Background to the year's activity. A Glossary appears at the end of the document to explain technical terms which could not be avoided when writing this report.

3. Detailed Analysis – Borrowing

3.1 Other than for temporary cash flow purposes, local authorities are only allowed to borrow to finance capital expenditure (e.g. the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets). The Government limits the amount borrowed by local authorities for housing purposes only by specifying 'debt caps'. This Council's underlying debt cap has been fixed at £72.931m. In 2014/2015 local authorities were able to bid for an increase in the housing debt cap in order to enable specific projects. A bid from this Council was successful and the debt cap has been increased to £75.248m to match expenditure incurred in building new houses on specified former garage sites.

3.2 In accounting terms, 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 below their underlying levels, known as internal borrowing, and this remained the Strategy for 2017/2018.

3.3 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. 'External borrowing' is where loans are raised from the Public Works Loans Board (PWLB) or banks. Alternatively it is possible to 'internally borrow' the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other counterparties.

3.4 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The original CFR projection for 2017/2018, the revised position reported at the time of producing the Treasury Strategy 2018/2019 (February 2018) and the final position for the year are shown in the table below. The variation between the revised and final position reflects the changing profile of capital spend across financial years, particularly in respect of allocations in the capital programme in respect of facilitating loans to Lewes Housing investment Company and Aspiration Homes which were not called on in 2017/2018.

	2017/18 Original £m	2017/18 Revised £m	2017/18 Outturn £m
Opening CFR	79.580	77.042	77.042
Capital expenditure in year	14.556	26.424	9.903
Less financed	(8.983)	(15.669)	(8.616)
Less amount set aside for debt repayment	(1.137)	(1.315)	(1.115)
Closing CFR	**84.016**	**86.482**	**77.214**

3.5 The overall CFR can be split between the General Fund and Housing Revenue Account as follows:

CFR Component	2017/18 Revised £m	2017/18 Outturn £m
General Fund	19.556	12.088
Housing Revenue Account	66.926	65.126
Total	**86.482**	**77.214**

3.6 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held pending use).

	31/3/18 Revised £m	31/3/18 Outturn £m
(a) Capital Financing Requirement	86.482	77.214
(b) Actual external long-term borrowing	(56.673)	(56.673)
(c) Use of Balances and Reserves and working capital as alternative to borrowing (a)–(b)	29.809	20.541

3.7 The Council’s long-term loan portfolio at 31 March 2018 was:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.00	2.70	01/03/2024
PWLB	Fixed	5.00	3.30	01/03/2032
PWLB	Fixed	2.00	3.05	01/09/2027
PWLB	Fixed	2.00	2.76	01/09/2024
PWLB	Fixed	4.00	2.97	01/09/2026
PWLB	Fixed	5.00	3.28	01/09/2031
PWLB	Fixed	4.00	2.63	01/09/2023
PWLB	Fixed	5.00	3.44	01/03/2037
PWLB	Fixed	6.67	3.50	01/03/2042
PWLB	Fixed	5.00	3.43	01/09/2036
PWLB	Variable	5.00	0.62	28/03/2022
PWLB	Fixed	4.00	3.01	01/03/2027
	Sub-total	51.67		
Barclays	Fixed	5.00	4.50	06/04/2054
	Total	56.67		

3.8 In the table above the Barclays loan was taken out in April 2004 with a term of 50 years. In June 2016 the bank decided to permanently waive its contractual right to vary the interest rate on this loan, which was effectively fixed at the rate of interest applicable at that time, 4.5%.

3.9 Total interest paid on external long-term borrowing in the year was £1.724m, which was consistent with the revised budget for the year. No new long-term borrowing was undertaken. The Council remained eligible to access the Government's 'Certainty Rate' allowing the Council to borrow, had it been appropriate to do so, at a reduction of 0.2% on the Standard Rate.

3.10 Through the year, officers, supported by Arlingclose, monitored opportunities for the rescheduling of external loans and the possibility of repayment utilising cash balances that would otherwise be invested. No beneficial rescheduling opportunities were identified and the loan portfolio remained unchanged through the year.

3.11 As determined by the Council, two separate Loans Pools operated in 2017/2018, for the General Fund and HRA respectively. At 31 March 2018 the balance on internal loans from the General Fund to the HRA was £8.194m, a net reduction of £0.466m compared with the previous year (which comprised new lending of £0.341m as funding for the construction of new homes offset by a repayment of £0.807m). Interest was charged on internal borrowing at 1.03% (equivalent to a one-year maturity loan from the PWLB at the start of the financial year).

3.12 For cash flow purposes, temporary borrowing was undertaken on six occasions during the course of the financial year (with one loan carried over from 2016/2017). The maximum amount borrowed at any one time was £7m and the average rate of interest paid was 0.28%. No temporary loans were outstanding at 31 March 2018.

4. Detailed Analysis - Investments

4.1 The Council held an average of £18.6m as cash during the year. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending use.

4.2 The Council's general policy objective is to invest its surplus funds prudently. Throughout 2017/2018, the Council's investment priorities continued to be:

> ***highest priority -*** security of the invested capital;
> ***followed by -*** liquidity of the invested capital;
> ***finally -*** an optimum yield commensurate with security and liquidity.

4.3 All of the Council's investments were managed in-house. Security of capital was maintained by following the counterparty policy set out in the Investment Strategy for 2017/2018. Investments made during the year included:

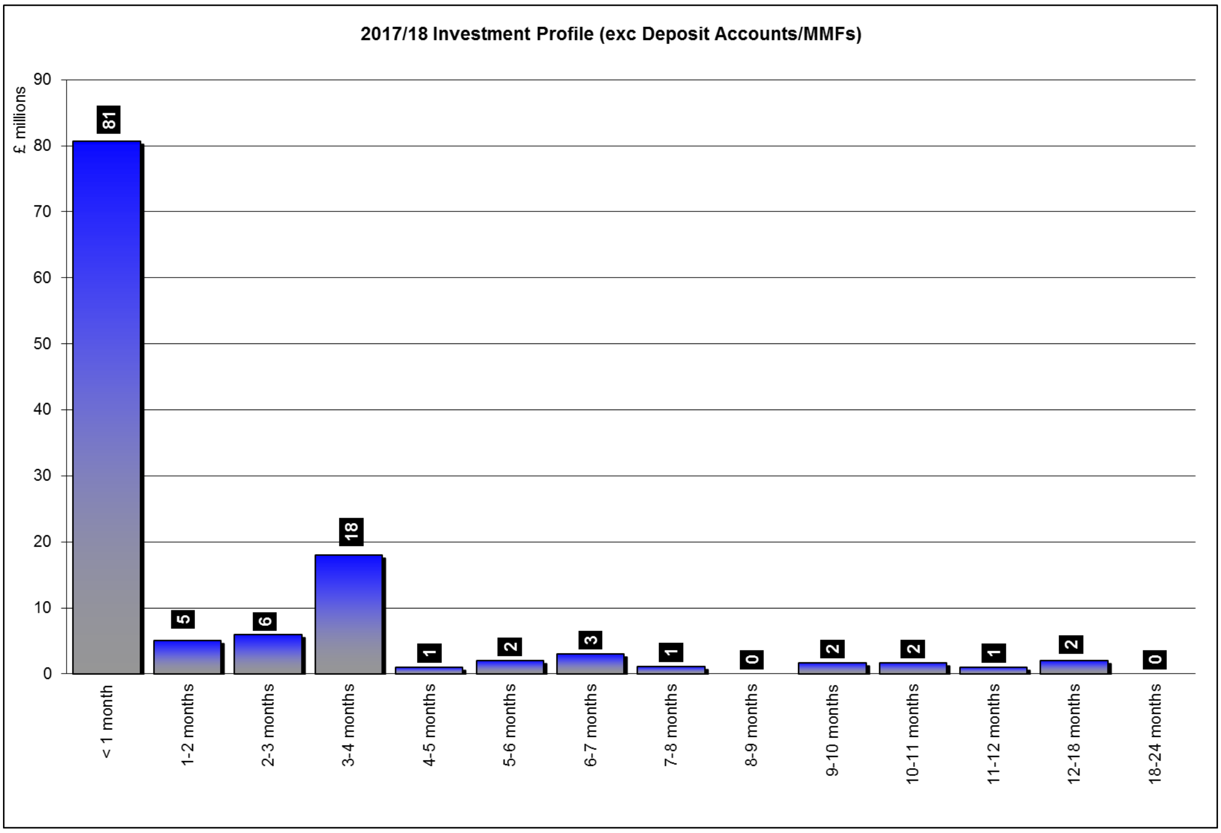
- Fixed Term Deposits with the Debt Management Office (total £69.5 million – 23 occasions)
- Fixed Term Deposits with other Local Authorities (total £19.2 million – 8 occasions)
- Fixed Term Deposits with UK Banks/Building Societies (total £8.0 million – 5 occasions)
- Investments in Money Market Funds (MMFs) (average balance held in year £4.55 million)
- United Kingdom Treasury Bills (total £9.0 million – 9 occasions)
- Tradable Investments - Floating Rate Notes, Certificates of Deposit, Bonds (total £8.7 million – 7 occasions)
- Deposit accounts with UK Banks (average balance held in year £1.13 million)
- Overnight deposits with the Council's banker, Lloyds Bank (average balance held in year £1.01 million)

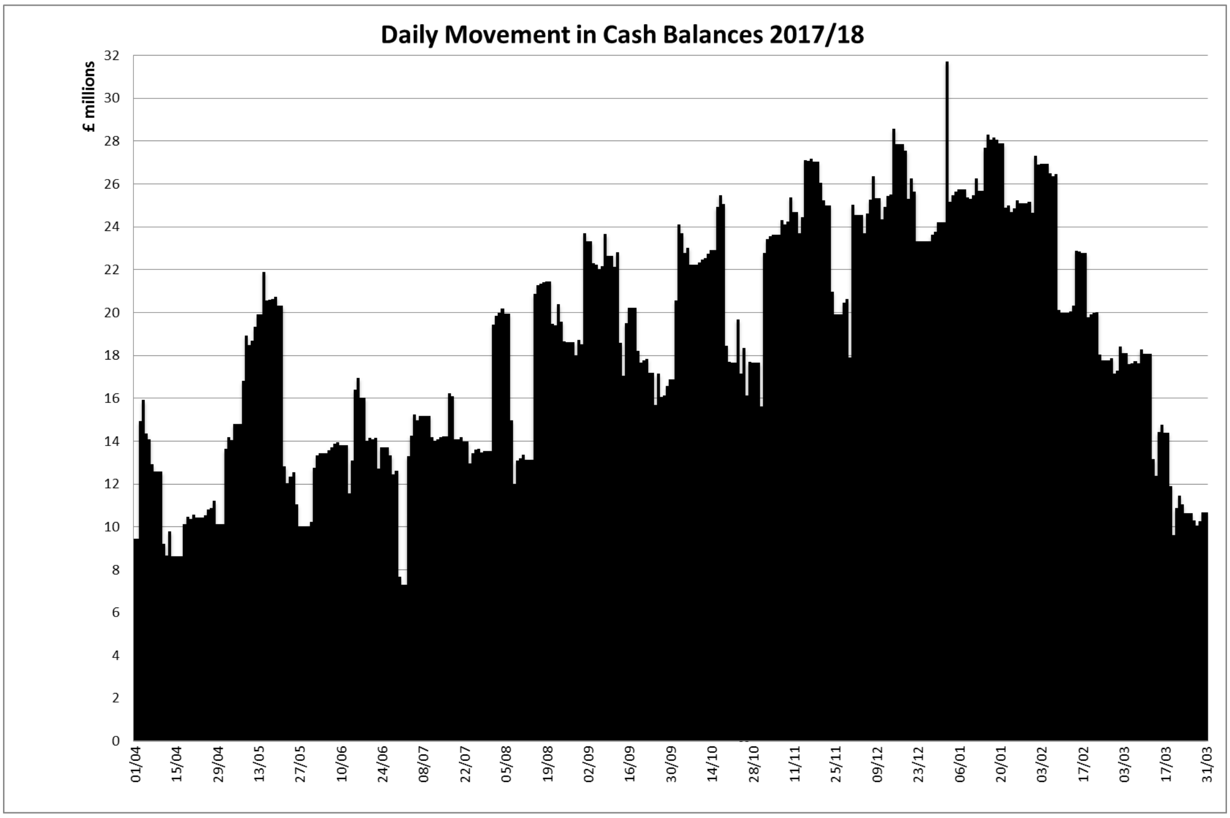
4.4 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of BBB+ across all three rating agencies Fitch, Standard and Poors, and Moody's applied); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

4.5 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of MMFs, overnight deposits and deposit accounts, the average balance held being £6.69 million.

4.6 A full list of investments (excluding deposit account or MMF transactions) made or maturing in the year is given at Appendix C. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The first chart below gives an analysis of aggregate fixed term deposits by duration. The second chart shows how the total amount invested varied from day to day over the course of the year, from a low of

£7.3m to a high of £31.2m. The movement largely reflects the cycle of grant, council tax and business rate receipts and precept payments made.





4.7 The income return generated from investments in the year was £0.068 million, below the total budget for investment income, £0.104 million. This position arose as a result of the need to ensure the short-term availability of cash pending expenditure on projects within the approved capital programme (the longer duration of an investment, the higher the rate of return).

4.8 The average rate of return from investments at the end of each quarter in 2017/2018 is shown in the table below, along with comparative benchmark information, the 7-day LIBID rate.

Average rate of investments in:	Lewes District Council	7 day LIBID
Quarter 1 ending 30 June 2017	0.44%	0.11%
Quarter 2 ending 30 September 2017	0.41%	0.11%
Quarter 3 ending 31 December 2017	0.56%	0.28%
Quarter 4 ending 31 March 2018	0.47%	0.36%
Whole year 2017/2018	0.51%	0.21%

5. Counterparty Update

5.1 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.

5.2 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).

5.3 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.

5.4 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.

5.5 In February, Arlingclose advised 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.

6. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2017/2018. A detailed review of each of the Prudential Indicators is at Appendix A.

7. Investment Consultants

7.1 The Council appointed Arlingclose as its Treasury Adviser in 2012 following an open procurement. The agreement with Arlingclose was for an initial four-year term expiring on 30 June 2016, with the Council having the option to extend for a further year.

7.2 The Council exercised the option to extend this agreement to the end of June 2017 and following discussion with Arlingclose opted to maintain the appointment for a further year. A further year's extension is anticipated prior to a formal review of arrangements in conjunction with Eastbourne Borough Council given that a shared finance team (with treasury management responsibility) is being established.

8. Reporting and Training

8.1 The Deputy Chief Executive reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2017/2018. A mid-term summary report was issued in November 2017.

8.2 The training needs of the Council's treasury management staff were reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Members of staff attended Arlingclose workshops alongside colleagues from other local authorities during 2017/2018.

8.3 In September 2017, Arlingclose met with Council officers with a role in treasury management both to explain developments within the sector, as well as review the Council's own investment and debt portfolios.

8.4 The Treasury Strategy had anticipated that Arlingclose would hold a local briefing session for all councillors tasked with treasury management responsibility, including scrutiny of the the treasury management function. It did not prove practicable for this session to take place, and the next councillor briefing is now expected to take place in autumn 2018.

9. Local Authority Regulatory Changes instigated in 2017/2018

9.1 Revised CIPFA Codes:

i. CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. This timing precluded adoption of the required changes from the 2011 Code in the 2018/2019 Treasury Management Strategy which had already been drafted. Where relevant, the changes will be incorporated into 2018/2019 monitoring reports. All changes will be fully implemented in the 2019/2020 Treasury Management Strategy.

ii. 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. CIPFA recognised that authorities may require a lead-in period to create a Capital Strategy and that this requirement may not be able to be fully implemented until 2019/2020: this Council has adopted that timescale.

iii. 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.

9.2 MHCLG Investment Guidance and Minimum Revenue Provision (MRP):

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

ii. 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" (eg 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.

iii. 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.

9.3 MiFID II:

i. 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.

ii. The Council has met the conditions to opt up to professional status and has done so in order to maintain its professional client status. The Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Appendix A – Prudential Indicators 2017/2018

1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Some of the Prudential Indicators relate directly to the Council's Capital Programme. These Indicators are also included below for completeness of reporting.

2. Net Borrowing and the Capital Financing Requirement

2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing 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.

2.2 The Deputy Chief Executive reports that the Council has had no difficulty meeting this requirement in 2017/2018, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the budget for 2018/2019.

3. Estimates of Capital Expenditure (direct link to Capital Programme)

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 and in the case of the HRA, housing rent levels.

No.	Capital Expenditure	2017/18 Original £m	2017/18 Revised £m	2017/18 Actual £m
1a	Non-HRA	8.875	16.243	4.772
1b	HRA	5.681	10.181	4.783
	Total	**14.556**	**26.424**	**9.555**

4. Ratio of Financing Costs to Net Revenue Stream (direct link to Capital Programme)

4.1 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 borrowing costs.

4.2 The ratio is based on costs net of investment income. Where investment income exceeds interest payments, the indicator is negative.

No.	Ratio of Financing Costs to Net Revenue Stream	2017/18 Original %	2017/18 Revised %	2017/18 Actual %
2a	Non-HRA	1.62	1.47	1.82
2b	HRA	15.82	15.82	14.90

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing. The amounts shown are as at 31 March.

No	Capital Financing Requirement	2017/18 Original £m	2017/18 Revised £m	2017/18 Actual £m
3a	Non-HRA	18.848	19.556	12.088
3b	HRA	65.168	66.926	65.126
	Total CFR	**84.016**	**86.482**	**77.214**

5.2 The year-on-year change in the CFR is set out below.

Capital Financing Requirement	2017/18 Original £m	2017/18 Revised £m	2017/18 Actual £m
Balance B/F	79.580	77.042	77.042
Capital expenditure financed from borrowing	5.573	10.755	1.287
Revenue provision for Debt Redemption.	-1.137	-1.315	-1.115
Balance C/F	**84.016**	**86.482**	**77.214**

6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (see 8 below).

No.	Actual External Debt as at 31/03/2018	Revised £m	Actual £m
4a	Borrowing	56.673	56.673
4b	Other Long-term Liabilities	0.080	0.403
4c	**Total**	**56.753**	**57.076**

7. Incremental Impact of Capital Investment Decisions Stream (direct link to Capital Programme)

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

No.	Incremental Impact of Capital Investment Decisions	2017/18 Original £m	2017/18 Revised £m	2017/18 Actual £m
5a	Increase in Band D Council Tax	79.35	151.02	56.90
5b	Increase in Average Weekly Housing Rents	0.85	2.60	4.22

The increase in Band D council tax/average weekly rents reflects the funding of the capital programme: for example, new borrowing increases interest payable, and funding from reserves utilises resources which could have otherwise been used to fund revenue expenditure. The actual indicators are less than the revised as a result of significant capital projects being deferred from 2017/2018 into 2018/2019.

8. Authorised Limit and Operational Boundary for External Debt

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The 2017/2018 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Authorised Limit for External Debt	2017/18 Original £m	2017/18 Revised £m	2017/18 Actual £m
6a	Borrowing	85.00	88.00	63.67
6b	Other Long-term Liabilities	0.50	0.50	0.40
6c	**Total**	**85.50**	**88.50**	**64.07**

8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Deputy Chief Executive has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet. The 2017/2018 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Operational Boundary for External Debt	2017/18 Original £m	2017/18 Revised £m	2017/18 Actual £m
7a	Borrowing	79.50	83.00	63.67
7b	Other Long-term Liabilities	0.50	0.50	0.40
7c	**Total**	**80.00**	**83.50**	**64.07**

9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted best practice.

No.	Adoption of the CIPFA Code of Practice in Treasury Management
8	The Council approved the adoption of the CIPFA Treasury Management Code in 2002. Following revisions to the Code published in December 2009, reconfirmed its adoption of the Code in February 2010.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums ie fixed rate debt net of fixed rate investments.

10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

No.		2017/18 Original £m	2017/18 Revised £m	2017/18 Actual £m
9	**Upper Limit for Fixed Interest Rate Exposure**	85.5	86.5	51.7
10	**Upper Limit for Variable Interest Rate Exposure**	(27.5)	(27.5)	(26.2)

10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.

10.4 Because the Council's investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

11. Maturity Structure of Fixed Rate borrowing

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %	Actual %
11a	under 12 months	0	70	0
11b	12 months and within 24 months	0	70	0
11c	24 months and within 5 years	0	75	0
11d	5 years and within 10 years	0	75	35
11e	10 years and above	0	100	65

12. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. A single investment of more than 364 days was made during 2017/18.

No.	Upper Limit for total principal sums invested over 364 days	2017/18 Original £m	2017/18 Revised £m	2017/18 Actual £m
12	Upper limit	50	50	2

13. HRA Limit on Indebtedness

This indicator is associated with self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA Debt Cap specified by the Government.

No	Capital Financing Requirement	2017/18 Original £m	2017/18 Revised £m	2017/18 Actual £m
13a	HRA CFR	65.168	66.926	65.126
13b	HRA Debt Cap	75.248	75.248	75.248
	Difference	**10.080**	**8.322**	**10.122**

Appendix B – Economic Background explained by Arlingclose

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.

Appendix C – List of Investments made and/or maturing in 2017/2018

Counterparty	Principal £	From /	To	Interest/ return £
Term Deposits				
Thurrock Borough Council	3,000,000	28/11/16	30/05/17	5,264
Nationwide Building Society	1,000,000	13/12/16	13/06/17	2,094
Coventry Building Society	2,000,000	09/05/17	23/05/17	100
Eastbourne Borough Council	3,000,000	30/05/17	30/08/17	2,420
Debt Management Office	2,000,000	15/05/17	22/05/17	38
Coventry Building Society	2,000,000	16/06/17	19/06/17	18
Debt Management Office	2,000,000	17/07/17	19/07/17	11
Debt Management Office	6,500,000	01/08/17	07/08/17	107
Debt Management Office	2,000,000	15/08/17	21/08/17	33
Debt Management Office	4,000,000	15/08/17	25/08/17	110
Debt Management Office	1,000,000	23/08/17	04/09/17	33
Debt Management Office	3,000,000	25/08/17	29/08/17	33
Eastbourne Borough Council	3,000,000	29/08/17	30/11/17	1,987
Debt Management Office	5,000,000	01/09/17	04/09/17	41
Debt Management Office	5,000,000	04/09/17	11/09/17	96
Eastbourne Borough Council	4,000,000	08/09/17	08/12/17	2,493
Debt Management Office	4,500,000	11/09/17	13/09/17	25
Newport City Council	1,200,000	02/10/17	19/10/17	95
Waltham Forest LBC	1,000,000	02/10/17	19/10/17	84
Debt Management Office	1,500,000	02/10/17	19/10/17	70
Debt Management Office	4,000,000	16/10/17	19/10/17	33
Debt Management Office	2,000,000	02/11/17	06/11/17	22
Debt Management Office	2,000,000	06/11/17	13/11/17	96
Thurrock Borough Council	3,000,000	10/11/17	12/02/18	3,477
Debt Management Office	3,000,000	15/11/17	20/11/17	103
Debt Management Office	5,000,000	08/12/17	19/12/17	377
Nationwide Building Society	1,000,000	15/12/17	15/03/18	912
Nationwide Building Society	1,000,000	15/12/17	16/04/18	1,304
Debt Management Office	1,000,000	15/12/17	20/12/17	34
The Highland Council	1,000,000	18/12/17	19/02/18	604
Coventry Building Society	2,000,000	19/12/17	19/02/18	1,155
Debt Management Office	2,000,000	19/12/17	19/01/18	425
Debt Management Office	6,000,000	02/01/18	03/01/18	41
Debt Management Office	2,000,000	15/01/18	22/01/18	96
Debt Management Office	2,000,000	19/01/18	22/01/18	41
Debt Management Office	2,000,000	01/02/18	05/02/18	55
Debt Management Office	2,000,000	05/02/18	09/02/18	55
Thurrock Borough Council	3,000,000	12/02/18	14/05/18	4,114

Counterparty	Principal £	From /	To	Interest/ return £
Treasury Bills				
UK TREASURY BILL 0% 25/09/2017	1,000,000	29/08/17	25/09/17	147
UK TREASURY BILL 0% 25/09/2017	1,000,000	29/08/17	25/09/17	139
UK TREASURY BILL 0% 25/09/2017	1,000,000	29/08/17	25/09/17	131
UK TREASURY BILL 0% 23/04/2018	1,000,000	23/10/17	22/01/18	892
UK TREASURY BILL 0% 23/04/2018	1,000,000	23/10/17	22/01/18	864
UK Treasury Bill 0% 11/Dec/2017	1,000,000	13/11/17	11/12/17	266
UK Treasury Bill 0% 18/Dec/2017	1,000,000	20/11/17	18/12/17	285
UK Treasury Bill 0% 18/Dec/2017	1,000,000	20/11/17	18/12/17	265
UK Treasury Bill 0% 18/Dec/2017	1,000,000	20/11/17	18/12/17	294
Other				
Abbey National Treasury Services FRN(covered)	1,000,000	12/05/16	05/04/17	6,026
Bank of Nova Scotia FRN(covered)	2,000,000	22/07/16	02/11/17	15,882
Svenska Handelsbanken AB Bond (fixed)	618,000	11/11/16	28/08/17	2,928
Unilever Plc Bond (fixed)	1,110,000	11/11/16	16/06/17	2,961
Daimler AG Bond (fixed)	650,000	14/09/17	16/07/18	3,817
Daimler AG Bond (fixed)	1,000,000	04/10/17	16/07/18	6,398
Vodafone Group plc Bond (fixed)	1,000,000	19/10/17	05/12/17	611
Nordea AB Cert of Deposit	1,000,000	25/10/17	25/04/18	2,045
Danske Bank Cert of Deposit	2,000,000	18/12/17	05/03/18	1,731
BMW Finance NV Bond (fixed)	1,000,000	19/12/17	14/12/18	6,996
Barclays Cert of Deposit	2,000,000	22/01/18	20/03/18	1,551

Glossary of Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Base Rate	The main interest rate in the economy, set by the Bank Of England, upon which others rates are based.
Bonds	Debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets eg buildings and vehicles
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants or other forms of income. It represents the Council's underlying need to borrow.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.
Counterparty	Organisation with which the Council makes an investment
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices can be monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short term outlook, the long term outlook, as well as an assessment of the extent to which the parent company or the state will honour any obligations. At

	present, the three main agencies providing credit rating services are Fitch Ratings, Moody’s and Standard and Poor’s.
Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of a gilt it will be traded at price decided in the market.
Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
Lenders’ Option Borrower’s Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every five years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority’s revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits
Public Works Loan Board (PWLB)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.
Treasury Bills (T-Bills)	These are issued by the UK Government as part of the Debt Management Office’s cash management operations. They do not pay interest but are issued at a discount and are redeemed at par. T-Bills have up to 12 months maturity when first issued.