COUNCIL

5 SEPTEMBER 2018

Treasury Management Annual Report for the Financial Year 2017-18

Report of Barry Scarr, Executive Director of Finance and Deputy Chief Executive

Cabinet Member: Councillor Nicholas Oliver – Portfolio Holder for Corporate Services

Purpose of the Report

This report provides details of performance against the Treasury Management Strategy Statement (TMSS) 2017-18, approved by the County Council on 22 February 2017. The report provides a review of borrowing and investment performance for 2017-18, set in the context of the general economic conditions prevailing during the year. It also reviews specific Treasury Management prudential indicators defined by the (CIPFA) Treasury Management Code of Practice and CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code), and approved by the Authority in the TMSS.

Recommendations

- Members receive the report and note the performance of the Treasury Management function for 2017-18; and,

- Members approve the report..

Link to the Corporate Plan

This report supports the “We want to be efficient, open and work for everyone” priority included in the Council’s Corporate Plan 2018-21.

Key Issues

The Local Government Act 2003 (the Act) and supporting Regulations require the Council to produce an annual review of treasury management activities and present the actual performance against prudential and treasury indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The report provides a review of the Treasury Management activities for 2017-18; and, sets out performance against the Treasury Management Strategy Statement for 2017-18.

TREASURY MANAGEMENT ANNUAL REPORT 2017-18

1. INTRODUCTION

1.1. Background

This Treasury Management Annual Report provides a review of the activities of the Treasury Management function for the period 1 April 2017 to 31 March 2018, and shows performance against the Treasury Management Strategy Statement (TMSS) for 2017-18. Its production and submission to Council is a requirement of the CIPFA Code of Practice on Treasury Management.

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."

1.2. Statutory and Regulatory Requirements

The Local Government Act 2003 (the Act) and supporting Regulations requires the Council to produce an annual review of treasury management activities and the actual performance against prudential and treasury indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore, important as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.3. Basis and Content of Treasury Management Annual Report for 2017-18

The report covers:

- Overview of, and compliance with the Treasury Management Strategy for the financial year 2017-18;
- Economic conditions and interest rates during 2017-18;
- Overview of the treasury position at 31 March 2018;
- Borrowing activity for 2017-18;
- Investment activity for 2017-18;
- Performance against budget; and,
- Treasury management limits and prudential indicators position.

2. TREASURY MANAGEMENT STRATEGY FOR 2017-18

2.1. Overview of the 2017-18 Strategy

The expectation for interest rates within the treasury management strategy for 2017-18 was for Bank Rate (often referred to as Base Rate) to remain at its low point of 0.25%, and for only very gradual rises in medium and longer term fixed borrowing rates during 2017-18. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued economic uncertainty promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to wherever possible postpone borrowing and to use investment balances to repay maturing debt and fund capital expenditure; resulting in the Council operating an under-borrowing position. This practice would in turn avoid the cost of holding higher levels of investments and reduce counterparty risk. Despite this, some new and replacement external borrowing would also still be needed and it was envisaged this would be met by a mixture of short term and long term loans, subject to interest rates at the time.

2.2. Compliance

All treasury activities met the Treasury indicators set out in the TMSS, and borrowing was within the borrowing limits set by the Council. The Interim Section 151 Officer confirmed that, throughout the period, all treasury activities have been conducted within the parameters of the TMSS 2017-18, alongside best practice suggested by the CIPFA Treasury Management Code and Central Government.

3. ECONOMIC CONDITIONS AND INTEREST RATES DURING 2017-18

3.1. Economy

After the UK economy surprised on the upside with strong growth in the second half of 2016, UK growth in 2017 was disappointingly weak in the first half of the year.

The main reason for the subdued performance was a slowdown in consumer spending, which is the perennial driver of UK economic growth. Consumers were hit by rising inflation, caused by higher import prices following the devaluation of sterling after the EU referendum, and weak wage growth. The squeeze on household budgets led to consumer spending growth slowing to its weakest pace since 2012.

This factor continued to dampen consumer spending growth in the second half of 2017, but was offset by a stronger world economy, which boosted UK exports. Consequently, the last six months of 2017 showed a modest pickup in growth, driven largely by the dominant Services sector, which accounts for almost 80% of national output. Moving into the autumn, markets started to shift their expectations towards a rise in UK interest rates.

3.2. Borrowing Rates

Short to medium term borrowing rates showed a gradual increase during the financial year, particularly during the second half, brought about by increasing economic confidence and bank rate movement perceptions. Longer term rates initially followed a similar pattern. However, the increases were effectively reversed during late February 2018 and March 2018 as geopolitical and trade tensions increased.

The end of June 2017 saw a sharp upward move in gilt yields, one of the main drivers of borrowing rates, as investors began changing their expectations towards a rise in UK interest rates, predicated by Bank of England governor Mark Carney's upbeat comments about the country's economic prospects.

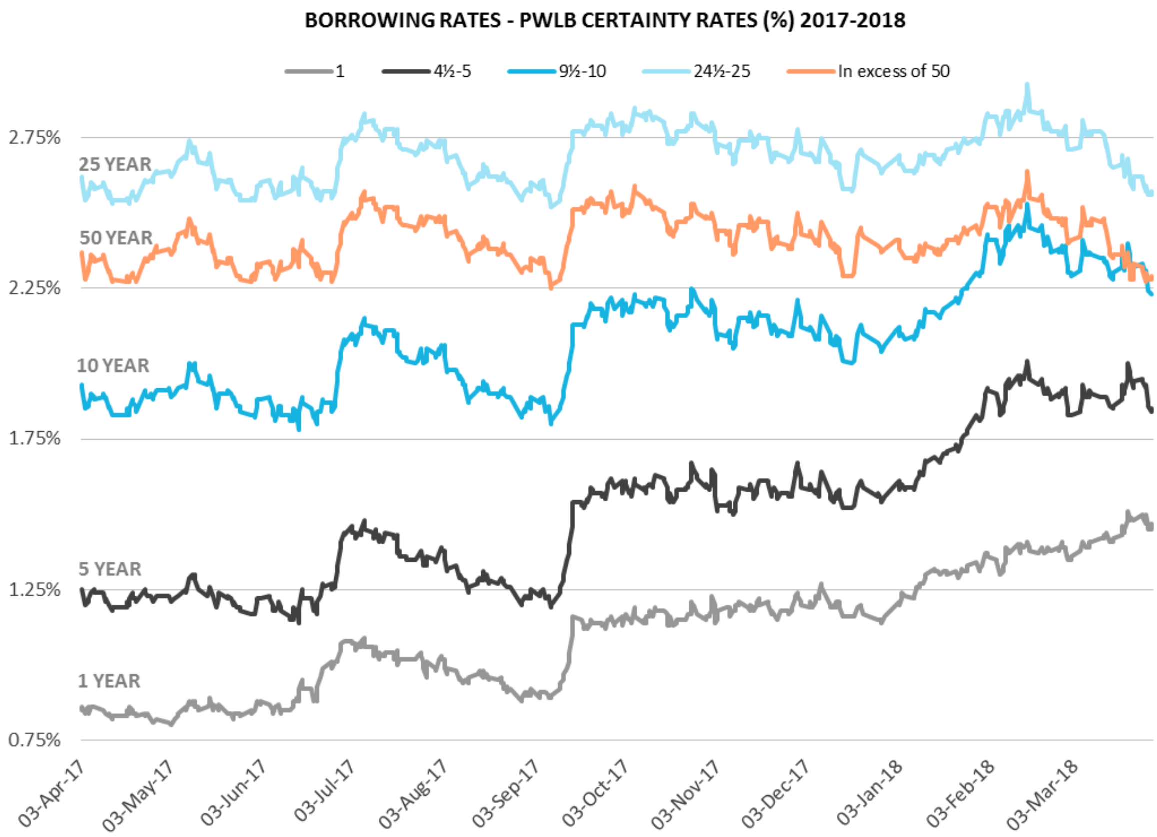
In September 2017 yields surged again amid mounting expectations of an increase in UK interest rates, perhaps as early as November, and a strong increase in inflationary pressures. This followed the release of the 15 September Bank of England Monetary Policy Committee (MPC) meeting minutes which stated "some withdrawal of monetary stimulus was likely to be appropriate over the coming months".

On 02 November 2017 the MPC meeting duly delivered by raising Bank Rate from 0.25% to 0.50%.

The 08 February 2018 MPC meeting minutes then revealed another sharp hardening in their warnings on a more imminent and faster pace of increases in Bank Rate than had previously been expected.

However, moving into March 2018 longer dated gilt yields fell as the market reassessed its view on global growth in the light of increasing geopolitical and trade tensions. The perceived escalation in the trade war between the US and China led investors to seek safe haven assets, as equity markets sold off over the month.

The following graph shows PWLB (borrowing) rate movements during the year, for a selection of maturity periods.



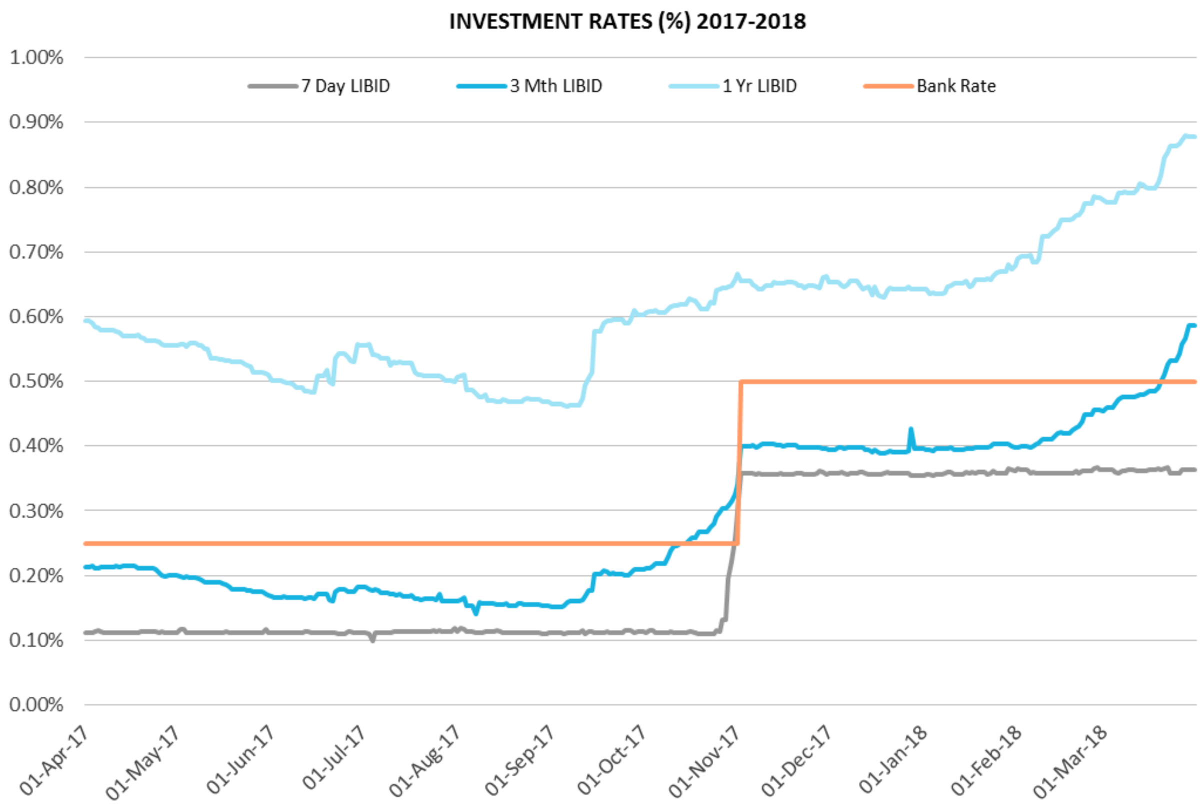
3.3. Investment Rates

For the most part, investments rate movements follow a similar pattern to shorter term borrowing rates and Bank Rate movements.

Deposit rates continued into the start of 2017-18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.

Investments rates for 3 months and longer showed a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March. Bank Rate was duly raised from 0.25% to 0.50% on 02 November 2018 and remained at that level for the rest of the year.

The following graph shows a selection of investment rate movements during the year:



4. THE PORTFOLIO POSITION AT 31 MARCH 2018

4.1. Current Borrowing

The Council's debt at 1 April 2017 and 31 March 2018 is shown below:

TABLE 1: BORROWING	Total Principal 1 Apr 2017 £m	Weighted Average Rate %	Total Principal 31 Mar 2018 £m	Weighted Average Rate %
Public Works Loan Board Loans	268.92	3.43	295.39	3.30
LOBOs	189.50	4.06	209.50	3.90
Market / Local Authority (>1yr)*	248.10	1.78	247.10	1.83
Market / Local Authority (<1yr)*	55.00	0.49	20.00	0.67
Salix	0.09	-	0.07	-
TOTAL EXTERNAL BORROWING	**761.61**	**2.84**	**772.06**	**2.92**

* Note: above figures are based on the term of loans at their inception.

4.2. Current Investments

The table below summarises the investment position at 1 April 2017 and 31 March 2018:

TABLE 2: INVESTMENTS	Total Outstanding 1 Apr 2017 £m	Weighted Average Rate %	Total Outstanding 31 Mar 2018 £m	Weighted Average Rate %
Fixed Term Investments – Long Term (>1yr)*	103.25	2.60	33.25	3.24
Fixed Term Investments – Short Term (<1yr)*	-	-	65.00	0.59
Money Market Funds and Call Accounts	28.80	0.31	52.10	0.47
TOTAL INVESTMENTS (excl. Cash)	**132.05**	**2.10**	**150.35**	**1.14**

* Note: above figures are based on the term of investments at their inception.

5. BORROWING ACTIVITY 2017-18

5.1. Introduction

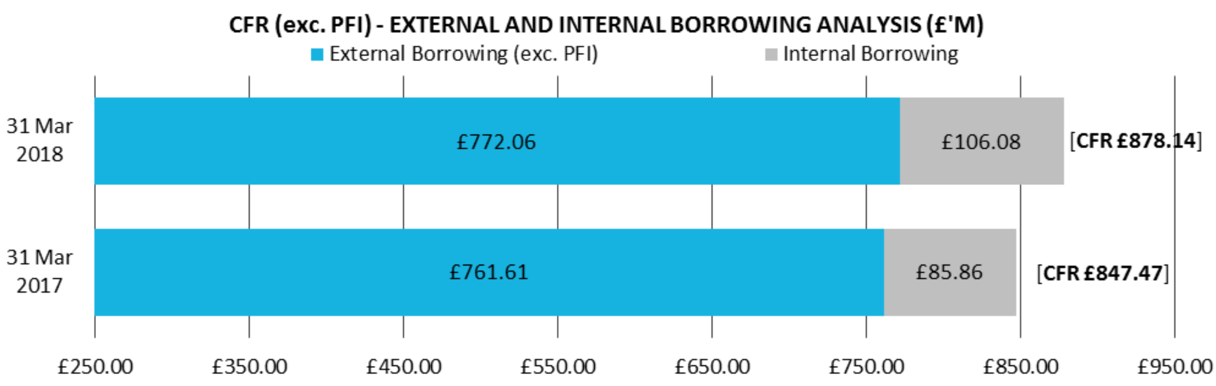
The Council borrows to fund the Capital programme, including to fund loans to third parties for policy reasons.

5.2. Borrowing Need – Capital Financing Requirement

The Council's long-term borrowing requirement or need to borrow is measured by the Capital Financing Requirement ("CFR"). The CFR represents total historic outstanding capital expenditure which has not yet been paid for from either revenue or cash-backed capital resources (such as grants and capital receipts). The CFR is repaid over time by an annual charge to revenue, known as the Minimum Revenue Provision (MRP). This charge, which is equivalent to depreciation, effectively spreads the cost of debt associated with capital expenditure over the useful economic life of the underlying assets.

At the same time the Council has significant levels of 'cash-backed' balances that are available for investment. Accordingly, the capital financing requirement (or borrowing requirement) need not always be met or funded externally from physical loans. At least in the short term, investment balances can be 'used' in lieu of borrowing externally; by withdrawing investments (in turn foregoing investment income) and instead using the cash to fund part of the borrowing requirement. This is often referred to as 'internal' or 'under' borrowing.

The following graph summarises the CFR (excluding PFIs) and external borrowing movements during the year:



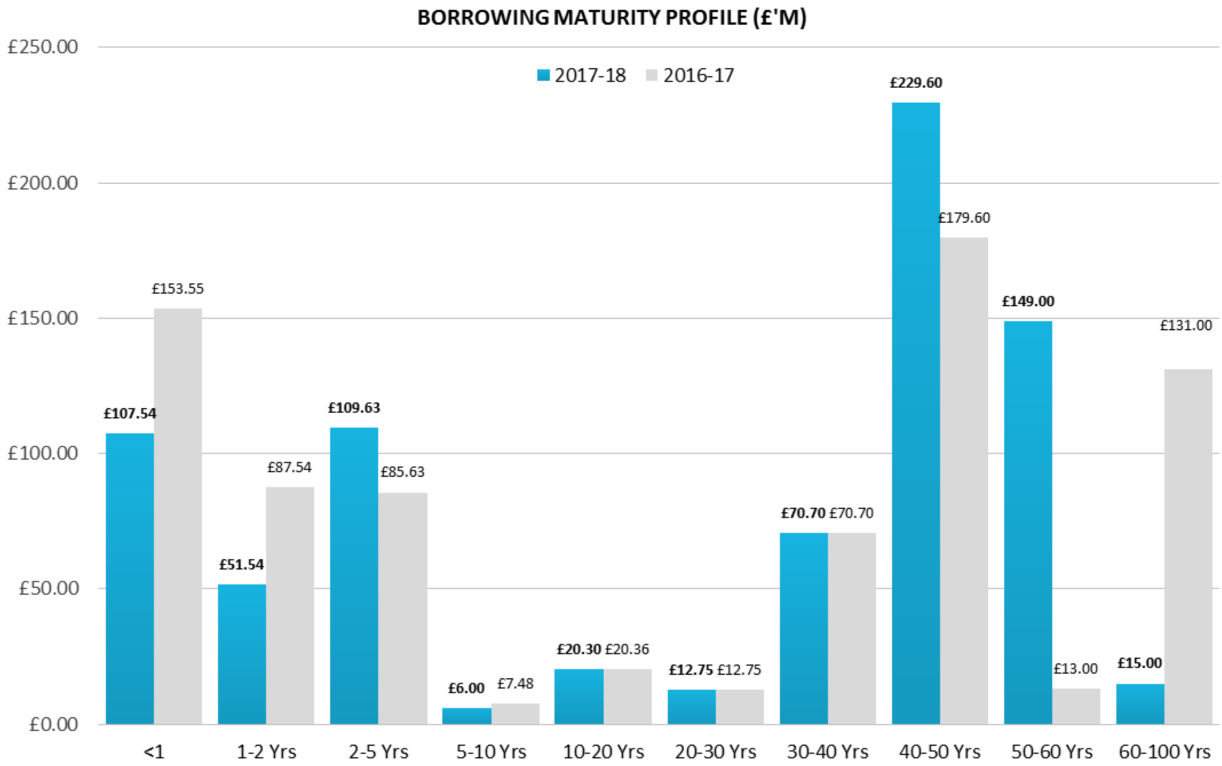
The inter-relationship (and reconciliation) between the CFR, external borrowing and investments is further analysed in the 'Balance Sheet Review' attached at Appendix 1.

As planned, despite the increased utilisation of investment balances to support the borrowing requirement, external borrowing was still required during 2017-18 to meet both the increased overall borrowing need (i.e. the movement in the CFR excluding PFIs of £30.67 million, as shown in the graph above) and to replace maturing existing loans.

£153.55 million of loans matured and were repaid during the year and £164.00 million of new or replacement borrowing was taken out over the same period. As a result, total external borrowing increased by £10.45 million, from £761.61 million at the start of year to £772.06 million at 31 March 2018. This in turn led to an increase in 'internal borrowing' (i.e. the difference between the CFR and actual external borrowing) of £20.22 million which is shown in the graph above.

The weighted average maturity (WAM) of all new borrowing during the year was 22.49 years. The new borrowing was made up of two PWLB loans (for 42 and 50 years respectively), two market loans from BAE for 55 years, and 13 shorter term local authority loans ranging from 1 to 4 years. This resulted in the year-end WAM of the portfolio increasing from 27.50 to 30.85 years.

The following graph shows the maturity of the loan portfolio at 31 March 2018 by monetary value (£772.06 million in total). LOBOs are shown as held to maturity. In the current climate it is not envisaged that loans would be called for repayment within the next 12 months, as rates are so low.



5.3. Borrowing Performance / Benchmarking

The weighted average rate of interest paid on all borrowing during the year was 2.76%, and the average rate on loans at 31 March 2018 was 2.92%, an increase of 0.08% compared to the start of the year figure of 2.84%.

Comparison data for other local authorities, from CIPFA's benchmarking club, is not yet available but will provided as part of the next treasury management update to members in the Autumn.

Overall borrowing levels were lower than originally budgeted, particularly in the latter part of the year, as a result of amendments made to the capital programme following the change in the Council's administration in May 2017.

Interest paid on external borrowing was therefore £1.26 million below budget at £22.40 million (original budget of £23.66 million). Part of the reduction was also attributable to the average rate of interest paid over the year being slightly lower than estimated, at 2.76% compared to 2.80% budgeted.

6. INVESTMENT ACTIVITY 2017-18

6.1. Introduction

The Council has significant levels of 'cash-backed' balances that are available for investment; in the form of General Fund and HRA balances, and the numerous earmarked reserves and provisions.

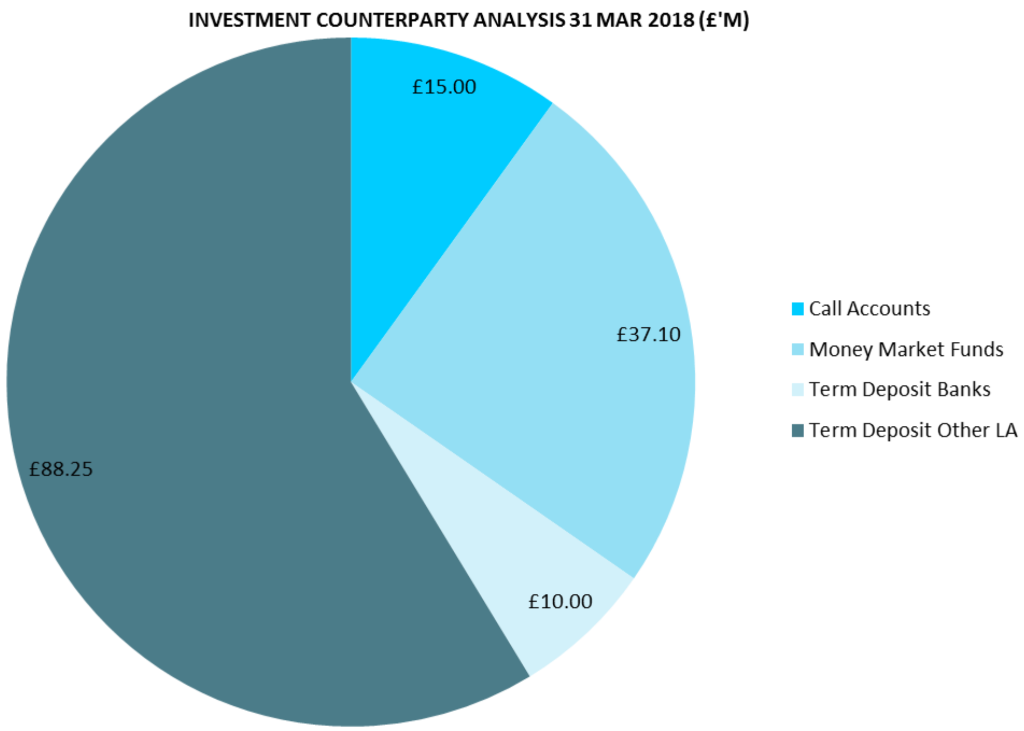
The Council's investment policy (as set out in the Treasury Management Strategy Statement for 2017-18) is governed by the Ministry of Housing, Communities and Local Government's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

All investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

As identified in section 5 above, a significant (and increasing) proportion of available investment balances were used as 'internal borrowing' to support the financing of the CFR. Over the year the level of available balances increased by £17.2 million, and the net difference between outstanding creditors and debtors (referred to as working capital) increased in the Council's favour by £21.22 million. (See Balance Sheet Review at Appendix 1).

As a result, overall external investments (excluding cash) increased during the year from £132.05 to £150.35 million, and the Council maintained an average balance of £216.18 million of internally managed funds.

An analysis of the year-end investment balance (excluding cash) by counterparty category is shown in the following chart:



6.2. Investment Performance / Benchmarking

The budget for 2017-18 was based on an estimated weighted average rate of return of 1.83% on average investment balances of £90.37 million. As already mentioned above, overall average investment balances were higher than anticipated, at £216.18 million. This was due to a reduced level of resource required to fund the revised capital programme. However, as these 'additional' sums could only be invested short term, at the prevailing low rates, this in turn impacted on the overall weighted rate of return for the year, reducing it to 0.98%, as a greater proportion of investments were at these low rates.

Income from core treasury management investments exceeded the budget for the year by £0.47 million, totalling £2.12 million against an original estimate of £1.65 million.

Note: the above figures are exclusive of interest received on loans to third parties. These loans are made for policy reasons, as opposed to day-to-day treasury undertakings in relation to the investment of cash flows etc., and as a result are not classed as treasury management activities. Actual returns on these facilities totalled £20.03 million, which was lower than the budgeted by £0.79 million as a result of a reduction in the overall estimated amount of loans given to Arch following a review of Arch's investment programme following the change in administration. This subsequently reduced the investment income achieved, as well as the borrowing costs (see para 5.3 above).

The returns achieved of 0.98% were maximised by the longer term investments with other Local Authorities taken out a number of years earlier, and compare favourably against the average London Interbank Bid Rate (LIBID) benchmark indicators of:

- 7 Day - 0.21%
- 3 Month - 0.29%
- 1 Year – 0.69%

As with borrowing, comparison data for other local authorities is not yet available from CIPFA.

However, data from Link Asset Services' benchmarking club shows Northumberland compares very favourably. Looking at the weighted average rate on investments held at 31 March 2018, Northumberland's rate of 1.14% was higher than the average for its benchmarking group (0.58%), as well as English Unitary Authorities (0.63%) and overall Link benchmarking group population (0.61%).

7. OVERALL TREASURY MANAGEMENT BUDGET PERFORMANCE

Overall net Treasury Management costs (including Minimum Revenue Provision, Premiums and discounts and PFI contracts etc.) were £1.68 million lower than budgeted, at £30.21 million in comparison to the budget of £31.89 million. The key variances are summarised in the following table:

	Additional Cost / (Saving) £'000
Interest Payable – External Borrowing	(1.26)
Interest Payable – PFI Contracts	(0.19)
Interest Receivable – Treasury Management Activity	(0.47)
Interest Receivable – Loans to Third Parties	0.79
Airport Dividend	(1.10)
Debt Management Expenses	(0.22)
Minimum Revenue Provision (MRP)	0.84
Other	(0.07)
TOTAL NET UNDERSPEND	**(1.68)**

Notes:

- Contrary to section 6.2, the above figures DO include interest received from loans to third parties; on the basis that the underlying borrowing (and therefore interest payable) in respect of these loans is reflected in the above costs and cannot be separately identified and excluded.
- The airport dividend was not expected and therefore not included in the base budget.
- MRP charges for the year were higher than budgeted because of a higher opening CFR.

8. PRUDENTIAL INDICATORS AND TREASURY LIMITS 2017-18

The Prudential Code has been developed by CIPFA. The Code has a central role in capital finance decision making, including borrowing for capital investment. Its key objectives are to provide a framework for local authority finance that will ensure individual authorities' capital expenditure plans are affordable; all external borrowing is within prudent and sustainable levels; and, that treasury management decisions are taken in accordance with good professional practice.

To ensure compliance with the Code, councils are required to approve a set of Prudential Indicators for the financial year and adhere to these indicators during the course of that year. Details of the Prudential Indicators and Treasury Management Limits for 2017-18 are provided in Appendix 2.

9. OTHER ISSUES

9.1. Revised CIPFA Codes

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.

A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. The Code and associated guidance has been reviewed.

9.2. Markets in Financial Instruments Directive II (MiFID II)

The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Authority.

Implications

Policy	The report provides a review of the Treasury Management activities for 2017-18, and sets out performance against the Treasury Management Strategy Statement for 2017-18. It is consistent with “We want to be efficient, open and work for everyone” priority included in the Council’s Corporate Plan 2018-21.
Finance and value for money	The financial implications of the 2017-18 investment and borrowing transactions have been taken into account within the revenue budget and outturn for 2017-18. Northumberland County Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Capita benchmarking clubs.
Legal	Under Section 1 of the Local Government Act 2003 (the Act) the Council may borrow money for any purpose relevant to its functions under any enactment, or for the purpose of the prudent management of its financial affairs. The Act and supporting regulations also requires the Council to ‘have regard to’ the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (which were adopted by Northumberland County Council in February 2010).
Procurement	There are no direct procurement implications for the County Council.
Human Resources	There are no direct staffing implications for the County Council.
Property	There are no direct property implications for the County Council.
Equalities (Impact Assessment attached) Yes ☐ No ☐ N/A ☐	Not applicable for the County Council.

Risk Assessment	The report highlights the principal financial risks within the Treasury Management function. The identification, monitoring and control of risk are the prime criteria by which the effectiveness of the County Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Council. The investment priority is security and liquidity rather than yield, which is a secondary aim.
Crime & Disorder	There are no Crime and Disorder implications for the County Council.
Customer Consideration	There are no Customer Considerations for the County Council.
Carbon reduction	None.
Wards	All.

Background Papers:

Treasury Management Strategy Statement for 2017-18.
CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance notes (revised 2011).
CIPFA Prudential Code for Capital Finance in Local Authorities.
Guidance on Local Government Investments; The Local Government Act 2003.
Local Authorities (Capital Finance and Accounting) Regulations 2012 (S.I.2012/265).

Report sign off:

Executive Director of Finance & S151 Officer	Barry Scarr
Monitoring Officer	Liam Henry
Chief Executive	Daljit Lally
Portfolio Holder	Nicholas Oliver

Author and Contact Details

Alistair Bennett – Technical Accountant

(01670) 625504
Alistair.Bennett@northumberland.gov.uk

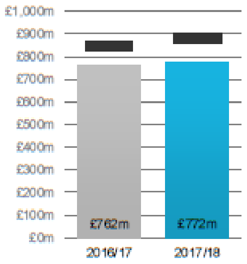
NORTHUMBERLAND COUNTY COUNCIL

2017/18 Desktop Balance Sheet Review

CAPITAL FINANCING AND BORROWING (£'000)

	2016/17	2017/18
Capital Financing Requirement	£922,831	**£951,984**
Underlying Borrowing Requirement	£847,470	**£878,146**
External Borrowing	£761,610	**£772,064**
Under Borrowing	£85,860	**£106,082**
Net Borrowing (exc TFR debt)	£627,370	**£619,629**

External Borrowing vs Underlying

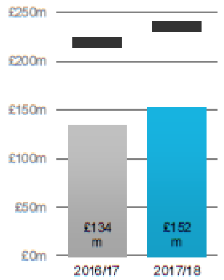


2016/17 (£'000)		2017/18 (£'000)	Change (£'000)
	Capital Financing Requirement (CFR)		
1,301,959	Property, Plant & Equipment	1,341,445	
1,575	Investment Property	1,479	
3,320	Intangible Assets	1,850	
16,152	Assets Held for Sale	7,668	
16,739	Capital Investments (non-TM)	16,739	
399,508	Capital Long-term Debtors	422,558	
(160,262)	Revaluation Reserve	(140,224)	
(643,056)	Capital Adjustment Account	(686,427)	
(13,104)	Available for Sale Reserve (capital)	(13,104)	
922,831	**CFR (as per Prudential Code)**	**951,984**	**29,153**
4,648	PFI Prepayment	4,362	
(79,916)	PFI Liability	(78,200)	
(93)	Finance Lease Liability	-	
847,470	**Underlying Borrowing Requirement**	**878,146**	**30,676**
	External Borrowing		
(153,546)	Short-Term	(107,542)	
(608,064)	Long-Term	(664,522)	
(761,610)	**TOTAL External Borrowing (Principal)**	**(772,064)**	**(10,454)**
85,860	**Under Borrowing**	**106,082**	**20,222**

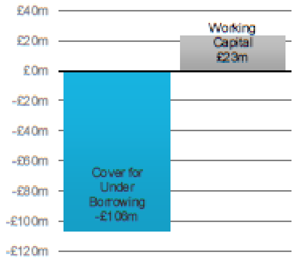
RESERVES / BALANCES AND INVESTMENTS (£'000)

	2016/17	2017/18
Balances Available for Investment	£218,510	**£235,710**
External Investments	£134,240	**£152,435**
(Internal Investments)	£84,270	**£83,275**

Investments vs Balances



Analysis of (Internal Investments)

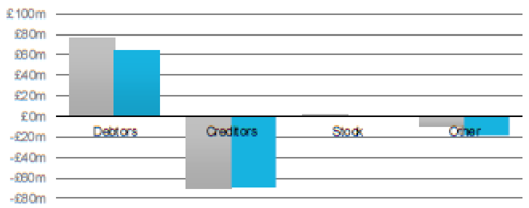


2016/17 (£'000)		2017/18 (£'000)	Change (£'000)
	Reserves / Balances		
(53,036)	General Fund Balance	(55,433)	
(25,891)	Housing Revenue Account Balance (inc MRA)	(30,862)	
(4,977)	Collection Fund Adjustment Account	(3,594)	
(100,590)	Earmarked reserves / other balances	(110,985)	
(263)	Capital Receipts Reserve	(786)	
(13,570)	Provisions (exc. any accumulating absences)	(11,711)	
(20,383)	Capital Grants Unapplied	(22,339)	
(218,510)	**Amount Available for Investment**	**(235,710)**	**(17,200)**
	Investments		
70,000	Short-Term	65,000	
33,251	Long-Term	33,251	
30,989	Cash & Cash Equivalents	54,184	
134,240	**TOTAL Investments**	**152,435**	**18,195**
(84,270)	**(Internal Investments)**	**(83,275)**	**995**

WORKING CAPITAL (£'000)

	2016/17	2017/18
TOTAL Working Capital (Surplus)	-£1,590	**-£22,807**

Analysis of Working Capital



2016/17 (£'000)		2017/18 (£'000)	Change (£'000)
	Working Capital		
75,820	Debtors	63,635	(12,185)
(69,215)	Creditors	(69,108)	107
(6,799)	Capital Grants Receipts In Advance	(9,953)	
(4,157)	Cash Overdrawn	(10,465)	
1,664	Stock / WIP	828	
(2,687)	**NET Working Capital (Surplus)**	**(25,063)**	**(22,376)**
	Other		
1,547	Balance LT Debtors	2,298	
2,651	FIAA - Premiums, (Discounts) etc	3,059	
(3,101)	Deferred credits / receipts (non-capital)	(3,101)	
1,097	**Other Long-Term Working Capital**	**2,256**	**1,159**
(1,590)	**TOTAL Working Capital (Surplus)**	**(22,807)**	**(21,217)**

PERFORMANCE AGAINST CAPITAL PRUDENTIAL INDICATORS

Authorised Limit and Operational Boundary for External Debt

These are important indicators, and are part of the Local Government Act 2003 requirements.

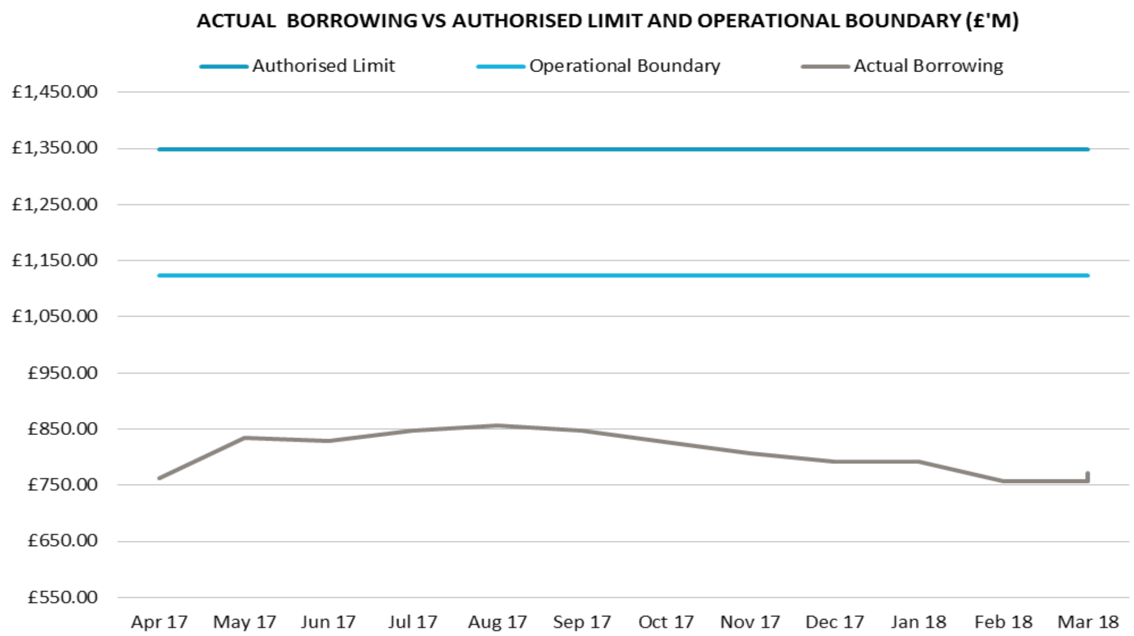
The authorised limit - is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level.

The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

The table below demonstrates that during 2017-18 the Council has maintained gross borrowing within its authorised limit.

	Authorised Limit for External Debt £m	Operational Boundary £m	Actual 31 March 2018 £m
External Borrowing	1,348.68	1,123.90	772.06
Other Long Term Liabilities (PFI)	84.78	70.65	73.84
TOTAL EXTERNAL DEBT	**1,433.46**	**1,194.55**	**845.90**

The following graph shows the external borrowing limits and actual borrowing over the year:



Treasury Management Limits on Activity

The purpose of this is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates.

Lender option, borrower option loans (LOBOs) callable within 12 months are classed as variable; if the rate is fixed for a longer period they are classed as fixed. At 31 March 2018 the total of variable rate loans was £136.00 million and is within the set limit.

	Limit for 2017-18	Actual 31 Mar 2018
Fixed Rate Exposure	0% - 100%	82.38%
Variable Rate Exposure	0% - 50%	17.62%

Maturity Structure of Borrowing

Measuring maturity structure of borrowing ensures a reasonable spread of maturing debt as a safety mechanism to ensure significant amounts of debt do not mature at a time when interest rates for refinancing the debt may be high.

The following graph shows maturity of loans by monetary value. LOBOs are shown as held to maturity. In the current climate it is not envisaged that loans would be called for repayment within the next 12 months, as rates are low.

Investments for periods longer than 365 days

These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	Limit 2017-18 £m	Actual Highest £m	Actual 31 March 2018 £m
Principal sums invested > 364 days	120.00	33.25	33.25