Council	Agenda Item No. 11
Meeting Date	21 February 2018
Report Title	Treasury Management Strategy 2018/19
Cabinet Member	Cllr. Duncan Dewar-Whalley, Cabinet Member for Finance & Performance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Nick Vickers, Chief Financial Officer
Lead Officer	Olga Cole, Management Accountant
Key Decision	Yes
Classification	Open
Recommendations	1. To approve the Treasury Strategy 2018/19 and the Prudential and Treasury Management Indicators.

1. Purpose of Report and Executive Summary

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services and the Prudential Code require the Council to approve a Treasury Strategy and Prudential Indicators before the start of each financial year.

1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has defined Treasury Management as: "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

1.3 In addition, the Department for Communities and Local Government (DCLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

1.4 This report sets out and seeks approval of the proposed Treasury Management Strategy and Prudential and Treasury Management Indicators for 2018/19.

1.5 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DCLG Guidance. Should the assumptions upon which this report is based change significantly, then a revised Treasury Strategy will be submitted for approval.

1.6 Just before Christmas CIPFA published new editions of Treasury Management in the Public Sector Code of Practice and the Prudential Code for Capital Finance in Local Authorities. Publication at the point where budget and treasury strategies are well advanced is far from helpful. The timing may reflect the disquiet reported at local authorities making significant commercial property investments. The concerns have focused upon local authorities investing outside their geographical area and doing so solely for commercial gain. Based upon our examination of the new requirements there is nothing that this Council is not already complying with.

2. Background

Interest rate Forecast and Market Outlook

2.1 The key issue impacting on treasury management is that we remain in a very low interest rate environment despite the Bank of England increasing the base rate to 0.5% in November 2017. Inflation has risen to 3%, driven by the devaluation of sterling but the impact of this will come out of the index in 2018. The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. Arlingclose's forecast is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although if the UK Government's fiscal stance deteriorates this would place upward pressure on rates. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix I.

2.2 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ring fence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council - returns from cash deposits however remain very low.

Borrowing Strategy

2.3 In March 2016 Council agreed to a borrowing facility of up to £30m subject to individual business cases and in November and December Cabinet agreed a business case for borrowing up to £28m for Sittingbourne Town Centre (STC) regeneration. This facility was extended to £60m in February 2017 with any additional borrowing being subject to business cases to Cabinet.

2.4 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. With short- term interest rates currently lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short- term loans instead of borrowing at fixed rates for long periods. The Council may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

2.5 The Council has already started to pay significant costs for the STC retail development, highways works and accrued costs for the regeneration development. To date these have all been funded from internal borrowing.

Arlingclose are commissioned to develop a model to underpin the longer term borrowing strategy.

2.6 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body;
- any institution approved for investments;
- UK Local Authorities;
- any other bank or building society authorised to operate in the UK;
- UK public and private sector pension funds (except the Kent Pension Fund);
- capital market bond investors.

Investment Strategy

2.7 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £28m and £48m with an average of £38m.

2.8 In considering investing in assets there are two overriding principles to be applied:

- Minimising the cost to the revenue budget - given the continued reductions in local government financing there is no scope within the revenue budget to meet debt charge costs. If the Council incurred debt charge costs then, unless the investment generated sufficient income to cover these costs, the Council may have to reduce services to fund the costs. In the case of the Sittingbourne Town Centre investment all the capital financing costs will be funded from rental income; and
- Strategic impact - if the Council is going to invest in property it needs to support wider Council objectives around regeneration of the borough and creating new employment. This means there needs to be additionality in terms of the wider economic benefits e.g. higher business rates.

2.9 The Council uses a cash flow forecast to determine the maximum period for which funds may prudently be committed and which aims to minimise the risk of borrowing on unfavourable terms to meet its financial commitments.

2.10 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

2.11 The Council has had a risk averse investment strategy focussing on deposits with major financial institutions and Money Market Funds. The main diversification has been an investment of £3m in the CCLA Property Fund.

2.12 The Council could make use of the following asset classes:

Government	Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
Banks Unsecured	Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.
Banks Secured	Covered bonds and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
Corporates	Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail- in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.
Non treasury investments	The Council is a significant owner of assets in the borough and will, where there are opportunities, invest either to generate an income stream or for a capital gain.
Registered Providers	Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.
Pooled Funds	Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

2.13 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

2.14 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

2.15 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

2.16 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will, therefore, be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

2.17 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

2.18 The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or

- a body or investment scheme of “high credit quality”.

2.19 The Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

2.20 Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

3. Proposal

3.1 The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m
Svenska Handelsbanken unsecured deposits	£3m
Leeds Building Society unsecured deposits	£1.5m
Close Brothers unsecured deposits	£1.5m
Major overseas banks unsecured deposits (to be determined based upon Arlingclose advice) Netherlands: Bank Nederlande Gemeeten, Rabobank Singapore: OCBC, UOB, DBS Sweden: Nordea Bank Denmark: Danske Bank USA: JP Morgan Chase Australia: Australian and New Zealand Banking Group, Commonwealth Bank of Australia, National Australian Bank Ltd, Westpac Banking Corp Canada: Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank	£1.5m limit per bank, £3m country limit
Money Market Funds	£3m each
Cash Plus Funds and Short Dated Bond Funds	£3m each
Multi Asset Income Funds	£3m each
CCLA LAMIT Local Authority Property Fund	£3m
Supranational Bonds	£3m in aggregate

Corporate Bond Funds and Corporate Bonds	£3m in aggregate
Non treasury investments	To be agreed on a case by case basis
Covered Bonds	£9m in aggregate with £3m limit per bank
Absolute return funds	£3m in aggregate
Equity income funds	£3m in aggregate

3.2 The Council may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses and landlords, or as equity investments and loans to the Council's subsidiaries.

3.3 The Council does not directly invest in financial derivatives although these may be present in pooled funds and will be managed in line with the overall treasury strategy.

3.4 Local authorities are due to adopt the new International Financial Reporting Standard (IFRS) 9 accounting standard for financial instruments in 2018/19 and the financial implications will be reviewed once CIPFA has published its guidance at a later date.

3.5 Currently the maximum duration for unsecured term deposits is 13 months. The Chief Financial Officer in consultation with the Cabinet Member for Finance and Performance may consider longer duration depending on market conditions. For bonds, the maximum duration will be five years including, where applicable, the 5-year benchmark bond which may at the point of issue have a maturity a few months in excess of five years.

Treasury Adviser

3.6 The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. Officers meet with Arlingclose on a quarterly basis, receive information daily and attend relevant training courses.

4. Alternative Options

4.1 The strategy is intended to give flexibility with regard to borrowing and investment options.

5. Consultation Undertaken or Proposed

5.1 Consultation has been taken with Arlingclose.

6. Implications

Issue	Implications
Corporate Plan	Good management of the Council's cash balances assists the overall financial position of the Council and this helps meet its objective to be a Council to be proud of.
Financial, Resource and Property	The budget for investment income in 2018/19 is £110,000, based on an average investment portfolio of £24m at an interest rate of 0.46%. Arlingclose are commissioned to develop a model to underpin the longer term borrowing strategy and the financial implications will be reported during 2018/19.
Legal and Statutory	Ministry of Housing, Communities and Local Government and CIPFA requirements complied with.
Crime and Disorder	Not applicable
Sustainability	Not applicable
Health and Wellbeing	Not applicable
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice and Cross-Sectoral Guidance Notes. The principle of security of funds over-rides investment performance considerations.
Equality and Diversity	Not applicable

7. Appendices

7.1 The following appendices are published with this report and form part of the report.

- Appendix I Arlingclose Interest Rate Forecast
- Appendix II Prudential and Treasury Management Indicators

8. Background Papers

None

Arlingclose Interest Rate Forecast

- The Monetary Policy Committee (MPC) have changed their rhetoric, implying a rise in Bank Rate in the near future. Arlingclose are not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.
- This decision is still very data dependent and Arlingclose are now maintaining their central case for Bank Rate at 0.25% whilst introducing near-term upside risks to their forecasts.
- The Arlingclose central case is for gilt yields and therefore long-term interest rates to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.44**
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.30	0.30	0.30	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.53**
Arlingclose Central Case	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	-0.10	-0.10	-0.15	-0.10	-0.10	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	-0.20	**-0.17**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.65	0.65	**0.32**
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.60	0.70	0.70	0.70	0.70	0.70	0.70	0.60	0.60	0.62
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.10	-0.10	**-0.25**
5-yr gilt yield														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	**0.55**
Arlingclose Central Case	0.55	0.55	0.60	0.60	0.60	0.65	0.70	0.75	0.80	0.85	0.90	0.95	0.95	0.73
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	**0.55**
Arlingclose Central Case	1.05	1.05	1.05	1.05	1.05	1.10	1.15	1.20	1.25	1.30	1.35	1.40	1.40	1.18
Downside risk	-0.20	-0.35	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15	-0.15	**-0.24**
20-yr gilt yield														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.70	0.70	**0.57**
Arlingclose Central Case	1.60	1.60	1.60	1.60	1.60	1.65	1.70	1.75	1.80	1.85	1.90	1.95	1.95	1.73
Downside risk	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	**-0.34**
50-yr gilt yield														
Upside risk	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.85	0.85	**0.60**
Arlingclose Central Case	1.50	1.50	1.50	1.50	1.50	1.55	1.60	1.65	1.70	1.75	1.80	1.85	1.85	1.63
Downside risk	-0.30	-0.30	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.50	-0.50	**-0.37**

Prudential and Treasury Management Indicators

Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

1. Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term net debt will only be for a capital purpose, the local authority should ensure that the net debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

Gross Debt and the Capital Financing Requirement	2017/18 Revised £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Gross CFR	13,069	41,572	41,444	40,299
Less: Other Long Term Liabilities	(200)	(41)	(24)	(19)
Borrowing CFR	**12,869**	**41,531**	**41,420**	**40,280**
Less: External Borrowing	0	(26,522)	(26,522)	(26,522)
Cumulative Maximum External Borrowing Requirement	**12,869**	**15,009**	**14,898**	**13,758**

2. Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. (See Capital Programme in 2018/19 Budget Report)

Capital Expenditure and Financing	2017/18 Revised £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Total Expenditure	**11,835**	**33,717**	**2,937**	**2,018**
Capital receipts	516	0	0	0
Grants	3,647	1,765	1,765	1,765
Revenue contributions	389	118	58	228
Internally borrow	7,283	5,312	1,114	25
Externally borrow	0	26,522	0	0
Total Financing	**11,835**	**33,717**	**2,937**	**2,018**

Prudential and Treasury Management Indicators

3. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
Total	**2.88**	**7.01**	**6.63**	**5.66**

4. Incremental Impact of Capital Investment Decision

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact on Council Tax is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
Increase/(Decrease) in Band D Council tax	**13.82**	**(0.42)**	**(0.09)**

5. Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	2017/18 Revised £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Total CFR	**13,069**	**41,572**	**41,444**	**40,299**

6. Authorised Limit for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e., long and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indictor separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	**2017/18 Revised £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**	**2019/20 Estimate £'000**
Borrowing	60,000	60,000	60,000	60,000
Other Long-term Liabilities	2,000	2,000	2,000	2,000
Total	**62,000**	**62,000**	**62,000**	**62,000**

7. Operational Boundary for External Debt

The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease and other liabilities that are not borrowing.

Operational Boundary	**2016/17 Revised £'000**	**2017/18 Estimate £'000**	**2018/19 Estimate £'000**	**2019/20 Estimate £'000**
Borrowing	55,000	55,000	55,000	55,000
Other Long-term Liabilities	200	41	24	19
Total	**55,200**	**55,041**	**55,024**	**55,019**

8. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted the principles of best practice.

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* on 22 February 2012.

Just before Christmas CIPFA published new editions of Treasury Management in the Public Sector Code of Practice and the Prudential Code for Capital Finance in Local Authorities and the intention is to adopt them during 2018/19.

9. Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. The upper limits

Prudential and Treasury Management Indicators

on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

Upper Limit	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Interest on fixed rate borrowing	100%	100%	100%
Interest on fixed rate investments	-100%	-100%	-100%
Upper Limit for Fixed Interest Rate	**0%**	**0%**	**0%**
Interest on variable rate borrowing	100%	100%	100%
Interest on variable rate investments	-100%	-100%	-100%
Upper Limit on Variable Interest Rate Exposure	**0%**	**0%**	**0%**

10. Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Maturity Structure of Borrowing	**Lower Limit for 2018/19 %**	**Upper Limit for 2018/19 %**
Under 12 months	0	100
12 months and within 24 months	0	100
24 months and within 5 years	0	100
5 years and within 10 years	0	100
10 years and above	0	100

11. Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**
Limit on principal invested longer than 364 days	10,000	10,000	10,000