



## Report of the Section 151 Officer

Council - 26 September 2019

# Treasury Management Annual Report 2018/19

Summary	
<b>Purpose:</b>	This report provides details of the Council's Treasury Management activities during 2018/19 and compares actual performance against the strategy laid down at the start of the year.
<b>Policy Framework:</b>	Treasury Management Policy Statement
<b>Consultation:</b>	Finance, Access to Services and Legal
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<b>Finance Officer:</b>	Ben Smith
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<b>Access to Services Officer</b>	Rhian Millar
<b>For Information</b>	

## 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 There was a projected unfunded capital financing requirement of £127m as at end of 2018/19. Identified borrowing of £90m within target levels was undertaken during the year at an average interest rate of 2.35%

- 2.2 The average interest rate on outstanding Council borrowing was 4.22% in 2018/19 down from 4.44% 2017/18.
- 2.3 Internally Managed investments achieved a return of 0.69%. This represents an outperformance of +0.18% from the average 7 day LIBID benchmark rate of 0.51% returning £850k of investment income
- 2.4 The Council has operated within all of the determined Prudential and 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

### **Background Papers:**

None

### **Appendices:**

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# Treasury Management Annual Report

## 2018/19

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# 1. Executive Summary

- 1.1 There was a projected unfunded capital financing requirement of £127m as at end of 2018/19. Identified borrowing of £90m within target levels was undertaken during the year at an average interest rate of 2.35%
- 1.2 The average interest rate on outstanding Council borrowing was 4.22% in 2018/19 down from 4.44% 2017/18.
- 1.3 Internally Managed investments achieved a return of 0.69%. This represents an outperformance of +0.18% from the average 7 day LIBID benchmark rate of 0.51% returning £850k 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 2018 and updated in February 2019 the Treasury Strategy Statement and Investment Strategy and MRP Strategy for 2018/19 and The Revised MRP Policy approved by Council in Dec 2018.
- 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 2018/19 Prudential & Treasury Management 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 2018		31 March 2019	
	Principal £'000	Interest Rate %	Principal £'000	Interest Rate %
<b>Long Term Debt</b>				
PWLB - fixed rate	354,084	4.95	444,084	4.42
Money Market (LOBO)	98,000	4.10	98,000	4.10
Welsh Gov	5,500	-	10,970	-
<b>Short Term Debt</b>				
Market	-	-	-	-
External Bodies	951	0.61	969	0.56
<b>Total Debt</b>	<b>458,535</b>	<b>4.44</b>	<b>554,023</b>	<b>4.22</b>

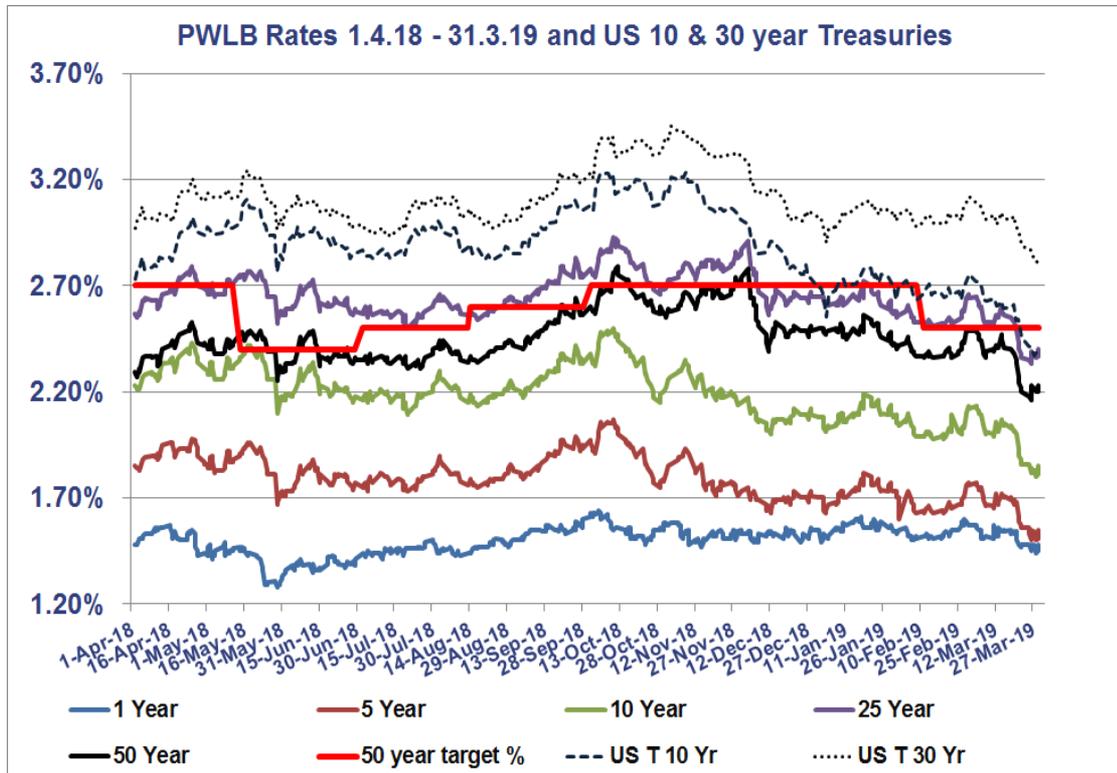
3.2 The average external debt portfolio interest rate was 4.22%. ( 2017/18 4.44%)

## 4. Treasury Strategy 2018/19

- 4.1 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields -which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.
- 4.2 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.
- 4.3 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.
- 4.4 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again. Continued uncertainty in the aftermath of the 2008 financial crisis has 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.
- 4.5 The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years ( eliminating the 'cost of carry' where the interest rates of borrowing are greater than available investment rates). During 2018-19, in light of the planned capital spend in subsequent years, it was determined prudent to materially fund its outstanding capital financing requirement during the year, fixing in some historically low interest PWLB financing for the portfolio during the course of the year.
- 4.6 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy to manage interest rate risks, taking the opportunity to average in the capital financing

requirement as opportunities arose during the year during periods of market volatility/ market sentiment caused by Brexit uncertainty and US Trade war rhetoric.

- 4.7 As depicted in the graph below, PWLB 5,10, 25 and 50 year rates have been volatile during the year with little consistent trend. 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



## 5. Actual Borrowing 2018/19

- 5.1 The Treasury Management strategy 2018/19 agreed by the Council in February 2018 projected an unfunded capital financing requirement of £127m as at end of 2018/19.
- 5.2 As identified in 4.5 above, the general overall strategy is to mitigate the ‘cost of carry’ in the current economic environment, however during 2018/19 it was determined prudent to fully fund the capital financing requirement ahead of planned capital spend in subsequent years, locking in some historically low PWLB long term interest rates which offered long term value. As such, long term borrowing of £90m 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- issue date	Amount	Maturity	Interest Rate
PWLB April 2018	£10m	46 years	2.46%
PWLB April 2018	£10m	49 years	2.45%
PWLB April 2018	£10m	50 years	2.45%
PWLB Oct 2018	£10m	9 years	2.21%

PWLB Oct 2018	£10m	10 years	2.28%
PWLB Dec 2018	£10m	11 years	2.09%
PWLB Dec 2018	£10m	50 years	2.39%
PWLB Feb 2019	£10m	43 years	2.41%
PWLB Feb 2019	£10m	44 years	2.40%
<b>TOTAL</b>	<b>£90m</b>	<b>34.7 years</b>	<b>2.35%</b>

## 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 2018/19 under the Prudential Code. The outturn for the prudential indicators are shown in Appendix 1.

## 7. Capital Financing Charges 2018/19

- 7.1 The capital financing charges made to the Council's accounts for 2018/19 including capital repayments net of discounts/premiums and interest receivable are detailed below.

	Actual 2017/18	Actual 2018/19
	£'000	£'000
Housing Revenue A/c	9,297	9,689
General Fund	28,367	24,756

- 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. The General Fund capital financing charges 2018/19 take into account implementation of the revised Minimum Revenue Provision ( MRP) Policy adopted by Council in Dec 2018.

## 8. Investment Strategy for 2018/19

- 8.1 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the MPC would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.
- 8.2 It was not expected that the MPC would raise Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019.

- 8.3 Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again. Continued uncertainty in the aftermath of the 2008 financial crisis has 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.
- 8.4 The Council's investment policy is also governed by WAG guidance, which was implemented in the annual investment strategy 2018/19 approved by the Council on February 2018. 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 2018/19

- 9.1 The Council manages its cashflow and core balance investments internally, having realised its cash balances held with its external cash fund managers 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 2018	Balance 31 March 2019	Average Value 2018/19	Interest	Rate of Return	Benchmark 7 day LIBID
£'000	£'000	£'000	£'000	%	%
61,889	147,288	123,966	850	0.69	0.51

- 9.2 The interest achieved on internally managed investments was £0.850m or 0.69%. This return outperformed the benchmark seven-day rate by +0.18%.
- 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 31<sup>st</sup> 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. Appraising the current portfolio, no such opportunities arose in 2018/19 which would be economically beneficial to the Authority.

## Prudential &amp; Treasury Management Indicators

Prudential Indicators	2017/18	2018/19	2018/19
	Actual	Budget	Actual
	£'000	£'000	£'000
<b>Capital Expenditure</b>			
GF	40,379	76,785	53,482
HRA	45,835	47,705	43,029
TOTAL	86,214	124,490	96,511
<b>Ratio of financing costs to net revenue stream</b>	%		
GF	6.75	5.9	6.2
HRA	16.44	15.23	14.77
<b>Capital Financing Requirement</b>			
GF	333,490	362,865	340,841
Credit Arrangements	1,898	453	778
HRA	151,068	159,004	151,916
TOTAL	486,456	522,322	493,535

Treasury Management Indicators	2017/18	2018/19	2018/19
	Actual	Budget	Actual
	£'000 or %	£'000 or %	£'000
Authorised limit for external debt	458,535	681,958	554,023
Operational boundary for external debt	458,535	641,958	554,023
Upper limit for fixed interest rate exposure	78.6%/ £360,535	100%/ £681,958	82.32%/ £456,023
Upper limit for variable interest rate exposure	21.4%/ £98,000	40%/ £272,783	17.68%/ £98,000
Upper limit for total principal sums invested for over 364 days	0	40,000	0

<b>Maturity Structure of Fixed Rate Borrowing in 2018/19</b>			
	<b>Upper Limit %</b>	<b>Lower Limit %</b>	<b>Actual %</b>
Under 12 months	60	0	0.7
12 months and within 24 months	60	0	0.5
24 months and within 5 years	60	0	0.1
5 years and within 10 years	90	0	9.7
10 years and above	95	15	89

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 2018/19

are shown as at balance sheet date 31<sup>st</sup> March 2019, however it can be reported that none of the above limits were breached during 2018/19.

## Treasury Management – Glossary of Terms

<b>Annualised Rate of Return</b>	Represents the average return which would have been achieved each year.
<b>Authorised Limit</b> <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.
<b>Bank Rate</b>	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.
<b>Base Rate</b>	Minimum lending rate of a bank or financial institution in the UK.
<b>Basis Points (bp)</b>	A basis point is 0.01 of 1% (100 bp = 1%)
<b>Borrowing</b>	In the Code, borrowing refers to external borrowing. Borrowing is defined as both:- <ul style="list-style-type: none"> <li>• Borrowing repayable with a period in excess of 12months</li> <li>• Borrowing repayable on demand or within 12months</li> </ul>
<b>Capital Expenditure</b>	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.

<b>Capital Financing Charges (see financing costs also)</b>	These are the net costs of financing capital i.e. interest and principal, premium less interest received and discounts received.
<b>Capital Financing Requirement</b>	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.
<b>CIPFA</b>	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.
<b>Counterparty</b>	The organisations responsible for repaying the Council's investment upon maturity and for making interest payments.
<b>Credit Rating</b>	<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"> <li>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</li> <li>2. F1/A1/P1 are short-term rating definitions used by Moody's, S&amp;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.</li> </ol>

<b>Debt</b>	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.
<b>Discounts</b>	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.
<b>Financing Costs</b>	<p>The financing costs are an estimate of the aggregate of the following:-</p> <ul style="list-style-type: none"> <li>• Interest payable with respect to borrowing</li> <li>• Interest payable under other long-term liabilities</li> <li>• 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)</li> <li>• Interest earned and investment income</li> <li>• 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</li> </ul>
<b>Financial Reporting Standards (FRSs)</b>	These are standards set by governing bodies on how the financial statements should look and be presented.
<b>Investments</b>	<p>Investments are the aggregate of:-</p> <ul style="list-style-type: none"> <li>• Long term investments</li> <li>• Short term investments (within current assets)</li> </ul>

	<ul style="list-style-type: none"> <li>• Cash and bank balances including overdrawn balances</li> </ul> <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>
<b>IMF</b>	International Monetary Fund
<b>LOBO (Lender's Option/ Borrower's Option)</b>	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.
<b>London Inter-Bank Bid Rate (LIBID)</b>	The interest rate at which major banks in London are willing to borrow (bid for) funds from each other.
<b>Managed Funds</b>	<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>
<b>Maturity</b>	The date when an investment is repaid or the period covered by a fixed term investment.
<b>Minimum Revenue Provision (MRP)</b>	The amount required by statute to be principal repayment each year.
<b>Monetary Policy Committee (MPC)</b>	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.
<b>Money Market</b>	<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>
<b>Net Borrowing</b>	For the purposes of the Code, net borrowing refers to borrowing (see above) net of investments (see above).
<b>Net Revenue Stream</b>	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.
<b>Operational Boundary</b>	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.
<b>Other Long Term Liabilities</b>	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).
<b>Premature Repayment of Loans (debt restructuring/rescheduling)</b>	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.
<b>Premia</b>	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.
<b>Prudential Code</b>	The Prudential Code is the largely self regulatory framework outlined by CIPFA for managing/monitoring capital investment in local government.
<b>Public Works Loan Board (PWLB)</b>	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.
<b>Range Trade Accrual</b>	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>
<b>Risk</b>	<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>
<b>Set Aside Capital Receipts</b>	<p>A proportion of money received by the Council for the sale of fixed assets must be set aside to repay debt.</p>
<b>SORP</b>	<p>Statement of Recommended Practice, published by CIPFA (Local Authority</p>

	Accounting Body). This sets out guidelines regarding the Council's financial matters.
<b>Specified/Non Specified investments</b>	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.
<b>Supranational Bonds</b>	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.
<b>Temporary Borrowing and Investment</b>	Loans which are capable of being repaid within one year. The term of the loans will be negotiated from overnight to 364 days.
<b>Treasury Management</b>	<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>
<b>Yield Curve</b>	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 Investments 31<sup>st</sup> March 2019

<b>Counterparty</b>	<b>£</b>
Bank of Scotland	24,988,266.27
Santander Bank	10,300,000.00
DMO	17,000,000.00
Blaenau Gwent County Borough Council	3,000,000.00
Blackpool Borough Council	2,000,000.00
Cornwall Council	2,000,000.00
Conwy CBC	9,000,000.00
Coventry Building Society	3,000,000.00
Dumfries & Galloway DC	4,000,000.00
Eastleigh Borough Council	2,000,000.00
Goldman Sachs	14,000,000.00
Gosport Borough Council	3,000,000.00
Leeds City Council	2,000,000.00
London Borough of Enfield	3,000,000.00
London Borough of Newham	3,000,000.00
London Borough of Barking & Dagenham	4,000,000.00
North Lincolnshire Council	4,000,000.00
Reading BC	3,000,000.00
Salford City Council	3,000,000.00
Suffolk County Council	3,000,000.00
Telford & Wrekin Council	5,000,000.00
Thurrock Borough Council	16,000,000.00
Wakefield MBC	5,000,000.00
West Dunbartonshire Council	2,000,000.00
<b>Total</b>	<b>147,288,266.27</b>