Cabinet

14 November 2019

Treasury Management Monitoring Report

Recommendation

That Cabinet considers and comments on Treasury Management activity and performance in respect of the first six months of 2019/20.

1 Introduction

1.1 This report provides an update on treasury management activity and performance for the first six months of 2019/20. This includes activity relating to the management of cash and cash balances / investments, and the management of risk, liquidity, and return.

2 Investments

2.1 The Council has an investment portfolio consisting of reserves and cash arising from daily receipts being in excess of payments on a short term basis.

2.2 As directed by the Treasury Management Strategy, security and liquidity has been prioritised above the requirement to maximise returns. A cautious approach is taken to lending to financial institutions, and credit quality information regarding the institutions on the Council's approved Lending List is monitored.

2.3 The Council's investment portfolio at 30 September 19 was as follows:

Table 1: Investment Position at 30 September 2019

	Invested at 1st April 2019	Additions (Withdrawals)	Invested at 30 September 2019
In house deposits	167.523	(0.623)	166.90
Money Market/External Funds	173.453	(19.753)	153.70
Total	**340.976**	**(20.376)**	**320.60**
Cash	18.053	(3.808)	14.24
Total Cash and Cash Equivalents and Short Term Investments	**359.029**	**(24.184)**	**334.84**

2.4 Balances overall have decreased to £334.8m. This is driven by £18.5m of PWLB interest plus principal repayment and larger than expected creditor runs during the period.

2.5 Appendix A illustrates the deposits making up the £334.8m of assets held at 30 Sep 2019. Cash balances are kept to a minimum and the average cash balance over the period was £0.035m.

2.6 The performance of the Council's internally and external managed investments (weighted) versus the benchmark is set out in Table 2:

Table 2: Investment Performance to 31 September 2019

	Average Interest rate year to date	Target rate : 7 day LIBID	Variance
	%	%	%
In house deposits	0.76	0.57	0.19
Money Market/External Funds	1.42	0.57	0.85
Weighted Average	**1.05**	**0.57**	**0.48**

2.7 The investment environment in the first half of 2019/20 continued to be a challenging one for investors, however the average return achieved of 1.05% is an improvement on the previous September which was 0.90%. The increase in the bank rate and an increase in the proportion of funds being placed in longer dated deposits that provide higher returns have contributed towards this. That said, ongoing Brexit uncertainties have resulted in cash balances and maturing investments to be placed in shorter duration deposits in order to facilitate the ability to react more quickly to uncertain events. However, loans to other Local Authority deposits still represent longer maturity profiles. This approach to maintaining flexibility will have a minor impact on returns.

2.8 Appendix B illustrates the mix of treasury management investment returns from the different deposits held at the end of September. Returns vary significantly however risk also varies with return. This analysis excludes cash balances which are not investments and long term investments that are not held for treasury management purposes.

2.9 The interest earned on the Council's investments was as follows:

Table 3: Interest Earned to September 2019

	To September 19 Gross	*Estimated Costs	To September Net
	£m	£m	£m
In house deposits	0.752	n/a	0.752
Money Market/External Funds	1.127	0.161	0.966
Total	**1.879**	**0.161**	**1.718**

- Costs are mid-year estimates – actual costs will be updated at the outturn.

2.10 Externally managed funds incur management fees which are noted in Table 3. Internally managed funds do not present fees in the same way, either county council cash is lent to other institutions (e.g. other local authorities) who pay fees as the borrower or are invested in deposit funds that present net returns rather than gross returns with costs.

2.11 The Council also received income from longer term investments that are held for service reasons rather than treasury management purposes, including for example the University of Warwick Science Park and Educaterers Ltd. These long-term investments are valued at £2m, interest forecasted from these investments is in the region of £0.6m for the whole year. As at 30 September the total loan outstanding from Educaterers stood at £820k this is generating a return of 6%.

2.12 Most of the deposits simply provide a return and the deposit value is static. However, some funds are of a nature where the deposit itself has a value which can rise or fall. The changes in the underlying asset value of these investments are not reflected in investment returns above but would be realised upon selling. This issue relates to the CCLA Property Fund and the Threadneedle Social Bond Fund whose values are illustrated in Appendix C. In addition to these investments, money market funds have an asset value that can vary but the volatility is relatively low.

2.13 Further information about funds held (duration and Fitch rating) is summarised in Appendix D. This information focuses on treasury management investment returns and so excludes cash balances which are not investments, and long term investments which are not held for treasury management purposes.

2.14 Table 4 details our consultant's view on interest rates. With continued uncertainty over the final terms of Brexit, the base rate and money market rates are likely to remain at low levels until mid-2020. Further commentary on the wider economic environment from our external advisers (Link) is provided at Appendix E.

Table 4: Interest Rate Forecast

	Present – Nov 2020 %	Dec 2020 – Feb 2022 %	Mar 2022 onwards %
Interest Rate Forecast	0.75	1.00	1.25

Source: Link Asset Services

2.15 The Council does not currently hold any variable rate debt and so is not exposed to interest rate risk on debt. However increasing rates mean that the duration of cash investments needs to be short enough that they are not locked into rates that are then left behind as better rates become available, with this risk being balanced against the fact that longer dated investments get higher returns.

3 Debt Financing

3.1 The authority currently has borrowing held with the Public Works Loans Board (PWLB) of £342m of debt. This is after accounting for the repayment of £10m of principal in September. The weighted average interest payable on the loans during the year to date has been 4.85%. Total interest payable during the year to date is £8.527m. All debt is fixed rate.

3.2 During the first half of this financial year, the authority had £10m maturing debt. The County did not undertake any new long term borrowing in 2018/19 and borrowing remained within the prudential limits. The profile of when debt was taken out and when it is due to mature is set out in Appendix F.

3.3 A review of PWLB debt was undertaken, driven by the relatively high rates being paid compared to what is currently available. If loans are repaid early a premium will be payable if the early repayment rates are lower than coupon rates on existing loans. It is only worth refinancing a loan if the rate you refinance at for the remaining life of existing loan is lower than early repayment rates. The repayment penalties currently in place mean this cannot be achieved. This position will be kept under review. The current position is there is no need to borrow further in 2019/20 based on current plans and activity.

3.4 As of the 9th of October 2019 the Treasury unexpectedly announced that PWLB rates will increase by 100bps across the board. The reasoning behind the move was to stem the flow of the recent accelerated borrowing by local authorities who were taking advantage of record low borrowing rates. To ensure lending continues to be available for local authorities the Treasury has legislated to increase the PWLB lending limit from £85bn to £95bn.

4 Compliance with Treasury Limits and Prudential Indicators

4.1 The Council operated within the treasury limits and Prudential Indicators during the first half of the year. Full details of the Prudential Indicators are shown in Appendix G. Explanations of the terminology employed is set out in Appendix H**.**

5 Sensitivity Analysis

5.1 For the purposes of disclosure on Market Risk a sensitivity analysis has been carried out to show the impact of a change in interest rates of + 1% on the debt portfolio.

5.2 The following table shows the results of the sensitivity analysis:

	Actual	**+1% increase in Base Rate**	
	F.V. at 31.03.2019 £m	**F.V. at 31.03.2019 £m**	**Difference £m**
Debt (new borrowing)	550.224	468.153	**82.071**
Debt (early repayment)	648.788	543.447	**105.341**

5.3 The above table demonstrates how as interest rates rise the fair value of a given level of debt reduces. This is due to the present value of future cash flows reducing as a result of a rate increase.

5.4 New borrowing illustrates the fair value of debt if taken out at a certain point in time. Early repayment illustrates the additional premium payable on the portfolio of loans to compensate for loss of interest for the Treasury.

6.0 Financial Implications

6.1 The financial implications of the Treasury Management outturn are set out in the body of the report.

Background Papers
None

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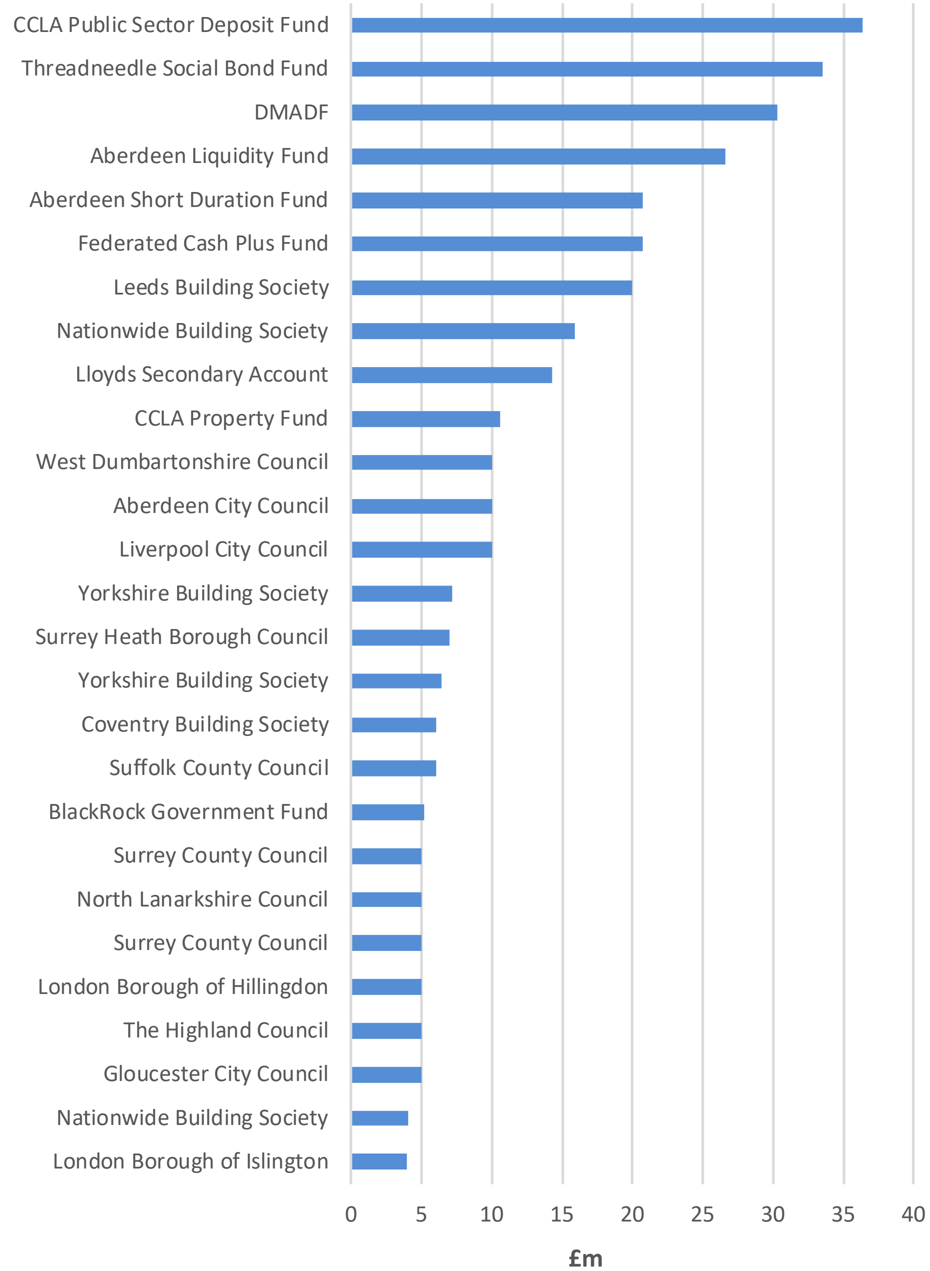
The report was circulated to the following members prior to publication:

Local Member(s): N/A
Other Members: Councillors Roodhouse, Chilvers, Singh Birdi, Warwick, Butlin, Chattaway, Boad and O'Rourke


£334.8m Closing Balances at 30/9/2019
Appendix A
CCLA Public Sector Deposit Fund
Threadneedle Social Bond Fund
DMADF
Aberdeen Liquidity Fund
Aberdeen Short Duration Fund
Federated Cash Plus Fund
Leeds Building Society
Nationwide Building Society
Lloyds Secondary Account
CCLA Property Fund
West Dumbartonshire Council
Aberdeen City Council
Liverpool City Council
Yorkshire Building Society
Surrey Heath Borough Council
Yorkshire Building Society
Coventry Building Society
Suffolk County Council
BlackRock Government Fund
Surrey County Council
North Lanarkshire Council
Surrey County Council
London Borough of Hillingdon
The Highland Council
Gloucester City Council
Nationwide Building Society
London Borough of Islington
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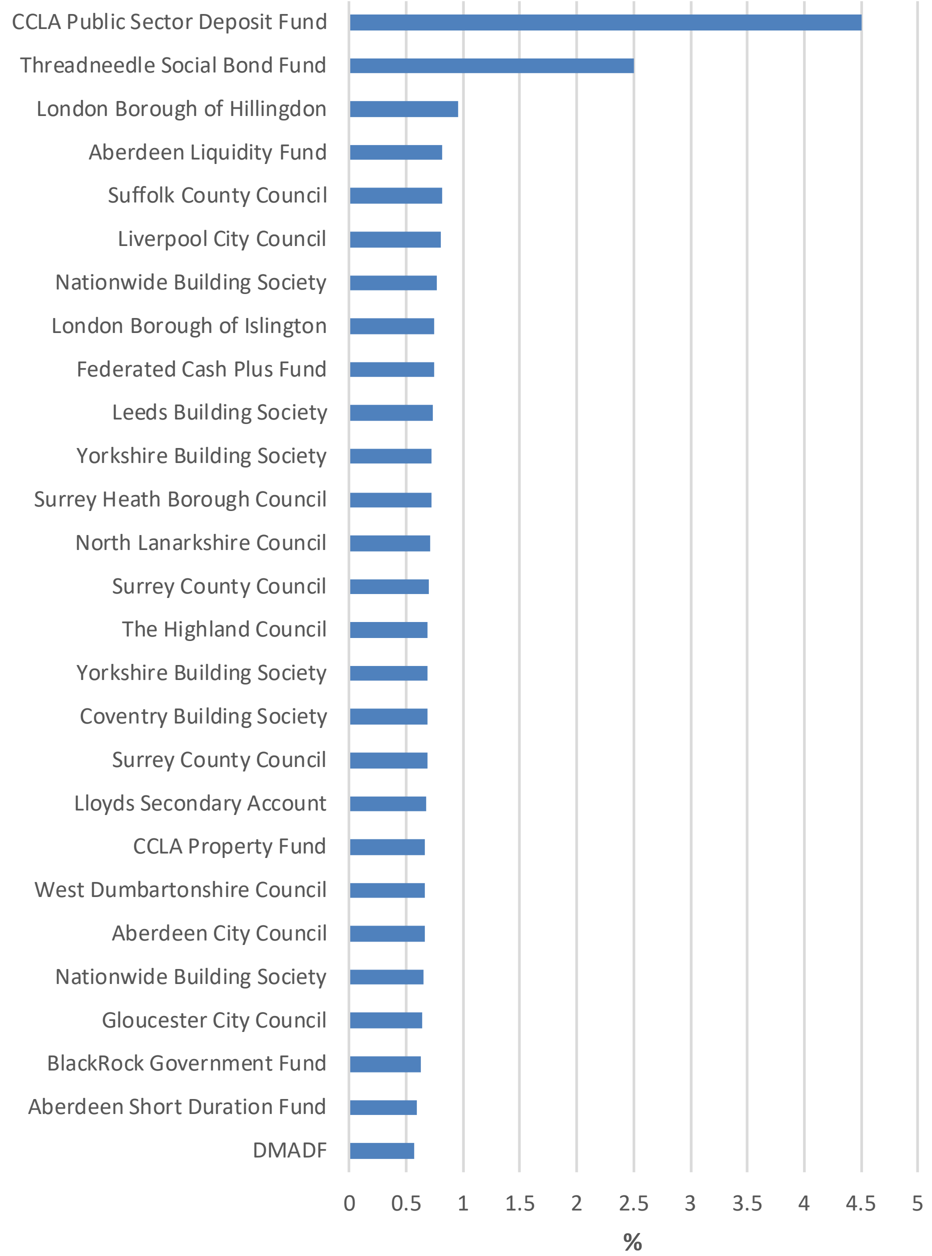
Net Return %
Appendix B
CCLA Public Sector Deposit Fund
Threadneedle Social Bond Fund
London Borough of Hillingdon
Aberdeen Liquidity Fund
Suffolk County Council
Liverpool City Council
Nationwide Building Society
London Borough of Islington
Federated Cash Plus Fund
Leeds Building Society
Yorkshire Building Society
Surrey Heath Borough Council
North Lanarkshire Council
Surrey County Council
The Highland Council
Yorkshire Building Society
Coventry Building Society
Surrey County Council
Lloyds Secondary Account
CCLA Property Fund
West Dumbartonshire Council
Aberdeen City Council
Nationwide Building Society
Gloucester City Council
BlackRock Government Fund
Aberdeen Short Duration Fund
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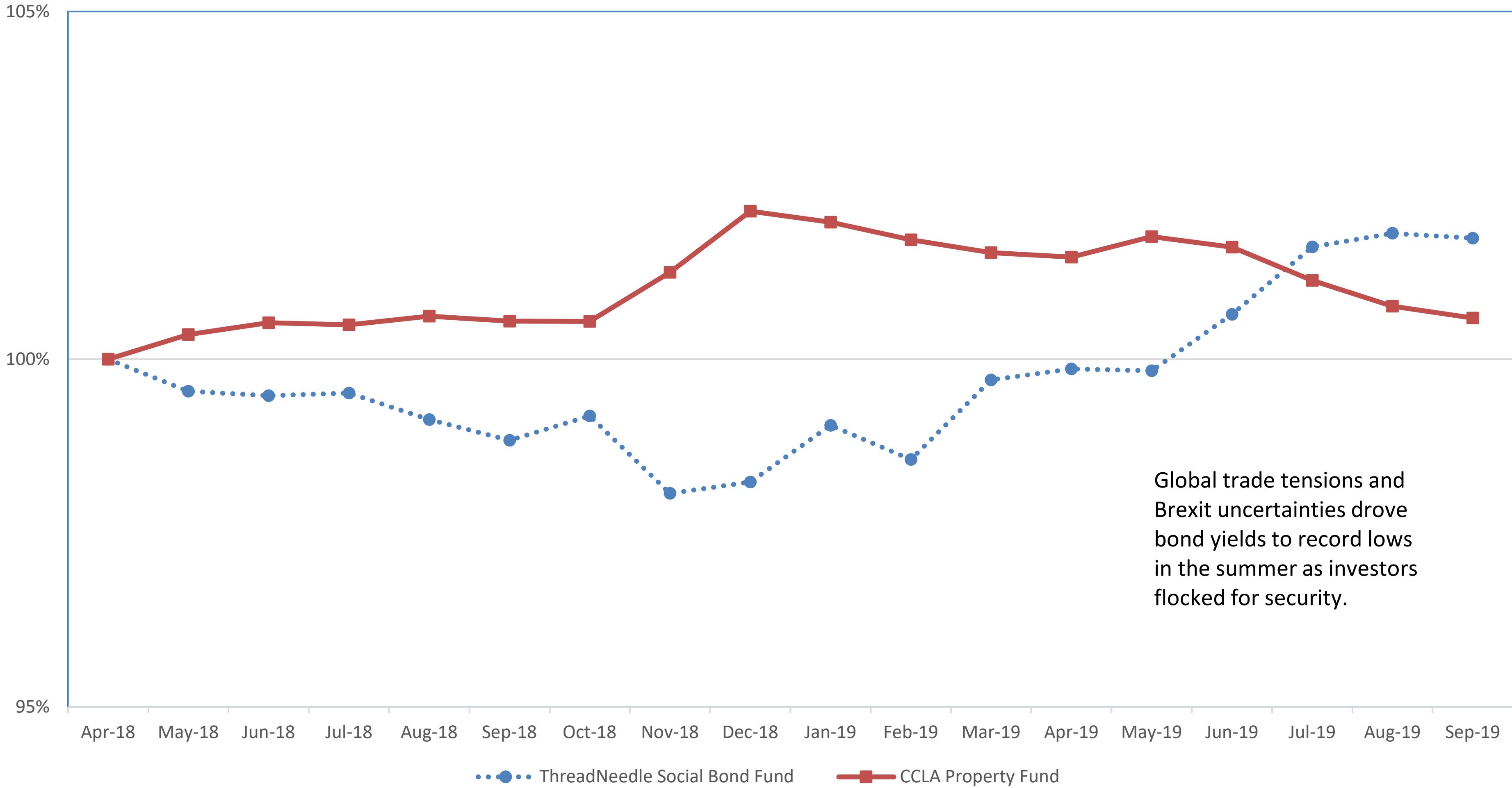
Appendix C



Cash Funds Summary **Appendix D**

Internally Managed Funds	Total £m	Net % Rate	Duration (total days from inception)	Duration (total days from end September 19)	Fitch Long Term Credit Rating
Gloucester City Council	5	0.75	154	1	AA
Nationwide Building Society	15.9	0.77	93	1	A
DMADF	30.3	0.635	29	10	AA
Leeds Building Society	20	0.69	95	14	A-
The Highland Council	5	0.95	274	15	AA
Suffolk County Council	6	0.68	93	22	AA
Coventry Building Society	6	0.71	100	23	A-
Liverpool City Council	10	0.7	120	30	AA
London Borough of Hillingdon	5	0.63	79	30	AA
Nationwide Building Society	4.1	0.81	154	31	A
London Borough of Islington	4	0.68	93	32	AA
Aberdeen City Council	10	0.68	93	36	AA
Yorkshire Building Society	6.4	0.72	92	46	A-
Yorkshire Building Society	7.2	0.72	89	46	A-
Surrey Heath Borough Council	7	0.8	185	51	AA
Surrey County Council	5	0.66	104	98	AA
West Dumbartonshire Council	10	0.66	104	98	AA
North Lanarkshire Council	5	0.66	154	119	AA
Surrey County Council	5	0.67	185	150	AA
Lloyds Bank Secondary Account	14.2	0.65	same day	same day	A+
Total	**181.1**				

Externally Managed Funds	At 30 Sep 2019 £m	Net Return %	Duration (total days from inception)	Duration (total days from end September 19)	Fitch Long Term Credit Rating
Aberdeen Liquidity Fund	26.6	0.73	same day	same day	AAA
CCLA Public Sector Deposit Fund	36.4	0.74	same day	same day	AAA
BlackRock Government Fund	5.2	0.59	next day	next day	AAA
Aberdeen Short Duration Fund	20.7	0.82	next day	next day	AAA
Federated Cash Plus Fund	20.7	0.57	next day	next day	AAA
CCLA Property Fund	10.6	4.5	up to 30 days	up to 30 days	
Threadneedle Social Bond Fund	33.5	2.5	4 days	4 days	
Total	**153.7**				

Appendix E

The Economy and Interest Rates

UK. This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one is likely before the end of 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing, (first week in October), the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in government departments and services annual expenditure budgets and expenditure on infrastructure projects, to boost the economy.

The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that the prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

With regard to the **labour market,** despite the contraction in quarterly GDP growth of -0.2%q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and

so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.
In the **political arena**, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

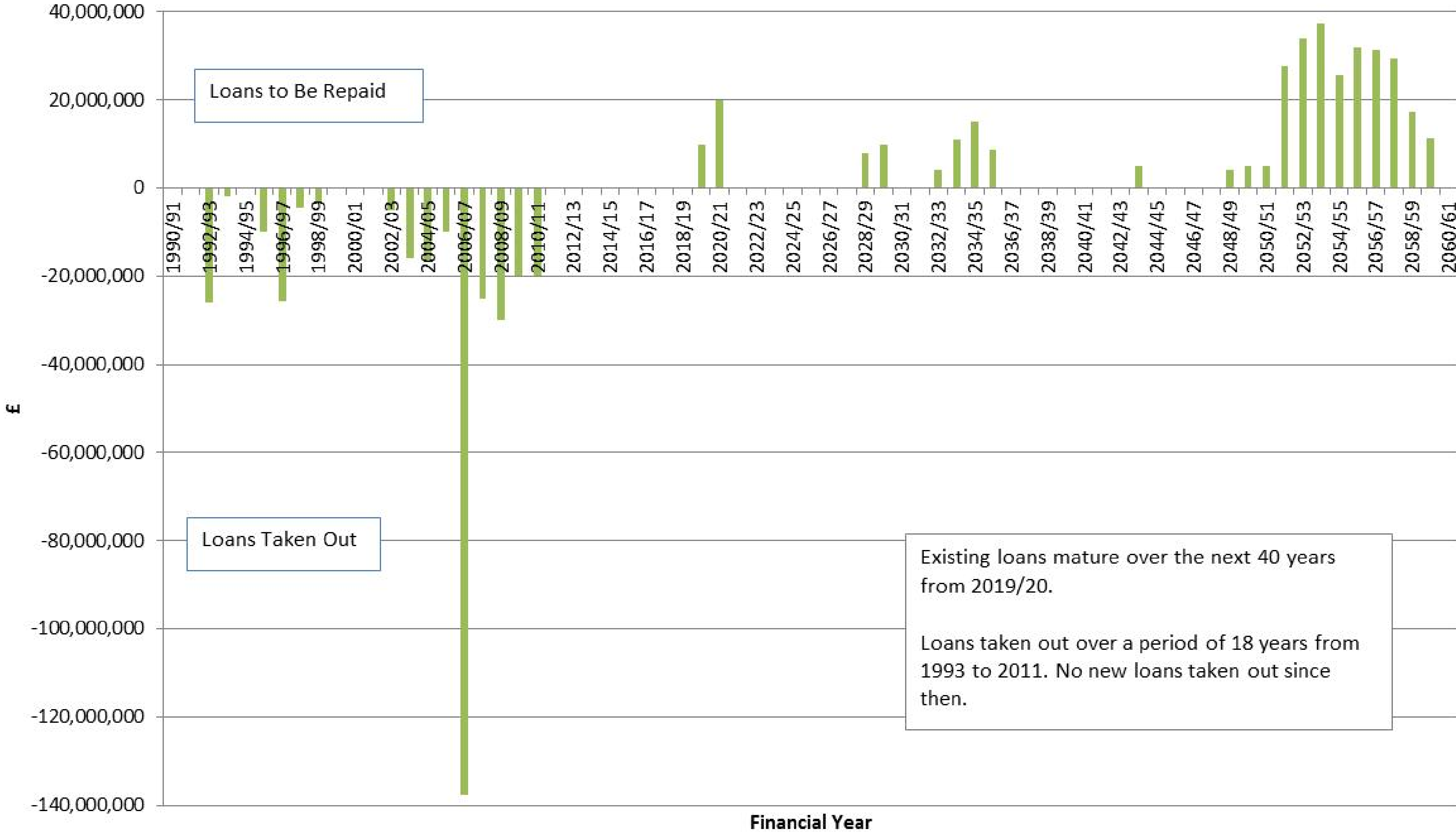
USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy. On the political front, Austria, Spain and Italy are in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The recent results of two German state elections will put further pressure on the frail German CDU/SDP coalition government.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress also still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. The trade war with the US does not appear currently to have had a significant effect on GDP growth as some of the impact of tariffs has been offset by falls in the exchange rate and by transhipping exports through other countries, rather than directly to the US.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.


PWLB Maturity Profile
Appendix F
Loans to Be Repaid
Loans Taken Out
Existing loans mature over the next 40 years from 2019/20.
Loans taken out over a period of 18 years from 1993 to 2011. No new loans taken out since then.
£
Financial Year
40,000,000
20,000,000
0
-20,000,000
-40,000,000
-60,000,000
-80,000,000
-100,000,000
-120,000,000
-140,000,000
1990/91
1992/93
1994/95
1996/97
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2060/61

Prudential Indicators

Appendix G

(1). AFFORDABILITY PRUDENTIAL INDICATORS	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	estimate	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	84,077	161,135	95,059	40,790	17,616
	%	%	%	%	%
Ratio of financing costs to net revenue stream	6.99	6.78	6.64	6.69	6.65
Gross borrowing requirement	£'000	£'000	£'000	£'000	£'000
Gross Debt	362,274	352,274	332,274	332,275	332,275
Capital Financing Requirement as at 31 March	301,581	308,519	307,016	302,652	290,737
Under/(Over) Borrowing	(60,693)	(43,755)	(25,257)	(29,623)	(41,537)
	£'000	£'000	£'000	£'000	£'000
In year Capital Financing Requirement	(12,367)	6,938	(1,502)	(4,364)	(11,915)
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement as at 31 March	301,581	308,519	307,016	302,652	290,737

PRUDENTIAL INDICATOR (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2018/19	2019/20	2020/21	2021/22	2022/23
	estimate	estimate	estimate	estimate	estimate
Authorised limit for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	516,818	428,215	438,412	409,174	394,877
other long term liabilities	12,000	12,000	12,000	12,000	12,000
TOTAL	**528,818**	**440,215**	**450,412**	**421,174**	**406,877**
Operational boundary for external debt -	£'000	£'000	£'000	£'000	£'000
Borrowing	430,681	356,845	365,343	340,979	329,064
other long term liabilities	10,000	10,000	10,000	10,000	10,000
TOTAL	**440,681**	**366,845**	**375,343**	**350,979**	**339,064**
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / fixed term investments	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re fixed rate borrowing / fixed term investments	25%	25%	25%	25%	25%
Upper limit for total principal sums invested for over 365 days	£'000	£'000	£'000	£'000	£'000
(per maturity date)	£60,000	£60,000	£60,000	£60,000	£60,000

Maturity structure of new fixed rate borrowing during year	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Maturity structure of new variable rate borrowing during year	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	60%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Note – Figures will differ from outturn report as capital spend forecasts have been updated.

Appendix H

Prudential Indicators Glossary

Ratio of financing costs to net revenue stream

The ratio of financing costs to net revenue stream shows the estimated annual revenue costs of borrowing, less net interest receivable on investments, plus repayments of capital, as a proportion of annual income from council taxpayers and central government. The estimates of financing costs include current and future commitments based on the capital programme.

Gross Borrowing

Gross borrowing refers to the Authority's total external borrowing and other long term liabilities versus the Capital Financing Requirement.

Actual and Estimated Capital Expenditure

Actual and estimates of capital expenditure for the current and future years.

Capital Financing Requirement

The Capital Financing Requirement (CFR) represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. The CFR measures the Authority's underlying need to borrow externally for a capital purpose. The Authority has a treasury management strategy which accords with the CIPFA Code of Practice for Treasury Management in the Public Services.

Authorised Limit

In respect of its external debt, the Authority approves authorised limits for its total external debt gross of investments. These limits separately identify borrowing from other long-term liabilities such as finance leases. Authorised Limits are consistent with the Authority's current commitments, service plans, proposals for capital expenditure and associated financing, cash flow and accord with the approved Treasury Management Policy statement and practices. The Authorised Limit is based on the estimate of most likely prudent, but not necessarily the worst case scenario and provides sufficient additional headroom over and above the Operational Boundary.

Operational Boundary

The Operational Boundary for external debt is based on the same estimates as the authorised limit but reflects the Head of Finance's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in-year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified.

Limits on Interest Rate Exposure

This means that the Authority will manage fixed and variable interest rate exposure within the ranges. This provides flexibility to take advantage of any favourable movements in interest rates.