**CABINET** **1 FEBRUARY 2007**

**2007/08 TREASURY MANAGEMENT STRATEGY**
**(Report by the Head of Financial Services)**

## 1. INTRODUCTION

**1.1** A Treasury Management Strategy ensures that the Authority has clear objectives for the management of its borrowing and investments. It is also needed to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice, which is required by the Council's Code of Financial Management. The Government has also published Guidance which recommends that an Annual Investment Strategy is produced each year and approved by the full Council.

**1.2** The Guidance emphasises that priority must be given to the security and liquidity of investments whilst the Code covers the same point by requiring the effective management and control of risk. This Strategy is intended to meet the requirements of the Code and the Guidance.

**1.3** The Strategy addresses the following two issues in some detail:

- The decreasing level of reserves and therefore investments in 2007/08 will mean that the Council will need to reduce the number of Fund Managers from three to two.
- The Council has the opportunity to borrow in advance of need if it is considered that long term borrowing rates are low and the funds will be needed for the approved MTP.

**1.4** When the Government removed its controls on capital expenditure levels a few years ago it introduced the concept of the Prudential Code which pulled together a number of indicators related to capital expenditure, external debt and treasury management. Its purpose was to demonstrate that the Council's capital expenditure plans were affordable and to provide a set of limits, to be complied with, and indicators to be monitored during the forthcoming year. These indicators have previously been part of the budget report but as they have significant relevance to Treasury Management it is now considered that they best form part of this report which will be considered after the budget report.

**1.5** The proposed strategy is attached as Annex A.

## 2. RECOMMENDATION

**2.1** Cabinet is requested to recommend to Council that it approves this Strategy including the Prudential Code Indicators.

**BACKGROUND PAPERS:**
Background files in Accountancy Section: Treasury Management Reports
Reports on the 2007/08 Budget and Medium Term Plan to Cabinet and Council
CIPFA's Treasury Management in the Public Services Code of Practice 2002

ODPM Guidance on Local Government Investments March 2004

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**ANNEX A**

# TREASURY MANAGEMENT STRATEGY 2007/08

This Treasury Management Strategy is intended to meet the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice and the Government's Guidance on Local Government Investments.

## CASH FLOW

At any moment the Authority's investments will consist of two distinct elements - cash flow and reserves.

**Cash flow** is the day-to-day impact of managing the flow of funds into and out of the Council and is dealt with in-house. For instance, the dates on which the County Council is paid its portion of the council tax will be different to the days the money is received from those living in the District. These cash flows will sometimes leave the Council with several million pounds to borrow or invest for a few days. It is often in the Council's best interests to be a net-borrower for cash flow purposes as we would expect our Fund Managers to gain higher returns from their expertise and greater stability of the funds than the cost of the temporary borrowing. Generally the return of funds is only requested when there is an ongoing rather than intermittent need to borrow.

**Reserves** are more stable in that there will be a definite estimate of the amount that they will reduce or increase by during the course of the year but even this will fluctuate to some extent as a result of any variation in inflation, interest rates or general under or overspending.

## GENERAL

Treasury Management actions will always, necessarily, be based on the market situation at the time which can fluctuate significantly from day to day. It is therefore inevitable that elements of this strategy are based on general intentions rather than on trying to guess, at this time, what will be good or bad interest rates in advance. The Council seeks advice from its professional advisors (Butlers) and its Fund Managers before making any major decisions. There is also a member advisory group, the Capital Receipts Advisory Group, that as well as meeting with the Fund Manager's periodically is kept informed and/or consulted on Treasury Management matters.

## THE COUNCIL'S FINANCIAL STRATEGY

The Council's Financial Strategy is based on the following figures for reserves and borrowing:

| FORECAST | 2006/ 2007 £M | 2007/ 2008 £M | 2008/ 2009 £M | 2009/ 2010 £M | 2010/ 2011 £M | 2011/ 2012 £M | 2012/ 2013 £M | 2013/ 2014 £M | 2014/ 2015 £M | 2015/ 2016 £M | 2016/ 2017 £M | 2017/ 2018 £M | 2018/ 2019 £M |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Remaining reserves** (End of year) | 46.6 | 31.3 | 13.9 | 11.2 | 8.3 | 6.1 | 4.6 | 3.7 | 3.3 | 2.8 | 2.5 | 2.3 | 2.3 |
| **Need to borrow** | | | | | | | | | | | | | |
| In year | 0 | 0 | 2.1 | 11.1 | 4.2 | 4.5 | 3.1 | 3.3 | 3.4 | 3.5 | 3.7 | 3.8 | 3.9 |
| Cumulative | 0 | 0 | 2.1 | 13.2 | 17.4 | 21.9 | 25.0 | 28.3 | 31.7 | 35.2 | 38.9 | 42.7 | 46.6 |

**CURRENT POSITION**
Most investment activity is carried out by the Council's three Fund Managers who currently (January 2007) manage the following sums:

| | |
|---|---|
| Investec | £21.5m |
| Alliance Bernstein (Alliance) | £21.5m |
| City Deposit Cash Managers (CDCM) | £20.0m |
| **Total** | **£63.0m** |

The sums with Fund Managers will exceed the Council's revenue and capital reserves as a result of three factors:

- Temporary borrowing in-house
- Temporary cash-flow surpluses
- Other reserves that are earmarked (e.g. S106 and R&R Funds)

The Council had no long-term borrowing at the date this report was prepared.

**LONG-TERM BORROWING**

As the Council's reserves run out, as illustrated in the table above, there will be a need for long-term borrowing to finance the capital programme. The financial plan shows that this will not be until 2008/09 but effective treasury management involves borrowing when interest rates are judged to be at the best level, even if the funds have then to be invested until the money is required; borrowing in this way is allowed if it is for planned expenditure. The definition of planned expenditure is not precise and has therefore been discussed with our external auditor who is comfortable with the interpretation of it being included in our approved MTP. Hence, once Council has approved the MTP in February the figure will be £21.9M as highlighted above. Currently the equivalent figure is £10.8M.

The borrowing strategy includes the need to spread risk, so that the Council is never left with a high proportion of its debt becoming repayable at a single time or even in the same period of an interest rate cycle. When the Council borrows the repayment profile of the debt will need to be considered though this is not critical if the borrowing is from the Public Works Loans Board (PWLB) which is a Government Agency to provide funds to government bodies at wholesale market rates. This is because they allow a borrower to reschedule their debt during the course of the loan based on a prescribed financially neutral formula. The combination of these keen rates and the option to reschedule means that local authority borrowing is normally from the PWLB rather than commercial bodies.

Interest rates are already being monitored on a daily basis so that if rates become attractive some early borrowing can take place. If rates become sufficiently attractive up to £21.9M will be borrowed from the market or, much more probably, the PWLB for an initial period, probably, in excess of 45 years

**MANAGING THE REDUCTION IN RESERVES**
The first part of this section is based on the assumption that no advance borrowing will take place in the next six months.

In recent years there have been only modest reductions in reserves due to their limited use for financing revenue, and capital expenditure being partially offset by capital receipts and deferred spending. However the proposed budget/MTP shows significant reductions in reserves over the coming five years as shown in the table below:

| RESERVES | MTP | | | | | |
|---|---|---|---|---|---|---|
| | 2006/ 2007 | 2007/ 2008 | 2008/ 2009 | 2009/ 2010 | 2010/ 2011 | 2011/ 2012 |
| | **£M** | **£M** | **£M** | **£M** | **£M** | **£M** |
| **Forecast position at end of year** | **47** | **31** | **14** | **11** | **8** | **6** |

Investec and Alliance both utilise a broader and more volatile range of investments than CDCM. As our reserves fall we are less able to cope with such volatility so we will need to move our funds to managers such as CDCM or narrow our investment mandates to minimise volatility. As the level of investments reduces we also need to reduce the number of managers as there are clearly limits to the sizes of portfolios that are sensible or acceptable to fund managers.

The strategy has been to take funds equally from Investec and Alliance until the point is reached where there is insufficient to warrant two separate funds.

A change of policy at Alliance in recent months has led to this approach being reviewed as, whilst they are prepared to continue to manage our Fund as long as it exceeds £10M, they do intend to move out of the Local Authority market. Given their reduced interest in “our” market it would be appropriate to consider moving our funds away from them more quickly than would otherwise be the case. Therefore, after consultation with the Capital Receipts Advisory Group and the Council’s advisor, the £10M of funds required for return in February will all be taken from Alliance leaving their portfolio at £11.5m.

A further £5M is likely to be needed by about April and at that time it is proposed that we seek return of all the Funds from Alliance. In principle any funds not immediately needed by the Council would be added to CDCM’s portfolio but depending on the market situation at the time the flexibility to temporarily delay return of the funds or to temporarily transfer specific investments to Investec in order to optimise the Council’s position may be required.

Detailed consideration needs to be given to the Council’s mandates with Investec and CDCM over the coming months to begin to reduce volatility and long term commitments. This will take place in liaison with the Capital Receipts Advisory Group and the Council’s advisor. Whilst any change of this nature might reduce the Council’s overall medium term investment returns (volatility was only accepted in order to increase returns) there will be no increase in the risk of counterparties not repaying the Council’s investments.

Subsequently, as funds reduce further, the point will be reached where City Deposit Cash Managers, or an equivalent manager, looks after the whole fund based on a narrower more stable type of investments. This final reduction to one fund manager may not occur before 2008/09 but preparations may need to be made before the end of this calendar year in consultation with the CRAG.

If early borrowing takes place it is still proposed to move funds away from Alliance and close their fund during the year though the timing may be delayed if it is in the Council’s interests. It may also mean, depending on the scale, that the preparations for moving down to one manager are deferred but there will still be a need to review and modify existing mandates during the course of the year.

## CATEGORIES OF INVESTMENT

The guidance on Local Authority Investments categorises investments as ‘specified’ and ‘non-specified’. This differentiation requires the types of non-specified investments that will be used to be defined in this Strategy

**Specified investments are**:

- in sterling
- due to be repaid within 12 months
- not defined as capital expenditure in the capital finance regulations 2003
- with a body that has a high credit rating or it is made with the UK Government (gilts or CDs), or a local Authority

**Non-specified investments** include all other types of investment and the types the Council proposes to use are described below:

- corporate bonds which are issued by companies to cover their debt
- sovereign securities which are bonds issued by non-UK governments
- floating rate notes, securities where the interest changes in step with market conditions
- securities issued by supranational organisations such as the World Bank
- money market funds

## IN-HOUSE MANAGEMENT

The Fund Managers will be asked to return funds to the Authority as and when they are needed. There are significant changes in cash flow on a daily basis which result in the Authority moving from having funds to invest to a position of having to borrow. It will normally be financially advantageous to have some delay before funds are returned thus maximising the net return and minimising the need for in-house investment activity. It is expected that temporary borrowing will not normally exceed £20m at any one time.

The Council will need to approve a prudential indicator for the ‘authorised limit for external debt’; this combines temporary and long-term borrowing and a maximum of £41.9m is being recommended (£20m temporary plus £21.9m long term).

The fluctuating balance of the fund is managed internally to ensure that whilst sufficient sums are available on a daily basis to meet payments to creditors the investment return is maximised on those days where a surplus is held. Because of these constant fluctuations the majority of these sums are inevitably invested for short periods as time deposits with low risk counter-parties. Appendix A outlines the mandate for the internal funds and lists the approved counter-parties though it should be noted that these will change during the course of any year as credit ratings or size of building societies change.

Temporary borrowing will be restricted to that necessary for:

- cash flow,
- the cost effective staged return of our investments as they are needed to finance Council spending,

## INVESTMENT INSTRUMENTS USED BY FUND MANAGERS

In the shorter term, whilst the Authority still holds adequate reserves, it is not imperative that the investment returns are maximised in any one year thus allowing a medium term approach to fund management to be taken. Thus the current strategy is to accept fluctuations between years in return for greater returns. This in turn has an impact on the investment instruments permitted. No change to the investment instruments are therefore proposed immediately.

However, in order to ensure the Council will have the ability to recall funds as required in future years it is necessary to change the limits on CDCM's investments immediately so that 50% are redeemable within one year. The result will only be achieved in stages as existing investments become due for repayment and reinvestment.

As referred to above, there will be a need to narrow the mandates shown at Annex B during the course of the year.

## ADVISORS

The Council appointed Butlers as Treasury Management Advisors to assist in the choice of Fund Managers, develop the mandates and assist in monitoring the Managers' performance. This has been beneficial given the large sums invested, the complexity of the wider range of instruments used and the ability to compare performance with that achieved by other Fund Managers. A tendering exercise was carried out in 2004/05 for the appointment of an Advisor, and Butlers was reappointed until December 2007. It is unlikely to be necessary to retain advisors once we have completed our moves to a single manager.

## KEY POINTS

The Government Guidance recommends that certain aspects are highlighted. Most of these are covered within the mandates but they are listed below for convenience:

**Definition of 'high credit rating' for specified investments**
The Council's mandates require all specified investments to have a short-term rating of a minimum of F1, as defined by the credit rating agency FITCH or an equivalent rating agency

**The frequency that credit ratings are monitored**
Butlers monitor the credit ratings of banks and building societies and notify your treasury management staff of any changes. Unless the Authority is notified of a variation it is assumed that the credit rating has not changed. Where a credit rating is downgraded that bank or building society will be removed from the counter-party list if its new rating is outside of the defined limits.

**The procedure for determining the allowed categories of non-specified investments**
Council approve the Strategy that sets out the allowed categories and relevant constraints. These are kept under review during the year by your officers, the Capital Receipts Advisory Group and Butlers (the Council's professional advisor).

**The categories of non-specified investments that can prudently be used during 2007/08**
These are identified in the mandates at Appendix B.

**The maximum amounts that can be held in each category, as a percentage of the total portfolio managed by each Fund Manager or as a sum of money**
These are identified in the mandates at Appendices A and B.

**Liquidity of investments.**
The time deposits managed by CDCM are the least liquid investments and their mandate specifies the maximum period for which funds may prudently be committed. The investments managed by Alliance Bernstein and Investec are all highly liquid. The procedure to ensure that there are sufficient funds to meet the cashflow needs of the Authority is for officers to maintain cash flow forecasts and to review the mandates of the Fund Managers with the Capital Receipts Advisory Group.

**The minimum amount that will be held in 2007/08 in investments that are not long-term (over 1 year)**
This requirement is stating the value of the investments that are short-term and therefore more liquid. Of the estimated temporary investments held as at 31 March 2008 of £33m, at least £19m will be for less than one year.

## MANAGEMENT

The Director of Commerce and Technology and his staff, supported by the Council's professional advisor, together with the Capital Receipts Advisory Group, will monitor the performance of the funds and raise any issues and concerns with the Fund Managers.

The Cabinet will receive quarterly reports on the performance of the funds and an annual report on the performance for the year.

## GENERAL

The strategy is not intended to be a strait-jacket but a definition of the upper limit of the level of risk that it is prudent for the Council to take in maximising its borrowing and investment activities during 2007/08. Any changes that are broadly consistent with this Strategy and either reduce or only minimally increase the level of risk, are delegated to the Head of Financial Services, after consultation with the Capital Receipts Advisory Group in certain cases. Any other proposal to change this strategy will be referred back to the Council.

The Council's Prudential Indicators are attached at Appendix C. They are based on data included in the budget report and this Treasury Management Strategy. They set various limits that allow officers to monitor its achievement. These indicators must be approved by the Council and can only be amended by the Council.

**APPENDIX A**

## IN-HOUSE FUND MANAGEMENT

| | |
|---|---|
| **Duration of investments** | Fixed deposits up to and including 1 year |
| **Types of investments** | Fixed Deposits<br>Deposits at call, two or seven day notice<br>Money Market Funds |
| **Credit Ratings and Maximum limits** | See below<br>The credit rating is the short-term rating issued by FITCH unless otherwise indicated |
| **Benchmark** | LGC 7 day rate |

## COUNTER-PARTY LIST

| **LIMIT £2.5M** | **SHORT TERM RATINGS** |
|---|---|
| **BANKS (Rated F1 or better)** | |
| Abbey National plc | F1+ |
| Alliance and Leicester | F1+ |
| Barclays | F1+ |
| Bradford and Bingley | F1 |
| Co-Operative | F1 |
| HBOS | F1+ |
| HSBC | F1+ |
| Kleinwort Benson | P1* |
| Lloyds TSB Group | F1+ |
| Northern Rock | F1 |
| Royal Bank of Scotland | F1+ |
| | |
| **BUILDING SOCIETIES (Assets over £5 billion – Rated F1 or better)** | |
| Britannia | F1 |
| Chelsea | F1 |
| Coventry | F1 |
| Leeds | P1* |
| Nationwide | F1+ |
| Portman | F1 |
| Skipton | F1 |
| West Bromwich | F1 |
| Yorkshire | F1 |
| | |
| **ALL LOCAL AUTHORITIES, POLICE AND FIRE AUTHORITIES** | N/A |

* Moody's equivalent credit rating

| LIMIT £1.5M | SHORT TERM RATINGS |
|---|---|
| **BANK SUBSIDIARIES** Wholly owned by F1 Rated banks | |
| RBS Trust Bank Ltd | F1+ |
| Ulster Bank Limited | A1** |
| Ulster Bank Ireland | A1** |
| | |
| **OTHER BANKS** | |
| Allied Irish Bank | F1+ |
| Anglo-Irish | F1 |
| Bank of Ireland | F1+ |
| Bank of Scotland (Ireland) | F1+ |
| Bristol and West | F1 |
| Close Brothers | F1 |
| DePfa Bank | F1+ |
| Dexia Banque Internationale a Luxembourg | A1+** |
| HFC Bank | F1 |
| Irish Intercontinental Bank | F1 |
| KBC Bank NV | F1+ |
| Singer and Friedlander | F1 |
| | |
| **OTHER INSTITUTIONS** | |
| 3i Group Limited | A1** |
| Irish Life and Permanent plc | F1 |
| | |
| **BUILDING SOCIETIES (Assets over £2 billion)** | |
| Cheshire | |
| Dunfermline | |
| Newcastle | |
| Norwich and Peterborough | |
| Nottingham | |
| Principality | |
| Stroud and Swindon | |

| LIMIT £1M | SHORT TERM RATINGS |
|---|---|
| **BUILDING SOCIETIES (Assets over £1 billion)**<br>Scarborough | |

** Standard and Poor's credit rating

**EXTERNAL FUND MANAGER MANDATES** **APPENDIX B**

**Alliance Bernstein and Investec**

| | |
|---|---|
| Duration of investments | Average duration of Fund must not exceed 3 years<br>No individual investment shall exceed 10 years |
| Types of investments | Marketable securities issued or guaranteed by the UK Government **(Gilts)**<br>Deposits made with or marketable certificates of deposit issued by approved banks **(CDs)**<br>Sovereign and supranational securities, including floating rate notes **(Bonds)**<br>Corporate, bank and building society securities, including floating rate notes, commercial paper, asset backed and perpetual securities **(Corporate Bonds)**<br>Money Market Funds **(MMFs)** |
| Credit Ratings | **CORPORATE INVESTMENTS**<br>Standard & Poors AA- or Aa3 or above or equivalent<br>A- or A3 or better, maximum term 3 years<br>**NON-UK GOVERNMENTS AND SUPRANATIONALS**<br>AA- or Aa3 or above or equivalent for non-UK Governments<br>AAA or Aaa for Supranationals<br>**SHORT-TERM INVESTMENTS**<br>Standard & Poor's A1/P1 or above or equivalent<br>**MONEY MARKET FUNDS** AAA |
| Maximum limits | 50% Corporate bonds<br>20% Supranational and sovereign securities<br>50% Floating rate notes<br>75% Gilts<br>75% Corporate bonds plus Gilts<br>75% Corporate bonds + supranational and sovereign securities + floating rate notes + Gilts<br>50% Corporate bonds + supranational and sovereign securities + floating rate notes<br>20% with any one counterparty (except UK Government) for fixed deposits and CDs<br>10% per issuer for corporate bonds and FRNs<br>10% per issuer for securities guaranteed by non-UK EU Governments and supranational securities |
| Benchmark | 60% 3 month LIBID 40% 0-5 year gilt index. |

**CDCM**

| | |
|---|---|
| Duration of investments | **50% must be repayable within 12 months**<br>Up to and including 5 years maximum maturity<br>No more than 25% may be invested for longer than 3 years |
| Types of investments | Fixed Deposits<br>Deposits at call, two or seven day notice |
| Credit Ratings | F1+ by FITCH IBCA or equivalent |
| Maximum limits | £5m per institution and group for English and Scottish Clearing Banks and their subsidiaries, and Overseas Banks on list of authorised counterparties.<br>Building Societies<br>With assets more than £2,000m £5m<br>With assets more than £1,000m £3m<br>Other building societies in the top 25 £2m |
| Benchmark | 3 month LIBID |

**APPENDIX C**

# CIPFA Prudential Code for Capital Finance in Local Authorities Prudential Indicators for 2007/08

## Capital expenditure

1. Actual and Estimated Capital Expenditure

| | 2005/6 Actual £000 | 2006/7 Forecast £000 | 2007/8 Estimate £000 | 2008/9 Estimate £000 | 2009/10 Estimate £000 |
|---|---|---|---|---|---|
| **Gross** | **18,766** | **19,286** | **20,001** | **19,775** | **12,675** |
| **Net** | **15,868** | **14,806** | **15,352** | **19,192** | **12,201** |

**Excludes investments treated as capital expenditure**

**2.** The proportion of the budget financed from government grants and council tax that is spent on interest**.**
***The negative figures reflect that the Authority is a net investor and so the interest earned is used to help fund the budget.***

| 2005/6 Actual £000 | 2006/7 Forecast £000 | 2007/8 Estimate £000 | 2008/9 Estimate £000 | 2009/10 Estimate £000 |
|---|---|---|---|---|
| **-19%** | **-14%** | **-16%** | **-7%** | **-4%** |

**3.** The impact of schemes with capital expenditure on the level of council tax
***This calculation highlights the hypothetical impact on the level of Council Tax from new capital schemes that the Council has approved in the budget/MTP. It must ignore changes already approved, slippage, inflation and savings and so is based on relevant capital schemes in the MTP categories of Savings, New Unavoidable and New Urgent. The unusual pattern results from the fluctuating lost revenue as major maintenance is carried out on the Leisure Centres.***

***The actual planned change in Council Tax is different because of the impact of other variations and the use of revenue reserves.***

| | 2007/8 Estimate | 2008/9 Estimate | 2009/10 Estimate |
|---|---|---|---|
| **Increase** | **£4.98** | **-£3.08** | **£1.09** |
| **Cumulative** | **£5.64** | **£2.56** | **£3.65** |

**4.** The capital financing requirement**.**
***This represents the need for the Authority to borrow to finance capital expenditure. Whilst the Authority has capital reserves it will not have to borrow for capital purposes but may choose to do so:***

| 31/3/06 Actual £000 | 2006/7 Forecast £000 | 2007/8 Estimate £000 | 2008/9 Estimate £000 | 2009/10 Estimate £000 | 2010/11 Estimate £000 | 2011/12 Estimate £000 |
|---|---|---|---|---|---|---|
| **0** | **0** | **0** | **2,050** | **11,101** | **4,227** | **4,562** |

***It totals £21.9m over the MTP period.***

5. Net borrowing and the capital financing requirement.
**Net external borrowing must not be used to finance revenue spending except in the short term. In the short term there are legitimate uses of borrowing to cover cash flow e.g. funding salaries pending receipt of council tax income or return of investments.**

**The forecast shows that capital reserves are expected to run out in 2008/09 and the Authority will then need to fund most of its capital expenditure from long-term borrowing. However it is permitted to borrow a certain amount in advance of the need to fund capital expenditure (see paragraph 7 below).**

## External debt

6. The actual external borrowing at 31 March 2006
**There was £14.5m of short-term borrowing for cash-flow purposes.**

7. The authorised limit for external debt.
***This is the maximum limit for borrowing and is based on a worst-case scenario. It reflects the proposed revision to the Treasury Management Strategy which allows the Authority to borrow up to £10.8m in 2006/7 and up to an aggregate of £21.9m in 2007/8 to finance capital expenditure shown as to be financed from borrowing in the Medium Term Plan period if it appears that long term rates are attractive. The remainder of the limit relates to temporary debt for Cash Flow Purposes.***

| | 2006/7<br>Limit<br>£000 | 2007/8<br>Limit<br>£000 | 2008/9<br>Estimate<br>£000 | 2009/10<br>Estimate<br>£000 |
|---|---|---|---|---|
| Short term | 20,000 | 20,000 | 20,000 | 20,000 |
| Long Term | 15,000 | 21,900 | 25,100 | 28,400 |
| **Total** | **35,000** | **41,900** | **45,100** | **48,400** |

8. The operational boundary for external debt.
***This reflects a less extreme position. Although the figure can be exceeded without further approval it represents an early warning monitoring device to ensure that the authorised limit (above) is not exceeded. It allows the management of the Council's day to day cashflow and, in accordance with the Treasury Management Strategy, temporary borrowing to delay the return of funds from the Fund Managers if this is in the Council's interests. The short term and long term elements of the operational boundary will be monitored separately***

| | 2007/8<br>Limit<br>£000 | 2008/9<br>Estimate<br>£000 | 2009/10<br>Estimate<br>£000 |
|---|---|---|---|
| Short term | 15,000 | 15,000 | 15,000 |
| Long term | 21,900 | 25,100 | 28,400 |
| **Total** | **36,900** | **40,100** | **43,400** |

## Treasury management

9. Adoption of the CIPFA Code
**The Prudential Code requires the Authority to have adopted the CIPFA Code of Practice for Treasury Management in the Public Services.**
**This has been adopted.**

10. Exposure to investments with fixed interest and variable interest as a percentage of total investments.

***The parameters currently set for our Fund Managers could theoretically result in a significant amount of the funds being at variable rates as gilts and corporate bonds are deemed to be variable rate investments for the purpose of this indicator. In practice the exposure to variable rates is likely to be less.***

| | 2007/8 Limit £000 | 2008/9 Estimate £000 | 2009/10 Estimate £000 |
|---|---|---|---|
| Upper limit on fixed rate exposure | **100%** | **100%** | **100%** |
| Upper limit on variable rate exposure | **60%** | **50%** | **50%** |

11. Borrowing Repayment Profile
The proportion of 2007/8 borrowing that will mature in successive periods.

***The table refers to temporary borrowing for cash flow purposes; 100% will mature in less than 12 months. If long-term borrowing takes place it will all be for maturities in excess of ten years.***

| | Upper limit | Lower limit |
|---|---|---|
| **Under 12 months** | **100%** | **100%** |
| **12 months and within 24 months** | **0%** | **0%** |
| **24 months and within 5 years** | **0%** | **0%** |
| **5 years and within 10 years** | **0%** | **0%** |
| **10 years and above** | **0%** | **0%** |

12. Investment Repayment Profile
Limit on the value of investments that cannot be redeemed within 364 days.

***The limits set below will relate to the time deposits held by CDCM which are the only investments that are not immediately repayable. These limits are based on estimates of when the Council needs to recall funds to meet its Financial Strategy.***

| | 2007/8 Limit £000 | 2008/9 Estimate £000 | 2009/10 Estimate £000 |
|---|---|---|---|
| Investments over 364 days | 14,000 | 13,250 | 7,800 |