APPENDIX A

TREASURY MANAGEMENT POSITION FOR THE THIRD QUARTER OF 2017/18

A1. SUMMARY OF TREASURY MANAGEMENT INDICTORS

The Council's debt at 31 December was as follows:

Prudential Indicator	Limit £m	Actual £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	653	631
Operational Boundary - the maximum amount of borrowing that is expected	600	631

The maturity structure of the Council's borrowing was

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Lower Limit	0%	0%	0%	0%	0%	0%	0%	0%
Upper Limit	10%	10%	10%	20%	30%	30%	30%	40%
Actual	1%	3%	4%	7%	22%	13%	22%	28%

The Council's sums invested for periods longer than 364 days at 31 December 2017 were:

	Limit £m	Quarter 3 Actual £m
Maturing after 31/3/2018	168	157
Maturing after 31/3/2019	148	15
Maturing after 31/3/2020	144	10

The Council's interest rate exposures at 31 December 2017 were:

	Limit £m	**Actual** £m
Fixed Interest - Borrowing and (Lending)	389	327
Variable Interest - Borrowing and (Lending)	(389)	(211)

A2. GOVERNANCE

The Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy approved by the City Council on 21 March 2017, and amended by the City Council on 17 October 2017 and 12 December 2017 provide the framework within which treasury management activities are undertaken.

A3. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

On 31 December 2017 the Council had gross debt including finance leases and private finance initiative (PFI) schemes of £631m and gross investments of £445m giving rise to a net debt of £186m. The current high level of investments has arisen from the Council's earmarked reserves and borrowing in advance of need to take advantage of low borrowing rates thus securing reduced funding costs for the Council's capital programme. The current high level of investments does increase the Council’s exposure to credit risk, ie. the risk that an approved borrower defaults on the Council’s investment. In the interim period when investments are high in advance of capital expenditure being incurred, there is also a short term risk that the rates (and therefore the cost) at which money has been borrowed will be greater than the rates at which those loans can be invested.

A4. BORROWING ACTIVITY

The Council employs Link Asset Services to provide interest rate forecasts. The forecast overall longer run trend is for gilts and Public Works Loans Board (PWLB) rates to rise, albeit gently, with 25 year rates expected to rise from their current 2.8 % to 3.6% by December 2020.

The Council has not undertaken any new borrowing in 2017/18.

The Council's gross debt at 31 December 2017 of £631m is within the Council's authorised limit (the maximum amount of borrowing permitted by the Council) of £653m. The Council's gross debt exceeded the Council's operational boundary (the maximum amount of borrowing that is expected) of £600m. This was a result of the receipt arising from the granting of a new head lease for land in White Hart Road occupied by Wightlink Ltd in 2016/17 being accounted for as borrowing rather than a capital receipt following discussions with the auditors. The Council granted a new head lease to Canada Life for a premium subject to a lease back to the Council for an ongoing rent. Both transactions take the legal form of leases, however when taken together they are in substance a £73m loan from Canada Life.

The Council aims to have a reasonably even maturity profile so that the Council does not have to replace a large amount of borrowing in any particular year when interest rates might be high. The maturity profile of the Council's borrowing (Appendix B) is within the limits contained in the Council's Treasury Management Policy.

A5. INVESTMENT ACTIVITY

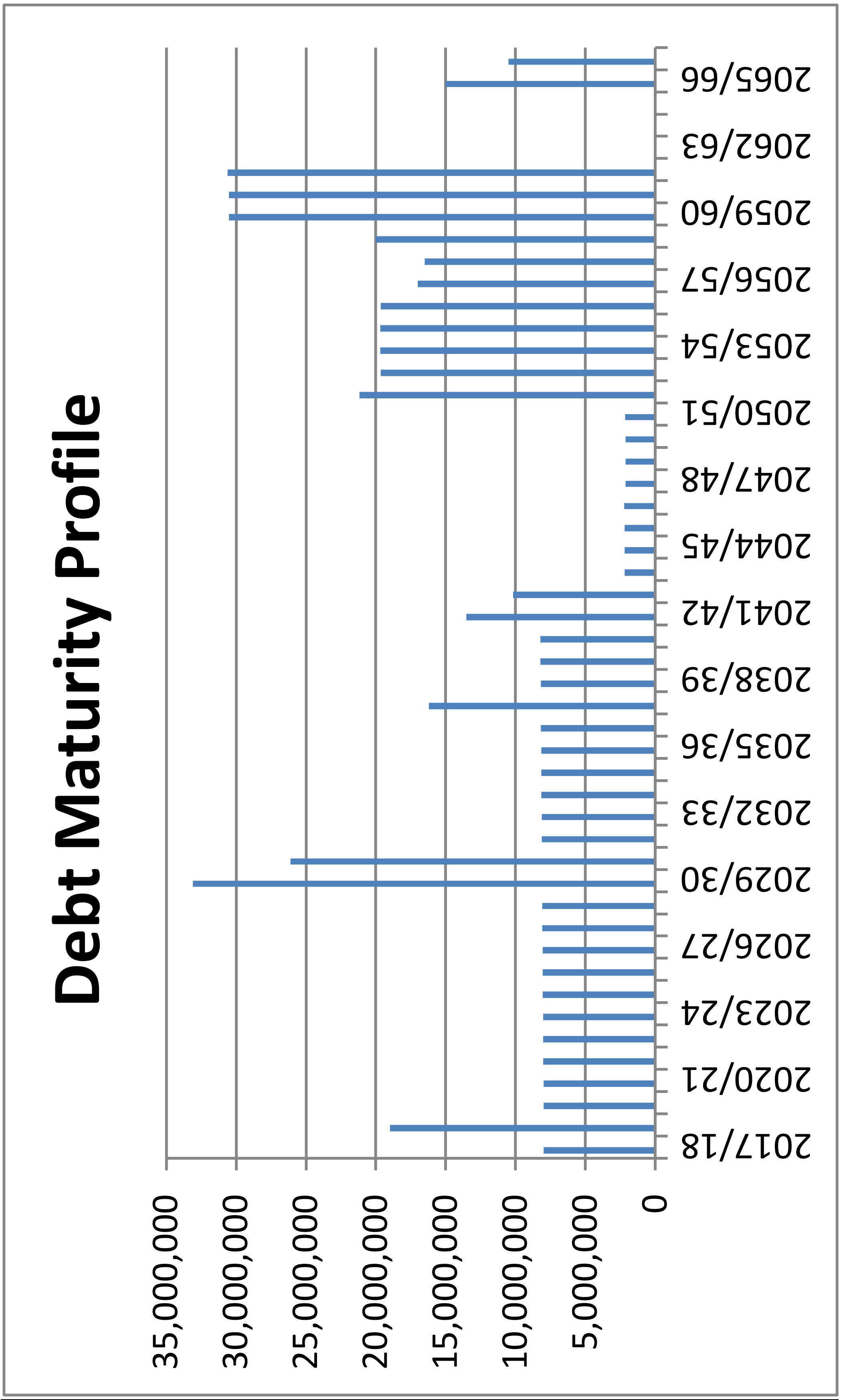
Investment rates followed a falling trend in the first three months of 2017/18 with a sharp rise in the autumn in anticipation of the 0.25% increase in base rate in November (see Appendix C). Base rate is not forecast to rise from 0.50% until December 2018 and then to only rise slowly.

The Council's investment portfolio has increased by £8.4m from £436.7m at 1 April to £445.1m. The average return on the Council's investments for the first nine months of 2017/18 was 0.90%. This compares with 0.94% for the first four months of 2017/18. The Council’s budgeted investment return for 2017/18 is £2.7m and performance for the year to date is £1.2m above budget. This was due to obtaining better interest rates and having more cash to invest than had been anticipated. The duration of the Council's investments was within the limits set in the Council's Treasury Management Policy.

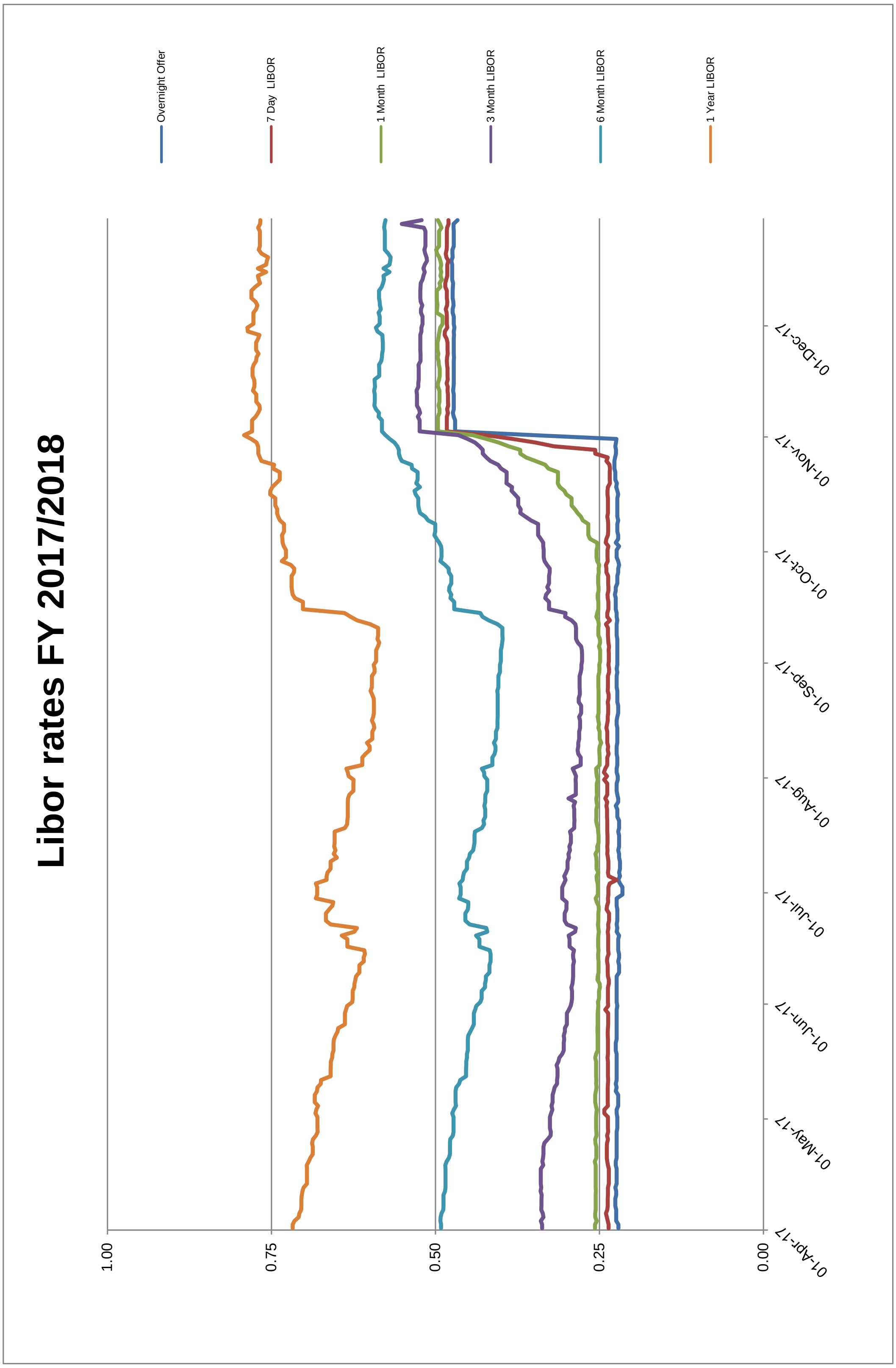
A6. INTEREST RATE EXPOSURES

Fixed interest rates avoid the risk of budget variances caused by interest rate movements, but prevent the Council from benefiting from falling interest rates on its borrowing or rising interest rates on its investments. The Council's net fixed interest rate borrowing at 31 December was £327m which was within the limit set in the Treasury Management Policy of £389m. Variable interest rates expose the Council to the benefits and dis-benefits of interest rate movements and can give rise to budget variances. The Council's net variable interest rate investments at 31 December was £211m which was within the limit set in the Treasury Management Policy of £389m.

APPENDIX B


Debt Maturity Profile
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
2017/18
2020/21
2023/24
2026/27
2029/30
2032/33
2035/36
2038/39
2041/42
2044/45
2047/48
2050/51
2053/54
2056/57
2059/60
2062/63
2065/66

APPENDIX C


Libor rates FY 2017/2018
1.00
0.75
0.50
0.25
0.00
01-Apr-17
01-May-17
01-Jun-17
01-Jul-17
01-Aug-17
01-Sep-17
01-Oct-17
01-Nov-17
01-Dec-17
Overnight Offer
7 Day LIBOR
1 Month LIBOR
3 Month LIBOR
6 Month LIBOR
1 Year LIBOR