



Report of the Section 151 Officer

Audit Committee – 11 December 2018

Treasury Management Annual Report 2017/18

Purpose:	The Treasury Management Annual Report (appended to this report) provides details of the Council's Treasury Management activities during 2017/18 and compares actual performance against the strategy laid down at the start of the year.
Policy Framework:	Treasury Management Policy Statement
Consultation:	Finance, Access to Services and Legal
Report Author:	J. Dong
Finance Officer:	B Smith
Legal Officer:	T Meredith
Access to Services Officer	N/A
For Information	

1 Introduction

- 1.1 Under the CIPFA Code of Practice on Treasury Management in Public Services, there is a requirement: "...for the Council to receive reports on its treasury management policies, practices and activities".
- 1.2 As such, the annual report of Treasury Management activities 2017/18 attached at Appendix 1 was presented to Council on 20th September 2018.
- 1.3 It is presented to Audit Committee for information.

2 Financial Implications

- 2.1 There are no direct financial implications arising from this report

3 Legal Implications

- 3.1 There are no direct legal implications arising from this report

4 Equality Impact Assessment

- 4.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above. As the report is for information and no actions arise there are no equality impact implications arising from this report

Background Papers: None.

Appendices

Appendix 1 – Treasury Management Annual Report 2017/18



Report of the Section 151 Officer

Council 20th September 2018

Treasury Management Annual Report 2017/18

Summary	
Purpose:	This report provides details of the Council's Treasury Management activities during 2017/18 and compares actual performance against the strategy laid down at the start of the year.
Policy Framework:	Treasury Management Policy Statement
Reason for Decision:	This report is made to Council to comply with the requirements of CIPFA's Codes of Practice and as such, there is no decision required.
Consultation:	Finance, Access to Services and Legal
Recommendation:	The report is for information. Members are asked to note the details contained in the report
Report Author:	J. Dong
Finance Officer:	B Smith
Legal Officer:	D Smith
Access to Services Officer	R Millar
FOR INFORMATION	

1 Introduction

- 1.1 Under the CIPFA Code of Practice on Treasury Management in Public Services, there is a requirement: "...for the Council to receive reports on its treasury management policies, practices and activities".

This report summarises the activities for the year. The Prudential Code for Capital Finance in Local Authorities also requires the reporting of outturn Prudential Indicators for the year.

2 Executive Summary of Activities During The Year

- 2.1 The Capital Financing Requirement outlined an outstanding borrowing requirement of £49m for 2017/18. Identified borrowing of £40m within target levels was undertaken during the year at an average interest rate of 2.525%
- 2.2 The average interest rate on outstanding Council borrowing was 4.44% in 2017/18 down from 4.89% 2016/17.
- 2.3 Internally Managed investments achieved a return of 0.35%. This represents an outperformance of +0.15% from the average 7 day LIBID benchmark rate of 0.20% returning £264k of investment income
- 2.6 The Council has operated within all of the determined treasury limits outlined in appendix 1

3 Financial Implications

- 3.1 There are no financial implications arising directly from this report

4 Legal Implications

- 4.1 There are no legal implications arising directly from the report.

5 Equality Impact Assessment Implication

- 5.1 There are no equality impact assessment implications arising directly from the report

Appendices:

Appendix A – Treasury Management Annual Report 2017/18

Background Papers:

- Treasury Management Strategy, Prudential Indicators, Investment Strategy & Minimum Revenue Provision Statement 2017/18 (Feb 2017)
- Treasury Management Strategy, Prudential Indicators, Investment Strategy & Minimum Revenue Provision Statement 2018/19 (Feb 2018)

Treasury Management Annual Report

2017/18

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Appendices

1. Executive Summary

- 1.1 The Capital Financing Requirement outlined an outstanding borrowing requirement of £49m for 2017/18. Identified borrowing of £40m within target levels was undertaken during the year at an average interest rate of 2.525%
- 1.2 The average interest rate on outstanding Council borrowing was 4.44% in 2017/18 down from 4.89% 2016/17.
- 1.3 Internally Managed investments achieved a return of 0.35%. This represents an outperformance of +0.15% from the average 7 day LIBID benchmark rate of 0.20% returning £264k of investment income.
- 1.4 The Council has operated within all of the determined treasury limits outlined in Appendix 1.

2. Introduction and Background

- 2.1 Treasury Management in local government is regulated by the CIPFA Code of Practice on Treasury Management in Public Services (the Code). The City and County of Swansea has adopted the Code and complies with its requirements. A glossary of terms used throughout this report is included at Appendix 2.
- 2.2 The primary requirements of the Code are the:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
 - Receipt by the Council of an annual Treasury Management strategy report for the year ahead , a mid term update report and an annual review report of the previous year
 - Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions
 - Treasury Management, in this context, is defined as:

“The management of the local authority’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance or return consistent with those risks.”
- 2.3 The Council has previously received in February 2017 and updated in February 2018 the Treasury Strategy Statement and Investment Strategy and MRP Strategy for 2017/18.
- 2.4 The Prudential Code for Capital Finance in Local Authorities has been developed as a professional code of practice to support local authorities in determining their programmes for capital investment. The Code was updated in 2017. Local authorities are required by Regulation under Part 1 of the Local Government Act 2003 to comply with the Prudential Code.

2.5 The objective of the Code is to provide a framework for local authority capital finance that will ensure for individual local authorities that:

- Capital expenditure plans are affordable
- All borrowing and long term liabilities are within prudent and sustainable levels
- Treasury Management decisions are taken in accordance with professional good practice

2.6 The Code includes a set of Prudential Indicators, which are designed to support and inform local decision-making. The 2017/18 Prudential Indicators are detailed in Appendix 1.

3. Debt Portfolio

3.1 The Council's external borrowing position at the beginning and end of the year was as follows:

	1 April 2017		31 March 2018	
	Principal £'000	Interest Rate %	Principal £'000	Interest Rate %
Long Term Debt				
PWLB - fixed rate	323,085	5.16	354,084	4.95
Money Market (LOBO)	98,000	4.10	98,000	4.10
Welsh Gov			5,500	-
Short Term Debt				
Market	22,000	0.41	-	-
External Bodies	1,553	0.70	951	0.61
Total Debt	444,639	4.89	458,535	4.44

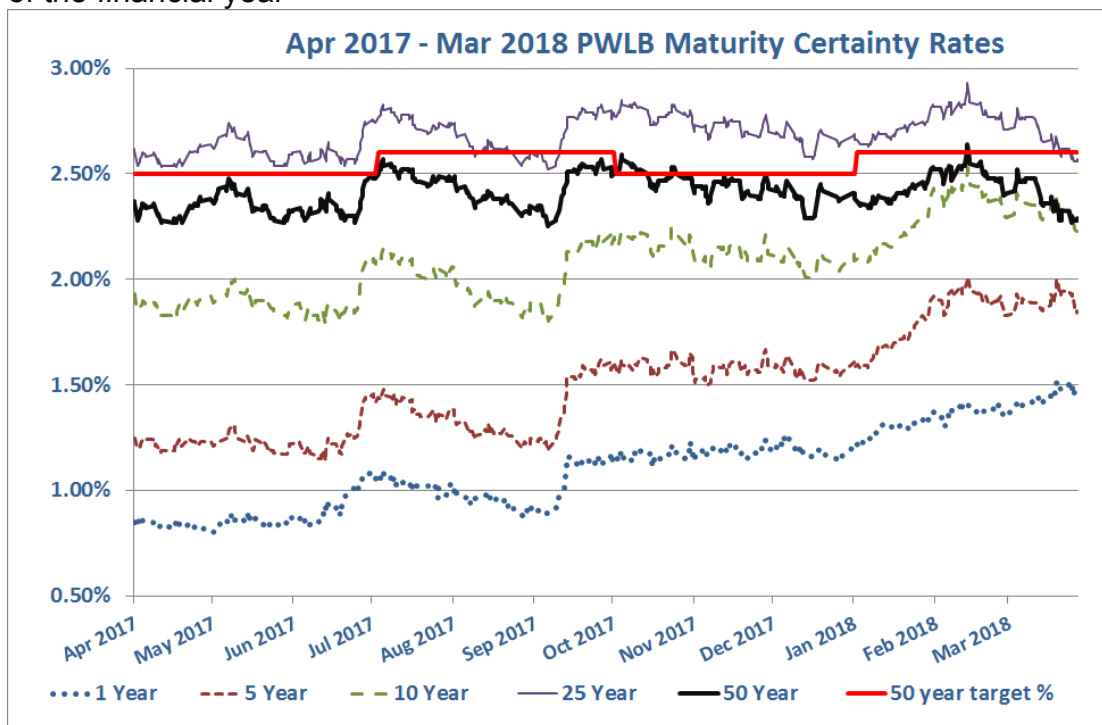
3.2 The average external debt portfolio interest rate was 4.44%.

4. Treasury Strategy 2017/18

- 4.1 The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until quarter 2 2019 and then only increase once more before 31.3.20. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis 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.
- 4.2 In this scenario, the long term treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk, whilst mindful of opportunities to undertake borrowing should they arise and to mitigate any arising risks.
- 4.3 During 2017/18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year.
- 4.4 During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.
- 4.5 Consequently, market expectations during the autumn rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The MPC meeting of 14 September provided a shock to the markets with a sharp increase in tone in the minutes where the MPC considerably hardened their wording in terms of needing to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be a one and done move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years. The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were pessimistically weak while there was little evidence of building pressure on wage increases despite remarkably low unemployment. The MPC forecast that CPI would peak at about 3.1% and chose to look through that breaching of its 2% target as this was a one off result of the devaluation of sterling caused by the result of the EU referendum. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. So this all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years.

- 4.6 As depicted in the graph below, PWLB 25 and 50 year rates have been volatile during the year with little consistent trend. However, shorter rates were on a rising trend during the second half of the year and reached peaks in February / March. During the year, the 50 year PWLB target (certainty) rate for new long term borrowing was 2.55

% in quarters 1 and 3 and 2.60% in quarters 2 and 4. The graphs and tables for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year



- 4.6 In this scenario, the treasury strategy was to postpone strategic borrowing to avoid the cost of holding higher levels of investments and to reduce counterparty risk, whilst being open to tactical and/or risk mitigation borrowing opportunities outlined in 5.2

5. Actual Borrowing 2017/18

- 5.1 The Treasury Management strategy 2017/18 agreed by the Council in February 2017 outlined an unfunded capital financing requirement of £49m in 2017/18
- 5.2 As identified in 4.2 above, the general strategy is to mitigate the 'cost of carry' in the current economic environment, however when opportunities arise to finance the capital finance requirement within target limits, which offer long term value, then they shall be taken. As such, long term borrowing of £40m was undertaken during the year outlined below. The maturity dates of the long term borrowing were selected to complement the existing maturity profile and minimise interest burden. The loans taken out were :

Long Term Borrowing			
Lender- date	Amount	Maturity	Interest Rate
PWLB June 2017	£10m	30 years	2.51%
PWLB Feb 2018	£10m	46 years	2.54%
PWLB Feb 2018	£10m	49 years	2.53%
PWLB Feb 2018	£10m	50 years	2.52%

6. Compliance with Treasury Limits

- 6.1 During the year, the Council operated within the limits set out in the Council's Treasury Management Strategy 2017/18 under the Prudential Code. The outturn for the prudential indicators are shown in Appendix 1.

7. Capital Financing Charges 2017/18

- 7.1 The capital financing charges made to the Council's accounts for 2017/18 including capital repayments net of discounts/premiums and interest receivable are detailed below.

	Actual 2016/17		Actual 2017/18	
	£'000	Net Interest Rate %	£'000	Net Interest Rate %
Housing Revenue A/c	8,918	4.33	9,297	4.24
General Fund	27,051	4.32	28,367	4.21

- 7.2 The net capital financing interest rates charged differ from the average rate of interest for external debt due to the fact that part of the Council's borrowing for capital purposes is funded by the investment of internal reserves and the use of internal balances and the amortisation of historical discounts/premia applied.

8. Investment Strategy for 2017/18

- 8.1 Investment rates for 3 months and longer have been on 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.
- 8.2 Bank Rate was duly raised from 0.25% to 0.50% on 2/11/17 and remained at that level for the rest of the year. However, further increases are expected over the next few years. 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 28/2/18
- 8.3 As a result of the above, a cautious borrowing and investment strategy was implemented in 2017/18. The paramount consideration in making investments was the security of the investment. Given the low interest rates achievable on Council investments, it is a broad adopted principle to internally finance any new capital borrowing requirement. This results in a lower net interest charge to the Council and reduced risk in relation to security of investment without incurring cost of carry (i.e borrowing at a higher rate than is available for investment).
- 8.4 The Council's investment policy is governed by WAG guidance, which was implemented in the annual investment strategy approved by the Council on February 2017. This policy sets out the approach for choosing investment counterparties, and is based on our Treasury Advisors' investment colour matrix based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks,

credit default swaps information, bank share prices etc. New investments were restricted to UK based institutions only, which satisfied these criteria.

9. Actual Investments 2017/18

- 9.1 The Council manages its cashflow and core balance investments internally, having realised its cash balances held with its external cash fund manager previously. These balances were invested on the Money Market via brokers or directly with banks and building societies, other local authorities and the Debt Management Office (DMO) within the criteria set out in 8.4 above. The balances held during the year were as follows:

Balance 1 April 2017	Balance 31 March 2018	Average Value 2016/17	Interest	Rate of Return	Benchmark 7 day LIBID
£'000	£'000	£'000	£'000	%	%
70,751	61,889	75,724	264	0.35	0.20

- 9.2 The interest achieved on internally managed investments was £0.264m or 0.35%. This return outperformed the benchmark seven-day rate by +0.15%.
- 9.3 As a further measure to mitigate and control risk following the financial crisis, the Authority determined to restrict investments to UK domiciled only banks and financial institutions in October 2008 resulting in an even smaller number of available counterparties to invest with. This policy was maintained in light of continued sovereign debt crises throughout Europe. The list of investments as at 31st March 2018 is attached at Appendix 3.

10. Debt Repayment/Rescheduling

- 10.1 Market conditions are constantly monitored for opportunities to repay or reschedule debt in line with good Treasury Management practice. No such opportunities arose in 2017/18.

Prudential Indicators

Capital Prudential Indicators	2016/17	2017/18	2017/18
	Actual	Budget	Actual
	£'000	£'000	£'000
Capital Expenditure			
GF	49,783	60,347	40,379
HRA	51,953	51,886	45,835
TOTAL	101,736	97,543	86,214
Ratio of financing costs to net revenue stream	%	%	%
GF	6.71	6.90	6.75
HRA	13.44	16.44	16.44
Capital Financing Requirement	£'000	£'000	
GF	342,367	357,987	333,490
Credit Arrangements	620	893	1,898
HRA	155,755	153,545	151,068
TOTAL	498,742	512,425	486,456

Treasury Management Prudential Indicators			
	2016/17	2017/18	2017/18
	Actual	Budget	Actual
	£'000 or %	£'000 or %	£'000
Authorised limit for external debt	444,639	615,573	458,535
Operational boundary for external debt	444,639	555,573	458,535
Upper limit for fixed interest rate exposure	77.96%/ £346,640	60%	78.6%/ £360,535
Upper limit for variable interest rate exposure	22.04%/ £98,000	40%	21.4%/ £98,000
Upper limit for total principal sums invested for over 364 days	0	40,000	0

Maturity Structure of Fixed Rate Borrowing in 2017/18			
	Upper Limit	Lower Limit	Actual
Under 12 months	50%	0%	0.1%
12 months and within 24 months	50%	0%	1.1%
24 months and within 5 years	50%	0%	1.8%
5 years and within 10 years	85%	0%	5.9%
10 years and above	95%	15%	91.1%

The Treasury Management Prudential Indicators identified above as:

- Upper limit for fixed interest rate exposure
- Upper limit for variable interest rate exposure
- Upper limit for total principal sums invested for over 364 days
- Maturity Structure of fixed rate borrowing in 2017/18

are shown as at balance sheet date 31st March 2018, however it can be reported that none of the above limits were breached during 2017/18.

Appendix 2

Treasury Management – Glossary of Terms

Annualised Rate of Return	Represents the average return which would have been achieved each year.
Authorised Limit <i>(can also be considered as the affordable borrowing limit)</i>	The authorised limit must be set to establish the outer boundary of the local authority's borrowing based on a realistic assessment of the risks. The authorised limit is certainly not a limit that an authority will expect to borrow up to on a regular basis. It is crucial that it is not treated as an upper limit for borrowing for capital expenditure alone since it must also encompass borrowing for temporary purposes. It is the expected maximum borrowing need, with some headroom for unexpected movement.
Bank Rate	The Official Bank rate paid on commercial bank reserves i.e. reserves placed by commercial banks with the Bank of England as part of the Bank's operations to reduce volatility in short term interest rates in the money markets.
Base Rate	Minimum lending rate of a bank or financial institution in the UK.
Basis Points (bp)	A basis point is 0.01 of 1% (100 bp = 1%)
Borrowing	In the Code, borrowing refers to external borrowing. Borrowing is defined as both:- <ul style="list-style-type: none">• Borrowing repayable with a period in excess of 12months• Borrowing repayable on demand or within 12months
Capital Expenditure	The definition of capital expenditure starts with all those items which can be capitalised in accordance with the Statement of Recommended Practice (SORP). To this must be added any items that have/will be capitalised in accordance with legislation that otherwise would not be capitalised. Prudential indicators for current and future years are calculated in a manner consistent with this definition.

Capital Financing Charges (see financing costs also)	These are the net costs of financing capital i.e. interest and principal, premium less interest received and discounts received.
Capital Financing Requirement	The Capital Financing Requirement is simply the total outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.
CIPFA	The Chartered Institute of Public Finance and Accountancy. One of the leading professional accountancy bodies in the UK and the only one which specialises in the public services.
Counterparty	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
Credit Rating	<p>This is a scoring system that lenders issue people with to determine how credit worthy they are.</p> <p>The Credit Rating components are as follows:</p> <ol style="list-style-type: none"> 1. The AAA ratings through to C/D are long-term rating definitions and generally cover maturities of up to five years, with the emphasis on the ongoing stability of the institution's prospective financial condition. AAA are the most highly rated, C/D are the lowest. This Council does not invest with institutions lower than AA- for investments over 364 days 2. F1/A1/P1 are short-term rating definitions used by Moody's, S&P and Fitch Ratings for banks and building societies based on their individual opinion on an institution's capacity to repay punctually its short-term debt obligations (which do not exceed one year). This Council does not invest with institutions lower than F1/A1/P1 for investments under 364 days.

Debt	For the purposes of the Code, debt refers to the sum of borrowing (see above) and other long-term liabilities (see below). It should be noted that the term borrowing used with the Act includes both borrowing as defined for the balance sheet and other long terms liabilities defined as credit arrangements through legislation.
Discounts	Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.
Financing Costs	<p>The financing costs are an estimate of the aggregate of the following:-</p> <ul style="list-style-type: none"> • Interest payable with respect to borrowing • Interest payable under other long-term liabilities • Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount to be met from government grants and local taxpayers (premiums and discounts) • Interest earned and investment income • Amounts required in respect of the minimum revenue provision plus any additional voluntary contributions plus any other amounts for depreciation/impairment that are charged to the amount to be met from government grants and local taxpayers
Financial Reporting Standards (FRSs)	These are standards set by governing bodies on how the financial statements should look and be presented.
Investments	<p>Investments are the aggregate of:-</p> <ul style="list-style-type: none"> • Long term investments • Short term investments (within current assets)

	<ul style="list-style-type: none"> • Cash and bank balances including overdrawn balances <p>From this should be subtracted any investments that are held clearly and explicitly in the course of the provision of, and for the purposes of, operational services.</p>
IMF	International Monetary Fund
LOBO (Lender's Option/ Borrower's Option)	Money Market instruments that have a fixed initial term (typically one to ten year) and then move to an arrangement whereby the lender can decide at pre-determined intervals to adjust the rate on the loan. At this stage the borrower has the option to repay the loan.
London Inter-Bank Bid Rate (LIBID)	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
Managed Funds	<p><u>In-House Fund Management</u> Surplus cash arising from unused capital receipts can be managed either by external fund managers or by the Council's staff in-house. The in-house funds are invested in fixed deposits through the money markets for periods up to one year.</p> <p><u>Externally Management Funds</u> Fund managers appointed by the Council invest surplus cash arising from unused capital receipts in liquid instruments such as bank certificates of deposit and government stocks. The fund managers' specialist knowledge should ensure a higher rate of earnings on the managed funds than would be otherwise obtained.</p>
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Minimum Revenue Provision (MRP)	The amount required by statute to be principal repayment each year.
Monetary Policy Committee (MPC)	This is a body set up by the Government in 1997 to set the repo rate (commonly referred to as being base rate). Their primary target (as set by the Government) is to keep

	inflation within plus or minus 1% of a central target of 2% in two year time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Money Market	<p>Consists of financial institutions and deals in money and credit.</p> <p>The term applied to the institutions willing to trade in financial instruments. It is not a physical creation, but an electronic/telephone one.</p>
Net Borrowing	For the purposes of the Code, net borrowing refers to borrowing (see above) net of investments (see above).
Net Revenue Stream	Estimates for net revenue stream for current and future years are the local authority's estimates of the amounts to be met from government grants and local taxpayers.
Operational Boundary	This is based on expectations of the maximum external debt of the authority according to probable not simply possible – events and being consistent with the maximum level of external debt projected by the estimates. It is not a limit and actual borrowing could vary around this boundary for short periods.
Other Long Term Liabilities	The definition of other long term liabilities is the sum of the amounts in the Council's accounts that are classified as liabilities that are for periods in excess of 12months, other than borrowing (see definition above).
Premature Repayment of Loans (debt restructuring/rescheduling)	A facility for loans where the Council can repay loans prior to the original maturity date. If the loan repaid has a lower interest rate than the current rate for a loan of the same maturity period the Council can secure a cash discount on the repayment of the original loan. If the loan replaced has a higher rate of interest than the current rate for

	a loan of the same maturity period, a cash penalty is payable to the lender.
Premia	Where the prevailing current interest rate is lower than the fixed rate of a long term loan, which is being repaid early, the lender can charge the borrower a premium. This is calculated on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.
Prudential Code	The Prudential Code is the largely self regulatory framework outlined by CIPFA for managing/monitoring capital investment in local government.
Public Works Loan Board (PWLB)	A Government agency which provides loans to local authorities. Each year, it issues a circular setting out the basis on which loans will be made available. Loans can be either at a fixed rate or on a variable rate basis. They can be repaid on either an annuity, equal instalment of principal or maturity basis. The interest rate charged is linked to the cost at which the Government itself borrows.
Range Trade Accrual	A Callable Range Accrual is so called because it is callable or cancellable by the bank after the initial period, as above. However, where it differs, is that interest accrues only as long as Libor (London Interbank Offer Rate, or another independently derived and published benchmark rate) stays within a pre-agreed range. The lender can choose the range, the non-call period, the Libor they wish to use, the call periods and the potential return they wish to receive.. The bank has the right to cancel this trade after the first 3 months, and every 3 months thereafter. With a range trade, the lender is backing his judgement on interest rate movements and in exchange for that can achieve a significantly enhanced return. This is done as part of portfolio management. The risk of rates going above Libor on a small part of the portfolio (and therefore none, or little payment on a

	<p>range accrual) will be offset by the fact that the rest of the portfolio will be returning more than expected. The key risk to a callable range accrual is obviously that the contractual Libor rate goes outside the specified range. It is possible to mitigate this risk by analysing the historical behaviour of any specified Libor relative to base rate. By taking a view on expected base rate (which is done on all deposits), a lender can minimise exposure, and choose a range to match his risk appetite.</p>
Risk	<p><u>Counterparty Credit Risk</u> The risk that a counterparty defaults on its obligations.</p> <p><u>Inflation Risk</u> The risk that growth in the Authority's investment income does not keep pace with the effects of inflation on its expenditure.</p> <p><u>Interest Rate Risk</u> The risk that changes in rates of interest creates an unexpected or unbudgeted burden on the Council's finances.</p> <p><u>Liquidity Risk</u> The risk that cash will not be available when it is needed.</p> <p><u>Operational Risk</u> The risk of loss through fraud, error, corruption, system failure or other eventualities in Treasury Management dealings, and failure to maintain effective contingency management arrangements.</p> <p><u>Refinancing Risk</u> The risk that the Authority is unable to replace its maturing funding arrangements on appropriate terms.</p>
Set Aside Capital Receipts	<p>A proportion of money received by the Council for the sale of fixed assets must be set aside to repay debt.</p>
SORP	<p>Statement of Recommended Practice, published by CIPFA (Local Authority</p>

	Accounting Body). This sets out guidelines regarding the Council's financial matters.
Specified/Non Specified investments	Specified investments are sterling denominated investments for less than 364 days in line with statutory investment regulations. Non- specified investments are all other investments identified in line with statutory investment regulations.
Supranational Bonds	These are bonds issued by institutions such as the European Investment Bank and World Bank. As with Government bonds (Gilts) they are regarded as the safest bond investments with a high credit rating.
Temporary Borrowing and Investment	Loans which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.
Treasury Management	<p>Treasury Management has the same definition as in CIPFA's code of Practice of Treasury Management in the Public Services.</p> <p>"The management of the organisation's 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."</p>
Yield Curve	The line resulting from portraying interest rate graphically for a series of periods, e.g. 7days, 1month, 3, 6, 9, and 12months. When longer-term interest rates are higher than short-term rates the yield curve slopes upwards and is described as positive. When the opposite prevails the yield curve is referred to as inverse.

Portfolio of Outstanding Investments as at 31 March 2018

	£
Bank of Scotland	24,988,965.80
Birmingham City Council	2,000,000.00
Cornwall Council	5,000,000.00
Dumfries and Galloway Council	3,000,000.00
Eastleigh Borough Council	3,000,000.00
Kingston Upon Hull	2,000,000.00
Leeds City Council	2,000,000.00
London Borough of Sutton	1,500,000.00
Medway Council	2,000,000.00
Santander	11,400,000.00
Torfaen County Borough Council	2,000,000.00
Wakefield Council	3,000,000.00
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Total	61,888,965.80