Meeting: Council **Date: 22 September 2016**

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Mid-Year Review 2016/17 and Revised Minimum Revenue Provision Policy 2016/17

Is the decision a key decision? No

When does the decision need to be implemented? Immediate

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1. Proposal and Introduction

1.1 This report provides Members with a review of Treasury Management activities during the first part of 2016/17. The Treasury function aims to support the provision of all Council services through management of the Council's cash flow and debt & investment operations.

1.2 The report further details changes in policy for future decisions arising from the referendum vote for the UK to leave the European Union.

1.3 The key points in the Treasury Management review are as follows:

- Market reaction to the European Referendum vote has led to a reduction in rates to (new) historic lows
- UK sovereign credit rating lowered to AA
- Investment cash locked out following the vote ahead of cut to Bank Rate
- Amendment to the borrowing strategy to take new, ultra-cheap borrowing aligned to specific, revenue generating capital schemes
- Investment return exceeds benchmark comparators
- Amended Minimum Revenue Provision policy

2. Reason for Proposal

2.1 The preparation of a mid-year review on the performance of the treasury management function forms part of the minimum formal reporting arrangements required by the CIPFA Code of Practice for Treasury Management.

2.2 The effects of the referendum vote to leave the EU on markets and rates required a reassessment of the Council's approved strategy.

3. Recommendation(s) / Proposed Decision

3.1 that the Treasury Management decisions made during the first part of 2016/17 as detailed in the submitted report be noted;

3.2 that an increase to the maximum exposure to Peer to Peer Lending from £200,000 to £500,000 as set out within section 7 of this report be approved.

3.3 that the performance of Prudential and Treasury Indicators as set out in Appendix 4 of the submitted report be noted.

3.4 that the revised Minimum Revenue Provision Policy Statement for 2016/17 as shown in Appendix 2 to the submitted report be approved.

4. Background Information

4.1 The Treasury Management Strategy for 2016/17 was approved by Council on 11th February 2016.

4.2 The Council defines its treasury management activities as:

"The management of the authority's investments and cash flows, it's 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".

4.3 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by the Council on 25th March 2010.

4.4 On 23rd June 2016 the UK Referendum resulted in a majority decision to leave the European Union (Brexit). Financial markets had not anticipated this result and the initial impact has seen a fall in interest rates with forecasts of reduced economic growth and cuts to the Bank Rate.

4.5 This mid-year review has been prepared in compliance with the CIPFA Code of Practice and covers the following:

- Interest Rate update;
- Review of the Council's Borrowing strategy;
- Review of the Council Investments 2016/17;
- Minimum Revenue Provision Policy Statement 2016/17;
- Revenue Budget Performance
- Compliance with Prudential Limits for 2016/17.

5. Economic and Interest Rate Update

5.1 An economic commentary by the Council's advisors, Capita Asset Services is provided at Appendix 1.

5.1 The original rate forecast in the 2016/17 strategy anticipated a rise in Bank Rate towards the end of the year with steady but small increases thereafter. Borrowing rates were forecast to rise steadily by around 0.1% each quarter.

5.2 These forecasts were predicated on the UK remaining in the European Union following the referendum held on 23rd June 2016. The subsequent Leave vote came as a shock to the markets and has seen a significant shift in economic growth expectations and rate levels prompted by concerns that the UK economy would slow down significantly. Gilt yields and PWLB rates have fallen sharply and investment rates also fell prior to and following the cut in Bank Rate.

5.3 The Monetary Policy Committee of the Bank of England cut the Bank Rate from 0.50% to 0.25% and launched new quantitative easing measures in August 2016. It is widely expected that the MPC could cut Bank Rate further to nearly zero, probably at the November quarterly inflation report meeting.

5.4 Following the referendum result the credit rating agencies reduced the UK sovereign rating to AA. An emergency decision was taken by the Chief Finance Officer under delegated powers, to exempt UK banks from the policy minimum sovereign rating of AA+ to ensure cash services could continue to operate. Individual bank ratings will continue to be applied as per approved policy.

5.5 The current view on interest rates of the Council's advisors, Capita Asset Services, is shown below:

%	Aug-16	Sep-16	Dec-16	Mar-17	June-17	Sep-17	Dec-17
BANK RATE	0.50	0.25	0.10	0.10	0.10	0.10	0.10
5yr PWLB	1.00	1.00	1.00	1.00	1.10	1.10	1.10
10yr PWLB	1.60	1.50	1.50	1.50	1.60	1.60	1.60
25yr PWLB	2.30	2.30	2.30	2.40	2.40	2.40	2.40
50yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20

PWLB rates reflect a 0.20% reduction to which the Council is eligible.

6. Borrowing Portfolio 2016/17

6.1 The borrowing strategy reflected the need to increase borrowing by £10million over the next four years to successfully meet capital requirements.

6.2 The significant fall in borrowing rates following Brexit have changed the focus on the potential timing of borrowing to take advantage of cheap long term funding.

6.3 The Chief Finance Officer has recognised the value in aligning new ultra-low borrowing rates to the business cases of specific capital schemes generating new income streams.

6.4 It is therefore proposed to increase the strategic new borrowing target to £15million in respect of recent Council borrowing approvals for regeneration projects. Decisions on the timing of new loans will be determined under the Council's normal criteria i.e. at a point at which rate levels are deemed to be lowest (see para 5.3 for indicative levels) and for periods which maintain an even maturity structure (optimum durations are 10 year and 40-45 years).

7. Investment Portfolio 2016/17

7.1 At the start of the year the Council had £7million of core cash deposited longer term with local authorities at 1.30% in line with approved strategy.

7.2 It was assumed that the European Referendum would result in a Remain vote but some mitigation of a Leave vote was made by investing up to limits with Lloyds and Bank of Scotland securing 0.80% for 6 months, a yield some 15-20 basis points higher than general market levels.

7.3 In light of the surprise referendum result and the consequent forecasts of falling base rate, possibly to zero, emergency measures were taken to lock in deposits wherever available. Deals were made with one local authority and with Royal Bank of Scotland for one to two years at rates ranging from 0.55% to 0.68%, ahead of the assumed MPC announcement on 4th August 2016.

7.4 The Council has previously authorised the investment of core cash in a suitable Property Fund. Property values have been hit following Brexit and some Funds are in the process of revaluing their holdings. Officers are monitoring the situation for potential opportunities to buy into a fund at a point when property prices are at a low point.

7.5 Liquidity cash is being held in money market funds as these instruments offer a temporary protection against rate cuts until individual positions within the Fund are unwound. Cash will be transferred, if liquidity demands allow, into fixed term deposits where these offer further protection against the falling rate environment.

7.6 The externally managed fund (Aberdeen Asset Management) has performed well during the first quarter through lengthening the weighted average maturity. This strategy was partially offset in June by building up liquidity in preparation for any cash withdrawals resulting from the referendum. Current performance also reflects the variation in book values to new market levels. Going forward the fund manager will continue to lengthen the weighted average maturity to take advantage of the higher rates for longer duration.

7.7 Officers continued to build up exposure in the Funding Circle peer to peer lending scheme reaching the approved maximum of £200,000 in May. The facility has performed as expected with a running yield of around 7% net of fees and defaults. A detailed analysis of the performance for the year to date is provided in the table below:

Funding Circle (peer to peer lending) 2016/17 to 31st July 2016	
Total Invested	**£200,000**
No. of loan parts	502
Interest earned (year to date)	£5,057.61
Average principal	£182,400
Gross yield	8.36%
Return net of fees and bad debts	**7.05%**
Bad debts written off	£774.83
Bad debts as a proportion of principal invested	0.39%
Expected bad debt rate of portfolio	0.99%
Risk Analysis	
Proportion of secured/unsecured loans	
- Secured	59%
- Unsecured	41%
Proportion of loans by credit rating	
- A+	67%
- A	24%
- B	9%

7.8 In view of the positive results and experiences over the initial trial period and the reduced returns on cash deposits, the Chief Finance Officer feels justified in recommending Council to approve an increase in the maximum exposure to the Funding Circle (peer to peer lending) scheme of up to £500,000.

7.9 Overall, investment opportunities remain restricted due to market conditions and strict credit risk management resulting in a very limited counterparty list. A list of counterparties used in 2016/17 to date is included at Appendix 2

7.10 At the end July the in-house investment performance was 0.95%. At the same point in time the Fund Manager had achieved 0.91% (net of fees). A benchmark analysis of the Council's portfolio as at end of June quarter is detailed in the table below.

8 **Minimum Revenue Provision (MRP) policy statement**

As at end of June 2016	Average Investment Principal	Rate of Return (gross of fees)	Rate of Return (net of fees)	*Capita Benchmarking Club*		*Market Benchmark/ Target Return*
				Peer LA Comparison	*English Unitaries*	
In-House	£46million	1.05%		0.79%	0.89%	0.36%
Fund Manager	£18million	1.20%	1.02%			0.36%

8.1 The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

8.2 The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2008), which states that Councils are required to "determine for the current financial year an amount of MRP that it considers to be prudent" and prepare an annual statement on their MRP calculation to their full Council.

8.3 One of the aims of this legislation is to ensure that the repayment of principal owed for capital expenditure is charged on a prudent basis. Central Government guidance says:

> "*the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant."*

8.4 The Chief Finance Officer has reviewed the approved 2016/17 MRP policy and a revised policy is set out at Appendix 3 for approval.

8.5 A number of Councils have in 2015/16 reviewed their MRP policy with the aim of making revenue budget savings in the shorter term while maintaining the required levels of prudence in relation to repayment periods. These include Devon County Council and Birmingham City Council.

8.6 The Chief Finance Officer has reviewed the current policy and the relevant DCLG guidance and legislation has proposed a number of changes:

8.7 For the borrowing that was supported borrowing (i.e. ongoing costs funded by central government) where the provision was calculated on a 4% reducing balance basis, it is proposed to charge MRP at 2% of the balance as at 31st March 2016 after the deduction of the value of adjustment A (a set value in 2004) fixed at the same cash value so that whole debt is repaid after 50 years.

8.8 50 years is assessed as reasonable linked to both to the original funding of the ongoing costs by central government and the remaining asset lives which is in line with other councils' MRP policies. As central government now issue capital grants rather than borrowing allocations this figure will not increase.

8.9 This change has the effect that the borrowing value will be provided for within 50 years rather than the 4% reducing balance which will take over 100 years to clear. The change does however move the profile of provision from the shorter term to the medium term with higher annual payments after 11 years. If a discount factor, to reflect the time value of money, is applied to the future year cash flows then the impact on future years is reduced in real terms.

8.10 To ensure prudence the Council needs to adjust its policy to ensure that an element of the adjustment A calculation is provided for. This element relates to the

outstanding borrowing from Devon County Council in relation to Torbay's share of the County's debt at the point of reorganisation in 1998. As a result, to ensure a provision is made to ensure that funds are available to repay this debt, a Voluntary Revenue Provision (VRP) of a fixed annual cash value will be made to ensure the provision is made over 50 years which is similar to the supported borrowing calculation.

8.11 The combined impact of the above changes is to reduce the MRP provision in 2016/17 by £0.8m, and by £0.7m in 2017/18, which will help support the Council's budget position. This "gain" continues to reduce over 11 years until 2027/28 when the council will make a higher MRP (subject to the impact of the time on the value of the cash payment).The impact of the changes and a range of discount factors is shown in Appendix 4.

8.12 The change to a provision for borrowing over 50 years compared to a 4% reducing balance combined with a provision for value of transferred debt within the Adjustment A calculation is more prudent that the current policy and enables all supported borrowing provision to be made within the next 50 years.

8.13 The impact of the proposed changes and the change to asset lives on prudential borrowing schemes (see below) will have the impact of generating revenue savings in the short term but will reduce council cash balances thus reducing any balances available for investment or to "cash flow" future borrowing schemes.

8.14 There are no proposed changes to the policy of using the Asset Live method using an annuity calculation in relation to unsupported borrowing (where the council funds the ongoing costs of the borrowing). However the Chief Finance Officer has reviewed asset lives for prudential schemes and has set indicative levels for asset lives of different asset types including a different asset life for land. This will have the impact that on a number of schemes, where prudent, the asset lives used for the provision calculation will be greater than before. The policy has also been adjusted to remove the distinction in the policy between investment properties and operational assets.

8.15 This change will reduce the MRP in 15/16 and future years by approx £0.1m per annum however the provision will be spread over a longer time period.

8.16 The Chief Finance Officer has also reviewed the MRP policy for loans for a capital purpose. The policy is unchanged however it should be noted that the option to NOT charge an MRP on a capital loan is only available when there is a realistic expectation that a loan will be repaid in full at some point in the future. If this assumption is no longer the case then an MRP will need to be calculated over the remaining asset life of the asset the capital loan relates to.

9 **Revenue Budget Performance**

9.1 The revenue effects of the Brexit decision have contributed to a worsening performance of investment income. No provision is made at this time for any impact of new borrowing or the impact of any changes to the revised MRP policy.

	Original Budget 2016/17	Projected Outturn 2016/17	Variation
	£M	£M	£M
Investment Income	(0.8)	(0.5)	0.3
Interest Paid on Borrowing	6.1	6.1	0.0
Net Position (Interest)	**5.3**	**5.6**	**0.3**
Minimum Revenue Provision	4.3	4.4 *	0.1
PFI Grant re: MRP	(0.5)	(0.5)	0.0
Unsupported Borrowing Recharges	(1.9)	(1.8)	0.1
Net Position (Other)	**1.9**	**2.1**	**0.2**
Net Position Overall	**7.2**	**7.7**	**0.5**

9.2 Note: The MRP includes the MRP re the EFW plant. Although an increase to MRP this is funded from within the waste budget.

10 **Compliance with Prudential Limits for 2015/16**

10.1 Performance of the Treasury Management function against the approved Prudential and Treasury Indicators is provided at Appendix 5

Appendices

Appendix 1: Economic Update

Appendix 2: Counterparties where funds were deposited (April 2016 to July 2016)

Appendix 3: Minimum Revenue Provision (MRP) Policy Statement

Appendix 4: MRP Review – Impact of Changes

Appendix 5: Treasury Management Prudential Indicators 2016/17

Background Documents

Treasury Management Strategy 2016/17

Appendix 1

Economics update

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. However, the 2015 growth rate finally came in at a disappointing 1.8%, though it still remained one of the leading rates among the G7 countries. Growth was +0.4% in quarter 1 and +0.6% in quarter 2, (first estimate), but forward looking indicators point to a sharp slowdown in the second half of 2016 as a result of the Brexit vote. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme and uncertainty created by the Brexit referendum. However, since the peak in November 2015, sterling has fallen in value, especially after the referendum result, which will help to make British goods and services much more competitive and will increase the value of overseas earnings by multinational companies based in the UK. In addition, the Chancellor has announced that the target of achieving a budget surplus in 2020 will have to be eased in order to help the economy recover from the expected slowing of growth during the second half of 2016. He has also said he will do 'whatever is needed' to stimulate growth which could mean fiscal policy action e.g. cutting taxes, increasing investment allowances for businesses etc and / or increasing government expenditure on infrastructure, housing etc.

The Bank of England August Inflation Report included a sharp reduction in forecasts for growth for 2017 @ +0.8% and for 2018 @ 1.8%, though 2016 was kept at 2.0%. While this does not indicate the economy could go into recession in the second half of 2016, growth is expected to be minimal during that period

The August Bank of England Inflation Report forecast also included a sharp upward revision to the forecasts for inflation rising up above the MPC's 2% target in 2018 to about 2.3% due to the recent fall in the value of sterling etc. However, the MPC is likely to look through that and take a longer term view in order to give time for economic growth to recover

The American economy had a patchy 2015 – quarter 1 0.6% (annualised), 3.9% quarter 2, 2.0% quarter 3 and 1.4% in quarter 4, leaving growth in 2015 as a whole at 2.4%. Quarter 1 of 2016 came in at a weak 0.8% (annualised) and quarter 2 at 1.2% (first estimate). While these overall figures were disappointing, they were depressed by a significant run down in inventories which masked an underlying strength in consumer demand; forward indicators are therefore pointing towards a pickup in growth for the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, caused a re-emergence of caution over the timing and pace of further increases. However, in recent weeks, increases in non-farm payroll figures have again

boosted confidence that the economy is on a strong upward trend and have renewed expectations of at least one increase in the Fed. rate in 2016.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016. In response to a continuation of weak growth, at the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and an initial start to some improvement in economic growth. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but disappointed in quarter 2 with a reversal to only 0.3% (1.6% y/y). The ECB is also struggling to get inflation up from near zero towards its target of 2%.

Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.

Appendix 2

Counterparties with which funds were deposited (April 2016 – July 2016)

Banks and Building Societies

Bank of Scotland
Goldman Sachs International Bank
Lloyds Bank
Royal Bank of Scotland/National Westminster
Santander UK
Svenska Handelsbanken

Local Authorities

Lancashire County Council
Newcastle City Council
Nottinghamshire Police and Crime Commissioner

Other Approved Institutions

Public Sector Deposit Fund
Goldman Sachs Sterling Fund
Aberdeen Asset Management
Funding Circle

Appendix 3

Policy on Minimum Revenue Provision for 2016/17

Revised September 2016

1. The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

2. The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2008), which states that Councils are required to "determine for the current financial year an amount of MRP that it considers to be prudent" and prepare an annual statement on their MRP calculation to their full Council.

3. One of the aims of this legislation is to ensure that the repayment of principal owed for capital expenditure is charged on a prudent basis. Central Government guidance says:

   "*the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant."*

4. For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance as at 31st March 2016 after the deduction of the value of adjustment A (a set value in 2004), fixed at the same cash value of that the whole debt is repaid after 50 years.

5. The Council will charge a VRP for the supported borrowing within the adjustment A value that is outstanding as at 31st March 2016 relating to transferred debt from Devon County Council fixed at the same cash value of that the whole debt is repaid after 50 years (which is similar to the supported borrowing calculation).

6 For capital expenditure funded from unsupported borrowing, less any repayment to date, the Council will make a provision based on the cumulative expenditure incurred on each asset in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset. (See table below).

7 The MRP for each asset will be calculated using the asset life method using an annuity calculation. An adjustment to the MRP calculation will be made where there is expenditure in the previous financial year, but the asset is not yet operational. MRP will be calculated on the total expenditure on that asset in the year after the asset becomes operational.

8 The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation. Where

possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

9 To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

10 Where loans are given for capital purposes they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008.

If a loan agreement does not include contractual commitments that the funds be put towards capital expenditure no MRP will be made, if however capital contract commitments are included then an MRP will be made on a prudent basis using Asset Life Method linked to the life of the asset being funded.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

11 Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP guidance issued by DCLG will be used.

Each asset life will be considered in relation the asset being constructed by the Chief Finance Officer; however as a guide the following are typical asset lives that will be used.

Asset Type	Asset Life
Freehold Land	50 years
Buildings	40 years
Investment Properties	40 years
Software	10 years
Vehicles & Equipment	7 years
Highway Network	40 years
Structural Enhancements	25 years
Infrastructure	40 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used. E.g an assumption that 30% of the value is land results in an asset life of 43 years.

Appendix 5

ANALYSIS OF TREASURY MANAGEMENT PRUDENTIAL INDICATORS AGAINST APPROVED 2016/17 TARGETS AT END JULY 2016

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2016/17 LIMIT	As at 31/07/16
	£M	**£M**
Authorised limit for external debt -		
borrowing	194	138
other long term liabilities	40	20
TOTAL	234	158
This is the Statutory "affordable borrowing limit" required under section 3(1) of the Local Government Act 2003. Impending breach would require the Council to take avoiding action. **Borrowing Levels are within the Authorised Limit – no action required**		
Operational boundary for external debt -		
borrowing	167	138
other long term liabilities	40	20
TOTAL	207	158
This is the most likely, but not worst case scenario for day-to-day cash management purposes. This indicator provides an early warning for a potential breach in the Authorised Limit. Occasional breach of this limit is not serious but sustained breach would indicate that prudential boundaries the Council has set may be exceeded, requiring immediate Council action. **Borrowing Levels are within the Operational Boundary – no action required**		

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2016/17 LIMIT	As at 31/07/16
Limit for fixed interest rate exposure	**%**	**%**
Debt	100	100
Investments	80	63
Limit for variable rate exposure		
Debt	30	0
Investments	75	37

The Code requires the Council to set ranges on its exposure to the effects of changes on interest rates. Fixed rate borrowing and investments can contribute to reducing the uncertainty surrounding future interest rates. However, a degree of use of variable interest rates on part of the treasury management portfolio may benefit performance. The limit for fixed rate exposure has been set to allow for the Council's entire debt to be locked in at low fixed rates. The actual proportion reflects a rising level of "locking out" funds at fixed rates prior to the anticipated fall in base rate.
The limit for variable rate exposure reflects the Council's use of notice accounts for liquidity of the investment portfolio and the external Fund manager holding

Rate exposures are within the approved limits – no action required.

	2016/17 LIMIT £M	As at 31/07/16 £M
Upper limit for total principal sums invested for over 364 days (per maturity date)	51	13

The purpose of this indicator is to contain the Council's exposure to the possibility of losses that might arise as a result of it having to seek early repayment or redemption of principal sums invested. The 2016/17 includes funds administered by the external fund manager. In practice this sum can be realised at short notice but is included within this Indicator as there would be a risk of negative impact on the fund yield.

The position above represents round 21% of the total portfolio held in longer term investments.

Maturity structure of fixed rate borrowing during 2016/17	Upper limit	lower limit	As at 31/07/16
Up to 10 years	50%	5%	17%
10 to 20 years	50%	5%	15%
20 to 30 years	60%	10%	28%
30 to 40 years	50%	10%	27%
Over 40 years	50%	0%	13%

The Prudential Code is designed to assist authorities avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.