

Joint Audit and Governance Committee

Report of Head of Finance

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To: **Joint Audit and Governance Committee; Cabinet; Council**

DATE: 28 January by Joint Audit and Governance Committee
31 January (S) / 1 February (V) by Cabinet
14 February (S) / 13 February (V) by Council



Treasury management mid-year monitoring report 2018/19

Recommendations

That Joint Audit and Governance Committee:

1. notes the treasury management mid-year monitoring report 2018/19, and
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.

That Cabinet:

3. considers any comments from Joint Audit and Governance Committee and recommends council to approve the report.

Purpose of report

1. The report fulfils the legislative requirements to ensure the adequate monitoring of the treasury management activities and that each council's prudential indicators are reported to their respective council mid-year (i.e.: as at 30 September). The report provides details of the treasury activities for the first six months of 2018/19 and an update on the current economic conditions with a view to the remainder of the year.

Strategic objectives

2. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

Background

Treasury management

3. This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).
4. The primary requirements of the Code are as follows:
 - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-Year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
 - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
 - An economic update for the first part of the 2018/19 financial year;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - A review of the Councils' investment portfolio for 2018/19;
 - A review of the Councils' borrowing strategy for 2018/19;
 - A review of compliance with Treasury and Prudential Limits for 2018/19.
6. The first main function of the treasury management service is to ensure the councils' cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return. This Treasury Management Strategy determines to whom the council can lend, and this is the manifestation of its risk appetite.
7. The second main function of the treasury management service is to ensure funding for the Councils' capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Councils can meet their capital spending operations. This management of longer term cash may

involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet risk or cost objectives.

8. Accordingly, treasury management is defined as:

“The management of the local authority’s borrowing, 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.”

9. The 2018/19 treasury management strategy was approved by each council in February 2018. This report summarises the treasury activity and performance for the first six months of 2018/19 against those prudential indicators and benchmarks set for the year. It also provides an opportunity to review and subsequently revise limits if required. Full council is required to approve this report and any amendments to the Treasury Management Strategy.

Treasury activity

10. The mid-year performance of the two councils is summarised in the tables below¹.

	South	Treasury investments £000	Non-treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	149,265	15,000	164,265	5,075	169,340
2	Budgeted investment income	1,160	311	1,470		
3	Actual investment income	818	312	1,130	336	1,466
4	surplus/(deficit) (3) - (2)	(342)	2	(340)		
5	Annualised rate of return	1.10%	4.16%	1.38%	13.22%	1.73%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	73,370	8,442	81,811
2	Budgeted investment income	225		
3	Actual investment income	400	172	572
4	surplus/(deficit) (3) - (2)	175		
5	Annualised rate of return	1.09%	4.09%	1.40%

For property, the balance shown is the fair value of investment properties as at 31 March 2018.

11. The forecast outturn position as at September 2018, based on known investments and maturities and an estimate for future earnings is shown in the table below:

	South Oxfordshire District Council	Vale of White Horse District Council
Annual budget as per MTFP	£2,940,000	£450,000
Forecast outturn	£2,689,640	£830,970
Variance against budget	-£250,360	£380,970
Borrowing	Nil	Nil

12. The Councils remain restricted regarding financial institutions meeting their investment criteria. When it is possible, investments will be placed with highly rated institutions for a longer duration with a view to increasing the weighted average maturity of the portfolio, but this has meant that overall there are less suitable counterparties available to the councils to deposit with.
13. **SODC.** The latest estimate is that income receivable on cash investments will be below budget by £250,000. Interest rates have not increased as projected in the 18/19 budget setting report. The average rate received during 18/19 was 1.73 per cent and the budget was set at a rate of 2.10 per cent.
14. Officers monitor the performance of the unit trust holding on a regular basis. When the value reaches £14 million, a disposal of £2 million is made. During the first six months of 2018/19 the value of unit trusts has been just below the £14 million threshold and no disposals have been made.
15. **VWHDC.** The latest estimate is that income receivable on cash investments will be above budget by £381,000. This is due to higher than budgeted cash balances resulting from the pausing of a number of schemes in the capital programme. It is also due to the council holding a significant amount of government grant funding prior to spend.

Performance measurement

16. A list of investments as at 30 September is shown in Appendices A1 and A2. All investments were with approved counterparties. The average return on these investments is shown above in the table at paragraph 5. South has performed better than Vale because it holds more long-term loans at higher rates and equities as a result of its larger investment base.
17. The councils' performance against benchmarks for the first six months of the year are detailed in Appendices A3 and A4. All benchmarks have been achieved except the CCLA benchmark which measures performance from the investment date rather than performance in the year. Performance for the year to date of 4.59 per cent is higher than the short term benchmark of 4.54 per cent.

Treasury management limits on activity

18. Each council is required by the Prudential Code to report on the limits set each year in their respective Treasury Management Strategies. The purpose of these limits is to ensure that the activity of the treasury functions remain within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The performance against the limits for both councils are shown in appendices B1 and B2.

Debt activity during 2018/19

19. During the first six months of 2018/19 there has been no need for either of the councils to borrow. The Head of Finance will continue to take a prudent approach to the councils' debt strategies. The prudential indicators and limits set out in appendices B1 and B2 provide the scope and flexibility for either of the councils to borrow in the short-term up to the maximum limits, if ever such a need arose within

the cash flow management activities of the authority in order to achieve its service objectives.

Interest Rate Forecast and Economic Forecast

20. The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Quoted by link Asset Services 26 November 2018

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

21. *The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the Monetary Policy Committee (MPC) came to a decision on 2 August to make the first increase in Bank Rate above 0.5 per cent since the financial crash, to 0.75 per cent.*

However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed, they gave a figure for this of around 2.5 per cent in ten years' time but they declined to give a medium-term forecast.

We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25 per cent in May and November 2020 to reach 1.5 percent. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

22. The overall balance of risks to economic growth in the UK is probably neutral.

The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Financial Implications

23. These are covered in the body of the report.

Legal implications

24. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the

Public Services and the CLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

Administration

25. Capita have been contracted to undertake the Treasury Management since beginning of August 2016, the services have now been transferred to the financial accounting team in which are based out of the Shepton Mallet offices. The council still authorise daily dealings and receive regular reports from the team on current and future investments.

Conclusion

26. This report provides details of the treasury management activities for the period 1 April 2018 to 30 September 2018 and the mid-year prudential indicators to each respective council.
27. Treasury activities at both councils have operated within the agreed parameters set out in their respective approved treasury management strategies.
28. This report also provides the monitoring information for joint audit and governance committee to fulfil its role of scrutinising treasury management activity at each council.

Background papers

- CIPFA Code of Practice on Treasury Management 2017
- CIPFA Prudential Code 2017
- CIPFA Treasury Management in the Public Services Guidance Notes 2018
- CIPFA statement 17.10.18 on borrowing in advance of need and investments in commercial properties
- CIPFA Bulletin 02 Treasury and Capital Management Update October 2018
- Statutory investment guidance where it has been updated in 2018 (English local authorities)
- Statutory MRP guidance where it has been updated in 2018 (English local authorities)
- Treasury Management Investment Strategy 2018/19 (South Oxfordshire & Vale of White Horse, February 2018)

Appendices

- A1 – SODC List of investments as at 30 September 2018
- A2 – VWHDC List of investments as at 30 September 2018
- A3 – SODC Performance against benchmark
- A4 – VWHDC Performance against benchmark
- B1 – SODC Prudential Indicators
- B2 – VWHDC Prudential Indicators
- C1 – Note on Prudential Indicators

South Oxfordshire

Investments as at 30 September 2018						
Counterparty	Deposit type	Investment date	Maturity date	Investment duration in days	Principal	Rate (%)
Nottingham Building Society	Fixed	23-Oct-17	22-Oct-18	364	1,000,000	0.78
Progressive Building Society	Fixed	23-Oct-17	22-Oct-18	364	1,000,000	0.78
Progressive Building Society	Fixed	03-Nov-17	02-Nov-18	364	2,000,000	0.81
Skipton Building Society	Fixed	09-Nov-17	08-Nov-18	364	2,000,000	0.86
National Counties Building Society	Fixed	15-Dec-17	14-Dec-18	364	1,500,000	0.90
Goldman Sachs International Bank	Fixed	20-Dec-17	19-Dec-18	364	2,000,000	1.00
Cumberland Building Society	Fixed	22-Jan-18	21-Jan-19	364	2,000,000	0.90
Goldman Sachs International Bank	Fixed	07-Feb-18	07-Feb-19	365	2,000,000	1.05
National Counties Building Society	Fixed	15-Feb-18	15-Feb-19	365	2,000,000	0.95
Monmouthshire Building Society	Fixed	15-Feb-18	15-Feb-19	365	2,000,000	0.90
Nottingham Building Society	Fixed	15-Feb-18	15-Feb-19	365	2,000,000	0.86
Close Brothers	Fixed	13-Mar-18	14-Mar-19	366	2,000,000	1.15
Close Brothers	Fixed	14-Mar-18	14-Mar-19	365	3,000,000	1.15
Stockport MBC	Fixed	15-Mar-18	14-Mar-19	364	2,000,000	0.90
Progressive Building Society	Fixed	03-Sep-18	15-Mar-19	193	1,000,000	0.92
West Bromwich Building Society	Fixed	03-Sep-18	15-Mar-19	193	1,000,000	0.90
Close Brothers	Fixed	15-Mar-18	18-Mar-19	368	2,000,000	1.15
Close Brothers	Fixed	29-Mar-18	29-Mar-19	365	1,000,000	1.10
National Counties Building Society	Fixed	28-Mar-18	28-Mar-19	365	1,000,000	1.02
Goldman Sachs International Bank	Fixed	03-Apr-18	03-Apr-19	365	2,000,000	1.10
Goldman Sachs International Bank	Fixed	03-Apr-18	03-Apr-19	365	3,000,000	1.12
National Counties Building Society	Fixed	03-Apr-18	03-Apr-19	365	2,500,000	1.02
Progressive Building Society	Fixed	03-Apr-18	03-Apr-19	365	3,500,000	0.95
Principality Building Society	Fixed	03-Apr-18	03-Apr-19	365	2,000,000	0.95
Close Brothers	Fixed	08-Apr-18	09-Apr-19	366	2,000,000	1.05
Monmouthshire Building Society	Fixed	11-Apr-18	11-Apr-19	365	1,000,000	1.00
Surrey Heat BC	Fixed	16-Oct-18	15-Apr-19	181	3,000,000	0.90
Newcastle Building Society	Fixed	27-Apr-18	29-Apr-19	367	2,000,000	1.02
Newcastle Building Society	Fixed	02-May-18	02-May-19	365	2,000,000	1.02
Newcastle Building Society	Fixed	04-May-18	03-May-19	364	2,000,000	1.02
National Counties Building Society	Fixed	04-May-18	03-May-19	364	1,000,000	1.02
Principality Building Society	Fixed	21-May-18	20-May-19	364	1,500,000	0.97
National Counties Building Society	Fixed	22-May-18	21-May-19	364	1,500,000	1.02

South Oxfordshire Continued

Investments as at 30 September 2018							
Counterparty	Deposit type	Investment date	Maturity date	Investment duration in days	Principal	Rate (%)	
Nottingham Building Society	Fixed	29-May-18	28-May-19	364	2,000,000	0.97	
Nottingham Building Society	Fixed	11-Jun-18	11-Jun-19	365	1,000,000	0.86	
Principality Building Society	Fixed	11-Jun-18	11-Jun-19	365	3,000,000	0.86	
Goldman Sachs International Bank	Fixed	25-Jun-18	25-Jun-19	365	2,000,000	1.00	
Newcastle Building Society	Fixed	28-Jun-18	27-Jun-19	364	2,000,000	0.87	
Principality Building Society	Fixed	02-Jul-18	02-Jul-19	365	4,000,000	0.86	
Principality Building Society	Fixed	09-Jul-18	09-Jul-19	365	2,000,000	0.86	
Monmouthshire Building Society	Fixed	10-Jul-18	10-Jul-19	365	2,000,000	0.90	
Progressive Building Society	Fixed	16-Jul-18	16-Jul-19	365	2,500,000	0.90	
Monmouthshire Building Society	Fixed	18-Jul-18	18-Jul-19	365	2,000,000	0.95	
Goldman Sachs International Bank	Fixed	23-Jul-18	23-Jul-19	365	2,000,000	1.20	
Newcastle Building Society	Fixed	30-Aug-18	30-Aug-19	365	2,000,000	1.03	
Newcastle Building Society	Fixed	30-Aug-18	30-Aug-19	365	2,000,000	1.03	
Monmouthshire Building Society	Fixed	17-Sep-18	17-Sep-19	365	3,000,000	1.05	
Goldman Sachs International Bank	Fixed	27-Sep-18	27-Sep-19	365	2,000,000	1.10	
Santander	Call *				8,756,988	0.15	
Royal Bank of Scotland	Call *				2,329	0.80	
Royal Bank of Scotland	Call *				95,101	0.25	
Goldman Sachs	MMF *				8,000,000	0.01	
Blackrock	MMF *				690,000	0.00	
Total short term cash investments (<1 yr duration)					112,544,418	0.00	
Close Brothers	Fixed	27-Nov-17	27-Nov-19	730	3,000,000	1.10	
Kingston upon Hull City Council	Fixed	19-Aug-13	19-Aug-20	2557	3,500,000	2.70	
Kingston upon Hull City Council	Fixed	19-Aug-13	19-Aug-20	2557	1,500,000	2.70	
Kingston upon Hull City Council	Fixed	15-Jan-14	15-Jan-21	2557	2,000,000	2.50	
Bury MBC	Fixed	18-Jul-16	19-Jul-21	1827	5,000,000	1.50	
Royal Bank of Scotland	Fixed	08-Apr-16	08-Apr-19	1095	3,000,000	1.31	
Close Brothers	Fixed	03-Apr-17	03-Apr-19	730	2,000,000	1.10	
Royal Bank of Scotland	Fixed	16-Feb-15	18-Feb-19	1463	2,000,000	1.40	
Total long-term cash investments (>1 yr duration)					22,000,000		
CCLA	Property				5,000,000	Variable	
Legal & General Equities	Unit Trust				12,570,938	Variable	
Total Investments					152,115,356		

Vale of White Horse District Council

Investments as at 30 September 2018						
Counterparty	Deposit type	Investment date	Maturity date	Total investment duration in days	Principal	Rate (%)
Goldman Sachs International Bank	Fixed	30/10/2017	29/10/2018	31	2,000,000	0.99
Principality Building Society	Fixed	06/02/2018	15/11/2018	48	3,000,000	0.70
Fife Council	Fixed	18/05/2018	19/11/2018	52	3,000,000	0.70
Saffron Building Society	Fixed	01/12/2017	30/11/2018	63	3,000,000	0.90
Newcastle Building Society	Fixed	06/12/2017	05/12/2018	68	1,500,000	0.88
Principality Building Society	Fixed	18/06/2018	13/12/2018	76	2,000,000	0.73
Nottingham Building Society	Fixed	04/01/2018	03/01/2019	97	2,000,000	0.86
National Counties Building Society	Fixed	12/04/2018	15/01/2019	109	2,000,000	0.94
Monmouthshire Building Society	Fixed	12/07/2018	15/01/2019	109	2,000,000	0.75
Close Brothers Ltd	Fixed	19/07/2018	21/01/2019	115	4,000,000	0.80
Lloyds Bank	Fixed	29/01/2018	28/01/2019	122	10,000,000	0.85
Newcastle Building Society	Fixed	01/05/2018	15/02/2019	140	3,000,000	0.92
Monmouthshire Building Society	Fixed	10/08/2018	19/02/2019	144	2,000,000	0.86
Nottingham Building Society	Fixed	15/05/2018	15/03/2019	168	3,000,000	0.90
Goldman Sachs International Bank	Fixed	15/06/2018	15/03/2019	168	2,000,000	1.01
Goldman Sachs International Bank	Fixed	12/04/2018	11/04/2019	195	2,000,000	1.25
Places For People Homes Ltd	Fixed	18/06/2018	17/06/2019	262	2,000,000	1.25
Progressive Building Society	Fixed	27/06/2018	26/06/2019	271	4,000,000	0.90
Goldman Sachs International Bank	Fixed	29/06/2018	28/06/2019	273	2,000,000	1.15
National Counties Building Society	Fixed	30/07/2018	29/07/2019	304	2,000,000	1.00
Goldman Sachs International Bank	Fixed	18/09/2018	18/09/2019	355	2,000,000	1.12
Close Brothers Ltd	Fixed	28/09/2018	27/09/2019	364	2,000,000	1.15
LGIM	MMF *				5,000,000	0.58
Goldman Sachs	MMF *				7,080,000	0.58
Total short term cash investments (<1 yr duration)					72,580,000	
Close Brothers Ltd	Fixed	16/11/2017	18/11/2019	416	2,000,000	1.1000
Close Brothers Ltd	Fixed	05/03/2018	05/03/2020	524	2,000,000	1.3500
Kingston upon Hull City Council	Fixed	19/08/2013	19/08/2020	691	2,000,000	2.7000
Kingston upon Hull City Council	Fixed	15/01/2014	15/01/2021	840	2,000,000	2.5000
Total long-term cash investments (>1 yr duration)					8,000,000	
CCLA	Property				2,636,200	variable
Total Investments					83,216,200	

South Oxfordshire District Council

Investment returns achieved against benchmark				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.67%	1.73%	1.06%	3 Month LIBID
Equities	6.00%	7.51%	1.51%	FTSE All Shares Index

- All benchmarks managed by the treasury team were met in the first six months of the year.

CCLA

Annualised total return performance				
Performance to 28 September 2018	1 year	3 years	5 years	
The local authorities property fund	7.61%	6.60%	10.91%	
Benchmark - IPD property index	9.47%	7.72%	10.97%	

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer term performance should be used as a guide to returns achievable in the medium term.
- South invested £5 million into the fund and in the first six months of 2018/19, achieved a return of 4.59 per cent calculated as a ratio of income over the market value held as at 30 September 2018. This is not the same basis upon which the performance of the fund above is calculated.

Vale of White Horse District Council

Investment returns achieved against benchmark				
	Benchmark return	Actual return	Growth (below)/above benchmark	Benchmarks
	%	%	%	
Internally managed - Bank & Building Society deposits	0.67%	1.40%	0.73%	3-month LIBID

- All benchmarks managed by the treasury team were met in the first six months of the year.

CCLA

Annualised total return performance				
Performance to 28 September 2018	1 year	3 years	5 years	
The local authorities property fund	7.61%	6.60%	10.91%	
Benchmark - IPD property index	9.47%	7.72%	10.97%	

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer-term performance should be used as a guide to returns achievable in the medium term.
- Vale invested £2 million into the fund and in the first six months of 2018/19, achieved a return of 4.59 per cent calculated as a ratio of income over the market value held as at 30 September 2018. This is not the same basis upon which the performance of the fund above is calculated.

South Oxfordshire District Council

Prudential indicators as at 30th September 2018		
	2018/19 Original Estimate £m	Actual as at 30-Sep £m
Debt		
Authorised limit for external debt		
Borrowing	30	0
Other long term liabilities	0	0
	30	0
Operational boundary for external debt		
Borrowing	25	0
Other long term liabilities	0	0
	25	0
Interest rate exposures		
Maximum fixed rate borrowing	100%	0
Maximum variable rate borrowing	100%	0
Investments		
Interest rate exposures		
Limits on fixed interest rates	100%	77%
Limits on variable interest rates	50	18
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	70	22

Vale of White Horse District Council

Prudential indicators as at 30th September 2018		
	2018/19 Original estimate £m	Actual as at 30-Sep £m
Authorised limit for external debt		
Borrowing	30	0
Other long term liabilities	5	0
	35	0
Operational boundary for external debt		
Borrowing	25	0
Other long term liabilities	0	0
	25	0
Interest rate exposures		
Maximum fixed rate borrowing	100%	0
Maximum variable rate borrowing	100%	0
Investments		
Interest rate exposures		
Limits on fixed interest rates	100%	82%
Limits on variable interest rates	50	12
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	40	8

Prudential indicators – explanatory note

Debt

There are two limits on external debt: the ‘Operational Boundary’ and the ‘Authorised Limit’. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case scenario.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, “invest to save” projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows.

The Operational Boundary is a more realistic indicator of the likely position.

Interest rate exposures

The maximum proportion of interest on borrowing which is subject to fixed/variable rate of interest.

Investments

Interest rate exposure

The purpose of these indicators is to set ranges that will limit exposure to interest rate movement. The indicator required by the Treasury Management Code considers the net position of borrowing and investment and is based on principal sums outstanding.

Principal sums invested

This indicator sets a limit on the level of investments that can be made for more than 364 days.