MINUTES of
FINANCE AND CORPORATE SERVICES COMMITTEE
12 JUNE 2018

PRESENT

Chairman	Councillor D M Sismey
Vice-Chairman	Councillor I E Dobson
Councillors	Mrs B F Acevedo, J P F Archer, P G L Elliott, A S Fluker, B E Harker and Rev. A E J Shrimpton
Substitute Member	Councillor B S Beale MBE
In attendance	Councillor Miss M R Lewis

163. CHAIRMAN'S NOTICES

The Chairman drew attention to the list of notices published on the back of the agenda.

164. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors M F L Durham and M S Heard.

In accordance with notice given it was noted that Councillor B S Beale MBE was attending as a substitute for Councillor Heard.

165. MINUTES OF THE LAST MEETING

RESOLVED that the Minutes of the meeting of the Committee held on 19 April 2018 be approved and confirmed.

166. DISCLOSURE OF INTEREST

Councillor D M Sismey disclosed that he was Managing Director of Goldman Sachs and would therefore leave the meeting for Agenda Item 12 – Annual Treasury Outturn 2017 / 18.

167. PUBLIC PARTICIPATION

No requests had been received.

168. CHAIRMANS' GOOD NEWS

The Chairman advised that the accounts for 2017 / 18 had been published and were now subject to an audit which had been started by Ernst Young UK (the Council's External Auditors).

He asked that the thanks of the Committee be passed to the finance team and Carrie Cox, Finance Manager for their hard work on the accounts.

169. RESOURCES DIRECTORATE

The Chairman advised that there would not be a presentation.

170. CHIEF EXECUTIVE'S PERFORMANCE APPRAISAL

It was agreed that this item of business would be brought up the agenda and considered next.

The Committee considered the report of the Leader of the Council updating Members on progress of the Chief Executive's performance appraisal.

The report set out the process undertaken by the Leader of the Council in respect of the Chief Executive's appraisal. It was noted that dates for performance reviews had been set and Appendix 1 to the report provided a summary of progress against objectives.

In the absence of the Leader of the Council, Councillor A S Fluker as Deputy Leader of the Council presented the report and provided detailed background history regarding the Chief Executive's performance appraisal. During his introduction he asked that the Committee pass on their wishes to the Leader of the Council for a speedy recovery following an accident he had over the weekend. Councillor Fluker then proposed that the contents of the report be noted.

Councillor D M Sismey clarified that he had been consulted on the proposed objectives but was not consulted either before or afterwards regarding Councillor Fluker attending the appraisal meeting in his place. He also referred to the Chief Executive's objectives set for 2016 and felt that by virtue of Councillor Miss M R Lewis (Leader of the Council at that time) and Councillor I E Dobson (representing the Chairman of the Finance and Corporate Services Committee) being authorised by this Committee and the Council to undertake the appraisal these objectives were adopted and were not draft. Notwithstanding a change in leadership these objectives should therefore stand until another appraisal was carried out or replaced by updated ones.

Councillor B S Beale, Leader of the Opposition, referred to the previous processes undertaken for carrying out the Chief Executive's appraisal to which he had always been part of. However, in relation to the 2017 appraisal he clarified that had not been consulted at any stage and refuted the statement in the report at paragraph 3.4 that he had.

A lengthy debate ensued during which a number of Members expressed concern regarding the process undertaken. The Chairman highlighted paragraph 3.8 of the report which contained a number of recommendations proposed to address the breakdown in procedure.

In response to comments made the Chief Executive outlined the background regarding her 2016 and 2017 appraisals and the reasons which had led to the identified breakdown in procedure. She advised that she had put forward the recommendations in section 3.8 of the report to make provide clarity to the process.

Councillor Sismey commented on the proposed recommendations at paragraph 3.8 and proposed that in addition to these that the Committee add;

- That the deadline for the Chief Executive's appraisal to be undertaken be aligned to the deadline for all staff of 30 June.
- that the Director of Resources or an appointment made by them from within the HR department be required to:
  - a) objectively ensure that the process for the Chief Executive's appraisal is followed;
  - b) report to the following meeting of the Finance and Corporate Services Committee immediately after the June deadline that the process has been followed and the appraisal taken place.

With the permission of the Chairman, Councillor Miss M R Lewis addressed the Committee and provided a detailed history regarding her undertaking of the Chief Executive's appraisal in 2016 when she was Leader of the Council. She pointed out a number of discrepancies within the report of the Leader of the Council and felt that it inferred that she had not carried out her duties and requirements as Leader of the Council which she had.

The Chairman requested that it be minuted that Members raised a number of questions over the accuracy of some of the historic elements of the report and emphasised the importance to make sure that the procedure was on a sound footing going forward.

Councillor Beale proposed that the Council receive an explanation as to how the current situation had occurred and the matter be referred to the Overview and Scrutiny Committee. In response the Chairman suggested that this would be best dealt with as a question to the Leader of the Council.

Councillor P G L Elliott commented on the report and suggested that going forward, prior to the Statutory Annual meeting of the Council, a final meeting for the municipal year be undertaken with the Chief Executive to review the objectives and identify any points of action. Then new objections could be set following the statutory annual meeting. The Chairman suggested that this could be covered by way of clarification to point (e) so that the third review meeting take place just before the end of the municipal year.

Councillor Elliott commented as it was clear that the process had not been followed that consideration of the report be deferred and brought back to the Committee following completion of the procedure. The Chairman agreed that in light of there being a query over the current objectives these should be renewed and going forward the process followed.

Following further discussion Councillor Sismey proposed that the Council's Procedure Rules be updated to set out the requirements (a) to (e), as detailed in section 3.8 of the report with the following amendments and additions:

- been that point (c) be amended as follows:
    - The appraisal will take place soon after the Statutory Annual meeting of the Council *and before 30 June*.
- that point (e) be amended as follows:
    - Performance reviews against the agreed objectives will be undertaken at least every four months *and an end of year review be undertaken prior to the Statutory Annual meeting of the Council*.
- that the Director of Resources or an appointment made by them from within the HR department be required to:
    a) objectively ensure that the process for the Chief Executive's appraisal is followed
    b) report to the following meeting of the Finance and Corporate Services Committee immediately after the June deadline that the process has followed and the appraisal taken place.

It was noted that this would be a recommendation to the Council as it involved a change to the Council's Procedure Rules.

He also proposed that the current objectives be renewed and brought back to a future meeting of this Committee.

This proposal was duly seconded and agreed.

RESOLVED

(i) that the contents of the report be noted;

(ii) that the current objectives be renewed and brought back to a future meeting of this Committee.

RECOMMENDED

(iii) that the procedure rules be updated to set out the requirements (a) to (e), as detailed in section 3.8 of the report with the following amendments and additions:

- that point (c) be amended as follows:
    - The appraisal will take place soon after the Statutory Annual meeting of the Council *and before 30 June*.
- that point (e) be amended as follows:
    - Performance reviews against the agreed objectives will be undertaken at least every four months *and an end of year review be undertaken prior to the Statutory Annual meeting of the Council*.

- that the Director of Resources or an appropriate appointment of theirs in the HR department is required to:
  - objectively ensure that the process for the Chief Executive's appraisal is followed
  - report to the following meeting of the Finance and Corporate Services Committee immediately after the June deadline that the process has been followed and the appraisal has taken place.

Councillor Miss M R Lewis left the meeting at this point and did not return.

171. REVIEW OF PERFORMANCE 2017 / 18

The Committee considered the report of the Chief Executive giving details of performance against targets set for 2017 / 18 and to ensure that progress was being achieved towards the corporate goals and objectives detailed in the Corporate Plan 2015 - 19 adopted by the Council.

The Key Corporate Activities assessed as being "behind schedule" or "at risk of not being achieved" along with indicators which had not achieved their end of year target were set out in Appendix 1 to the report.

RESOLVED that performance against the targets set for 2017 / 18 be noted.

172. HUMAN RESOURCES STATISTICS - QUARTER FOUR 2017 / 18

The Committee received and noted the report of the Director of Resources presenting Human Resources statistics for the period 1 January to 31 March 2018.

Statistics and updates relating to the following areas were detailed in the report:

- Labour Turnover;
- Exit Questionnaires;
- Recruitment;
- Job Vacancies;
- Staff Sickness Levels
- Workforce Statistics – attached as Appendix 1 to the report.

Members noted that the overall staff sickness levels had decreased by 20% in comparison to the previous financial year.

RESOLVED that the contents of the report be noted.

173. HUMAN RESOURCES POLICIES AND PROCEDURES

The Committee considered the report of the Director of Resources seeking Members consideration of Human Resources policies and procedures which had been amended and developed.

The report set out a proposed change to the Council's Code of Conduct and it was noted that this change had been brought forward in consultation with the Corporate Leadership Team and Unison.

In response to a question, the Director of Resources informed the Committee of the Employee Assistance Programme, a confidential service available to all employees and advised that as part of the policy staff were asked to raise any difficulties they may be having with Human Resources.

RECOMMENDED that the following two sections be added to the Code of Conduct:

24 Financial

24.1 All employees will ensure:

- they do not default on payments owed to the Council i.e. Council Tax.
- never make fraudulent claims for public money to gain a financial advantage i.e. housing benefit.
- to adhere to any agreements reached for the repayment of such debts.

24.2 Employees who are in debt or at risk to the Council or are concerned that missed payments may occur should discuss the matter as soon as is possible with a member of the Human Resources team. Failure to do so could lead to formal action being taken.

24.3 Employees in receipt of any allowances or rebates administered by the Council (e.g. council tax rebates) must notify the Council of any change in circumstance that affect the entitlement.

25 Accessing IT systems

25.1 Employees will at all times ensure that they comply with the Officer Conditions of Acceptable Use and Personal Commitment Statement policy relating to use of IT equipment.

25.2 It is recognised that staff can face a conflict of interest when undertaking their roles. To protect the interests of both the staff concerned and the Council against criticism or allegation of malpractice, as a 1matter of procedure no employee shall;

- amend or seek to influence the processing of any computer or other record concerning any matter in which they, a family member or friend have an interest;
- use the Councils IT systems or any other records held to view either their own data or that of records of family or friends.

- use data obtained from any of the Councils IT systems or any other records to give themselves, family or friends any advantage.
- update any records that relate to themselves, family or friends.

174. ANNUAL REPORT ON THE WHISTLEBLOWING POLICY

The Committee considered the report of the Director of Resources reporting on any complaints made under the Whistleblowing Policy for 2017 / 18.

The Director of Resources advised that no reports had been made under the Whistleblowing for the year 2017 / 18.

RESOLVED that the content of the report be noted.

175. FINANCIAL OUTTURN 2017 / 18

The Committee received the report of the Director of Resources providing information on the outturn position for the 2017 / 18 financial year and also movements in relation to the Council's General Fund / Earmarked Reserves and Capital Commitments as at 31 March 2018. It was noted that the table detailed in paragraph 3.1.2 of the report incorrectly referred to the figures as being in thousands (£000's). Appendix 1 to the report gave details of the salary budgets and actual expenditure at the end of the financial year and Appendix 2 detailed the Earmarked Reserves and the movements in 2017 / 18.

RESOLVED

(i) That the estimated outturn position for the 2017 / 18 financial year be reviewed;

(ii) That the movement in earmarked reserves be reviewed;

(iii) That the capital commitment roll forwards be reviewed.

Following his earlier declaration Councillor D M Sismey left the meeting at this point.

IN THE CHAIR : COUNCILLOR I E DOBSON

176. ANNUAL TREASURY OUTTURN 2017 / 18

The Committee considered the report of the Director of Resources seeking Members' approval of the annual report (attached as Appendix A to the report), in accordance with the code of practice on Treasury Management.

In response to a question, the Finance Manager advised that Arlingclose were the Council's Treasury Management Advisors and had been so for a number of years.

In response to questions about the recent agreement of the Council regarding Full Council Transformation, the Director of Resources advised of the up-front investment required which would come from reserves. However, savings were due to be delivered in respect of this in year two.

RECOMMENDED that annual Treasury Management Report for 2017 / 18 attached at **APPENDIX 1** to these Minutes be approved.

Councillor Sismey returned to the chamber.

IN THE CHAIR : COUNCILLOR D M SISMEY

177. SUPPLEMENTARY CAPITAL ESTIMATE

The Committee considered the report of the Director of Resources, seeking Members' approval of a supplementary capital estimate of £26,500 to purchase a replacement vehicle for use within the Parks and Countryside Team. An overview to the project was attached as Appendix 1 to the report.

It was noted that if approved, the supplementary estimate would enable replacement of an elderly vehicle and ensure operations were not adversely effected.

Members were reminded that in accordance with revised guidance for capital projects, any budget not provisioned in the year it was requested would be put back into reserves until a project was reconsidered by Members. This project did not progress as originally planned and therefore was being brought back to Members for reconsideration.

RESOLVED that a supplementary capital estimate of £26,500 to purchase a replacement vehicle for use within the Parks and Countryside Team be agreed.

178. STRATEGIC AND FINANCIAL PLANNING PROCESS

The Committee received the report of the Director of Resources seeking agreement to the annual Strategic and Financial Planning Process (S&FPP) for 2018 / 20 as set out in Appendix 1 to the report.

It was noted that the Strategic and Financial Planning Process aimed to ensure available resources were effectively directed towards achievement of the Council's agreed corporate goals.

RESOLVED that the Strategic and Financial Planning Process for 2019 / 20, be approved.

179. PROPOSALS TO CHANGE TO OFFICE OPENING TIME TO PUBLIC

The Committee considered the report of the Director of Customers and Community, updating Members on the outcome of a three month trial of a revised opening time to the public of 10am on the last Wednesday of each month. The report sought Members' approval to make this revised opening time permanent.

The report provided background information regarding the trial and it was noted that it had been very successful with good use of the time to undertake staff briefings, meetings and training.

It was requested that the Committee receive quarterly or six monthly reports on the outcomes of these changes.

RECOMMENDED that on the last Wednesday of each month the Council Offices open at 10am to enable staff meetings and training to be undertaken during that time.

There being no further items of business the Chairman closed the meeting at 8.28 pm.

D M SISMEY
CHAIRMAN

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Annual Treasury Report 2017-18

1. Background

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).

The Council's Treasury Management Strategy for 2017/18 was approved by the Council on 22 March 2018 (Minute No. 919 refers).

The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

2. Economic Background provided by Arlingclose

Economic background. 2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

Financial markets: The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

Credit background:

<u>Credit Metrics</u>

In the first quarter of the financial year, UK bank credit default swaps reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Council would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.

Money Market Fund regulation: The new EU regulations for Money Market Funds (MMFs) 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 Net Asset Value (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.

Credit Rating developments

The most 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.

Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.

Other developments:

In February, Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget.

In March, following Arlingclose's advice, the Council removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for FY 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Council's lending list.

Local Authority Regulatory Changes

Revised CIPFA Codes: CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code will be incorporated into Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions. A Capital Strategy will be produced in 2018/19.

In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is be identified and reported.

MHCLG Investment Guidance and Minimum Revenue Provision (MRP): In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

MiFID II: As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could "opt up" to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the council have at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Council has met the conditions to opt up to professional status and has done so in order to maintain its former MiFID II status prior to January 2018. The Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Local Context

At 31/03/2018 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was zero.

At 31/03/2018, the Council had no borrowing and £11.5 m of investments. The Council may however have to borrow to pre fund future years requirements or unexpected capital expenditure that occurs in the year providing this does not exceed the authorised limit for borrowing of £10m.

The Council is currently debt free and its approved capital expenditure plans do not imply any need to borrow over the forecast period. Investments are forecast to fall to £9m as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget over the next three years.

Investment Activity

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18, the Council's investment balance ranged between £11 and £22 million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change is shown in the table below

Investment Activity in 2017 / 18

Investments	Balance on 01/04/2017 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Balance on 31/03/2018 £'000
Short term fixed Investments	2,000	6,000	8,000	0
Cash Accounts	2,000	0	0	2,000
Money Market Funds	2,500	44,000	43,000	3,500
Certificates of Deposit	2,000	2,000	3,000	1,000
LAMIT Property Fund	3,000	0	0	3,000
Investec Diversified Income fund	0	2,000	0	2,000
TOTAL INVESTMENTS	11,500			**11,500**
Increase/ (Decrease) in Investments £m				-

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, and given the increasing risk and low returns from short-term unsecured bank investments, the Council diversified into higher yielding asset classes during 2017/18. £2m that is available for longer-term investment was moved from bank and building society deposits into the Investec Diversified Income Fund. As a result the average rate of return has increased by 1.15% to 3.04%.

Compliance Report

All treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

The Council continues to be debt free so compliance with the authorised limit and operational boundary for external debt is confirmed.

Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.18 Actual	2017/18 Threshold	Complied
Portfolio average credit score	2.7	6	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	31.3.18 Actual	2017/18 Target	Complied
Total cash available within 3 months	5m	5.5m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of interest payable, should borrowing become necessary, would be:

	31.3.18 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	0	100%	✓
Upper limit on variable interest rate exposure	0	100%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate should borrowing become necessary, would be:

	31.3.18 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0%	100%	0%	✓
12 months and within 24 months	0%	100%	0%	✓
24 months and within 5 years	0%	100%	0%	✓
5 years and within 10 years	0%	100%	0%	✓

10 years and above	0%	100%	0%	✓

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.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2017/18	**2018/19**	**2019/20**
Limit on principal invested beyond year end	1m	1m	1m
Complied	✓		

There were no investments made beyond 364 days in 2017/18

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