Division(s): N/A

COUNCIL – 12 DECEMBER 2017

TREASURY MANAGEMENT MID-TERM REVIEW 2017/18

Report by Chief Finance Officer

Introduction

1. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management (Revised) 2011 recommends that members are informed of Treasury Management activities at least twice a year. This report ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

2. The following annexes are attached

Annex 1	Lending List Changes
Annex 2	Debt Financing 2017/18
Annex 3	PWLB Debt Maturing
Annex 4	Prudential Indicator Monitoring
Annex 5	Arlingclose Quarter 2 Benchmarking
Annex 6	Amended Treasury Management Strategy Statement and Annual Investment Strategy 2017/18 – Appendix C

Strategy 2017/18

3. The approved Treasury Management Strategy for 2017/18 was based on an average base rate forecast of 0.25%.

4. The Strategy for borrowing provided an option to fund new or replacement borrowing up to the value of 25% of the portfolio through internal borrowing.

5. The Strategy included the continued use of pooled fund vehicles with variable net asset value.

External Context – Provided by Arlingclose

6. **Economic backdrop:** Commodity prices fluctuated since the 1st April 2017 with oil falling below $45 a barrel before inching back up to $58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

7. The unemployment rate fell to 4.3%, it's lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP

growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of 2017.

8. The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June 2017 highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at the September 2017 meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose is 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.

9. In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced confirmed that it would be starting a reversal of its vast Quantitative Easing programme and reduce the $4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by $10bn a month.

10. Geopolitical tensions escalated in August 2017 as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly $1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen.

11. Prime Minister Theresa May called an unscheduled General Election in June 2017, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

12. In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

13. **Financial markets:** Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June 2017, but then rose to 0.80% by the end of September 2017. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

14. The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September 2017. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September 2017.

Treasury Management Activity

Debt Financing

15. Oxfordshire County Council's debt financing to date for 2017/18 is analysed in Annex 2.

16. The Council's cumulative total external debt has decreased from £385.38m on 1 April 2017 to £379.38m by 30 September 2017, a net decrease of £6m. No new debt financing has been arranged during the year. The total forecast external debt as at 31 March 2018, after repayment of loans maturing during the year, is £367.38m. The forecast debt financing position for 31 March 2018 is shown in Annex 2.

17. At 30 September 2017, the authority had 62 PWLB[1] loans totalling £329.38m, 9 LOBO[2] loans totalling £45m and 1 long-term fixed Money Market loan totalling £5m[3]. The combined weighted average interest rate for external debt as at 30 September 2017 was 4.48%.

Maturing Debt

18. The Council repaid £6m of maturing PWLB loans during the first half of the year. The details are set out in Annex 3.

Debt Restructuring

19. The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt restructuring activity. No PWLB debt restructuring activity was undertaken during the first half of the year. Opportunities to restructure debt remain under regular review.

LOBOs

20. At the beginning of the financial year the Authority held £45m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £25m of these LOBOs had options

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[1] PWLB (Public Works Loans Board) is a Government agency operating within the United Kingdom Debt Management Office and is responsible for lending money to Local Authorities.
[2] LOBO (Lender's Option/Borrower's Option) Loans are long-term loans which include a re-pricing option for the bank at predetermined intervals.
[3] In June 2016, the Councils LOBO with Barclays PLC was converted to a fixed rate loan at its current interest rate of 3.95% to mature on the 29th May 2065 with Barclays waiving their right to change the interest rate on the loan in the future.

during 2017/18, to the 30 September 2017 none had been exercised by the lender. The Authority acknowledges there is an element of refinancing risk associated with LOBOs although in the current interest rate environment lenders are unlikely to exercise their options.

Investment Strategy

21. The Authority holds deposits and invested funds representing income received in advance of expenditure plus balances and reserves. The guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council continued to adopt a cautious approach to lending to financial institutions and continuously monitored credit quality information relating to counterparties.

22. During the first half of the financial year short term fixed deposits of up to 12 months have been placed with banks and building societies on the approved lending list and Money Market Funds have been utilised for short-term liquidity. Opportunities to place longer-term deposits have been limited.

23. The Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18 included the use of external fund managers and pooled funds to diversify the investment portfolio through the use of different investment instruments, investment in different markets, and exposure to a range of counterparties. It is expected that these funds should outperform the Council's in-house investment performance over a rolling three year period. The strategy permitted up to 50% of the total portfolio to be invested with external fund managers and pooled funds (excluding Money Market Funds). The performance of the pooled funds will continue to be monitored by the Treasury Management Strategy Team (TMST) throughout the year against respective benchmarks and the in-house portfolio.

24. The Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18 permits the use of covered bonds with a minimum issue rating of A-. The maximum maturity period for in house investments and investments held by fund managers is 3 and 10 years respectively.

25. Covered bonds are conventional bonds (fixed or floating) that are backed by a separate group of loans, usually prime residential mortgages. The issue is over collateralised, meaning that the underlying pool of assets is often greater than the principal amount of the issued security. This lowers the creditor's exposure to default risk meaning covered bonds are usually rated AAA, higher than the rating given to the issuer.

26. Covered Bonds offer an alternative to traditional, unsecured investments and provide a higher level of protection in the form of bail-in exemption, dual recourse and over collateralisation. The additional security means that investors receive a relatively lower return compared to an unsecured deposit. However, the high credit quality of covered bonds means that a longer duration can be taken with counterparties where maturities would usually be limited.

27. Due to the high level of protection provided, it is recommended that the minimum issue rating for covered bonds be increased to AAA rating and the maximum maturity period lengthened to 20 years. These changes require an amendment to Appendix C of the

Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18, an updated version of the appendix can be view in Annex 6 of this paper.

The Council's Lending List

28. The Council's in-house cash balances were deposited with institutions that meet the Council's approved credit rating criteria. The approved Lending List is updated to reflect changes in counterparty credit quality with changes reported to Cabinet on a bi-monthly basis. Annex 1 shows the amendments incorporated into the Lending List during the first half of 2017/18, in accordance with the approved credit rating criteria.

29. There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3. The agency downgraded long-term ratings of the major Canadian banks on the expectation of a more challenging operating environment and the ratings of the large Australian banks on its view of the rising risks from their exposure to the Australian housing market and the elevated proportion of lending to residential property investors.

30. S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.

31. The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

32. In the six months to 30 September 2017 there were no instances of breaches in policy in relation to the Council's Lending List. Any breaches in policy will be reported to Cabinet as part of the bi-monthly Business Strategy and Financial Monitoring report.

Investment Performance

33. Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18.

34. The average daily balance of temporary surplus cash invested in-house in the six months to 30 September was £361m. The Council achieved an average in-house return for that period of 0.65%, above the budgeted rate of 0.55% set in the strategy. This has produced gross interest receivable of £1.172m for the period to 30 September.

35. Temporary surplus cash includes; developer contributions; council reserves and balances; trust fund balances; and various other funds to which the Council pays interest at each financial year end, based on the average three month London Interbank Bid (LIBID) rate.

36. The Council uses the three month inter-bank sterling bid rate as its benchmark to measure its own in-house investment performance. During the first half of 2017/18 the average three month inter-bank sterling rate was 0.18%. The Council's average in-house return of 0.65% exceeded the benchmark by 0.47%. The Council operates a number of call accounts and instant access Money Market Funds to deposit short-term cash surpluses. The average balance held on overnight deposit in money market funds or call accounts in the 6 months to 30 September was £70.8m.

37. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. Arlingclose currently forecast the bank rate to remain at 0.25%, but with near term upside risk. The Monetary Policy Committee will next meet on the 2nd November 2017 and an update on its outcome will be provided at Audit & Governance Committee. The Council remains unconvinced that the UKs economic outlook justifies a rate increase at this stage but does recognise a change in MPC rhetoric to imply a rise in the "coming months". Short-term money market rates have remained at relatively low levels. Gilt yields are forecast to remain broadly stable across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

External Fund Managers and Pooled Funds

38. The Council continued to use pooled funds with variable net asset value. Weighted by value pooled fund investments produced an overall annualised return of 3.8% for the period. These investments are held with a long-term view and performance is assessed accordingly.

39. Gross distributions from pooled funds have totalled £0.46m in the first six months of the year. This brings total income, including gross interest receivable on in-house deposits to £1.63m for the period.

Prudential Indicators for Treasury Management

40. The Authority confirms compliance with its Prudential Indicators for 2017/18, which were set as part of the Authority's Treasury Management Strategy Statement. The position as at 30 September 2017 for the Prudential Indicators is shown in Annex 4.

External Performance Indicators and Statistics

41. The County Council is a member of the CIPFA Treasury and Debt Management benchmarking club and receives annual reports comparing returns and interest payable against other authorities. The benchmarking results for 2016/17 showed that Oxfordshire County Council had achieved an average total investment return of 0.90% compared with an average of 0.85% for the all member group.

42. The average interest rate paid for all debt during 2016/17 was 4.45%, with an average of 4.06% for the comparative all member group. It should be noted that all of Oxfordshire County Council's debt is long-term, whereas the averages for the comparators include short-term debt which has a lower interest rate and so reduces the averages. Oxfordshire County Council had a higher than average proportion of its debt portfolio in PWLB loans at 87% compared to 72% for the all member group. Oxfordshire County Council had 12% of its debt in LOBO loans as at 31 March 2017 compared with an average of 14% for the comparative group.

43. Arlingclose also benchmark the Council's investment performance against its other clients on a quarterly basis. The results of the quarter 2 benchmarking to 30 September 2017 are shown in Annex 5.

44. The benchmarking results show that the Council was achieving higher than average interest on deposits at 30 September 2017, when compared with a group of 138 other local authorities. This has been achieved by placing deposits over a longer than average duration with institutions that are of higher than average credit quality.

45. Oxfordshire had a higher than average allocation to fixed and local authority deposits when compared with other local authorities in the benchmarking exercise. Oxfordshire also had a notably lower than average exposure to money market funds and call accounts.

Training

46. Individuals within the Treasury Management Team continue to keep up to date with the latest developments and attend external workshops and conferences where relevant.

Financial and Legal Implications

47. Interest payable and receivable in relation to Treasury Management activities are included within the overall Strategic Measures budget. In house interest receivable for 2017/18 is currently forecast as £1.750m, exceeding the budgeted figure of £1.250m by £0.500m. Of the forecast £1.750m interest receivable, £1.172m had been realised as at the 30 September 2017. The increased interest received is due to the achievement of higher than forecast average interest rates. For example, an additional £0.060m has been generated by entering into a Revolving Credit Facility with a Registered Provider which was not factored into the 2017/18 budget.

48. Dividends payable from external funds in 2017/18 are forecast as £0.900m, £0.300m above the 2017/18 budget of £0.600m. This increase is due to higher than anticipated performance by the CCLA Property Fund.

49. Interest payable is currently forecast to be in line with the budgeted figure of £17.6m.

Regulatory Updates

50. **MiFID II:** Local authorities are currently treated by regulated financial services firms as professional clients who can “opt down” to be treated as retail clients instead. But from January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can “opt up” to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks; brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year’s relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

51. The main additional protection for retail clients is a duty on the firm to ensure that the investment is “suitable” for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

52. The Council meets the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status. However, the regulatory changes are creating significant administrative work as the Council is required to provide evidence to meet each financial institutions individual requirements to allow them to complete their assessment that the new requirements for “opting up” to elective professional client status have been met.

53. **CIPFA Consultation on Prudential and Treasury Management Code**s: In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August. The Council submitted responses to both consultations on the 29 September 2017.

54. The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

55. Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is

the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.

56. CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its Minimum Revenue Position guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

RECOMMENDATION

57. **Council is RECOMMENDED to approve the revision to the Treasury Management Strategy Statement & Annual Investment Strategy 2017/18.**

LORNA BAXTER
Director of Finance

Contact officer: Joseph Turner – Financial Manager – Treasury
Contact number: 07392 318984

November 2017

Annex 1

Lending List Changes from 1 April 2017 to 30 September 2017

Counterparty	Lending Limit	Maximum Maturity
Counterparties added/reinstated		
Nordea Bank AB	**£25,000,000**	13 months
Australia and NZ Banking Group	**£25,000,000**	6 months
Counterparties suspended		
None		
Lending limits & Maturity limits increased		
DBS Bank (Development Bank of Singapore	**£25,000,000**	**13 months**
United Overseas Bank	**£25,000,000**	**13 months**
Oversea Chinese-Banking Corp	**£25,000,000**	**13 months**
Close Brothers Ltd	**£15,000,000**	**6 months**
Lending limits & Maturity limits decreased		
None		

Pension Fund Lending list changes

The Oxfordshire Pension Fund cash balances are held separately from County Council cash and are deposited in accordance with the Cash Management Strategy approved by the Pension Fund Committee. The Strategy for 2017/18 is to use a sub-set of the Councils approved counterparties. There have so far been no changes to Pension Fund lending list in 2017/18.

Annex 2

OXFORDSHIRE COUNTY COUNCIL DEBT FINANCING 2017/18

Debt Profile		£m
1. PWLB	87%	335.38
2. Other Long Term Loans	13%	50.00
3. Sub-total External Debt		385.38
4. Internal Balances		-15.64
5. Actual Debt at 31 March 2017	**100%**	**369.74**
6. Government Supported Borrowing		0.00
7. Unsupported Borrowing		31.00
8. Borrowing in Advance		0.00
9. Minimum Revenue Provision		-8.44
10. Forecast Debt at 31 March 2018		**392.30**
Maturing Debt		
11. PWLB loans maturing during the year		18.00
12. PWLB loans repaid prematurely in the course of debt restructuring		0.00
13. Total Maturing Debt		**-18.00**
New External Borrowing		
14. PWLB Normal		0.00
15. PWLB loans raised in the course of debt restructuring		0.00
16. Money Market LOBO loans		0.00
17. Total New External Borrowing		**0.00**
Debt Profile Year End		
18. PWLB	86%	317.38
19. Money Market loans (incl £45m LOBOs)	14%	50.00
20. Forecast Sub-total External Debt		367.38
21. Forecast Internal Balances		24.92
22. Forecast Debt at 31 March 2018	**100%**	**392.30**

Line

1 – 5 This is a breakdown of the Council's debt at the beginning of the financial year (1 April 2017). The PWLB is a government agency operating within the Debt Management Office. LOBO (Lender's Option/ Borrower's Option) loans are long-term loans, with a maturity of up to 60 years, which includes a re-pricing option for the bank at predetermined time intervals. Internal balances include provisions, reserves, revenue balances, capital receipts unapplied, and excess of creditors over debtors.

6 'Government Supported Borrowing' is the amount that the Council can borrow in any one year to finance the capital programme. This is determined by Central Government, and in theory supported through the Revenue Support Grant (RSG) system.

7 'Unsupported Borrowing' reflects Prudential Borrowing taken by the authority whereby the associated borrowing costs are met by savings in the revenue budget.

8 'Borrowing in Advance' is the amount the Council borrowed in advance to fund future capital finance costs.

9 The amount of debt to be repaid from revenue. The sum to be repaid annually is laid down in the Local Government and Housing Act 1989, which stipulates that the repayments must equate to at least 4% of the debt outstanding at 1 April each year.

10 The Council's forecast total debt by the end of the financial year, after taking into account new borrowing, debt repayment and movement in funding by internal balances.

11 The Council's normal maturing PWLB debt.

12 PWLB debt repaid early during the year.

13 Total debt repayable during the year.

14 The normal PWLB borrowing undertaken by the Council during 2017/18.

15 New PWLB loans to replace debt repaid early.

16 The Money Market borrowing undertaken by the Council during 2017/18

17 The total external borrowing undertaken.

18-22 The Council's forecast debt profile at the end of the year.

Annex 3

Long-Term Debt Maturing 2017/18

Public Works Loan Board: Loans Matured during first half of 2017/18

Date	Amount £m	Rate %
13/07/2017	0.500	2.35%
31/07/2017	0.500	2.35%
20/09/2017	5.000	7.88%
Total	**6.000**	

Public Works Loan Board: Loans Due to Mature during second half of 2017/18

Date	Amount £m	Rate %
31/10/2017	6.000	5.00%
13/01/2018	0.500	2.35%
31/01/2018	0.500	2.35%
02/03/2018	5.000	8.13%
Total	**12.000**	

Annex 4

Prudential Indicators Monitoring at 30 September 2017

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. To demonstrate that the Authority has fulfilled the requirements of the Prudential Code the following indicators must be set and monitored each year.

Authorised and Operational Limit for External Debt

Actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt below. The Operational Boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The council confirms that the Operational Boundary has not been breached during 2017/18.

The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. The Authority confirms that the Authorised limit was not breached in the first half of 2017/18.

Authorised limit for External Debt	£455,000,000
Operational Limit for External Debt	£450,000,000
Capital Financing Requirement for year	£406,386,000

	Actual 30/09/2017	**Forecast 31/03/2018**
Borrowing	£379,382,618	£367,382,618
Other Long-Term Liabilities	£ 30,000,000	£ 30,000,000
Total	**£409,382,618**	**£397,382,618**

Interest Rate Exposures

These indicators are set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest exposures. Fixed rate investments are borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Fixed Interest Rate Exposure	
Fixed Interest Net Borrowing limit	£350,000,000
Actual at 30 September 2017	£124,382,618
Variable Interest Rate Exposure	
Variable Interest Net Borrowing limit	£0
Actual at 30 September 2017	-£116,914,945

Principal Sums Invested over 365 days

Total sums invested for more than 364 days limit	£ 85,000,000
Actual sums invested for more than 364 days	£ 58,000,000

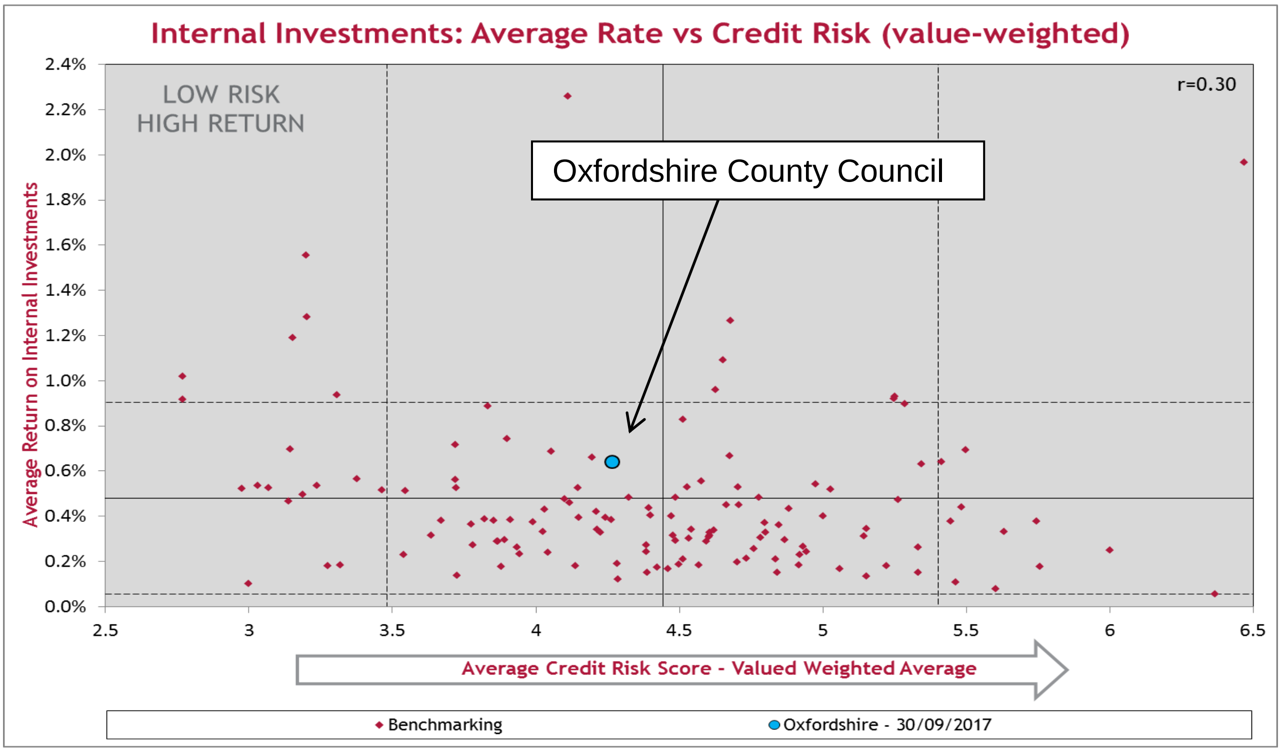
Maturity Structure of Borrowing

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 and the actual structure at 30 September 2017, are shown below. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

	Limit %	**Actual %**
Under 12 months	0 - 20	9.75
12 – 24 months	0 - 25	7.64
24 months – 5 years	0 - 35	11.86
5 years to 10 years	5 - 40	14.76
10 years +	50 - 95	55.99

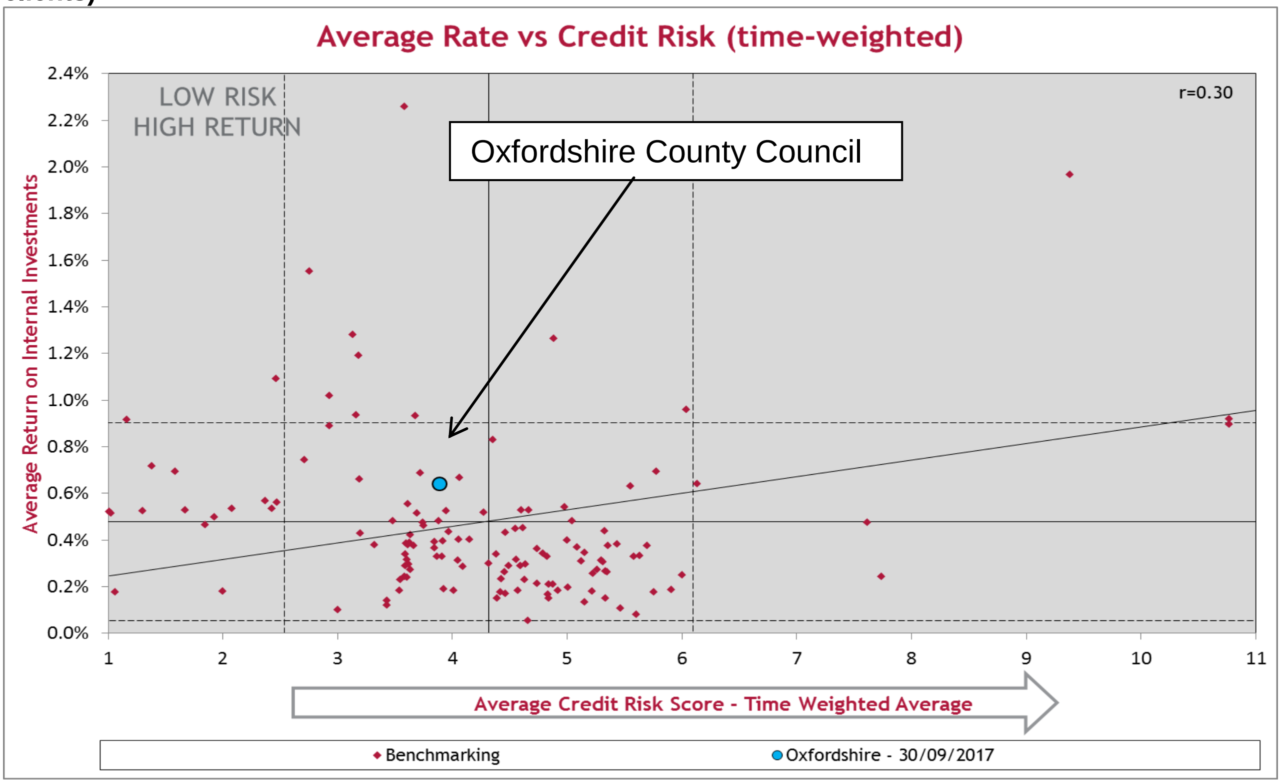
Annex 5

Value weighted average (all clients)



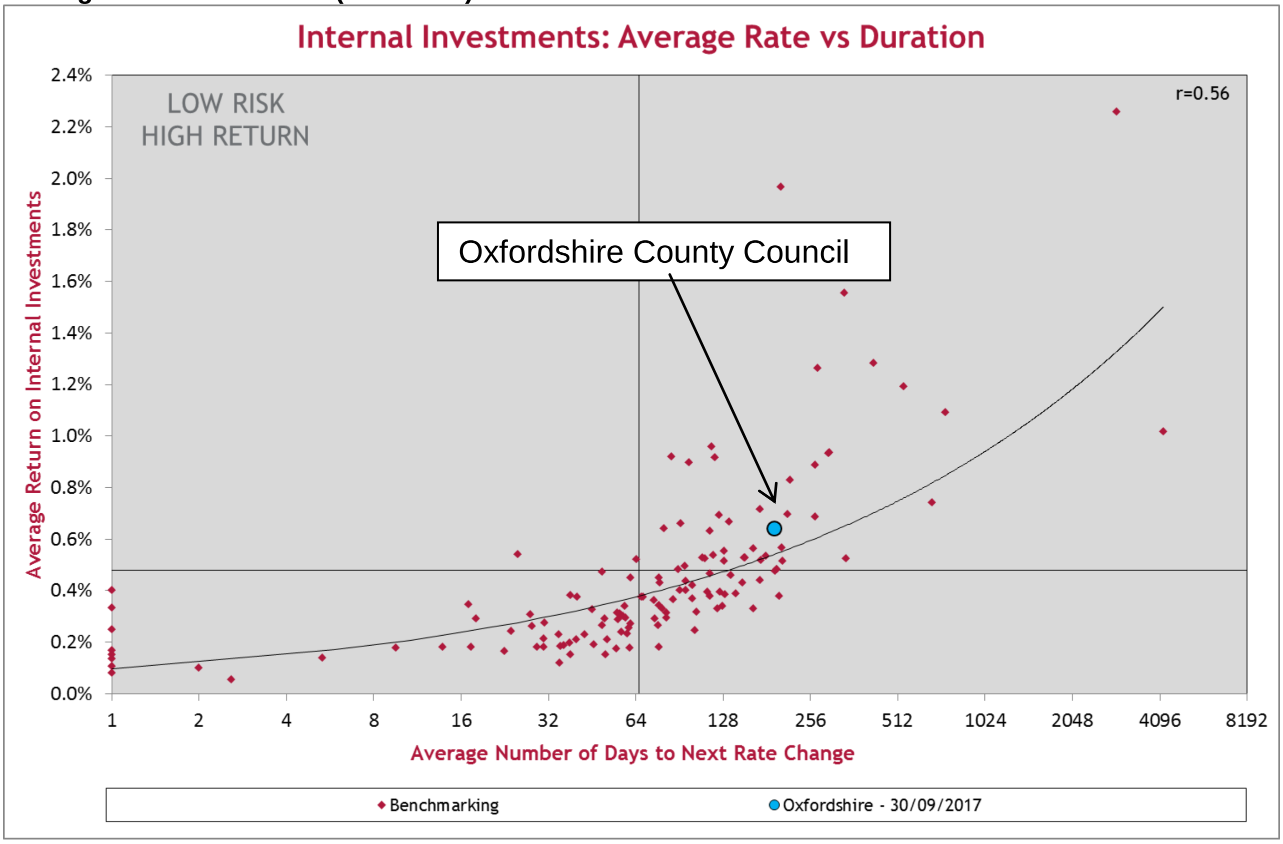
This graph shows that, at 30 September 2017, Oxfordshire achieved a higher than average return for lower than average credit risk, weighted by deposit size.

Time weighted Average (all clients)



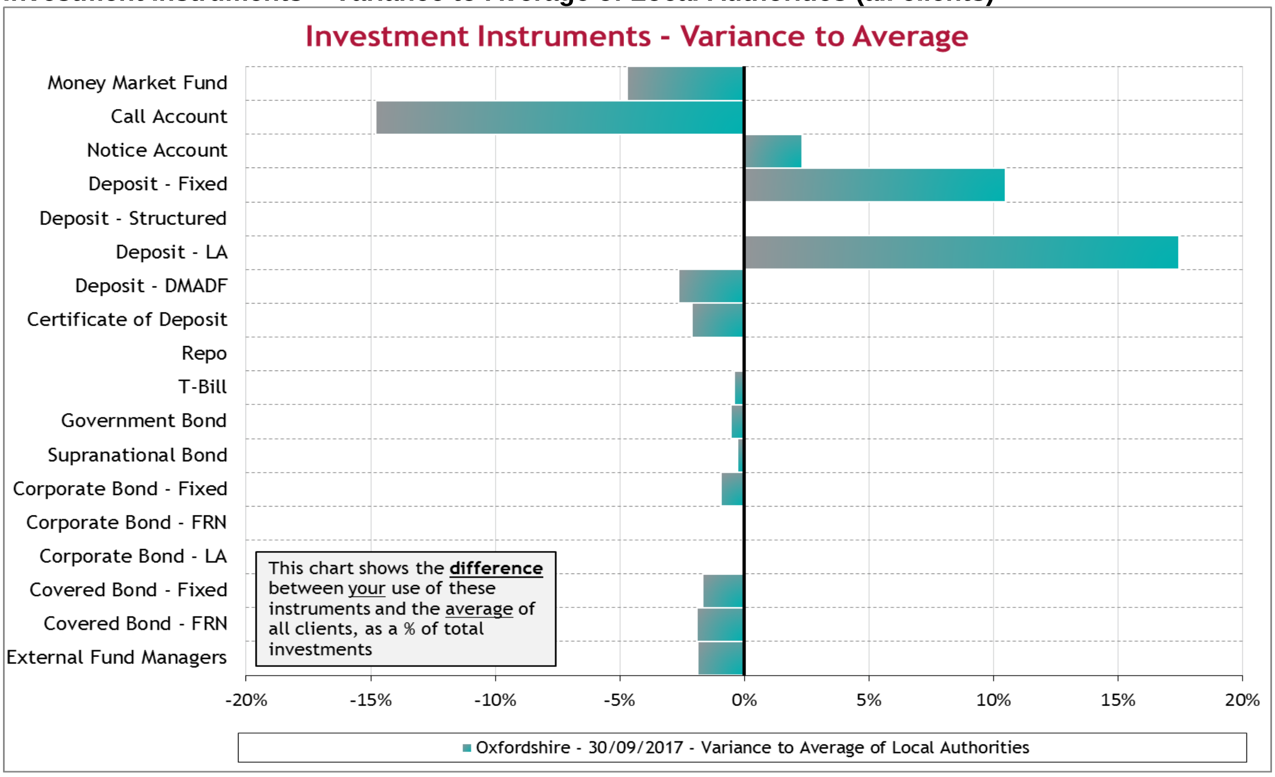
This graph shows that, at 30 September 2017, Oxfordshire achieved higher than average return for lower than average credit risk, weighted by duration.

Average Rate vs Duration (all clients)



This graph shows that, at 30 September 2017, Oxfordshire achieved a higher than average return by placing deposits for longer than average duration.

Investment Instruments – Variance to Average of Local Authorities (all clients)



This graph shows that, at September 2017, Oxfordshire had notably higher than average allocation to external funds, fixed and local authority deposits when compared with other local authorities. Oxfordshire also had notably lower exposures to money market funds and call accounts.

Annex 6

Amended Treasury Management Strategy Statement and Annual Investment Strategy 2017/18 – Appendix C

Specified Investments

Investment Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Term Deposits – UK Government	N/A	In-house
Term Deposits – Banks and Building Societies	Short-term F1, Long-term BBB+, Minimum Sovereign Rating AA+	In-house and Fund Managers
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis and Fund Managers
Money Market Funds with a Constant Net Asset Value	AAA	In-house and Fund Managers
Other Money Market Funds and Collective Investment Schemes[4]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	In-house and Fund Managers
UK Government Gilts	AA	In-house on a buy and hold basis and Fund Managers
Treasury Bills	N/A	In-house and Fund Managers
Reverse Repurchase Agreements - maturity under 1 year from arrangement and counterparty is of high credit quality (not collateral)	Long Term Counterparty Rating A-	In-house and Fund Managers
Covered Bonds – maturity under 1 year from arrangement	Minimum issue rating of A-	In-house and Fund Managers

[4] I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Non-Specified Investments

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc.)	Short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
UK Government Gilts with maturities in excess of 1 year	AAA	In-house and Fund Managers	50% in-house; 100% External Funds	5 years in-house, 10 years fund managers
Bonds issued by Multilateral development banks	AAA	In-house and Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers
Bonds issued by a financial institution which is guaranteed by the UK Government	AA	In-house and Fund Managers	50% in-house; 100% External Fund	5 years in-house
Supranationals	N/A	In-house and Fund Managers	50% in-house; 100% of External Fund	5 years in-house, 30 years fund managers

Investment Instrument	**Minimum Credit Criteria**	**Use**	**Max % of total Investments**	**Max Maturity Period**
Money Market Funds and Collective Investment Schemes[5] but which are not credit rated	N/A	In-house and Fund Managers	50% In-house; 100% External Funds	Pooled Funds do not have a defined maturity date
Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 year in-house, 30 years fund managers
Reverse Repurchase Agreements - maturity in excess of 1 year, or/and counterparty not of high credit quality.	Minimum long term rating of A-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Covered Bonds	AAA	In-house and Fund Managers	50% in-house; 100% External Funds	20 years
Registered Providers	As agreed by TMST in consultation with the Leader and the Cabinet Member for Finance	In-house	50% In-house	5 years

The maximum limits for in-house investments apply at the time of arrangement.

[5] Pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.