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Public - Yes
Key Decision - No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Treasury Management Annual Report 2018/19
Meeting/Date:	Cabinet – 20th June 2019
Executive Portfolio:	Executive Councillor for Resources Councillor J Gray
Report by:	Head of Resources
Ward(s) affected:	All Wards

Executive Summary:

The Council's 2018/19 Treasury Management Strategy, was approved by Council on the 21st February 2018.

CIPFA's Treasury Management code requires Councils to report on performance of the treasury management function twice a year; the first report being the mid-year review (reported to cabinet on the 22nd November 2018) and the annual report after the financial year end.

The main purpose of the Treasury Management Strategy is to:

- Ensure the Council has sufficient cash to meet its day to day obligations.
- Borrow when necessary to fund capital expenditure, including borrowing in anticipation of need when rates are considered to be low.
- Invest surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

The key market Treasury Management issues through 2018/19 influencing the Council's decision-making were:

- A moderate recent improvement in the equity market, falling Gilt rates meaning lower borrowing costs, and falling credit default swap rates (less perceived risk in the financial market).
- A continuation of the Bank of England's policy of very low interest rates, with the result that market rates also remain very low. The Council's average investing rate was 0.75%.

The Council's response to the key issues in 2018/19 was:

- Where the Council has surplus funds to primarily make short term investments (the majority on call on a daily basis) in liquidity accounts and money market funds.

- Where possible to take a higher return without sacrificing liquidity.

- When borrowing the Council has used the Public Works Loan Board (PWLB), which offers low fixed rate borrowing over a long period. The interest rate on loans borrowed ranges from 1.48% to 3.91%.

Recommendation(s):

The Cabinet is recommended to

- Comment on the 2018/19 Treasury Management performance.

1. PURPOSE OF THE REPORT

1.1 To report to members on the performance of the Treasury Management activity over the past financial year.

2. BACKGROUND

2.1 This report covers treasury activity and the associated monitoring and control of risk. The key areas to be addressed includes

- Economic Review
- Performance of Funds
- Risk Environment
- Risk Management
- Compliance with Regulations and Codes

2.2 The key points in the 2018/19 Strategy were:

- Ensuring the Council has sufficient cash to meet its day to day obligations.
- Borrowing when necessary to fund capital expenditure.
- Investing surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

3. ANALYSIS

Economic Review

3.1 An economic review of the year has been provided by our Treasury Management advisors, Arlingclose and is attached with an analysis of the local context implications in **Appendix A**. The main reliance to the Council is

- Interest rates are likely to remain low in the short-term, the last increase by the Bank of England was in August 2018 (to 0.75%)
- The continued low rates mean few opportunities to make significant returns from investments. This requires the Council to use other investing opportunities which the Commercial Investment Strategy provides through property rents and returns from the CCLA Property Fund.
- Inflation was 1.9% (year on year) just above forecast but in line with the Bank of England's forecast.
- Whilst wages growth has been low or negative in recent years, the rate has now risen steadily to 3.4%.

Performance of Council Funds

3.2 The following table summarises the treasury management transactions undertaken during the 2018/19 financial year and the details of the investments and loans held as at 31st March 2019 are shown in detail in **Appendix B**.

Investments and Borrowing	Principal Amount £m	Interest Rate %
Investments		
at 31st March 2018	3.46	0.40
less matured in year	-236.17	
plus arranged in year	+235.63	
at 31st March 2019	2.92	0.75
Average Investments (Annual)	**11.5**	**0.75**
Borrowing		
at 31st March 2018	20.70	2.94
less repaid in year	-0.26	
plus arranged in year	+8.09	
at 31st March 2019	**28.53**	**2.81**
Average Borrowing (Annual)	**24.62**	**2.81**
Note; Interest rates above are as at dated apart from averages, where these are the average for the whole year.		

Investments

3.3 The Council's strategy for 2018/19 was based on all investments being managed in-house. The investments were of three types:

- Time deposits, these are deposits with financial institutions that are of fixed term and mature on an agreed date. In the Council's case usually in 1 to 2 weeks.

- Liquidity (call) accounts, these are accounts held with banks where there is no fixed term and the money can be deposited or withdrawn on the day.

- Money Market Funds, these are funds where investor's deposits are aggregated together and invested across a large range of financial products, giving a high degree of diversification.

3.4 The average rate of interest on all investments was 3.40%, 2.89% above the 7 day LIBID (London Interbank Bid Rate) benchmark rate of 0.51%, this represents a return of over six times the bench-mark rate. This good performance was due to interest received from loans borrowed to other organisations which interest rates were higher than rates available on Money Market Funds. The use of liquidity accounts with major banks and Money Market Funds gave the added safety of instant access together with interest rates in excess of the benchmark.

3.5 When only short-term cash flow investment activity is considered, the rate of interest on investments was 0.75%, which is around 47% higher than the 7-day benchmark rate of 0.51%. In addition, dividend received on CCLA

Property Fund investment for 2018/19 was £167,820 on shareholding of 1,292,970 units.

Borrowing

3.6 The Council's exposure to interest rate risk at the end of the year was:

- £28.53m long term borrowing from the PWLB, at a weighted average rate of 2.81%.
- Short term borrowing at 31 March 2019 was nil.

3.7 The actual net investment interest payable (after deduction of interest receivable on loans) was £342,499 against a budget of £565,000. This is a saving of £222,501 against the original budget. This is due to delays in capital, CIS and revenue expenditure resulting in higher than estimated average cash balances which have been invested

3.8 Short-term borrowing at 31 March 2019 was nil as the Council held sufficient cash balances to meet its obligations.

Risk Environment

3.9 The changes to the environment in which investing takes place are detailed in **Appendix C** the main points to note are;

- Credit Default Swap rates fell in 2019 after rising slightly in 2018. This indicates that the market feels there has been a moderate reduction in credit risk.

- Gilt yields for a 5 year period fell to 0.8%, with a consequent effect on PWLB rates (reduced)

Risk Management

3.10 The Council's primary objectives for the management of its investments are to give priority to the **security** and **liquidity** (how quickly cash can be accessed) of its funds before seeking the best rate of **return**.

3.11 The Council manages security by investing short-term with highly-rated banks and building societies, as well as investing with local authorities in the UK which are deemed to be intrinsically safe, apart from Northamptonshire County Council.

3.12 In addition to this the Council makes significant use of a number of Money Market Funds, where a large numbers of investors' funds, including the Council's, are aggregated and spread across a wide range of investments. The Council is therefore able to access a spread of investments across a number of funds not available if it were to invest on its own.

3.13 In order to manage liquidity the Council invests funds in call accounts or Money Market Funds, which provide instant access to funds.

3.14 The Council's priority has been security and liquidity, over the return on investments, which resulted in investments during 2018/19 generally being of short duration (the majority on call). The result of low interest rates across the market is that the margin gained from the benefit of investing for longer period does not out-weigh the potential costs of failure of the investment.

Compliance with Regulations and Codes

3.15 All the treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, and relevant MHCLG legislation.

3.16 The Code requires the Council to approve both Treasury Management and Prudential Indicators. Those for 2018/19 were approved at the Council meeting on 21st February 2018. **Appendix D** shows the relevant prudential indicators and the actual results, the table below is a summary of key indicators.

Prudential Management Indicators			
	2018/19 Estimate	**2018/19 Actual**	**Impact on the Council**
Net capital expenditure	£21.1m	£16.1m	Expenditure less than estimated as a result of rephasing asset schemes (£2.7m) and underspends (£0.7m). Overspends totalled £0.5m including DFGs at £0.3m. In addition the CIS was underspent by £2.1m on the original £30m.
Expenditure on interest and MRP (Minimum Revenue Provision)	23.1%	12.1%	As a result of underspends in 2017/18 the MRP is lower than estimated for 2018/19.
Capital Financing Requirement (CFR)	£69.4m	£57.7m	The CFR is lower due to reduced expenditure detailed above.
	31/03/18	**31/03/19**	
Long-term borrowing total	£15.9m	£28.5m	Borrowing has increased due to two loans borrowed in March 2019 of which £0.8m was lent on to Huntingdon Town Council and a loan of £7.3m, was used for the purchase of Rowley Centre at St Neots.
Treasury Management Indicators			
	2018/19 Limit	**2018/19 Actual**	
Authorised Limit for debt	£123m	£34.20m	The Council's debt has increased as a result of loans to finance the purchase of the Rowley Centre in St Neots and to fund a loan to Huntingdon Town Council but this is still within the approved limits
Operational boundary for debt	£118m	£34.20m	

Borrowing fixed and variable interest	75%-100%	100%	All borrowing has been undertaken at a fixed rate to avoid the risk of interest rate increases in the future.
Borrowing repayment profile (10 years)	20%-100%	86%	The loan repayment profile has shortened from last year as Urban & Civic have started paying interest quarterly.
Investments longer than 364 days	£68m	£0	Only short-term or instant access investments used.

4. COMMENTS OF OVERVIEW & SCRUTINY PANEL

4.1 The Overview and Scrutiny Panel (Performance and Growth) received the Treasury Management Annual Report 2018/19 at its meeting on the 4th June 2019.

4.2 A Member questioned the risk of the loan made to Luminus, however it was explained that the loan had been transferred to Places for People and that they are paying off the loan with no issues. In addition the loan is secured against property assets in the event of a default.

4.3 Referencing the Commercial Investment Strategy part of the report, a Member was concerned that there was no information of the capital appreciation or depreciation, and the relationship of this to the income streams. In response, the Panel was informed that, if viable, a performance indicator would be added to future reports to meet this request.

5. RISKS

5.1 The risks arising from treasury management activities are highlighted in the report and are measured by reference to the prudential indicators in **Appendix D**.

6. WHAT ACTIONS WILL BE TAKEN

6.1 Treasury management activities will continue to be monitored, in order to mitigate security and liquidity risks.

7. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND / OR CORPORATE OBJECTIVES

7.1 Treasury management activity is a corporate function of the Council and supports the corporate vision in relation to aspirations for People and Place.

7.2 In addition, over the last year the Council's treasury function directly contributed to the "Place – provide new community facilities" strategic theme (Corporate Plan 2018-2022) in that it provided loan finance to support an external partner (Places for People) to fund the construction of the Langley Court Extra Care Facility in St. Ives. In addition loans were provided to Cambridge Regional College to improve facilities (People – Skilled Workforce theme), Urban and Civic to fund the Incubator Unit (Place – Business Growth theme) and

Huntingdon Town Council to finance a new community centre (Place – Community Facilities).

8. CONSULTATION

8.1 No consultation was required or has taken place.

9. LEGAL IMPLICATIONS

9.1 No direct, legal implications arise out of this report

10. RESOURCE IMPLICATIONS

10.1 The resource implications relating to the net interested due to the council is explained in paragraph 3.7.

11. OTHER IMPLICATIONS

11.1 No other implications have been considered.

12. REASONS FOR RECOMMENDED DECISIONS

12.1 The reason for the recommended decision is discussed in section 3 Analysis.

13. LIST OF APPENDICES INCLUDED

Appendix A – Economic review (Source: Arlingclose)
Appendix B – Borrowing and Investments as at 31st March 2019
Appendix C – Risk Environment 2018-19
Appendix D – CIPFA Prudential Indicators
Appendix E – Commercial Investment Strategy Indicators

BACKGROUND PAPERS

Working papers in Resources; including investment and borrowing records, capital programme outturn, prudential indicator calculations.
CIPFA Treasury Management Code of Practice

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APPENDIX A

Economic Review of 2018/19	
Economic Growth	**Local Context**
After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend.	The rate of growth suggests that Council services that are based on consumer demand, may experience a slow-down in demand.
Inflation	**Local Context**
UK Consumer Price Inflation (CPI) for March 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report.	Increases in inflationary pressure will be felt across service budgets, potentially requiring some adjustments to service provision. Although the rate is still historically low. In the short-term inflation may fall due to lower retail prices.
Labour Market	**Local Context**
The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.	With employment at a record high, recruiting is likely to become more difficult for the Council, as the number of potential candidates is likely to reduce. In addition wage levels continue to rise steadily, and so whilst general inflation remains low, there is potential for increased pressure to increase the Council's pay by greater percentage than in recent years.
UK Monetary Policy	
Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.	The increase to 0.75% has pushed up investing rates on investments the Council can access to an average 0.75%.
EU Exit	
The original EU exit day of 29th March 2019, was not achieved. Having failed to pass a number of meaningful votes in Parliament, including rejection of the deal negotiated by the PM for the third time, MPs voted by a majority of one to force the PM to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs have not produced a way forward. The	The uncertainty that results from the delayed exit will potentially feed into the reduced growth forecasts, and cause increased volatility of interest rates as markets react to progress on the deal.

EU have made it clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.	
Global Influences	**Local Context**
The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March. Globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering from downturns in manufacturing alongside continued domestic unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence	Whilst the Council is insulated to some extent from global fluctuations, the possible impact of trades wars on inflation could make the goods that the council purchases more expensive, particularly those with a significant input from outside the EU, e.g. IT equipment.
Source of Data: Arlingclose Ltd	

APPENDIX B

BORROWING AND INVESTMENTS AT 31 MARCH 2019

	Short-term Rating		Date Invested/ Borrowed	Amount		Interest Rate	Year of Maturity
	Fitch	Moody's		£m	£m		
Borrowing							
Short-term							
NIL				0	**0**		
Long-term							
PWLB 1			19/12/08	5.000		3.91%	2057/58
PWLB 2			19/12/08	5.000		3.90%	2058/59
PWLB 3			07/08/13	0.716		2.24%	2023/24
PWLB 4			25/11/15	0.706		3.28%	2046/47
PWLB 5			19/01/16	0.939		3.10%	2046/47
PWLB 6			21/03/16	0.469		2.91%	2046/47
PWLB 7			29/04/16	0.380		3.10%	2047/48
PWLB 8			02/06/16	0.308		2.92%	2047/48
PWLB 9			29/07/16	0.613		2.31%	2047/48
PWLB 10			23/09/16	0.471		2.18%	2047/48
PWLB 11			06/01/17	0.838		2.67%	2047/48
PWLB 12			03/10/17	5.000		2.78%	02/10/37
PWLB 13			11/03/19	7.292		2.49%	11/03/39
PWLB 14			25/03/19	0.800		1.48%	11/03/22
Total Borrowing					**28.532**		
Investments							
NatWest Current	F2	P2		0.000		0.00%	On-call
NatWest Liquidity	F2	P2		0.735		0.20%	On-call
Santander	F1	P1		0.385		0.80%	On-call
Handelsbanken	F1	P1		0.025		0.15%	On-call
Debt Management Office				1.000		0.50%	On-call
Barclays	F1	P1		0.011		0.30%	On-call
Blackrock	AAAmmf			0.125		0.74%	MMF
CCLA (PSDF)	AAAmmf			0.360		0.79%	MMF
Federated	AAAmmf			0.160		0.79%	MMF
Insight	AAAmmf			0.025		0.77%	MMF
Legal and General	AAAmmf			0.025		0.75%	MMF
Aberdeen Liquidity Fund	AAAmmf			0.025		0.74%	MMF
Invesco	AAAmmf			0.025		0.78%	MMF
Total Investments					**2.901**		
Loans							
Huntingdon Regional College	Not rated			0.737		3.34%	2023/24
Huntingdon Gym	Not rated			0.034		5.13%	2023/24
Luminus - **No. of Loans (8)**	Not rated			4.822		4.33% **(Average)**	2047/48
Total Loans					**5.593**		
Total Investments					**8.494**		
Net Borrowing					**20.038**		

Definition of Credit Ratings

Fitch	Rating	Definition
Short term	**F1**	Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added “+” to denote any exceptionally strong credit feature.
	F2	Good rated intrinsic capacity for timely payment of financial commitments.
	F3	Fair rated intrinsic capacity for timely payment of financial commitments.
Long-term	**AAA**	Highest credit quality organisations, reliable and stable. 'AAA' ratings denote the **lowest expectation of default risk.** They are assigned only in cases of exceptionally strong capacity for payment of financial commitments.
	AA	Very high credit quality. 'AA' ratings denote **expectations of very low default risk.** They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
	AA-	
	A	High credit quality. ‘A’ ratings denote e**xpectations of low default risk**. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
	A-	
	BBB	Good credit quality. BBB ratings indicate **expectations of low default risk**. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
Notes The modifiers “+” or “-“may be appended to a rating to denote relative status within major rating categories.		

APPENDIX C

Risk Environment 2018/19	
Credit Background	**Local Context**
Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ring-fenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ring-fenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ring-fenced and non-ring-fenced from a CDS perspective, traded between 33 and 79bps at the end of the period. The ring-fencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ring-fenced) and investment banking (non-ring-fenced) entities.	The Council receives monthly updates from its advisors on changes to credit ratings. Whilst the Council maintains deposits on a short-term or available on an instant basis the risk is reduced from failures, as the Council will be able to withdraw funds as soon as there is an indication of a credit problem. The CDS spreads declining indicates that the financial market feels that the overall credit risk (of failure) has reduced.
Equities	**Local Context**
December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.	Whilst the Council is not directly investing in equities, the upturn on the FTSE 100 is likely to have a positive impact on the financial returns available on investments and economic growth. As long as the FTSE growth continues into the medium term.
Gilt Yields	**Local Context**
Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were	Gilt yield are used by HM Treasury to set PWLB lending rates. While the Gilt rates remain low, borrowing for the CIS or the general capital programme will remain affordable.

similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.	
Global Credit Background	
Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.	Indicators for the economy (inflation, wages, growth) are reasonable. Indicators for the credit environment (interest rates, CDS, Gilt Rates) are stable. But any change in the global economy as a result of the risk and shifts indicated could have a significant impact on the UK credit and economic environment which seems to be finely poised.

APPENDIX D

CIPFA Prudential Indicators for Capital Finance in Local Authorities
Prudential Indications and Treasury Management Indications for 2018/19
Comparison of actual results with limits

PRUDENTIAL MANAGEMENT INDICATORS

1. Actual and Estimated Capital Expenditure.

	2018/19 Estimate £m	2018/19 Actual £m
Asset and Loans		
Gross	**10.7**	**8.5**
Net	**7.4**	**4.5**
Commercial Investment Strategy (CIS)		
Gross	**13.7**	**11.6**
Net	**13.7**	**11.6**
Net Total	**21.1**	**16.1**

2. The proportion of the budget financed from government grants and council tax that is spent on interest and the provision for debt repayment.

2018/19 Estimate	2018/19 Actual
23.1%	**12.1%**

3. The impact of schemes with capital expenditure on the level of council tax.

		2018/19 Estimate	2018/19 Actual
Capital Programme	**Variation**	£2.61	(£2.90)
	Cumulative	£2.61	£4.05
CIS	**Variation**	(£0.33)	(£0.00)
	Cumulative	(£0.33)	(£0.00)

4. The capital financing requirement.

This represents the estimated need for the Authority to borrow to finance capital expenditure less the estimated provision for redemption of debt (the MRP).

	2018/19 Estimate £m	2018/19 Actual £m
Assets and Loans	43.8	42.7
CIS	24.5	15.0
Total	**68.3**	**57.7**

5. Net borrowing and the capital financing requirement.

Net external borrowing as at the 31st March 2019, was £28.5m; this is £29.2m less than the capital financing requirement. Thereby confirming that the council has not borrowed for revenue purposes other than in the short-term for cash flow purposes.

6. The actual external long-term borrowing at 31 March 2019

£28.532m

7. Adoption of the CIPFA Code

The Council has adopted the 2017 edition of the CIPFA Treasury Management Code of Practice.

TREASURY MANAGEMENT INDICATORS

8. The authorised limit for external debt.

This is the maximum limit for borrowing and is based on a worst-case scenario.

	2018/19 Limit £m	**2018/19 Actual £m**
Short-Term	26.0	5.0
Long Term	45.0	10.0
Other long-term liabilities (leases)	7.0	0.5
Total	**78.0**	**15.5**
Long-term for loans to organisations	**15.0**	**6.4**
Plus long term borrowings to finance for CIS investment.	**30**	**12.3**
Total	**123.0**	**34.2**

9. The operational boundary for external debt.

This reflects a less extreme position. Although the figure can be exceeded without further approval, it represents an early warning monitoring device to ensure that the authorised limit (above) is not exceeded.

	2018/19 Limit £m	**2018/19 Actual £m**
Short-Term	21.0	5.0
Long Term	45.0	10.0
Other long-term liabilities (leases)	7.0	0.5
Total	**73.0**	**15.5**
Long-term for loans to organisations	**15.0**	**6.4**
Plus long term borrowings to finance for CIS investment.	**30**	**12.3**
Total	**118.0**	**34.2**

Both of these actual results reflect the fact that long term rates were not considered low enough to borrow in anticipation of need

10. Exposure to investments with fixed interest and variable interest.

These limits are given as a percentage of total investments. Investments of less than 12 months count as variable rate.

		Limits		**Actual**
		Max.	**Min.**	**As at 31.3.19**
Borrowing:				
longer than 1 year	Fixed	100%	75%	100%
	Variable	25%	0%	0%
Investments:				
longer than 1 year	Fixed	100%	100%	Nil
	Variable	0%	0%	Nil

11. Borrowing Repayment Profile

The proportion of 2018/19 borrowing that matured in successive periods.

Borrowing	Upper limit	Lower limit	Actual As at 31.3.19
Under 12 months	79%	0%	0%
12 months and within 24 months	79%	0%	0%
24 months and within 5 years	79%	0%	14.3%
5 years and within 10 years	80%	0%	0%
10 years and above	100%	20%	85.7%

12. Investment Repayment Profile

Limit on the value of investments that cannot be redeemed within 364 days.

	Limit £m	Actual £m
Limit on principal invested beyond year end (31 March 2018)	68.2	0

APPENDIX E

Commercial Investment Strategy Indicators

The Treasury Management Strategy for 2018/19 includes three indicators specific to the Commercial Investment Strategy (CIS);

13. Interest cover ratio

This ratio determines the amount of total net income from property investments after operating costs and any applicable taxes, compared with the interest expense of the debt. Interest payments for the St Neots Leisure Centre loan start in 2019/20, hence we are unable to determine its interest cover ratio until that time.

14. Target income returns

The targeted returns of the property portfolio is 6%, all property purchases are exceeding this target. With the highest being Stonehill at 9.2% and lowest being Little End Road at 6.6%.

15. Loan to value ratio

This ratio determines the amount of total debt compared to the total value of the underlying property asset. Fareham and St Neots Leisure Park are currently the only CIS assets where a PWLB loan was partly used to acquire it.

	Purchase Cost £000	Income £000	Interest Cover Ratio	Return on Purchase Cost %	Loan to Value %
				Para. 14	**Para. 15**
2015-16 Purchases					
CCLA Property Shares	2,500	(112)	n/a	4.5	n/a
Unit 3 Stonehill, Huntingdon	1,358	(125)	n/a	9.2	n/a
2016-17 Purchases					
CCLA Property Shares	1,500	(68)	n/a	4.5	n/a
Wilbury Way, Hitchin	2,313	(175)	n/a	7.6	n/a
Shawlands Retail Park, Sudbury	6,890	(483)	n/a	7.0	n/a
2017-18 Purchases					
1400 & 1500 Parkway, Fareham	5,747	(420)	3.0	7.3	92.2
2018-19 Purchases					
Little End Road, St Neots	3,254	(215)	n/a	6.6	n/a
St Neots Leisure Park	7,926	(547)	n/a	6.9	92.0
Note: The income shown is full year this may not be the actual rent received in the first year of purchase, where the Council has only held the asset for a part year. CCLA Property Share income is assumed at 4.5% yield					