Appendix A

Treasury Management Annual Report 2017/18

1. Introduction

Treasury management is defined as: “The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2. Economic events of 2017/18

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 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 increase 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. In March the MPC stopped short of committing itself to the timing of the next increase in rates although the minutes of the meeting suggested that an increase in May 2018 was highly likely. In the event, it wasn’t until the August 2018 meeting that rates were increased by a further 0.25% to 0.75%, the highest since March 2009.

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 made a further increase of 0.25% in June 2018 and is expected to deliver two more increases in 2018. 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 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: In the first quarter of the financial year, UK bank credit default swaps (CDS) 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 Authority would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities 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 re-structured 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. It is expected that most of the short-term MMFs used by the Council will convert to the LVNAV structure.

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.

Most UK banks credit ratings were affected by the impending ring-fencing of retail activity from investment banking and reviews of rating will continue into 2018 as the ring-fencing takes place.

Other developments: In February, Arlingclose advised against lending to Northamptonshire County Council after they 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.

Local Authority Regulatory Changes:

Revised CIPFA Codes: CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes have been incorporated into Treasury Management Strategies and monitoring reports for 2018/19.

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.

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.

The Capital Strategy was included as Appendix 10 in the Medium Term Financial Strategy and approved by Council on 22nd February 2018.

Further updates including a detailed investment strategy and amendments to the Capital Strategy, Treasury Management Strategy, Prudential Indicators and Treasury Management Practices made in accordance with the new regulatory framework will be included in future reports.

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.

<u>MiFID II:</u> 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 authority 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 the person(s) to have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Authority has met the conditions to opt up to professional status and has done so with all counterparties that we deal with. In order to continue trading in treasury bills and bonds the Council is required to register for a Legal Entity Identifier number for which an annual fee is payable. As the Council currently has limited scope for holding these investments due to reduced investment balances this has not ben applied for.

3. Treasury Year End Position

The amount of investments outstanding at 31st March 2018 was £23.8m (compared to £29.8m as at 31st March 2017) as follows:

	31/03/17	**31/03/18**
	£m	**£m**
GOVERNMENT		
Central Bedfordshire Council	-	6.6
Surrey Heath District Council	-	5.0
Lancashire County Council	2.0	-
UK BANKS		
Barclays Bank	0.5	0.7
MONEY MARKET FUNDS		
Standard Life	3.9	0.5
Deutsche	3.5	0.5
CCLA	0.5	0.5
Federated Investors	1.7	-
Aberdeen Asset (formerly Scottish Widows)	1.7	-
MANAGED FUNDS		
Property Funds	7.5	7.5
Royal London – Enhanced Cash Fund	-	2.5
Federated Investors – Cash Plus Fund (VNAV)	7.5	-
Deutsche – Ultra Short Fund (VNAV)	1.0	-
TOTAL	**29.8**	**23.8**

There have been no significant changes since 2016/17 with the emphasis remaining on short term investments to maintain liquidity combined with some longer term strategic investments in managed funds to benefit from higher returns and underlying growth in value.

The net investment income received in 2017/2018 after allowing for fees and interest due to the Growing Places and Local Growth Funds was £0.32m.

The overall average rate of interest on all investments in 2017/18 was 1.55% compared to the benchmark 7 day LIBID average return of 0.31% and our own performance target of 1.00% (Base Rate + 0.50%). The base rate was increased from 0.25% to 0.50% in November 2017.

Investment income forms part of the capital financing budget, which also includes the amount charged in respect of the repayment of outstanding debt and the amount of interest payable on the Council's portfolio of long term loans. The capital financing budget for 2017/18 was originally £14m, accounting for 6% of the Council's net revenue budget.

During 2017/18 the Section 151 Officer explored options to revise the approach to calculating the Minimum Revenue Provision (MRP) to release revenue funding and mitigate overspending on services. Following liaison with the Council's treasury management advisors, Arlingclose, the annuity method has been used to calculate the Minimum Revenue Provision. This resulted in the ability to take an MRP holiday and realise savings of £6m in 2017/18. This approach was approved by Council at its meeting on 14th December 2017.

We will continue to monitor performance during 2018/19 through the benchmarking service provided by the Council's Treasury Management Advisors, Arlingclose Ltd.

4. Compliance with Treasury Limits

During the financial year the Council has operated within the treasury limits and Prudential Indicators set out in the Councils' Treasury Policy Statement and annual Treasury Strategy Statement (see section 7) with the exception of maturity of borrowings. The limit of borrowing due to mature in less than 1 year is 35% of total borrowing. However, the combined effect of long term LOBO loans being included within this limit (due to the unlikely possibility that an option may arise where they can be repaid) and the current strategy of borrowing on a very short term basis has lead to a breach of this limit with 46% of loan value classed as maturing within 1 year.

This will be addressed by amending the Treasury Management Strategy in 2018/19 to allow for more short term borrowing. The risk is that re-financing of maturing borrowing will be at higher rates than we could have achieved by longer term borrowing taken out now. Our treasury advisors continue to monitor interest rates and plan for future likely scenarios and will advise when we should take longer term borrowing.

5. Investment Strategy for 2017/18

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority'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.

Investment instruments identified for use in the financial year are set through the Councils' Treasury Management Strategy Statement and Investment Strategy. Different limits apply to counterparties based on a range of credit criteria which governs the maximum amount and the maximum maturity periods of any investments. This is kept under continual review with institutions added or removed from our list of counterparties during the year dependent on their qualification according to the credit criteria measures.

Investment Objectives

All investments were in sterling. The general policy objective of the Council was the prudent investment of its treasury balances. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

Credit Risk

Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

The maximum amount that can be invested with any one organisation is set in the Treasury Management Strategy Report. For unsecured investments with named UK banks and credit rated building societies this has been set at a maximum value of £6m. This limit applies to the banking group that each bank belongs to.

Limits for each Money Market fund have been set at a maximum value of £12m per fund. There is also a maximum that can be invested in all Money Market Funds at any one time of £50m in total. Due to their smaller size, unrated Building Societies have a limit of £1m each.

Liquidity

In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and the use of call accounts. The Councils cash resources have an annual cycle dipping in March but with known receipts then due in April. Following the advance payment of £45m relating to the next 3 years pensions deficit funding the Council has been required to borrow additional funds in 2017/18. Any new borrowing has been short term (between 1 and 18 months) to take advantage of current low interest rates and minimise borrowing costs. This is likely to continue throughout 2018/19 as planned existing long term borrowing is repaid and internal balances reduce.

Yield

As the focus of treasury activity has now switched to borrowing, there is little scope to increase yield on balances held primarily for liquidity purposes. The Council has maintained some strategic externally managed investments yielding higher than average returns which do carry some risk to the underlying value.

Use of External Fund Managers

In previous years the Council had invested a total of £7.5m in a property fund. This fund is a diversified commercial and industrial property portfolio available to all local authorities. It is suitable where long term funds are available to invest to achieve an attractive income and capital growth over time. The value of this fund has steadily increased during 2017/18 and at 31st March 2018 had a realisable value of £7.87m although any changes in the underlying capital value of the fund will only be realised when the investments are sold.

The fund pays dividends on a quarterly basis which have averaged 4.84% return during 2017/18 on the initial sum invested. This is significantly above the rest of the Council's investments, where the average return was 0.37%. The continued use of this fund is being kept under review particularly in light of diminishing cash resources. However, as the cost of temporary borrowing to cover short term cash shortfalls was only 0.46% it was prudent to maintain this investment as part of our long term strategy.

Following the base rate increase on 2nd November 2017 some of the funds which were achieving higher returns than temporary borrowing were no longer yielding the same results. Cash was, therefore, withdrawn to reduce borrowing and, from December, to invest £2.5m in a Royal London Enhanced Cash Plus Fund. This fund pays dividends every 3 months so is too early to provide actual return information yet although it is expected to yield around 1%.

By maintaining strategic investments of £10m, the Council is entitled to be regarded as a professional client under the MIFID II regulations. This allows access to all funds and reduces administration on daily treasury activities which would otherwise have applied if the Council was regarded as a retail client.

6. Borrowing strategy

At the end of 2017/18 the Council had debt outstanding of £169.6m. Of this £76.9m represented loans from the PWLB, £17m represented loans raised from commercial banks, £72m represented temporary borrowing repayable in 2018/19 and 2019/20 whilst £3.7m represents interest free loans from Salix repayable within the next 4 years.

The Council's capital financing requirement (CFR) currently exceeds the amounts actually borrowed with the shortfall being funded from cash balances.

In accordance with the Treasury Management Strategy the Council has continued to finance its capital expenditure through the use of its own existing cash balances rather than through the raising of long term loans. The benefits of this are twofold; firstly by reducing the amount of cash balances held by the Council it reduces the credit risk and secondly, the interest foregone on the cash balances (or lower interest payable on temporary borrowing) used to finance capital expenditure payments was less than the amount of interest payable on any new long term loans that would have been raised.

7. Prudential Indicators 2017/18

The Council can confirm that it has complied with its Prudential Indicators for 2017/18, with the exception of borrowings maturing under 12 months, approved on 23rd February 2017 as part of the Council's Treasury Management Strategy Statement. Details can be found in Annex 1.

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2017/18. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

<u>Annex 1</u>

Prudential Indicators 2017/18 and revisions to 2018/19 – 2020/21

1. Background

1.1 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement

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

2.2 If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt. The Authority had no difficulty meeting this requirement in 2017/18, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Capital Expenditure

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2017/2018	2018/2019	2019/2020	2020/21
	Actual £m	Estimate £m	Estimate £m	Estimate £m
Total	**88.2**	**127.1**	**121.8**	**77.2**

Source: Cheshire East Finance

3.2 Capital expenditure has been and will be financed or funded as follows:

Capital Financing	2017/2018 Actual £m	2018/2019 Estimate £m	2019/2020 Estimate £m	2020/21 Estimate £m
Capital receipts	0.5	4.3	4.3	10.0
Government Grants	30.8	57.3	93.4	19.1
External Contributions	6.7	7.5	9.9	32.4
Revenue Contributions	0.3	2.7	0.0	0.0
Total Financing	**38.2**	**71.8**	**107.5**	**61.5**
Prudential Borrowing	50.0	55.3	14.3	15.7
Total Funding	**50.0**	**55.3**	**14.3**	**15.7**
Total Financing and Funding	**88.2**	**127.1**	**121.8**	**77.2**

Source: Cheshire East Finance

4. Ratio of Financing Costs to Net Revenue Stream

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/2018 Actual %	2018/2019 Estimate %	2019/2020 Estimate %	2020/21 Estimate %
Total	**3.77**	**3.91**	**4.70**	**5.36**

5. Actual External Debt

5.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2018	£m
Borrowing	170
Other Long-term Liabilities	37
Total	**207**

Source: Cheshire East Finance

6. Incremental Impact of Capital Investment Decisions

6.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2018/2019 Estimate £	2019/2020 Estimate £	2020/21 Estimate £
Band D Council Tax	19.98	10.41	8.30

Source: Cheshire East Finance

7. Authorised Limit and Operational Boundary for External Debt

7.1 The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.

7.2 The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

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

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

7.5 The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

	2017/2018 Actual £m	2018/2019 Estimate £m	2019/2020 Estimate £m	2020/21 Estimate £m
Authorised Limit for Borrowing	315	360	365	365
Authorised Limit for Other Long-Term Liabilities	27	26	24	23
Authorised Limit for External Debt	**342**	**386**	**389**	**388**
Operational Boundary for Borrowing	305	350	355	355
Operational Boundary for Other Long-Term Liabilities	27	26	24	23
Operational Boundary for External Debt	**332**	**376**	**379**	**378**

Source: Cheshire East Finance

8. Adoption of the CIPFA Treasury Management Code

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

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 23rd February 2012

The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

9.1 These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. This Authority calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments.

9.2 The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

	Existing level (or Benchmark level) at 31/03/2018	2017/2018 Approved	2017/2018 Revised	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate
		%	%	%	%	%
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	0%	100%	100%	100%	100%	100%

Source: Cheshire East Finance

9.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Authority's treasury management strategy.

10. Maturity Structure of Fixed Rate borrowing

10.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

10.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

10.3 LOBOs are classified as maturing on the next call date i.e. the earliest date that the lender can require repayment. As all LOBOs can be called within 12 months, the upper limit for borrowing maturing within 12 months is relatively high to allow for the value of LOBOs and any potential short term borrowing that is likely to be undertaken in 2018/19.

Maturity structure of fixed rate borrowing	Level as at 31st March 2018	Lower Limit for 2017/2018	Upper Limit for 2017/2018
	%	%	%
under 12 months	46%	0%	35%
12 months and within 24 months	15%	0%	25%
24 months and within 5 years	4%	0%	35%
5 years and within 10 years	0%	0%	50%
10 years and within 20 years	15%	0%	100%
20 years and within 30 years	5%	0%	100%
30 years and within 40 years	15%	0%	100%
40 years and within 50 years	0%	0%	100%
50 years and above	0%	0%	100%

Source: Cheshire East Finance

10.4 As described in Section 4 of the report, the limit for borrowing maturing in under 12 months was breached at the end of 2017/18. The strategy of keeping borrowing short to minimise costs and the increase in borrowing at year end contributed to this position. Although this was a short term breach, rectified early in 2018/19 as borrowing was repaid, the limit will be reviewed and, if appropriate, be recommended to be increased when the Treasury Management Strategy is updated.

11. Credit Risk

11.1 The Authority considers security, liquidity and yield, in that order, when making investment decisions.

11.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Authority's assessment of counterparty credit risk.

11.3 The Authority also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

11.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.