TREASURY MANAGEMENT ANNUAL REPORT 2018/19

Sue Cuerden, Executive Director of Finance and Resources (Section 151 Officer)

Report to	**Council**
Ward(s):	All
Key Decision:	No
Appendix 1:	**Treasury Management Income 2018/19**
Appendix 2:	**Investment Holdings**
Appendix 3:	**Unrealised Valuation Gains and Losses**
Appendix 4:	**External Fund Investment Returns**
Appendix 5:	**Benchmarking (Risk and Return)**
Appendix 6:	**Compliance with Strategy Limits and Prudential Indicators**
Papers relied on:	**None**

Recommendation to Council

It is recommended that Council notes the report.

Background, corporate objectives and priorities

This report shows the activity within the council's treasury management function for the year ending 31 March 2019.

This report contains the information required for members to discharge their responsibilities for the monitoring of the treasury management function.

Interest earnings from investments and cash balances are a very important source of income in enabling the council to achieve its corporate priorities.

This report accords with the Council's Budget and Policy Framework and supports the development of an effective and efficient council.

GLOSSARY OF TERMS

Term	Definition
Gilts	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest. At the end of the set period the investment is repaid (at face value) by the Government. However, during the life of a gilt it will often be traded (bought and sold) at a price decided by the market.
Counterparties	These are the organisations responsible for repaying the Council's investment upon maturity and making interim interest payments. The Counterparties used by the Council are highly credit worthy banks, building societies or local authorities.
Debt Management Agency Deposit Facility (DMADF)	An investment facility run by part of the HM Treasury taking deposits at fixed rates for up to 6 months.
Diversified Credit Funds	Externally managed pooled investment schemes investing in wide ranging mix of credit instruments including Gilts, Corporate Bonds, Investment Grade Credit, Asset Backed Securities, Senior Mortgages, Leverage Loans and High Yield Bonds.
Absolute Return Bond Funds	These are pooled investment schemes which invest in a wide range of credit asset classes. Although similar to Diversified Credit Funds they typically have lower levels of volatility and risk with a correspondingly lower level of return. They also provide better protection than traditional bond funds against rising interest rates or widening credit spreads.
Fixed Deposits	These are loans to banks, building societies or other local authorities which are for a fixed period and at a fixed rate of interest.
Local Authority Bonds	Similar to gilts, these are issued by UK local authorities rather than the Government in order to raise capital.
Money Market Funds / Short Term Cash Funds	Externally managed pooled investment schemes investing in short term cash instruments. These are extremely low volatility, low return funds mostly used for cash liquidity management.
Supranational Bonds	These are very similar in nature to gilts except that rather than being issued by the UK Government they are issued by supranational bodies supported by more than one national government such as the European Investment Bank which is supported by all of the EU member states.
Treasury Bills	Tradable debt securities issued by the UK Government with a short term maturity (3 months to 1 year) issued at a discount. The income from these is in the form of a capital gain rather than interest income.
Call Accounts	Deposit accounts with banks and building societies that provide same day access to invested balances. Interest paid is usually linked to the level of the official base rate.
Reverse Repurchase Agreements (Repo)	An agreement to purchase a security from a counterparty, typically a bank, and then sell the security back to the bank on a predetermined date for the principal amount plus interest. The security is collateral to be used in the event of a default by the counterparty.

1 Executive Summary

1.1 The key points to note on the performance of the treasury management function for this year are as follows:

Overall Impact on Income (£121,000 Favourable Variance)

- Net interest and investment income was £2.895 million, compared to budgeted income of £2.774 million. This is a variance of £121,000 more income than estimated. A breakdown of the variance is shown in Appendix 1.

- Short term interest rates increased during the year and this had a positive effect on income from the council's short term cash investments.

- Larger investment balances than originally estimated this year were held whilst cash was awaiting deployment into a number of capital schemes.

- A change during the year in government regulations on accounting for pooled funds meant that one of the council's external funds no longer met the council's requirements. The investment was disposed of which resulted in a capital loss of £84,787 (less than 1% of the sum invested).

Overall Position of the Investment Portfolio and Returns

- At 31 March 2019 the council had cash investments of £137.0 million having started the year with investments of £149.2 million.

- Average investment balances were £157.4 million compared to an original estimate of £147.5 million. The difference is mostly due to assumptions made at the time of the estimate about the amounts and timing of capital programme expenditures.

- Details of the investments held at 31 March 2019 can be seen in Appendix 2.

- The overall return for the year was 1.77% compared to an original estimate of 1.83%.

- The council's investment returns compare favourably with other local authorities according to benchmarking results. When compared to the average of 145 local authorities included within the benchmarking this council has comparatively high returns and lower levels of risk.

Compliance with Policy, Strategy Limits and Prudential Indicators

- All transactions during the year have complied with the council's agreed policy statement, approach to ethical investment, treasury management strategy limits, treasury management practices and all accounting codes of practice.

- All types of investments remained within the agreed strategy target ranges and approved prudential indicator limits and the council complied with its Capital Financing Requirement (the need to borrow to finance capital expenditure) and its Minimum Revenue Provision (MRP) requirement (the need to set aside funds to repay debt).

1.2 This report does not require a decision but is to be noted in accordance with the council's constitution, treasury management practices and accounting codes of practice.

1.3 Detailed information in support of this summary is contained in the remainder of this report.

2 Background Information

2.1 Treasury management in local government is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services and in this context is concerned with "the management of the council's cash flows, its banking and its capital investments; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".

2.2 The council has adopted the code and complies with its requirements, one of which is that interim operational reports are provided to members and that mid-year and annual reports are presented to full Council on the treasury management activity each financial year.

2.3 The council's treasury management policy objectives are:

- To invest prudently having regard to the security of investments.
- To maintain liquidity in the investment portfolio to meet the council's spending plans.
- To aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity and predictability of returns.

2.4 In accordance with the code of practice the first objective is deemed to be the primary objective and the others are secondary considerations.

2.5 The code also requires that local authorities have a separate body or committee responsible for the monitoring and scrutiny of the treasury function. The council has delegated this responsibility to the Audit and Accounts Committee.

3 Investment Strategy

3.1 In order to understand and put into context the performance of the council's investment portfolio, it is also necessary to appreciate the council's approved strategy for investments for 2018/19.

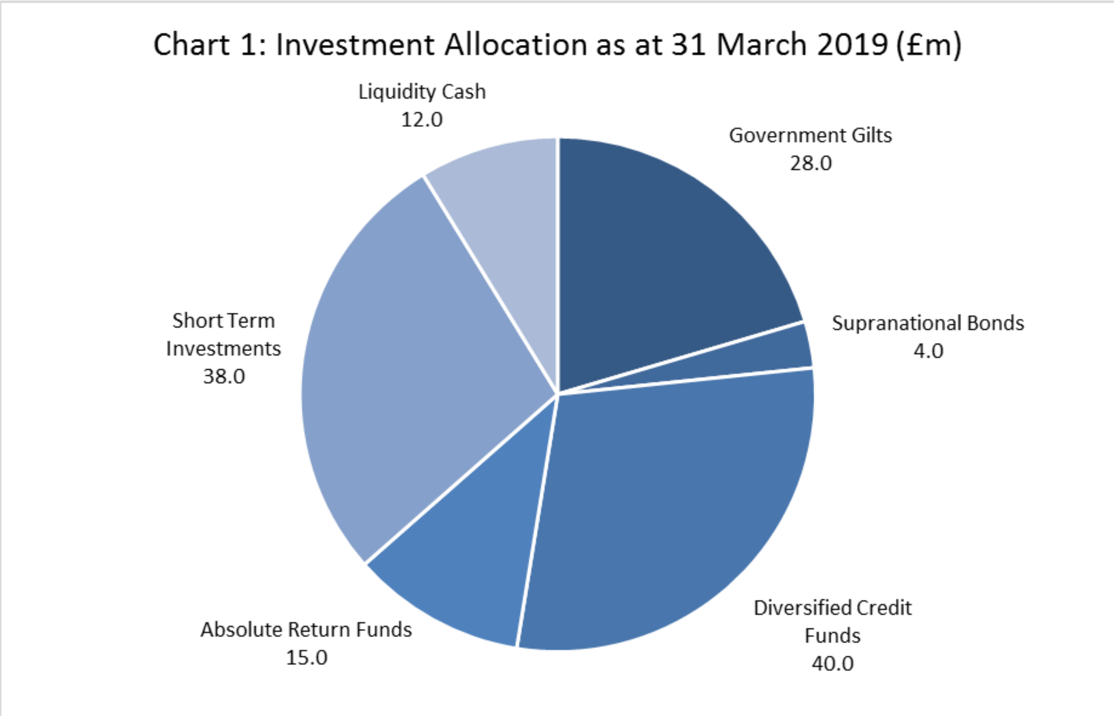
3.2 Due to the continuation of a low interest rate environment which has directly affected the income earned from traditional treasury investments the council has taken the decision to seek an increased level of income from property related schemes. This had an impact on the management of the council's existing investment balances during the year.

3.3 A combined total of £90 million has been included in the capital programme for “Invest to Grow”, the “Property Investment Strategy” and Manydown. The funding for these schemes will be met from cash invested under the council’s Treasury Management Strategy. To date £15 million of this allocation has been spent.

3.4 The expenditure on these new capital schemes will be dependent on the identification of suitable investment assets and therefore the timing is highly uncertain. Cash investments which have accessible liquidity and do not have a fixed term will offer the most flexibility and will allow the council to react as and when required.

3.5 This requirement for liquidity on a large part of the treasury management investment portfolio has meant that a significant proportion of short term instruments were held during the course of the year and therefore the overall average return was lower than otherwise on the treasury management portfolio. This was in contrast with the council’s previous investment strategies where large holdings of much longer duration treasury management investments were used as a means of generating higher returns.

3.6 The investment types and amounts as at 31 March 2019 are shown in Chart 1:



3.7 Details of the council’s specific investment holdings as at 31 March 2019 showing the names of the counterparties, their credit ratings (where applicable) and the amounts invested can be seen in Appendix 2.

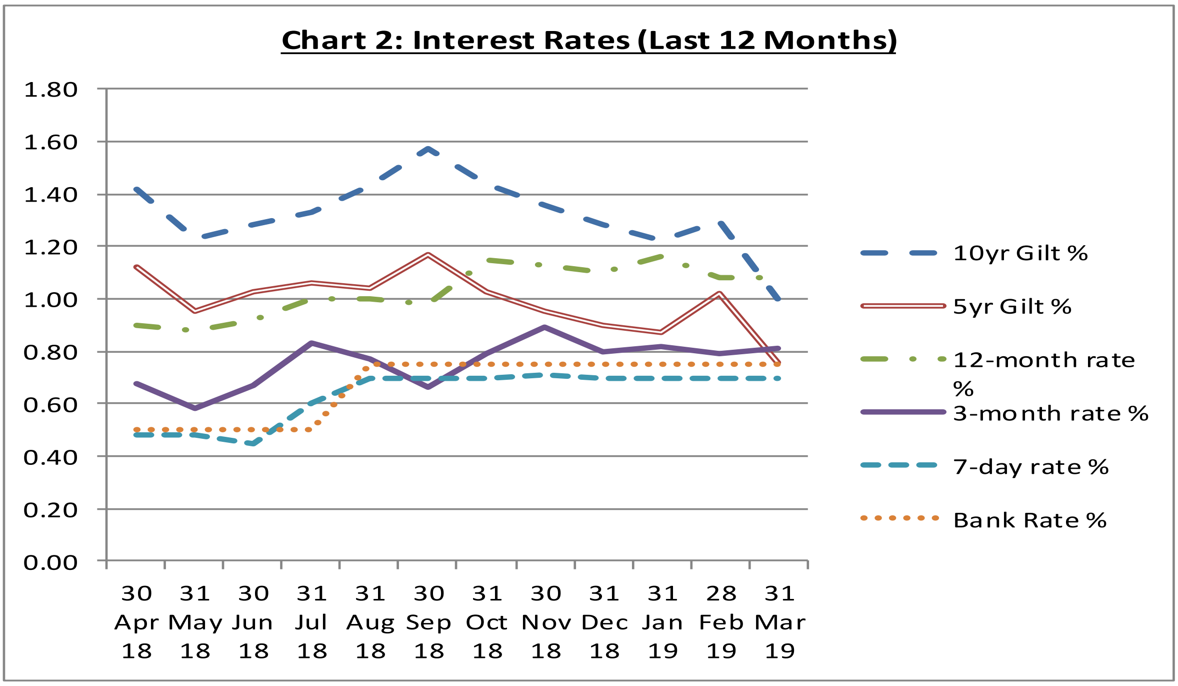
4 Financial Market Conditions

4.1 In order to understand and put into context the performance of the council's investment portfolio, it is necessary to appreciate the key changes in the interest rate environment and the market's assessment of credit risk (i.e. the risk that an investment will default and will not be repaid).

4.2 The Bank of England Base Rate remained at 0.50% during the first quarter but was increased to 0.75% in August and remained at this level for the rest of the year. Despite inflation remaining above the bank's target level of 2% and employment reaching multi-decade highs, the prospect of further rate rises during the year diminished as economic uncertainty grew. Uncertainty surrounding 'Brexit' negotiations and the resulting political turmoil seemed to have a negative effect on a sluggish UK economy. Additional worries about the strength of world economic growth, particularly in China and the Eurozone, also resulted in a cautious outlook for interest rates which was reflected by the reduction in five year and ten year gilt yields.

4.3 There was a deterioration in the market's assessment of credit risk during the much of the year due to ongoing concerns about trade wars, in particular between the US and China, and also due to a softening in world economic growth which provoked fears of recession in the major economies. Monetary tightening from the world's major central banks and a strong dollar also added to concerns about the ability of companies to service their debts in the future.

4.4 Chart 2 shows the movement in interest rates over the course of the year.



5 Treasury Management Activity During 2018/19

5.1 Table 1 shows a summary of investment activity during the year:

Table 1: INVESTMENT PORTFOLIO ACTIVITY (at cost)

	Holding 31/03/18 £'000	Investments Made £'000	Investments Realised £'000	Holding 31/03/19 £'000
Government Gilts	34,009.8	0.0	(5,986.5)	28,023.3
Local Authority Bonds	4,059.5	0.0	(4,059.5)	0.0
Supranational Bonds	14,566.7	0.0	(10,547.2)	4,019.5
Diversified Credit Funds	40,000.0	0.0	0.0	40,000.0
Absolute Return Bond Funds	25,000.0	0.0	(10,000.0)	15,000.0
Short Term Investments	17,000.0	85,000.0	(64,000.0)	38,000.0
Liquidity Cash	14,600.0	153,800.0	(156,400.0)	12,000.0
Total Investments	**149,236.0**	**238,800.0**	**(250,993.2)**	**137,042.8**

5.2 No short term borrowing was undertaken during the year as part of daily cash flow management.

6 Investment Income Performance Compared to Estimate

6.1 A summary of the performance of investments is shown in Table 2:

Table 2: INVESTMENT PERFORMANCE SUMMARY for 2018/19

	Budget Estimate 2018/19	Annual Return 2018/19
Gilts	3.40%	3.08%
Local Authority Bonds	6.25%	6.10%
Supranational Bonds	0.70%	0.95%
Diversified Credit Funds	2.20%	2.51%
Absolute Return Bond Funds	1.50%	0.60%
Short Term Investments	0.50%	0.70%
Liquidity Cash	0.50%	0.59%
Average Overall Return	**1.83%**	**1.77%**

6.2 The overall return on investments was 1.77% compared to the budget estimate of 1.83%.

6.3 The yield from Gilts and local authority bonds is fixed at the point of investment and is therefore usually fairly predictable. A number of bonds matured during the course of the year and the timing of these maturities resulted in some differences from the initial estimate.

6.4 Supranational bonds include a number of “floating rate notes” for which the amount of interest paid moves in step with market interest rates. These bonds benefitted from increasing short term interest rates during the year. Supranational bonds returned 0.95% for the year compared to the budget estimate of 0.70%.

6.5 The return from diversified credit funds is variable and subject to movement and, although not directly linked, it can be affected by market interest rates. These funds produced an income return of 2.51% compared to the original estimate of 2.20% (see section 7).

6.6 The return from Absolute Return Bond Funds was 0.60% compared to the estimate of 1.50%. The return for the year includes a loss of £84,787 realised upon disposal of the LGIM Absolute Return Bond Fund.

6.7 The increase in short term interest rates during the year helped returns from short term investments and liquidity cash. Liquidity cash returned 0.59% compared to the estimate of 0.50%. Other short term investments were able to be more actively managed in-house with a slightly longer time horizon and returned 0.70% compared to the estimate of 0.50%.

7 Performance of Externally Managed Funds

7.1 The council has long term investments in two types of external funds; diversified credit funds and absolute return bond funds.

7.2 Diversified credit funds generate returns primarily through income distributions and also have the potential for capital growth through changes in the value of the units. Combining these two elements gives the total return for the fund.

7.3 The council invested in diversified credit funds primarily to obtain the income distributions that they generate. In addition to the income distributions there is also the possibility of gains in capital value which, when realised, would add to the total return. Unrealised short term fluctuations in capital value have no impact on the council's annual income and the council anticipates holding these funds for a minimum of three to five years.

7.4 The council's diversified credit funds include the BlackRock Fixed Income Global Opportunities Fund, M&G Alpha Opportunities Fund and the M&G Total Return Credit Investment Fund.

7.5 These funds produced a return of 2.51% net of fees in combined income distributions during the year compared to the average three month rate of 0.75% and this difference is equivalent to additional annual income of £704,000. The original estimate for the year was 2.20%.

7.6 The council also invested in absolute return bond funds. These funds are more suited to a shorter expected investment horizon of two to three years due to their lower volatility whilst still offering potential returns from income distributions and capital appreciation.

7.7 The council invested in the Kames Absolute Return Bond Fund and the Legal and General Absolute Return Bond Fund. The Kames fund returned income dividends of 1.35% net of fees for the year and the Legal and General Fund produced an income return of 0.30% net of fees.

7.8 During the year the Ministry for Housing, Communities and Local Government (MHCLG) made changes to regulations which now prevents local authorities from recognising unrealised gains as income. This change meant that the Legal and General Absolute Return Bond Fund would no longer be able to generate a suitable level of income to meet the council's requirements and therefore the council disposed of its holding. The net return for this fund after including the loss on disposal was minus 0.55%.

7.9 The nature of externally managed funds means that total returns are more volatile and more difficult to predict than many of the council's other investments and as they are part of the council's long term investments their performance should be viewed over a long term period.

7.10 The performance of the externally managed funds is subject to a twice-yearly report and analysis by KPMG Investment Advisory and this is presented to members of the Audit and Accounts Committee.

8 Unrealised Valuation Gains and Losses

8.1 Some of the council's long term investments are tradable and/or have quoted market values that can vary over the life of the investment.

8.2 The council's holding in external funds as at the 31 March 2019 shows an unrealised loss of £591,481 (1% of the sum invested) and the valuation of the council's internally managed bonds and gilts shows an unrealised gain of £662,053 (2% of the sum invested). Additional detail of the unrealised gains and losses can be seen in Appendix 3.

8.3 From 1 April 2018 International Financial Reporting Standards (IFRS 9) and the CIPFA Code of Practice required that unrealised valuation gains or losses on pooled fund investments should ordinarily be charged to a revenue account as income or expenditure for the year. In November 2018 the Ministry of Housing, Communities and Local Government (MHCLG) introduced a mandatory statutory override requiring that local authorities reverse out all charges resulting from valuation movements on pooled funds.

8.4 The council purchased bonds and gilts with the intention of holding them until maturity.

8.5 The council has accepted that there will be some volatility with external funds and therefore invested with an expected minimum investment period of between two and five years.

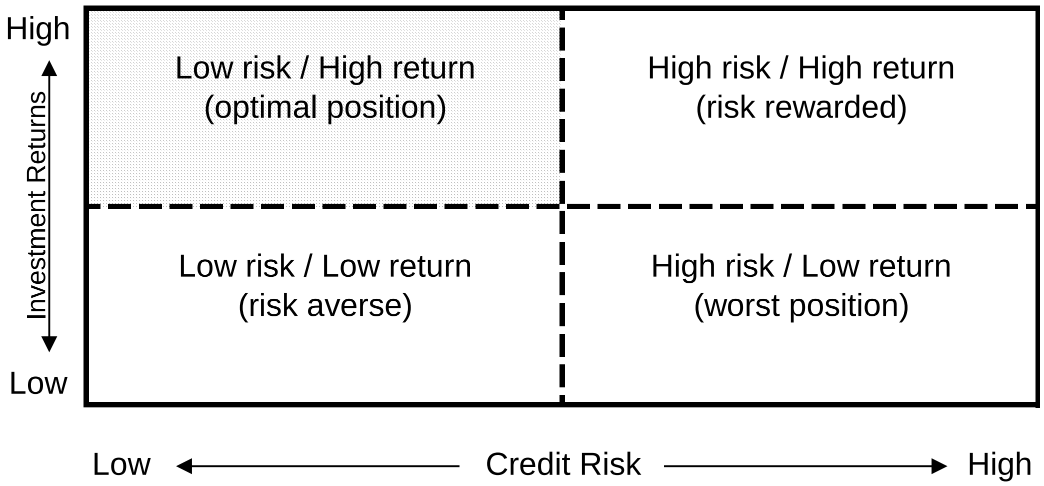
8.6 The historical movement in unrealised gains and losses for the council's external funds can be seen in Appendix 4 which shows significant ups and downs since the investments began. The chart in Appendix 4 also shows that the funds have produced a significantly positive total net return of £3.1 million when valuation changes and income received from the funds over the whole investment period are combined.

9 Investment Portfolio Benchmarking

9.1 The council takes part in a quarterly investment benchmarking service provided by its treasury management advisors, Arlingclose Ltd. This highlights the effect of changes in the council's investment portfolio and compares the council against other Arlingclose clients on the basis of size of investments, length of investments and the amount of credit risk being taken.

9.2 The results of the client benchmarking at 31 March 2019 are shown in Appendix 5.

9.3 The graphical format used for the benchmarking can be interpreted with reference to the diagram below.



9.4 Typically, the council would aim to be in the top left corner of the chart where a higher return is achieved for less risk. The most recent benchmarking results show that the council is within this area of the chart for internally managed treasury investments.

9.5 It should be noted that Part 1 of the benchmarking shows a snap-shot of the average running yield on internally managed investments, including short term cash. This shows the council's running yield at 1.60% for internally managed investments. The annual performance for the investment portfolio is different because it includes returns from investments that are held and mature throughout the course of the year.

9.6 At 31 March 2019 the average credit rating of the council's internally managed investment portfolio was approximately AA (risk score 3.5) on a value weighted basis and AA (risk score 3.1) on a time weighted basis, which reflects the very high credit quality of the council's longer term investments, i.e. gilts.

9.7 Investments managed by external fund managers are shown in Part 2. This shows the funds’ total returns for the year including any valuation changes and it should be noted that valuation changes do not have an effect on the council’s income and expenditure account. The council’s bond funds are comparatively low risk but total returns have been below average this year. Other councils’ funds within the sample include property funds and equity funds. Rather than investing in property funds this council has a directly invested commercial property portfolio and the income from these properties is reported separately.

9.8 Although the council’s interest and investment income has reduced over recent years the benchmarking results do demonstrate that the council’s returns still compare well against those of other local authorities. These returns are also being achieved whilst taking a much lower amount of indicated risk than most other authorities as defined by the average credit risk scores or the amount of volatility within external funds.

10 Compliance with Strategy Limits for 2018/19

10.1 As part of the strategy for 2018/19 approved by Council on 22 February 2018, limits were set for different types of investment.

10.2 All types of investment have remained within the agreed strategy and limits during the year and a breakdown of the investment portfolio as at 31 March 2019 compared to the strategy limits is shown in Appendix 6.

11 Prudential Indicator Limits

11.1 Under the prudential capital finance system the council determines, at a local level, its capital expenditure and borrowing provided that it can demonstrate that its plans are affordable, prudent and sustainable. Under the Prudential Code of Practice there is a statutory requirement to set, monitor and report Prudential Indicators and Limits.

11.2 The Prudential Indicator Limits relating to treasury management and the compliance with those limits are set out in Appendix 6.

11.3 The fixed and variable rate exposure limits allow the council to manage the extent to which it is exposed to changes in interest rates and the limit for amounts invested beyond a year was set at £98 million and ensures that the council keeps enough short term cash for operational purposes at all times.

11.4 The Executive Director of Finance and Resources is required under the Prudential Code to report to council the 2018/19 actuals for the following non-treasury management prudential indicators.

- Actual capital expenditure - for 2018/19 was £15,857,254.
- Actual ratio of financing costs to net revenue stream – for 2018/19 was minus 13%.
- Actual external debt - as at 31/03/19 was £65,400.
- Actual net borrowing - as at 31/03/19 was minus £136,977,400 (this figure is negative because the council has net investments rather than net borrowing).
- Actual capital financing requirement - as at 31/03/19 was nil.
- Actual minimum revenue provision requirement - as at 31/03/19 was nil.

11.5 The purpose of the ratio of financing costs to net revenue stream is to identify what proportion of net revenue costs relate to the financing of debt. However, as the council has large investments and no long term debt, the ratio is negative and shows that interest income is the equivalent of 13% of the council's net revenue expenditure.

11.6 External debt is made up of borrowing and other long term liabilities. Parish council deposits with this council were £65,400 and are deemed to be temporary borrowing.

11.7 Net borrowing is the difference between borrowing (£65,400) and investments (£137,042,800). This represents net investments for the council.

11.8 The capital financing requirement is the council's underlying need to borrow to finance capital expenditure that has not been financed by its own resources. As all of the council's capital expenditure has been financed through the use of capital receipts and contributions or through revenue reserves, the capital financing requirement is nil as is the minimum revenue provision requirement (i.e. the council's need to set aside amounts to repay borrowing).

12 Allowable Investments

12.1 Allowable investment types are specified in the annual Treasury Management Strategy which is approved by Council prior to the start of each year.

12.2 During 2018/19 new long term investments could only be made using the following council approved instruments: government issued bonds (Gilts); supranational bonds with AAA credit ratings; deposits or bonds with other local authorities. Highly secured repurchase agreements with banks or building societies were also possible, subject to individual evaluation.

12.3 Short term investments could only be made using the following council approved instruments: Treasury Bills; Local Authority loans; money market liquidity funds; the HM Treasury's Debt Management Agency Deposit Facility; and overnight deposits with highly rated banks.

12.4 The use of collective investment funds was also approved for both long term and short term investments including diversified credit funds, absolute return bond funds and short term cash funds and property funds.

13 External Service Providers

13.1 Arlingclose Limited is appointed to provide treasury management advice and KPMG Investment Advisory is appointed to act as an advisor on asset allocation, fund manager selection and fund manager performance monitoring in respect of the council's long term investment strategy. The council is clear as to the services Arlingclose and KPMG provide under the contracts and is also clear that responsibility for treasury management remains with the council.

14 Training

14.1 The treasury management code of practice requires the Executive Director of Finance and Resources to ensure that all members tasked with treasury management responsibilities, including the scrutiny of the function, have access to appropriate training relevant to their needs and understand fully their roles and responsibilities.

14.2 Treasury workshops are provided for members of the Audit and Accounts Committee and are open to all members of the council. The workshops are delivered by a combination of external training providers, council officers and Arlingclose Limited.

14.3 Officers responsible for treasury management attend external workshops and seminars as part of their continued professional development.

15 Significant Events since the Reporting Date

15.1 The unrealised loss on the externally managed funds of £591,000 (mentioned in 8.2) has reduced to £153,000 as at 30 April 2019 due to improved performance from the funds.

Corporate implications

16 Financial implications

16.1 All of the activities and returns in this report culminate in a financial impact on the council's interest and investment income. An analysis of the interest and investment income compared to the estimate for 2018/19 is shown in Appendix 1.

16.2 The net effect of all of the activities is a surplus of interest and investment income of £121,000 compared to the revised budget which in accordance with the council's financial policies will be returned to the Interest Risk Reserve.

17 Future Financial Implications

17.1 The continuation of a low interest rate environment will have on-going implications in future years. These implications have been recognised in the council's budget strategy for 2019/20 to 2022/23.

17.2 The budget strategy has set an income target for achieving more income from alternative ways of generating investment income. For example, the "Invest to Grow Fund" and an enhancement of the council's Property Investment Strategy. All of these strategies will be reviewed as part of the updated Medium Term Financial Strategy (MTFS) for 2020/21 to 2023/24.

18 Risk management

18.1 A risk assessment has been completed in accordance with the council's risk management process and has identified the following significant (Red or Amber) residual risks that cannot be fully minimised by existing or planned controls or additional procedures. The main risks at this stage are as follows:

18.2 A funding gap could materialise due to another financial markets crisis, being too risk averse, counterparty default, decline in fund valuations and a lower interest rate environment.

18.3 There are considerable risks associated with investments. The main risks are credit risk (the risk of default by the counterparty) and interest rate risk or market risk (the risk that interest rates in the financial markets will move adversely).

18.4 The investments in externally managed pooled funds have an increased exposure to credit risk in order to generate enhanced returns, but reduce the council's exposure to interest rate risk. This additional exposure to credit risk is managed by external fund managers who have the necessary expertise and resources to ensure that an appropriate level of risk is taken.

18.5 Returns from externally managed funds are expected to be more volatile than returns from the council's internally managed investments and there is the possibility that the value of the investment could reduce in the short term and therefore the fund holdings should be seen as medium to long term investments with a two to five year time horizon.

18.6 All investment risks are constantly monitored and are also reviewed annually along with all the other risks as part of formulating the council's annual Treasury Management Strategy. The annual review of the strategy includes examination of alternative types of investment.

18.7 The significant risks relating to Treasury Management are recorded on the council's Corporate Risk Register with details of how these risks are mitigated.

19 Other corporate implications

19.1 There are no Legal, Human Resources or equalities implications.

20 Consultation and communication

20.1 There is no requirement for consultation.

Date: 18 July 2019 **Decision taken by: Council**

Lead officer	Executive Director of Finance and Resources (Section 151 Officer) – Sue Cuerden Tel: 01256 845513 Email Sue.Cuerden@basingstoke.gov.uk
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Version	Final
Dated	02 July 2019
Status	Open
Confidentiality	It is considered that this report and appendices do not contain exempt information under the meaning of Schedule 12A of the Local Government Act 1972, as amended, and therefore can be made public.

Appendix 1

TREASURY MANAGEMENT INCOME for 2018/19

	Estimate 2018/19 £'000	Actual 2018/19 £'000	Variance 2018/19 £'000
Interest and Investment Income			
Net Interest from Gilts	1,054	1,036	(18)
Net Interest from Local Authority Bonds	113	209	96
Net Interest from Supranational Bonds	68	74	6
Distributions from Diversified Credit Funds	880	1,006	126
Distributions from Absolute Return Bond Funds	375	233	(142)
Interest from Short Term Cash Investments	131	221	90
Interest from Liquidity Cash	68	114	46
Sale of External Fund Investments	0	(107)	(107)
Miscellaneous Interest Received	91	117	26
	2,780	**2,903**	**123**
Unrealised Gain/(Loss) on Investments	0	(954)	(954)
Total Interest and Investment Income	**2,780**	**1,949**	**(831)**
Interest Paid	(18)	(8)	10
Appropriations (Reserve Movements)			
From Capital Adjustment Account for Premiums on Bonds	12	0	(12)
From Financial Instruments Adjustment Account (Statutory Reversal of Gain/Loss)	0	825	825
From Capital Adjustment Account for Unrealised Gain/Loss	0	129	129
Total Income for Treasury Management	**2,774**	**2,895**	**121**

( ) denotes an adverse variance

Appendix 2

Treasury Management Investment Holdings as at 31 March 2019

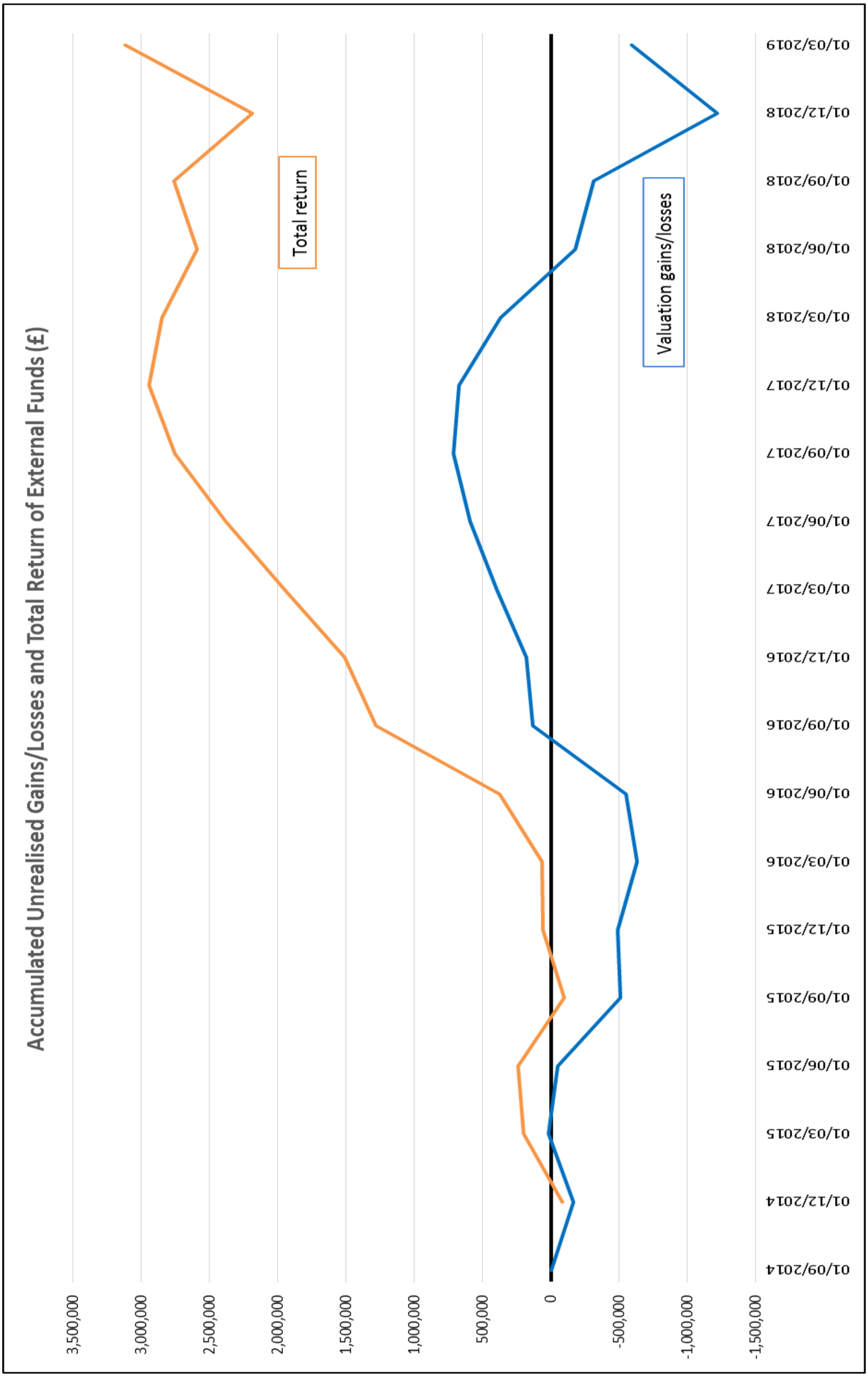
Type of Investment	Yield (%)	Credit Rating	Rating Agency	Start Date	Maturity Date	Cost Amount (£)
Gilts						
UK Treasury 1.75% coupon	1.93	AA	Fitch	10/03/2014	22/07/2019	4,954,257
UK Treasury 4.75% coupon	3.88	AA	Fitch	16/11/2009	07/03/2020	10,730,000
UK Treasury 2.00% coupon	1.53	AA	Fitch	24/06/2015	22/07/2020	5,113,616
UK Treasury 3.75% coupon	3.37	AA	Fitch	05/08/2010	07/09/2020	7,225,400
Total						**28,023,273**
Supranational Bonds						
European Investment Bank Floating Rate Note	0.69	Aaa	Moody's	09/10/2015	16/04/2019	4,019,540
Total						**4,019,540**
Diversified Credit Funds						
M&G Alpha Opportunities Fund	variable	Not Rated	N/A	01/12/2014	1 month notice	10,000,000
M&G Total Return Credit Investment Fund	variable	Not Rated	N/A	26/11/2014	3 days notice	10,000,000
BlackRock Fixed Income Global Opportunities Fund	variable	Not Rated	N/A	22/10/2015	3 days notice	10,000,000
BlackRock Fixed Income Global Opportunities Fund	variable	Not Rated	N/A	10/01/2017	3 days notice	10,000,000
Total						**40,000,000**
Absolute Return Bond Funds						
Kames Absolute Return Bond Fund	variable	Not Rated	N/A	12/02/2018	3 days notice	15,000,000
Total						**15,000,000**
Short Term Investments						
Leeds City Council	0.75	Not Rated	N/A	23/11/2018	1 week's notice	5,000,000
Flintshire County Council	0.90	Not Rated	N/A	01/02/2019	10/04/2019	5,000,000
Plymouth City Council	0.87	Not Rated	N/A	08/02/2019	08/05/2019	5,000,000
Thurrock Council	0.88	Not Rated	N/A	14/02/2019	14/05/2019	5,000,000
Fareham Borough Council	1.00	Not Rated	N/A	13/03/2019	05/06/2019	3,000,000
Dover District Council	1.00	Not Rated	N/A	08/03/2019	19/06/2019	5,000,000
Surrey County Council	1.00	Not Rated	N/A	08/03/2019	08/08/2019	5,000,000
West Dunbartonshire Council	1.00	Not Rated	N/A	26/03/2019	15/08/2019	5,000,000
Total						**38,000,000**
Liquidity Cash						
Goldman Sachs Liquid Reserves	variable	AAAm	S&P	31/03/2019	On Call	3,100,000
SSgA GBP Liquidity	variable	AAAm	S&P	31/03/2019	On Call	1,400,000
Blackrock Sterling Liquidity	variable	AAAm	S&P	31/03/2019	On Call	4,000,000
Morgan Stanley Sterling Liquidity	variable	AAAm	S&P	31/03/2019	On Call	1,100,000
Deutsche Managed Sterling	variable	AAAm	S&P	31/03/2019	On Call	500,000
Invesco Short Term Liquidity Portfolio	variable	AAAm	S&P	31/03/2019	On Call	1,900,000
Total						**12,000,000**
Grand Total						**137,042,813**

Appendix 3

Unrealised Valuation Gains and Losses as at 31 March 2019

	Nominal Holding	Purchase Value (£)	Written down Value (£)	Market Value (£)	Un-realised Gain/(Loss) (£)
Externally Managed Funds (Long Term)					
	Shares				
M&G Alpha Opportunities	97,893	10,000,000	10,000,000	10,088,806	88,806
M&G Total Return Credit Investment	99,874	10,000,000	10,000,000	10,260,076	260,076
BlackRock Fixed Income Global Opportunities	2,049,539	20,000,000	20,000,000	19,265,668	(734,332)
Kames Absolute Return Bond Fund	1,507,174	15,000,000	15,000,000	14,793,969	(206,031)
Total External Fund Holdings	**3,754,480**	**55,000,000**	**55,000,000**	**54,408,519**	**(591,481)**
Internally Managed Bonds (Long Term)					
	£				
Government Gilts	27,000,000	28,023,273	27,125,194	27,786,770	661,576
Supranational Bonds	4,000,000	4,019,540	4,000,243	4,000,720	477
Total Long Term Bonds	**31,000,000**	**32,042,813**	**31,125,437**	**31,787,490**	**662,053**
Total Unrealised Gain					**70,572**

Appendix 4

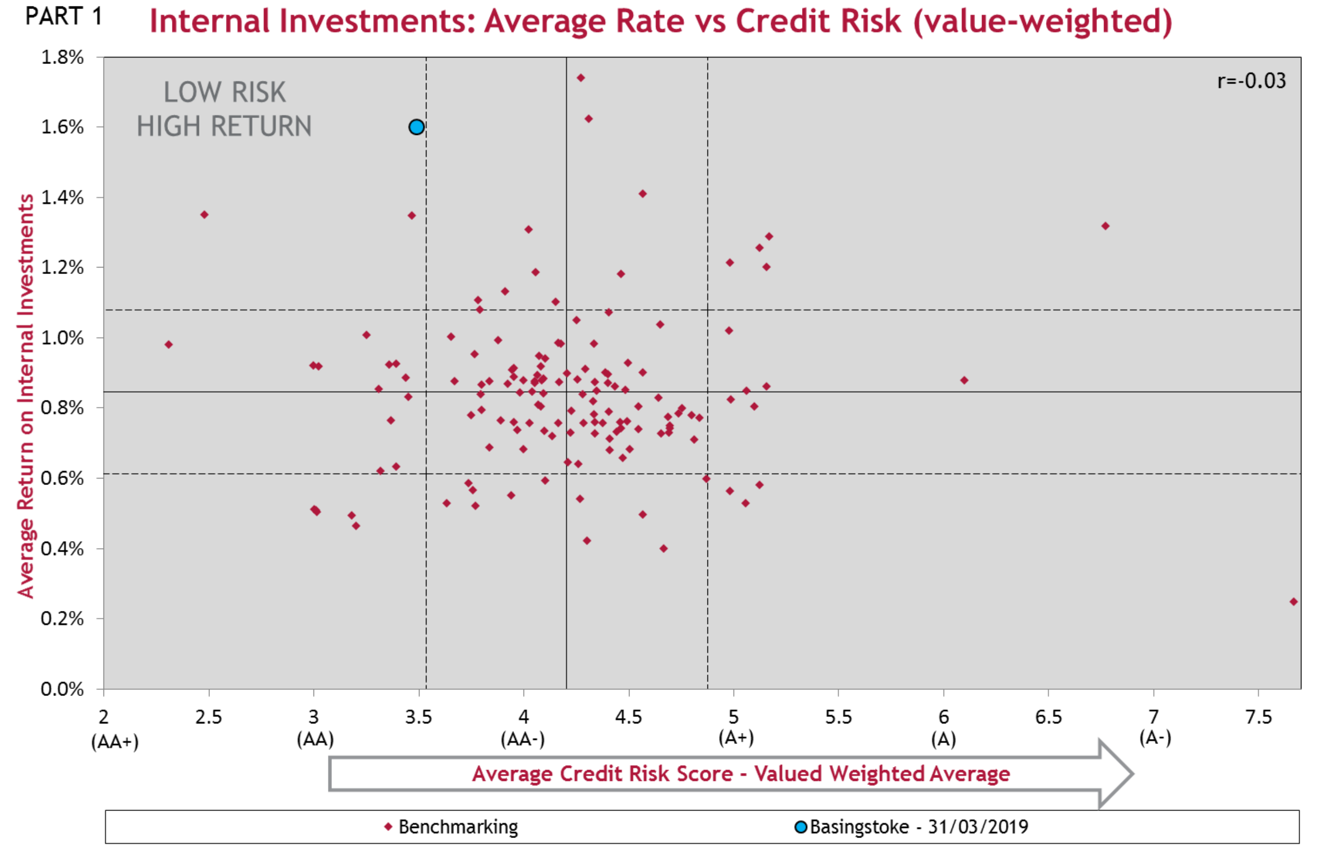


Accumulated Unrealised Gains/Losses and Total Return of External Funds (£)
Total return
Valuation gains/losses
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
-500,000
-1,000,000
-1,500,000
01/09/2014
01/12/2014
01/03/2015
01/06/2015
01/09/2015
01/12/2015
01/03/2016
01/06/2016
01/09/2016
01/12/2016
01/03/2017
01/06/2017
01/09/2017
01/12/2017
01/03/2018
01/06/2018
01/09/2018
01/12/2018
01/03/2019

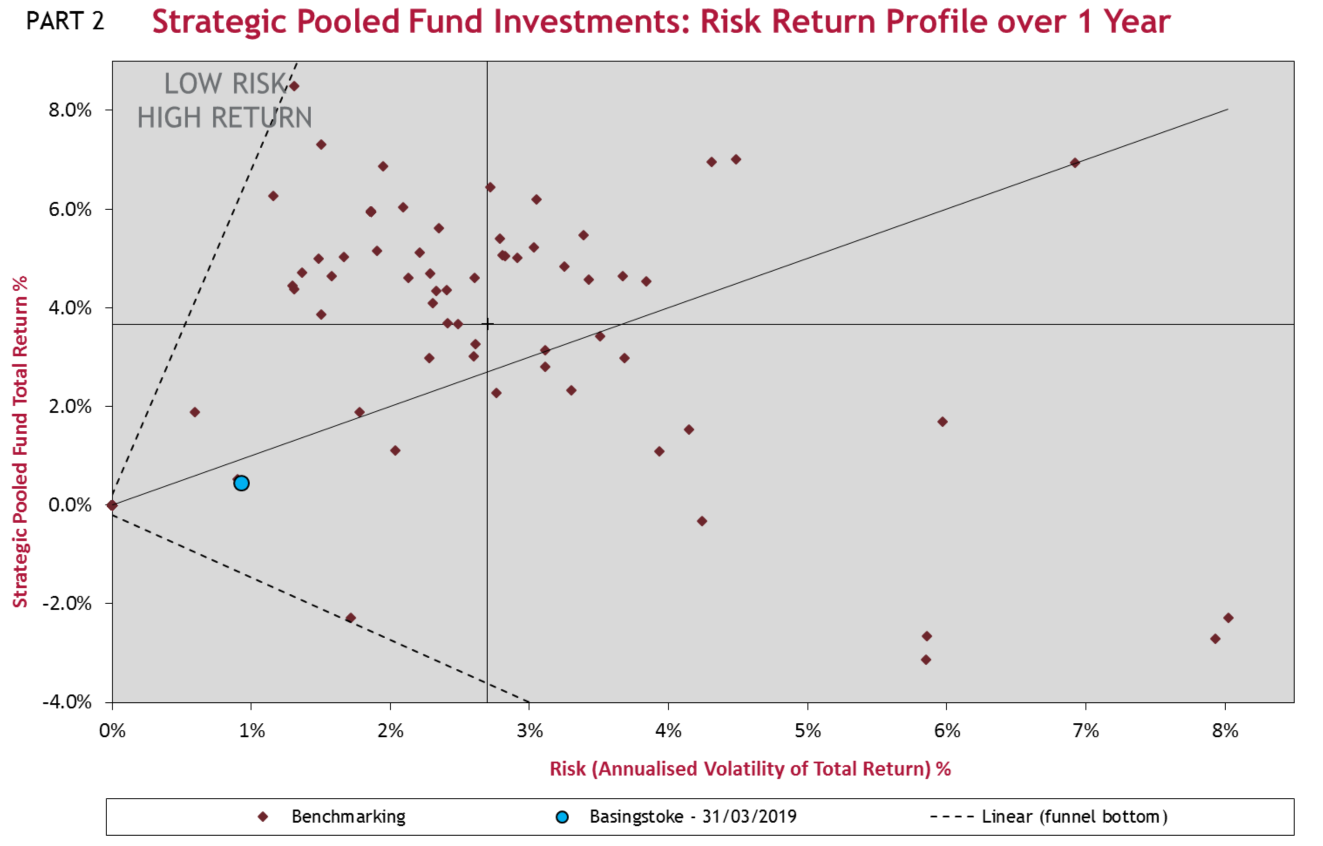
Appendix 5

ARLINGCLOSE CLIENT BENCHMARKING AS AT 31 MARCH 2019

PART 1



PART 2



Appendix 6

Compliance with Strategy Limits as at 31 March 2019

Approved Instruments	Holding 31/03/19 £m	Holding 31/03/19 %	2018/19 Strategy Limits
Government Gilts	28.0	20%	Max 91%
Treasury Bills	0.0	0%	Max 91%
HM Treasury (DMADF)	0.0	0%	Max 100%
Supranational Bonds	4.0	3%	Max £50m
Local Authority Loans/Bonds	38.0	28%	Max £50m
Money Market Funds	12.0	9%	Max £25m
Collective Investments: Short Term Cash Funds	0.0	0%	Max £25m
Collective Investments: Diversified Credit/Bond Funds	55.0	40%	Max £80m
Bank/Building Society Repurchase Agreements	0.0	0%	Max £25m
Bank Ovenight Call Accounts	0.0	0%	Max £15m
Total	**137.0**	**100%**	
Long Term Investments (beyond 365 days)	87.0	64%	Max £98m
Short Term Investments (up to 365 days)	50.0	36%	
Total	**137.0**	**100%**	

Compliance with Prudential Indicators for 2018/19

	2018/19 Indicator Limit	as at 31/03/19
External Debt Indicators		
Authorised Borrowing Limit	£50,000,000	£65,400
Operational Borrowing Boundary	£25,000,000	£65,400
Treasury Management Indicators		
Upper Limit on Fixed Rate Exposure	100%	48%
Upper Limit on Variable Rate Exposure	100%	52%
Sums Invested Beyond One Year (Nominal)	£98,000,000	£67,000,000
Maturity of amounts of long term investments		
Available at short notice	Not Applicable	£55,000,000
2019/20	£25,000,000	£19,000,000
2020/21	£25,000,000	£12,000,000
2021/22	£25,000,000	£0
2022/23	£25,000,000	£0
2023/24	£15,000,000	£0
2024/25	£15,000,000	£0
2025/26	£15,000,000	£0
2026/27	£15,000,000	£0
2027/28	£15,000,000	£0

Note: External Debt consists of Parish Deposits. There has been no requirement for short-term borrowing for cash flow purposes in 2018/19.