

## **Review of Prudential Limits and Treasury Management**

The Council approved a number of indicators at its meeting of the 18<sup>th</sup> February 2009. Following the September update of the Capital Programme and an analysis of Treasury Management activity during 2008/09 and between April and July 2009 these have been reviewed for 2009/10 as detailed below and 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 next 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
2009/10	35%	100%
2010/11	35%	100%
2011/12	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 50%, although in practice it would be unusual for the exposure to exceed 20% based on past performance, the highest to date is 10.3%. 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 50%, 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 31<sup>st</sup> March 2010.

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

<u>Maturity</u>	<u>% at 31<sup>st</sup> March 2010</u>
Under 12mths	13%
Between 12mths and 24mths	5%
Between 24mths and 5yrs	10%
Between 5yrs and 10yrs	0%
In excess of 10yrs	72%

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:

<u>Maturity</u>	<u>Lower limit</u>	<u>Upper limit</u>
Under 12mths	0%	30%
Between 12mths and 24mths	0%	30%
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 £50 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 1 year cash deposits have been entered into that will provide a greater degree of certainty and stability in returns generated than is currently achieved. 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 invested for more than 364 as at 31<sup>st</sup> July 2009 was £13 million, plus £6 million in long term bonds.

## **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 2009/10 is £383 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 allow maximum flexibility to undertake debt restructure. 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

	2009/10 Approved	2009/10 Highest to date (July)
	£'m	£'m
Borrowing	351	129
Other Long Term Liabilities (inc contingency)	21	20
<b>Total</b>	<b>372</b>	<b>149</b>

## 6. Actual External Debt

The Council's actual external debt at 31 March 2010 is expected to be £163 million, comprising £144 million borrowing and £19 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.

	2009/10 Approved	2009/10 Actual	2010/11 Proposed
	£m	£m	£m
General Fund	146	133	153
HRA	97	92	95
<b>Total</b>	<b>243</b>	<b>225</b>	<b>248</b>