Appendix C- Treasury Management

Borrowing

As at 31 March 2018, the Council's total borrowing was £301.7M. Of this amount, £262.0M was with the Public Works Loan Board (PWLB), £26.1M was short-term temporary debt from other local authorities and £13.6M was market debt from banks. The table below also shows the split between the General Fund and HRA.

	PWLB Fixed £M	PWLB Variable £M	Temporary Debt £M	Market (LOBO) £M	Total £M
General Fund	97.0	0.1	26.1	13.6	136.8
HRA	120.0	44.9	0.0	0.0	164.9
TOTAL	**217.0**	**45.0**	**26.1**	**13.6**	**301.7**

To manage interest rate risk, the Council's debt is split between 71.9% fixed rate PWLB debt, 14.9% variable rate PWLB debt, 8.7% short-term temporary debt and 4.5% fixed rate market (LOBO) debt; this is shown in A1 on the Treasury Management Performance Dashboard.

Based on the latest available annual benchmark analysis conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA), A2 of the Dashboard shows that the Council's cost of borrowing is significantly lower than the 4.06% average annual interest rate paid by other local authorities. The average annual interest rate paid by the Council was 2.57% as at 31 March 2017, which is mainly due to a comparatively higher proportion of variable rate and short-term temporary debt.

In line with the Council's borrowing strategy, new short-term temporary borrowing was taken out during Quarter 4 at a cost of between 0.30% p.a. and 0.85% p.a. (inclusive of brokerage fees).

Investments

When investing, the Council prioritises security and liquidity and aims to achieve a yield commensurate with these principles. To diversify its investment portfolio, the Council continues to invest in a range of funds such as notice accounts, call accounts and Money Market Funds (MMFs) as well as using a number of different financial institutions. B1 of the Dashboard shows the breakdown by investment counterparty as at 31 March 2018. It should be noted that as cash investments are maintained at minimal levels for operational purposes, the £5.5M long-term investment in the UK commercial property-based Lime Fund now represents a higher proportion of total investments even though the cash amount invested in it has not changed.

The latest available CIPFA Treasury Management benchmarking results are as at 31 December 2017. B2 of the Dashboard shows that the Council's average rate of return on investments was 1.6% which was higher than the benchmarked local authority average of 0.7% – this was due to the relatively high investment return on the Lime Fund (inclusive of capital appreciation).

In addition to the Lime Fund investment, the Council has cash deposits placed on varying interest rates ranging between 0.2% and 0.8%. The Council holds a majority of its investments in liquid form so that it's available for cash flow purposes. As at 31 March 2018, the Council held cash investments of £9.9M (exclusive of the £5.5M Lime Fund investment). Of the total cash investment balance, £5.4M was held in liquid form in instant access call accounts and MMFs; and the remaining £4.5M was held in notice accounts.

Cash Management

The average cash balance the Council holds is considerably lower than other benchmarked local authorities. The latest available 12-month rolling average investment balance as at the 31 December 2017 for the Council was £29.3M compared to a benchmark average of £131.8M. The rolling average cash balance between April and March 2018 was £21.6M, excluding the £5.5M Lime Fund investment holding. This reflects the Council's long-standing strategy of holding low cash balances to reduce investment counterparty risk and contain borrowing costs by utilising internal cash balances in lieu of external borrowing to fund capital expenditure.

Outlook

The first estimate of Q1 Gross Domestic Product (GDP) showed the UK economy expanded by 0.1% over the quarter and 1.2% year-on-year. The annual Consumer Price Index (CPI) measure of inflation decreased to 2.5% as at the end of March 2018 (down from 3.0% in December 2017). CPI inflation is projected to continue to fall back, reaching the Bank of England's Monetary Policy Committee (MPC) 2.0% target in two years. The labour market saw the unemployment rate for the three months to 31 March 2018 fall to 4.2% from the previous quarter, down from 4.6% a year earlier and lowest since 1975. The employment rate was 75.6%, up from 74.8% a year earlier and the highest since comparable records began in 1971.

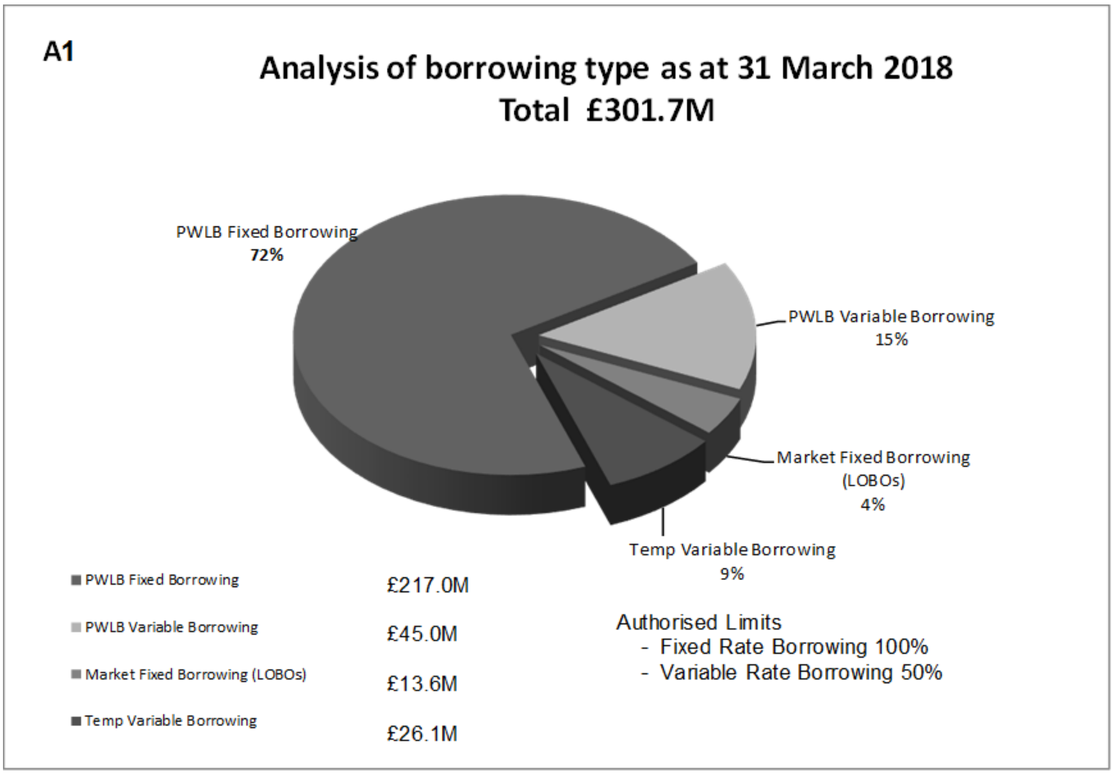
The Bank of England's MPC sets monetary policy to meet the 2.0% inflation target, and help sustain growth and employment. At its meeting ending on 9 May 2018, the MPC voted by a majority of 7-2 to maintain the Base Rate at 0.50%.

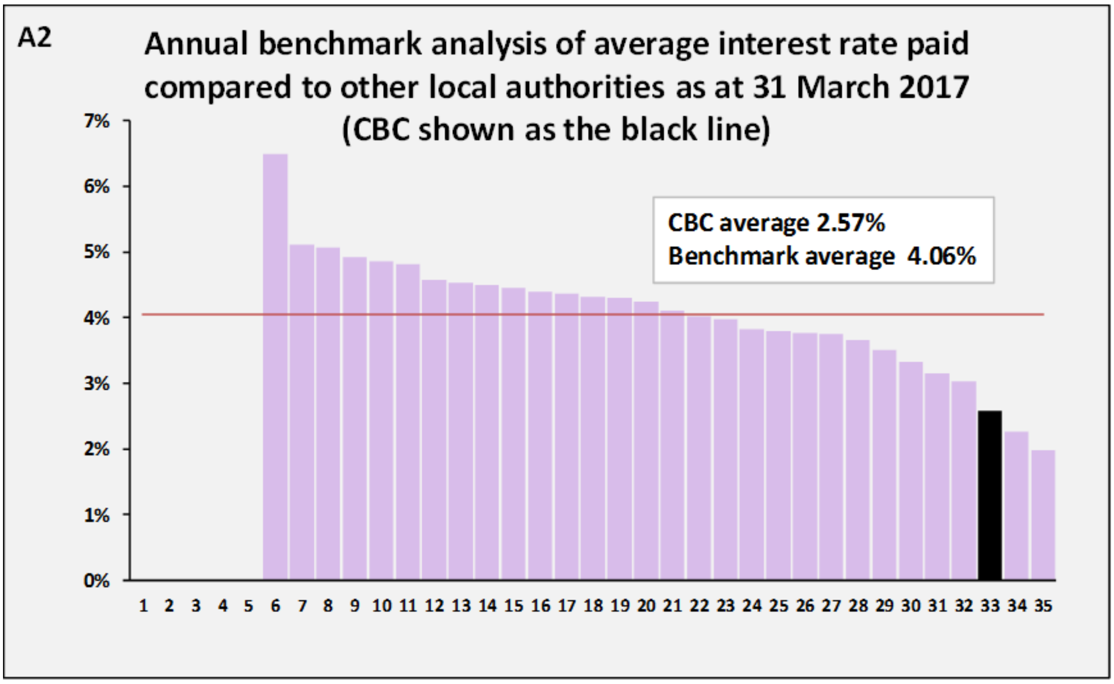
The Council has continued to source its new borrowing requirements from local authorities and other public sector bodies such as Police and Crime Commissioners on a short-term temporary basis. The low market interest rates for temporary debt offer revenue cost savings relative to borrowing on a long-term basis from the PWLB. This borrowing strategy assumes that interest rates will continue to remain at historically low levels for the medium term.

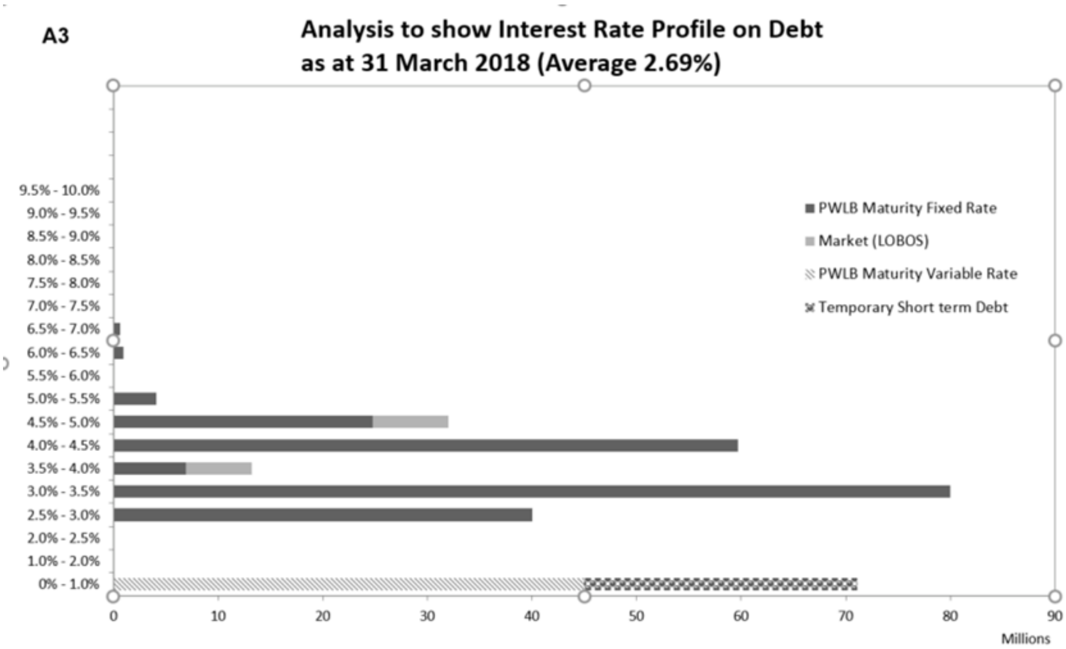
However, the Council advised by Arlingclose will continue to monitor long-term rates with a view to fixing a portion of any borrowing requirement if rates available are viewed as favourable.

Appendices: Appendix – Treasury Management Performance Dashboard

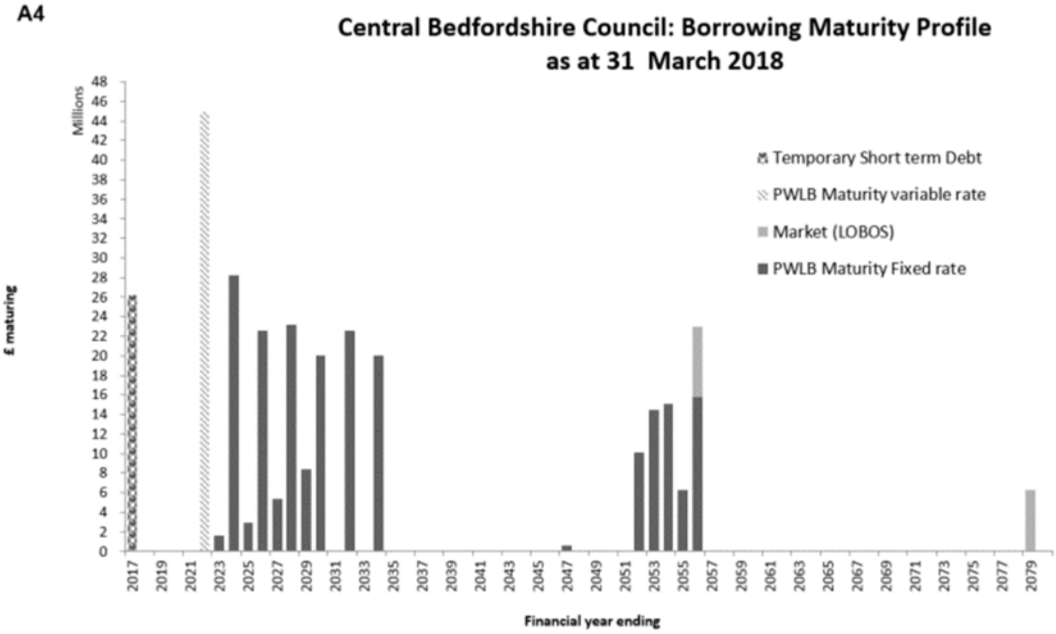
Section A : Debt Information




A2
Annual benchmark analysis of average interest rate paid compared to other local authorities as at 31 March 2017
(CBC shown as the black line)
CBC average 2.57%
Benchmark average 4.06%
7%
6%
5%
4%
3%
2%
1%
0%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34 35


A3
Analysis to show Interest Rate Profile on Debt
as at 31 March 2018 (Average 2.69%)
PWLB Maturity Fixed Rate
Market (LOBOS)
PWLB Maturity Variable Rate
Temporary Short term Debt
9.5% - 10.0%
9.0% - 9.5%
8.5% - 9.0%
8.0% - 8.5%
7.5% - 8.0%
7.0% - 7.5%
6.5% - 7.0%
6.0% - 6.5%
5.5% - 6.0%
5.0% - 5.5%
4.5% - 5.0%
4.0% - 4.5%
3.5% - 4.0%
3.0% - 3.5%
2.5% - 3.0%
2.0% - 2.5%
1.0% - 2.0%
0% - 1.0%
0 10 20 30 40 50 60 70 80 90
Millions

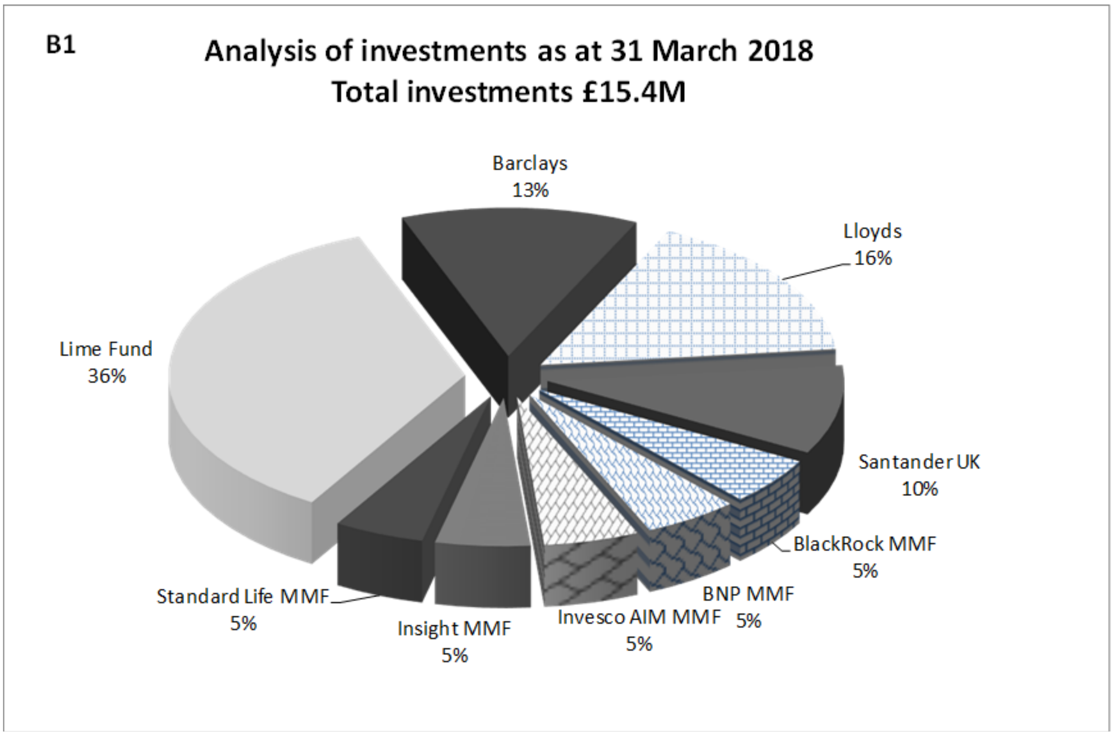
A4

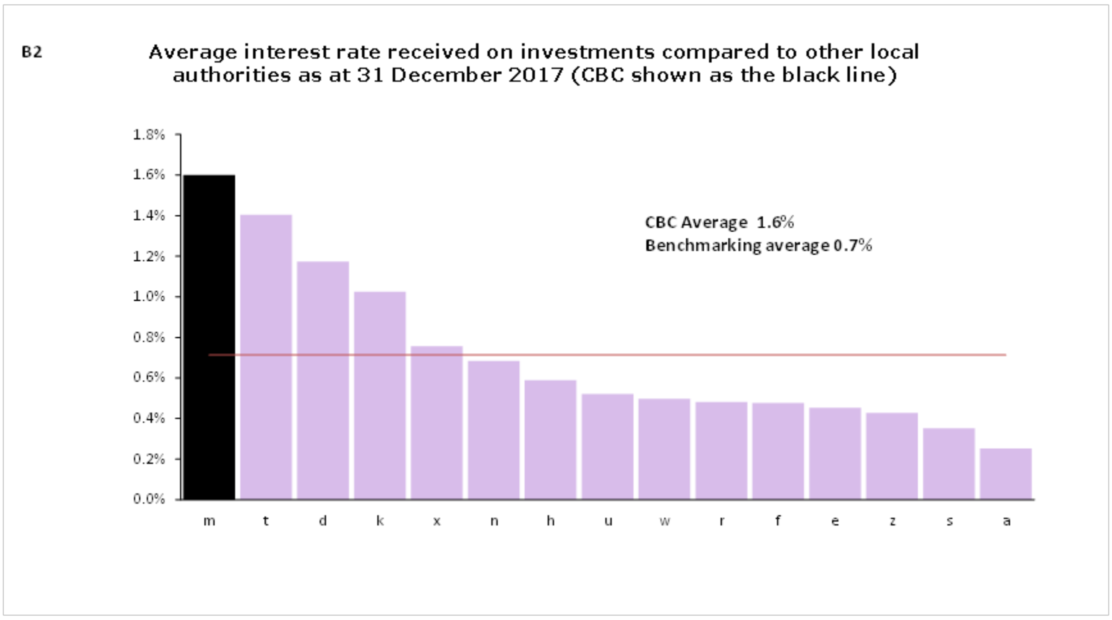


LOBO assumption : the loans are not called prior to maturity

Section B: Investment Information

B1




B2
Average interest rate received on investments compared to other local authorities as at 31 December 2017 (CBC shown as the black line)
1.8%
1.6%
1.4%
1.2%
1.0%
0.8%
0.6%
0.4%
0.2%
0.0%
CBC Average 1.6%
Benchmarking average 0.7%
m t d k x n h u w r f e z s a