ITEM NO: 13 - Appendix 4

REVIEW OF PRUNDENTIAL LIMITS AND TREASURY MANAGEMENT

The Council approved a number of indicators at its meeting of the 20th February 2008. Following the September update of the Capital Programme and an analysis of Treasury Management activity during 2007/08 and between April and July 2008 these have been reviewed for 2008/09 as detailed below. They are reported in accordance with CIPFA's code of practice on Treasury Management and in line with the approved Treasury Management Strategy.

These indicators have been reviewed with the assumption that the revised capital programme will be approved.

The other Prudential Indicators reported in February are not affected by the update of the capital programme.

1. Interest Rate Exposures

This indicator sets upper limits on the amount of net borrowing (total borrowing less investments) with fixed interest rates and variable interest rates for this year and the following two years and has the effect of setting ranges within which an authority would limit its exposure to both fixed and variable interest rate movements.

1.1. Upper Limit on Fixed Interest Rates

The limits (expressed as a percentage of total borrowing less investments) were set and will remain at

	Lower limit	Upper limit
2008/09	35%	100%
2009/10	35%	100%
2010/11	35%	100%

In principle, it may be necessary/desirable for all borrowing at a point to be at a fixed rate, although in practice this would be unusual.

1.2. Upper limit on Variable Interest Rates

The Upper limit represents the maximum proportion of borrowing which is subject to variable rate interest and was set at 35%, although in practice it would be unusual for the exposure to exceed 20% based on past performance, the highest to date is 8.69%. The limit was set at a higher level to allow for a possible adverse cash flow position, leading to a need for increased borrowing on the temporary market.

There has been no adverse cash flow to date but it is proposed that the limit remain at 35%, in case of any slippage in expected capital receipts.

2. Maturity Structure of Long Term Borrowing

This indicator sets limits on the amount of borrowing due to be repaid in a given period on fixed rate borrowing. The table below shows the estimated position as at 31st March 2009.

Amount of total borrowing (fixed & variable) due for repayment as a % of total borrowing:

Maturity	% at 31st March 2009
Under 12mths	0%
Between 12mths and 24mths	2%
Between 24mths and 5yrs	0%
Between 5yrs and 10yrs	7%
In excess of 10yrs	93%

The prudential limits for borrowing that is fixed rate maturing in each period (as a percentage of total projected borrowing that is fixed rate) is detailed below. No change is required:

Maturity	Lower limit	Upper limit
Under 12mths	0%	20%
Between 12mths and 24mths	0%	20%
Between 24mths and 5yrs	0%	50%
Between 5yrs and 10yrs	0%	75%
In excess of 10yrs	0%	100%

3. Total Principal Sums Invested for more than 364 Days

This sets a maximum limit on the amount of money than can be invested for more than one year; the current approved limit is set at £40 million.

Southampton City Council's core investment portfolio has been identified as being around £40 million and on the advice of the Council's Treasury Management consultants a rolling programme of 1 year cash deposits have been entered into that will provide a greater degree of certainty and stability in returns generated. The aim is to place investments with start and maturity dates that are spaced at roughly equal gaps of 1 month, giving the Council the added benefit of the liquidity afforded by the upcoming rolling maturity of deposits. This will provide opportunities to invest in whichever investments offer the best fit solution to the risk/reward appetite of the Council at that time. In addition further investments have been made when attractive interest rates and cash flow have allowed. The amount invested for more than 364 days as at 31st July 2008 was £35 million.

To allow for maximum flexibility it is recommended that the limit for amounts invested for more than 364 days is increased to £50 million and to continue to delegate authority to the Chief Financial Officer to make adjustments to this limit in line with available balances and advice from the Council's Treasury Management consultants.

4. Authorised Limit for External Debt

This is the maximum amount the authority allows itself to borrow in each year. It is made up of an authorised limit for borrowing and an authorised limit for other long term liabilities. It covers both short (temporary) and long term borrowing. The approved limit for 2008/09 is £389 million; there is no proposal to change this at this time.

5. Operational Boundary

This is also an external debt limit and is made up of borrowing and other long term liabilities. This limit is set to reflect the most likely (prudent) but not worst case scenario of the debt position of the authority and is detailed in the table below. This limit is linked directly to the authority's capital spending plans, capital financing requirements and cashflows of the authority. It also allows maximum flexibility to undertake debt restructuring. The borrowing to date is well within the set limits and there is no proposal to change this at this time.

Operational Boundary for External Debt

	2008/09 Approved	2008/09 Highest to date (July)
	£M	£M
Borrowing	356	157
Other Long Term Liabilities (inc contingency)	22	22
Total	**378**	**179**

6. Actual External Debt

The Council's actual external debt at 31 March 2009 is expected to be £187 million, comprising £166 million borrowing and £21 million other long term liabilities. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time.

7. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the Capital Financing Requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. It differs from actual borrowing due to decisions taken to use internal balances and cash rather than borrow.

	2008/09 Approved £M	2008/09 Actual £M	2009/10 Proposed £M
General Fund	119	114	133
HRA	91	90	93
Total	**210**	**204**	**226**