Report of the Director:
Governance and Partnerships

Agenda Item No: 5
Meeting: 13 December 2018

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

TREASURY MANAGEMENT AND INVESTMENT STRATEGY MID-YEAR REPORT 2018/19

1. **OBJECT AND KEY POINTS IN THIS REPORT**

1.1 This is a report on treasury performance in the first half of 2018/19. The benchmark for measuring performance is the treasury strategy which the council set at its meeting on 1 March 2018.

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1.2 The report covers

- The legal and regulatory framework
- How the council has performed

1.3 The key points are that the council has

- Sought to minimise cash balances, with a minimum balance of £10m
- Generated an average return of 0.5% for the half-year
- Undertaken borrowing throughout the period via the inter-Local Authority market which offers access to short-term funding at low rates
- Kept capital financing costs to below 10% of the revenue stream

2. BACKGROUND INFORMATION

The legal and regulatory framework

2.1 The annual treasury management and investment strategy was prepared in line with

- CIPFA Code of Practice in the Public Service Fully Revised 2017
- CIPFA The Prudential Code Fully Revised 2017
- MHCLG Guidance
- Local Government Act 2003

2.2 The code of practice requires that full Council receive a report on treasury management strategy prior to the start of the financial year, with performance updates at mid-year and at year end.

3 OPTIONS FOR CONSIDERATION

3.1 There are no options for consideration. However the performance against the approved strategy is set out. The annual strategy covers:

- the investment strategy
- the borrowing strategy
- and the prudential indicators for external debt and treasury management.

How the council performed

3.2 The Treasury Strategy envisaged a need for additional borrowing in 2018/19. There were a number of transactions via the short-term inter-local authority marketplace. The total value of new loans transacted in the period was £21m.

Throughout the period efforts were made to keep investment balances at a level that did not materially increase credit risk carry but also ensured that liquidity needs were comfortably met. Slightly higher average balances and a further rate increase in August meant that interest received was up on the same period last year, £35k compared to £9k. As a result our average borrowing rate reduced from 4.0% to 3.3%.

3.3 The key investment statistics follow with further detail at Appendices 1 and 2:

- The level of cash flow balances meant that most investments had to be made short term to manage liquidity risk and use was made of UK Government Treasury Bills in order to take early advantage of rising rates where possible.

- During the period the Authority continued its previous Strategy of moving the majority its investments away from the single name risk direct bank deposits into diversified Money Market Funds.

- The closing investment balance was £14.3m, a decrease of £2.6m on the starting balance of £16.9m, and borrowings decreased by £16m in the same period.

- Temporary borrowing was taken regularly during the period to meet cash flow need. However, as the Authority's internal borrowing capacity had been full deployed at 1.4.18 this short-term borrowing will need replacement by longer-term borrowing over time. For now, however, liquidity and rates available from the inter-Local Authority market still make it the most advantageous route to securing borrowing.

- The projected outturn for debt financing costs for the year stood at £10.2m. The percentage of revenue stream represented by this cost remained below the council's guideline range of 10% - 12%.

- Total debt of £189.8m at 31st March 2018 was reduced by repayments of £36.2m in year, with new/replacement debt added to leave total debt outstanding of £172.8m at 30 September 2018.

- Total debt was within the authorised and operational boundaries set in the strategy and the maturity profile of debt also remained within the limits set.

4. ANALYSIS OF OPTIONS

4.1 This is a report on past performance and there are no options to consider. However 2018/19 has seen an extension of external borrowing to meet short and defer long-term needs as anticipated in the Treasury Strategy.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

5.1 The financial implications to this report are covered in section 3.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

6.1 Not applicable

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

7.1 Not applicable

8. RECOMMENDATIONS

8.1 That the Council notes the Treasury Management performance for the 2018/19 financial year.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

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Background Papers used in the preparation of this report

2017-18 Treasury Management Strategy
2017-20 Capital Programme
CIPFA Code of Practice in the Public Service Fully Revised 2017
CIPFA The Prudential Code Fully Revised Second Edition 2017
MHCLG Guidance
Local Government Act 2003

Appendix 1

PRUDENTIAL GUIDELINE INDICATORS

	2018/19	**2018/19**
	Budget £m	**Mid-Year £m**
(i) capital expenditure	70.2	71.9
(ii) General Fund ratio of financing costs to the net revenue stream	10.47%	9.30%
(iii) The capital financing requirement	267.1	243.7
(iv) the authorised limit for external debt including borrowing and other long term liabilities	315	315
(v) the operational boundary for external debt including borrowing and other long term liabilities	275	275
	%	**%**
(vi) upper limit for fixed rate exposure	100	Target Met
(vii) upper limit for variable rate exposure	40	Target Met
(viii) upper and lower limits for maturity structure of borrowing		
UPPER LIMIT		
under 12 months	40	)
12 months and within 24 months	20	)
24 months and within 5 years	50	} Target Met
5 years and within 10 years	75	)
10 years and above	90	)
LOWER LIMIT		
under 12 months	0	)
12 months and within 24 months	0	)
24 months and within 5 years	0	} Target Met
5 years and within 10 years	0	)
10 years and above	25	)
(ix) total principal sums invested for periods longer than 365 days	nil	nil

Appendix 2

Half-yearly Treasury Monitoring Report 2018/19

Contents

Key Messages:

There are no policy changes to the TMSS. This report updates on the latest economic and budgetary position.

Interest Rates are projected to rise over the next few years and the implications for both investment income and borrowing cost will be closely monitored.

This report covers Treasury and its related financial transactions. Under new Guidance from 2018-19 a separate Capital Strategy is being drafted to cover non-treasury related investments

S151 Officer Overview

The Council operates a balanced budget, which broadly means cash raised during the year will meet its non-capital expenditure in the year. A primary purpose of treasury management is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering optimising investment return.

The 2018-19 Investment Strategy is tailored to allow the Council to manage risks in this order and specifically the risk posed by Bail-in Legislation that could expose the Authority to potentially higher and more frequent losses as a result of Bank failures.

The second main function of the treasury management service is to borrow to fund the Council's capital plans, essentially the longer term cash flow planning to ensure the Council can meet its capital spending commitments. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

At the time of writing it is broadly expected that interest rates will continue to rise slowly over the next few years. Whilst this will bring a welcome uplift in the income generated from investments, a larger impact will be seen on the cost of new borrowing the Council needs to make to fund its capital investment plans. Careful management of this interest rate risk will be needed to balance 'cost of carry' with additional cost as a result of delaying borrowing as rates rise.

World economic conditions and the withdrawal from the European Union remain key drivers of economic indicators. Work is in hand to prepare for the impact of various potential outcomes on the products and strategies used by the Treasury Team.

Becky McIntyre, Director of Governance and Partnerships

October 2018

Key Messages:

Forecast outturn at Quarter 2 is to deliver a significant saving on interest costs in year. Savings will be used to offset service pressures in the Council budget.

No Treasury activity is without risk. These risks include, but are not limited to, Credit Risk, Liquidity Risk, Interest Rate Risk, Inflation Risk and Reputational Risk.

Introduction and External Context

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

Treasury management is defined as:

> "The management of the local authority'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."

The Authority's Treasury Management Strategy for 2018/19 was approved by full Council in March 2018 and can be accessed here.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2018/19 financial year;
- A review of the Treasury Management Strategy;
- The Council's capital expenditure and prudential indicators;
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

Key Messages:

The Authority has borrowed and invested 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. This report covers treasury activity and the associated monitoring and control of risk.

The Council uses in-house knowledge, external advice, treasury management software (Treasury Live) and the CIPFA Treasury Management Code to manage these risks.

Introduction and External Context

Economics update

UK. The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to (9-0) vote unanimously to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate.

The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Markets are currently pricing in the next increase in the second half of 2019.

In the **US**, the substantial easing of fiscal policy is fuelling a boost in consumption which has generated strong growth of 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25% and indicated they expected to increase rates four more times by the end of 2019.

Eurozone growth has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

Key Messages:

The Authority has access to a number of data tools and advice from treasury advisors to monitor risk and against which decisions on investments and borrowing can be weighed.

Monthly update meetings are held between the operational Treasury Team and the Chief Finance Officer.

External Context (contd.)

Interest Rate Forecast: The Council's treasury advisor, Link Asset Services, has provided the following forecasts:

Link Asset Services Interest Rate View	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The overall balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth is, how slowly inflation pressures subside, and how quickly the EU withdrawal negotiations conclude.

Downside risks to current forecasts include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis due to its high level of government debt, low rate of economic growth and vulnerable banking system
- Weak capitalisation of some European banks.

Key Messages:

Following changes to structures within major UK Banks, the Council's bank accounts with Barclays now sit within their non-ringfenced (NRFB) entity. Counterparty credit information is available as previously to assess risk.
However, the Council does not currently place investments with Barclays NRFB using it's accounts for operational purposes only.

External Context (contd.)

Potential upside risks to current forecasts for UK gilt yields and PWLB rates include: -

- US fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Bank of England is too slow in its pace and strength of increases in Base Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

UK banks – ring fencing
The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), have now separated their core retail banking services from their investment and international banking activities, as required by UK law. This is known as "ring-fencing".

Ring-fencing is a regulatory initiative created in response to the global financial crisis. In general, simpler activities offered to Retail clients from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Key Messages:

Changes to accounting practices for 2018/19 mean that certain financial products must be separately valued at period end (as opposed to just recording the book value of principal committed).
This has limited impact for NLC. The Council does not foresee that it's current strategy (and resulting operations) will drive material volatility in the value of it's Treasury investments. Separate valuations will be made in regard to non-Treasury investments in accordance with the IFRS requirements and will be reported in the Capital Strategy review.

External Context (contd.)

IFRS9 accounting standard

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact on the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. The impact on this authority is likely to be minimal so far as financial instruments are concerned as our investments in affected products tend to be very short-term and generally run down by year end when balances naturally fall.

The Ministry of Housing, Communities and Local Government (MHCLG), are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. Members will be updated when the result of this consultation is known but it is not expected to affect the Council's Treasury investments materially.

Key Messages:

Over recent years the Authority significantly reduced credit risk by reducing its investment balances through use of reserves to defer borrowing needs and therefore reduce investments at risk.

This strategy has now been fully worked through and it is expected that the Council will need to undertake external borrowing in future to support the Capital Programme and Reserve drawdowns.

Over the medium term debt should not exceed our Capital Financing Requirement (CFR)

The Director of Governance and Partnerships reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

Local Context

At 31/03/2018 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £211.6m, while usable reserves and working capital which are the underlying resources available for investment were £50.2m.

At 30/09/2018, the Authority had £172.8m of borrowing and £14.3m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding investment balances in excess of £10m. The differential between cash balances and usable reserves represents delayed borrowing. As this will have to be externalised (physically borrowed) in the future significant interest rate risk exists and is being closely monitored.

The Authority has an increasing CFR over the next three years to support the planned capital programme.

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purposes. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

Capital Financing Requirement	31.03.18 Actual £m	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
CFR	211.6	243.7	247.6	245.6
Total Debt	189.8	225.2	217.8	210.0

Key Messages:

When undertaking new borrowing the Council reviews both the source and tenure of loans.

The Council's current borrowing portfolio is predominantly of a long-term and fixed nature. Whilst this provides certainty of cost it restricts flexibility to restructure debts as plans and finances change.

Borrowing short-term from other local authorities provides a useful alternative below current fixed rates and with the ability to exit loans within a reasonable timeframe. However, we are also mindful of a need to 'term out' (replace) this short-term debt in a measured way and secure longer term borrowing as rates rise.

Borrowing Strategy

At 30/09/18 the Authority held £173m of loans, (a reduction of £17m on 31/03/2018 (year end borrowing is typically higher) as part of its strategy for funding previous years' capital expenditure and managing liquidity. Seven new loans were taken out in the period as follows:-

Source	Amount	Rate	Profile	Start Date	End Date
Swansea City Council	£3,000,000	0.75%	Maturity	03/04/2018	25/09/2018
Swansea City Council	£5,000,000	0.75%	Maturity	05/04/2018	05/10/2018
Swansea City Council	£2,000,000	0.56%	Maturity	12/04/2018	22/08/2018
Blaby District Council	£2,000,000	0.60%	Maturity	20/04/2018	19/07/2018
Blaby District Council	£2,000,000	0.85%	Maturity	30/04/2018	29/04/2019
North East Combined Authority	£5,000,000	0.85%	Maturity	30/04/2018	29/04/2019
Vale of Glamorgan Council	£2,000,000	0.65%	Maturity	28/08/2018	28/02/2019
TOTAL	£21,000,000	0.74%			

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

Affordability and "cost of carry" remained important influences on the Authority's borrowing strategy. The benefits of internal borrowing are monitored regularly against the potential for additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.

Debt Rescheduling: Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken.

Key Messages:

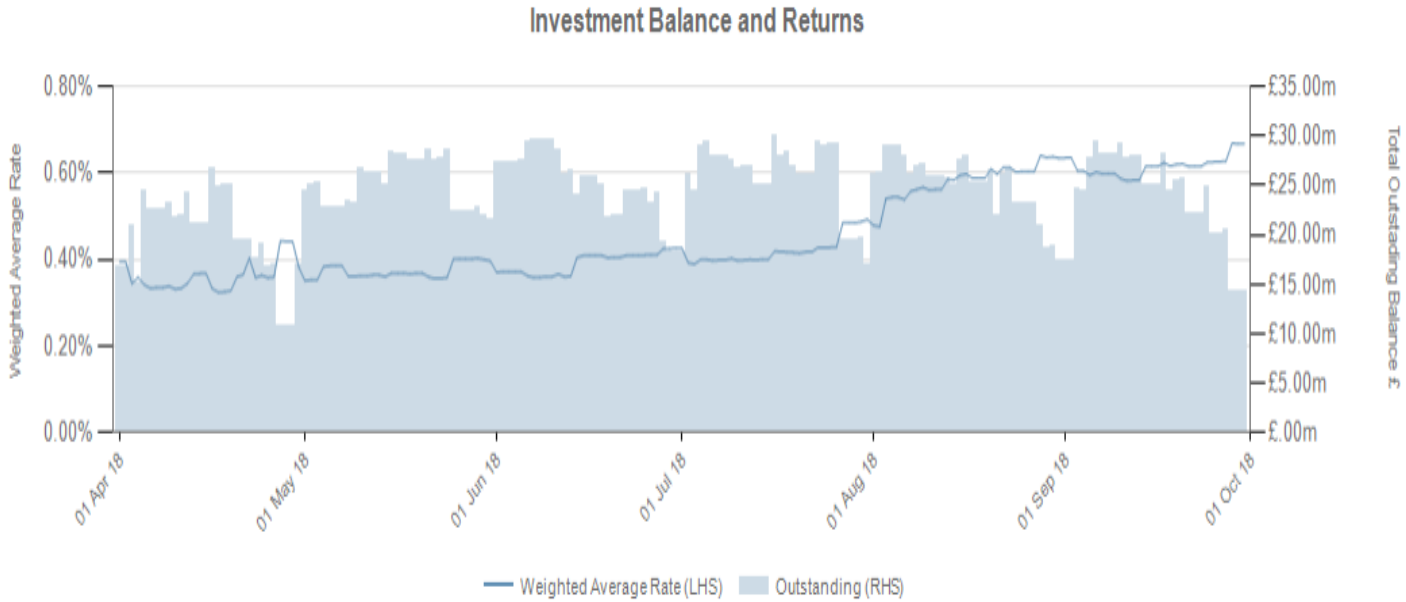
UK/EU legislation places the burden of rescuing failing EU banks disproportionately onto unsecured investors such as local authorities through potential bail-in of unsecured bank deposits including certificates of deposit.

Yields remain at or close to historic lows.

At the time of writing the Bank of England had begun a 'slow and gradual' upward path for rates, implying rates of 1.5% by 2021, although many factors could alter this in the meantime.

Investment Activity

The Authority has held relatively high levels of invested funds during the period, representing income received in advance of expenditure plus balances and reserves held. During 2018/19 investment balances have averaged £24.2m while fluctuating between £10.9m and £30.0 million.



The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

The investment market continues to be difficult in terms of earning the level of interest rates commonly seen in previous decades as rates remain very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, justifies a low risk and short term strategy.

Key Messages:

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

The Director of Governance and Partnerships confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2018/19.

The annual income budget has already been delivered. This performance has been helped by both the general increase in rates late in the period, our use of Treasury Bills that offer better rates than DMADF deposits, and higher balances.

Investment Activity

Investments	Balance on 01/04/2018 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2018 £m	Avg Rate/Yield (%) and Avg Life (years)
UK Government:					
- DMADF	2.5	107.6	(110.1)	-	0.32% 7 days
- Treasury Bills	-	26.9	(21.4)	4.9	0.48% 18 days
Bonds issued by Multilateral Development Banks	-	-	-	-	-
Direct Unsecured Investments (call accounts, deposits) with financial institutions					
- rated A- or higher	10.4	70.3	(77.0)	3.7	0.50% at Call
- rated below A-	-	-	-	-	
Tradable Investments with Financial institutions Corporates (CDs) rated A- or higher	-	-	-	-	-
Money Market Funds	4.0	19.3	(17.6)	5.7	0.52% at Call
TOTAL INVESTMENTS	**16.9**	**223.5**	**(226.1)**	**14.3**	**0.46% 6 days**
Increase/ (Decrease) in Investments £m				(2.6)	

Given the increasing risk and continued low returns from short-term unsecured bank investments, but having no funds available for longer-term investment, the Authority is unable to diversify into more secure and/or higher yielding asset classes such as repurchase agreements or covered bonds which are secured on financial assets. Eliminating Credit Risk by maintaining balances at lower than historical levels whilst still ensuring adequate liquidity is therefore a key strand of operational activity.

The Council's budgeted investment return for 2018/19 is £0.025m. Income for the year to date is £0.035m. Following recent rises in market rates the anticipated outturn is £0.090m.

Key Messages:

Counterparty credit quality is assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating for institutions defined as having "high credit quality" is A-);

Additional tools for assessment include credit default swap prices, financial statements, information on potential government support and reports from quality financial news feeds.

Investment Activity (contd.)

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating
31/03/2018	4.52	A+
30/06/2018	3.24	AA
30/09/2018	3.32	AA

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

The table demonstrates how the Authority has maintained a consistent, high quality profile across it's investment portfolio during the period.

Additional credit protection has been achieved through a short-dated investment time horizon.

The effect of these portfolio characteristics are shown in more detail in the Benchmarking section below.

Key Messages:

In an environment where direct unsecured bank deposits present increased risk but no compensating return, NLC has sought to avoid this imbalance by utilising predominantly UK Sterling Government based investments or diversified money market funds.

Investment Activity (contd.)

Benchmarking

- We use Treasury Live for benchmarking analysis. Reports are provided monthly and benefit from being drawn from a cohort across the full sector covering different Treasury Advisor guidance.

- The Table below shows how our investments are spread compared to the Group.

	Universe			Authority		
Deal Type	Outstanding	Outstanding (%)	Average Rate	Outstanding	Outstanding %	Average Rate
Bond	£728,066,506	9.99%	0.8269%			
Call	£289,569,594	3.97%	0.6702%	£3,716,352	25.98%	0.66%
Fixed	£3,853,953,234	52.87%	0.9648%	£4,887,421	34.17%	0.69%
Floating Rate Note	£95,821,872	1.31%	1.0014%			
MMF	£1,453,965,682	19.95%	0.6930%	£5,700,000	39.85%	0.66%
Notice Account	£391,392,352	5.37%	0.8954%			
Structured	£50,000,000	0.69%	1.4520%			
Variable	£2,671,390	0.04%	4.0262%			
VNAV Fund	£423,468,274	5.81%	0.0000%			
Total	£7,288,908,905	100.00%	0.8303%	£14,303,773	100.00%	0.67%

- Whilst the above shows a general picture it does not take into account risk or the period invested over. Inter-LA loans (which make up a significant element of the 'Fixed' figure), for example, carry an average term of 278 days for the group. The average term for all Group investments was 165 days. As NLC operate with near-minimum liquidity balances our portfolio is not positioned toward making longer-term investments. Our average investment term was just 4 days and all our term investments were with UK Government.

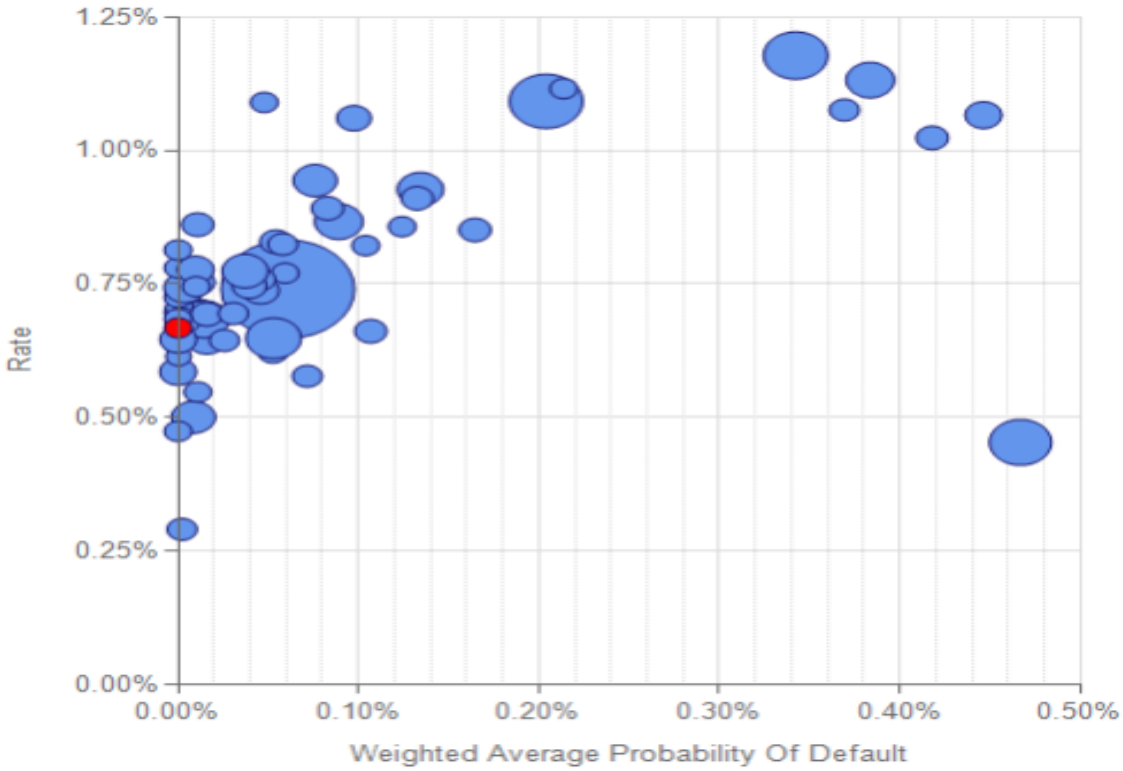
Key Messages:

The chart shows how our low risk appetite impacts return but in a low interest rate (and low risk) environment even the more 'risky' local authority investments included here are still achieving less than 1.25% actual return.

Investment Activity (contd.)

Benchmarking

- The chart below plots risk vs return and shows how our low risk strategy impacts return compared to the benchmark group. However the equation is not linear and currently higher risk investments do not attract a commensurately higher return.



- It is important to note that in a period of historically low rates our overall amount at risk has remained under control through the maintenance of relatively low, yet sustainable, levels of liquidity.

Key Messages:

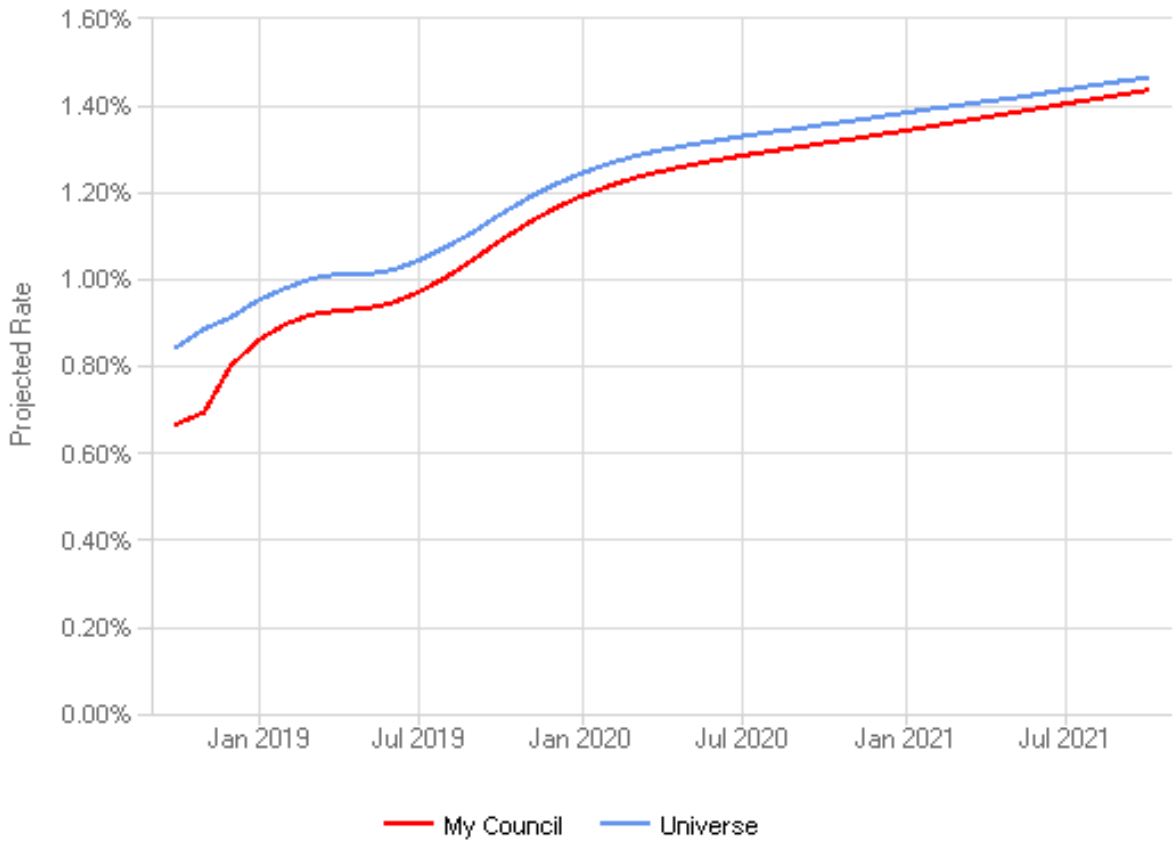
This chart shows how our short-term investment horizon allows us to take advantage of any rate rises more swiftly than other Authorities who have invested for longer periods.

This is not however the primary reason for our investment profile which is driven by our lower level of cash balances.

Investment Activity (contd.)

Benchmarking

- Our short-term investment profile helps us manage liquidity which is important when balances are low. It also provides a greater degree of agility which could prove beneficial in the event of any counterparty or general market credit concerns. Finally, with rates now on a gradual upward trajectory, our profile allows us to take advantage of rising rates more quickly. This means that, all other things being equal, we will continue to close the gap on the benchmark group – without changing our cautious investment strategy.



Key Messages:

The Authority confirms compliance with its Prudential Indicators for 2018/19, which were set in March 2018 in the Authority's Treasury Management Strategy Statement.

Compliance with Prudential Indicators

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 will be:

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual	80%	97%	97%
Upper limit on variable interest rate exposure	40%	40%	40%
Actual	20%	3%	3%

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 will be:

	Upper	Lower	Actual
Under 12 months	40%	0%	20%
12 months and within 24 months	20%	0%	3%
24 months and within 5 years	50%	0%	10%
5 years and within 10 years	75%	0%	22%
Over 10 years	90%	25%	45%

Key Messages:

The Council seeks to maintain cash balances that balance adequate liquidity with manageable credit risk.

A minimum liquidity level of £10m is set for 2018/19 and there have been no occasions where this limit was breached.

Compliance with Prudential Indicators (contd.)

Principal Sums Invested for Periods Longer than 365 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 total principal sum invested to final maturities beyond the period end will be:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£0m	£0m	£0m
Actual	£0m	£0m	£0m

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	Target	Actual
Total cash available within 1 month	£10m	£11m

Key Messages:

The Authority confirms compliance with its Capital Finance Prudential Indicators for 2018/19, which were set in March as part of the Authority's Treasury Management Strategy Statement.

Changes in the 2018/19 programme are primarily due to deferment of schemes into 2019/20 and beyond.

Further changes to the 2018/19 and later programmes will occur through the remainder of the year as these are continually reviewed.

Compliance with Capital Finance Prudential Indicators

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Authority's planned capital expenditure and financing at 30 September 2018 was:

Capital Expenditure and Financing	2018/19 Original £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Total Expenditure	49.0	76.5	31.7	15.5
Capital Receipts	3.1	6.0	7.0	3.5
Government Grants	9.0	28.5	17.1	9.5
Revenue Funding	16.2	5.0	0.0	0.0
Borrowing	20.6	37.0	7.6	2.5
Total Financing	49.0	76.5	31.7	15.5

Key Messages:

Borrowing remains comfortably below control levels as a result of continued internal borrowing support for the Capital Programme.

Compliance with Prudential Indicators (contd.)

Other Prudential Indicators

The following three prudential indicators are relevant to the treasury function as they concern limits on borrowing and the adoption of the CIPFA Treasury Management Code.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2018/19 £m	2019/20 £m	2020/21 £m
Borrowing	£272m	£270m	£265m
Other long-term liabilities	£3m	£3m	£3m
Total	£275m	£273m	£268m

Authorised Limit for External Debt: The authorised limit 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.

Authorised Limit	2018/19 £m	2019/20 £m	2020/21 £m
Borrowing	£310m	£300m	£290m
Other long-term liabilities	£5m	£5m	£5m
Total	£315m	£305m	£295m

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition in March 2018.

Key Messages:

The Council has set an internal limit on the percentage of net revenue income that is committed to debt servicing costs. This is designed to ensure the Council's capital plans remain prudent, affordable and sustainable.

For 2018-2022 this limit is 12% and the table shows that the Council expects to deliver it's approved capital programme within this limit.

Changes in interest rates and/or income levels also impact this indicator.

Compliance with Capital Finance Prudential Indicators (contd.)

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, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund	9.30%	11.20%	11.35%	11.27%