Cabinet Meeting on Wednesday 19 August 2020

Treasury Management Report for the Year Ended 31 March 2020

Cllr Mike Sutherland, Cabinet Member for Finance said,

"The UK economy continued to face an uncertain environment in 2019/20, with Brexit deadline extensions and the Covid-19 pandemic. The County Council retained its Treasury Management Policy of using internal cash balances instead of borrowing money. This has delivered significant savings for taxpayers, as the infrastructure to deliver more skilled, better-paid jobs is being funded at a lower cost."

Report Summary:

1. This report describes the County Council's investment and borrowing activity during 2019/20. It considers both borrowing and investment decisions taken throughout the year considering the interest rates and economic conditions prevailing at the time.

2. These activities involve large sums of money and reflect the huge scale of the County Council's operations. As at the 31 March 2020, the County Council's overall debt level stood at £572 million, which reflects capital expenditure decisions made in the past. Temporary investments totalled £184 million.

3. Our treasury management activities were carried out prudently during the year and our policy of funding new borrowing from internal cash balances continues to generate significant savings.

4. As well as being prudent, our low risk investment strategy which focuses on lending to low risk institutions and the need for liquidity and diversification, has ensured the County Council has been strategically placed to deal with market challenges arising from the UK to leaving the European Union and the Covid-19 pandemic.

Recommendation(s)

I recommend that:

a. the treasury management activities for the year ended 31 March 2020, including the Prudential Indicators outturn detailed in **Appendix 4**, be noted.

b. Cabinet approve the use of the Minimum Revenue Provision at 31 March 2020 as set out in **paragraphs 32 and 33**.

c. Cabinet note the current Annual Investment Strategy is considered prudent and sufficiently robust to meet any market challenges created by the UK's decision to leave the European Union and pressures caused by the Covid-19 pandemic and that Officers will continue to monitor the position.

Local Members Interest
N/A

Cabinet – Wednesday 19 August 2020

Treasury Management Report for the Year Ended 31 March 2020

Recommendations of the Cabinet Member for Finance

I recommend that:

a. the treasury management activities for the year ended 31 March 2020, including the Prudential Indicators outturn detailed in **Appendix 4**, be noted.

b. Cabinet approve the use of the Minimum Revenue Provision at 31 March 2020 as set out in **paragraphs 32 and 33**.

c. Cabinet note the current Annual Investment Strategy is considered prudent and sufficiently robust to meet any market challenges created by the UK's decision to leave the European Union and pressures caused by the Covid-19 pandemic and that Officers will continue to monitor the position.

Report of the County Treasurer

Reasons for Recommendations:

1. At their meeting on 18 January 2012, Cabinet adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code).

2. Treasury risk management at the County Council is conducted within the framework of the revised 2017 Edition of the CIPFA Code. This requires the County Council to approve a treasury management strategy before the start of each financial year and, as a minimum, provide a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. This report provides a summary of the County Council's treasury management activities for 2019/20, in the context of the strategy for the year, which was agreed by Cabinet on 30 January 2019. It considers both the borrowing and investment decisions taken throughout the year in the light of the interest rates and economic conditions prevailing at the time.

External context

4. The UK’s exit from the European Union and future trading arrangements, had remained one of major influences on the UK economy and sentiment during 2019/20. The 29th March 2019 Brexit deadline was extended to 12th April, then to 31st October and finally to 31st January 2020. Politics played a major role in financial markets over the period as the UK’s tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December’s General Election removed a lot of the uncertainty and looked set to provide a ‘bounce’ to confidence and activity.

5. The effect of the points outlined above had a positive impact on the economy. The headline rate of UK Consumer Price Inflation fell to 1.7% y/y in February 2020, below the Bank of England’s target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages. GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

6. The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies.

7. Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis. This caused a flight to quality into sovereign debt and other perceived ‘safe’ assets. In response to the spread of the virus and a sharp increase in the number of people infected, the government enforced lockdowns and central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

8. Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touch its lowest level against the dollar since 1985. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31st March. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

9. The Bank of England held rates steady at 0.75% through most of 2019/20 but in March, in response to the Covid-19 outbreak, cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.10%. In conjunction with these cuts, the UK government introduced several measures to help businesses and households impacted by a series of tightening social restrictions.

10. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from of 2.5% to a range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a $2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%. The measures implemented by central banks and governments around the globe helped restore some confidence and financial markets have rebounded after the initial shock but remain extremely volatile.

Long-term borrowing 2019/20

11. The Treasury Management Strategy Report for 2019/20, approved by Cabinet on 30 January 2019, outlined the long-term borrowing strategy for the year, which was:

    "to favour using cash in lieu of borrowing."

12. The ability to borrow new loans was authorised as it was recognised that cash balances could fall as a result of unexpected changes in;
    - the capital programme;
    - budget pressures;
    - changes in the County Council's cash funding; and
    - the repayment of Lender Option Borrower Option loans (LOBOs).

13. The following table summarises the use of cash for 2019/20:

2018/19	**£m**
Balance funded from cash brought forward	**108.599**
New debt	17.764
Minimum Revenue Provision (MRP) *	(21.386)
Loan repayments at maturity	0.034
Loans taken out	0
Balance funded from cash carried forward	**105.011**

* *£19.286m of the MRP is payable by the County Council, but the treasury team manage the entire position, including MRP for transferred services.*

14. In 2019/20, the amount of debt funded from internal cash balances has decreased from £108.899m at the start of the financial year to £105.011m by the end of the year. New debt created was less than MRP and there was a small loan amount maturing meaning that the overall use of cash decreased.

15. The strategy of using cash continues to rely upon two main factors:
    - interest rates, and in particular the difference between short-term investment rates and longer-term borrowing rates; and
    - having cash available to fund the strategy.

Interest rates

16. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In that context, its challenge was to respond to the severe economic and financial disruption caused by the spread of Covid-19. The Bank of England, in addition to reducing the Bank Rate to 0.1%; introduced a Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME); and announced a £200 billion increase in the stock of UK government bond and sterling non-financial investment-grade corporate bond purchases known as Quantitive Easing. The current MPC forecast is for the recovery in economic activity to be relatively steep and inflation will rise to around the 2% target in the medium term.

17. The economic global shock caused by the Covid-19 virus has impacted on demand through employment, consumer confidence and on-going social distancing measures. Staffordshire County Council's treasury management advisers expect the Bank of England to maintain Bank Rate at 0.10% for the foreseeable future and that it is likely that central banks across the world will follow this approach.

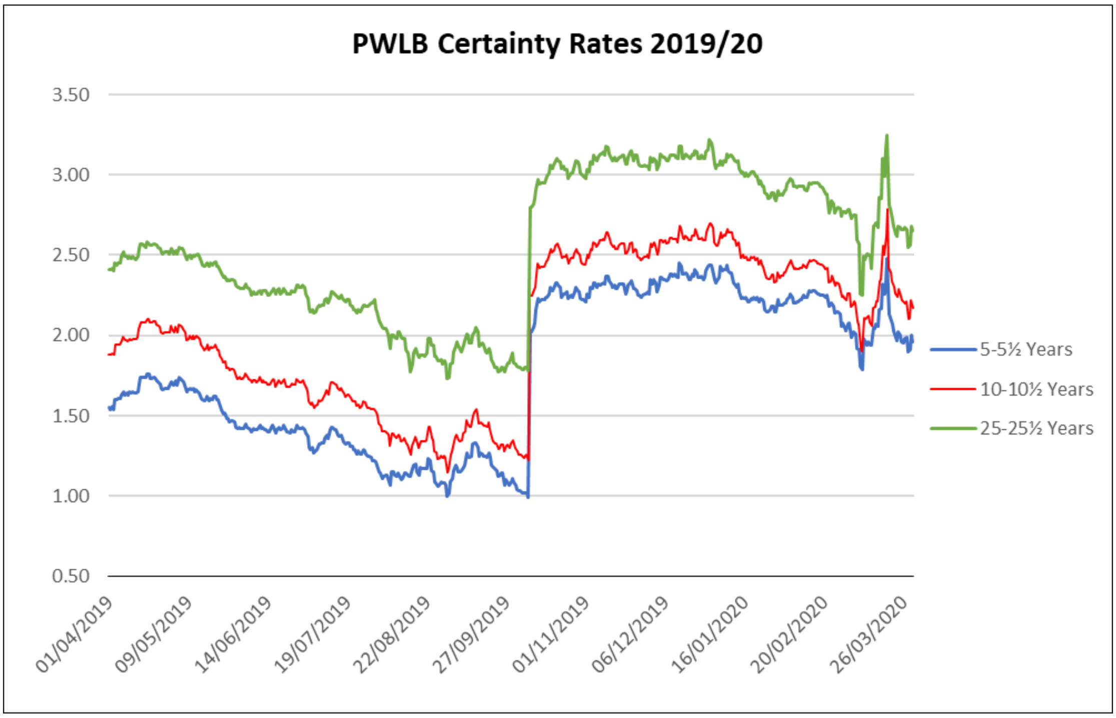
18. Whilst the economic future is not certain, a strategy of using cash remains supported by the current economic situation and the forecast for relatively low interest rates in the future.

19. Longer term interest rates are more relevant when the County Council wants to take up a new loan; these are mainly sourced from the Public Works Loan Board (PWLB) whose loan interest rates vary daily reflecting changes in gilt yields in the UK Government bond market.

20. On the 9th October 2019 the government announced a 1% increase in the interest rate margin on borrowing from the PWLB. Borrowing from the loan facility has increased at a rapid rate in recent years as a result of low interest rates with some borrowers using the money to invest in commercial property to produce a financial return. By taking this action HM Treasury has restored interest rates to those of 2018 to prevent borrowing for commercial purposes. This policy will be kept under review.

21. On the 11 March 2020 HM Treasury released a comprehensive consultation on future lending terms of the PWLB to codify the approach that should be taken towards lending to public bodies in the future in respect of commercial loans. Responses for this were sought by 31 July 2020.

22. The following chart shows PWLB interest rates (at certainty rate) for three indicative loans throughout 2019/20:

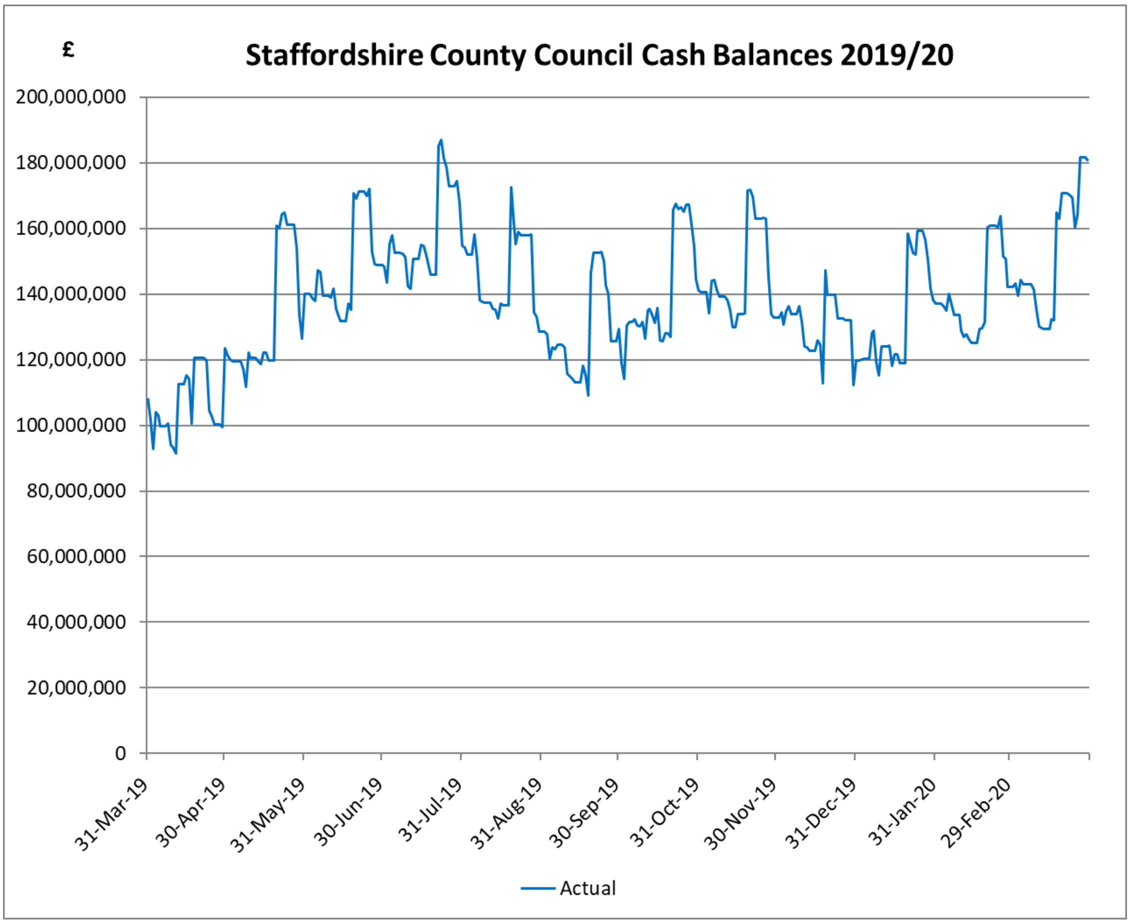


23. The chart shows rates fell substantially in the first half of 2019/20, before rising dramatically in the second half of the year due to the change in policy by HM Treasury. PWLB loans are priced with reference to gilt yields and the fall in PWLB rates (excluding the rate hike) and thus gilt yields reflected expectations for Bank Rate not increasing. When Bank Rate is not expected to increase, demand and prices for existing UK Government debt will increase (when gilt prices increase, yields fall). Rates also increased as the Covid-19 pandemic affected markets but then reduced once the initial shock tailed off. As mentioned in **paragraph 17**, expectations for a Bank Rate increase had fallen due to a slow-down in the global economy, risks of a no deal Brexit and Covid-19 pandemic.

24. It is important to understand the current relationship between short-term investment rates and longer-term rates. If borrowing in the form of a loan is taken, the proceeds could only be invested at rates significantly lower than the cost of the borrowing. At present this difference would be around 1.6% to 2.3% depending on the length of the loan, so avoiding raising new loans can result in significant savings (see **paragraph 27**).

Availability of Cash

25. An equally important consideration to support the policy of using cash in lieu of borrowing, is whether cash is available. The following graph shows the investment balances for 2019/20, which were sufficient to fund the use of cash of £105.011m (**see paragraph 13**).



26. The following table shows the average interest rate incurred on the County Council's loan portfolio, and an adjustment to this to reflect the use of cash.

	2018/19 %	**2019/20 %**
Weighted average rate of interest for external loans	4.65%	4.64%
Adjusted for the use of cash	4.20%	4.18%

27. The average rate on external loans is slightly lower than last year as there has been minimal loan maturities in 2019/20 which have not materially affected rates. On average, internally funding from cash balances in lieu of borrowing has saved the County Council £1.448 million in interest payments this year.

28. A graph illustrating the maturity profile of the long-term debt at 31 March 2020 is provided at **Appendix 2**.

29. The financing of the County Council's long-term debt at 31 March 2020 is summarised in the following table.

	£m	% of Total
PWLB fixed maturity loans and other	416.619	72
Lender Option Borrower Option (LOBO) loans	51.000	9
Internal funding from cash	105.011	19
Total debt position	**572.630**	**100**

Loan rescheduling in 2019/20

30. Movements in interest rates over time may provide opportunities to restructure the loan portfolio in one of two ways:
    - to replace existing loans with new loans at a lower rate (known as loan rescheduling); or
    - to repay loans early, without replacing the loans. This would increase the use of cash.

31. A combination of factors throughout 2019/20 meant that loan restructuring was not financially viable:
    - gilt yields were still near historical lows, which means a large penalty would be payable;
    - Government policy is to apply a margin to the early repayment of a PWLB loan, which further increases the penalty payable; and
    - the gap between short-term interest rates and longer-term interest rates meant that no LOBO loans were called.

Annual provision for principal repayments (Minimum Revenue Provision)

32. Under the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008, local authorities are given some flexibility in making an annual revenue provision for the repayment of debt.

33. In accordance with the approved policy, the Minimum Revenue Provision of £21.386 million has been used to reduce the County Council's level of debt.

Annual Investment Strategy - Approved lending list

34. The Annual Investment Strategy (AIS) sets out the parties the County Council will lend its money to. The AIS sets out the requirements of government guidance and the CIPFA Code of Practice for Treasury Management. Both documents set out two prime risk issues:

    - the security of capital; and
    - the liquidity of investments.

35. The following characteristics underpin the AIS.

- the use of regulation investments and counterparties recommended by the treasury adviser (high level of security);
- the use of diversified sterling “AAA” Money Market Funds (MMFs) and same day liquidity accounts (high level of security and liquidity); and
- a maximum duration of 12 months for bank and building society investments (high level of security).

Treasury Management activity 2019/20

Treasury Management Panel

36. The treasury team monitor the financial markets as part of a risk management strategy. Regular reports are provided to the County Treasurer, who chairs the Treasury Management Panel (‘the Panel’) which is attended by senior finance officers and treasury staff.

37. During the year, the Panel reviewed regular bank bail-in analysis reports provided by Arlingclose. Under the Bank Recovery and Resolution Directive (BRRD), a “bail in” of current investors will be forced upon a bank experiencing financial difficulties, instead of a government “bail out”. Bail-in legislation has increased the risk for a local authority as any unsecured fixed-term deposits would be ranked near the bottom of the capital structure, and therefore, one of the first to suffer losses. During the year Arlingclose shortened their recommended durations on some banks due to increased risks from a no-deal Brexit and global economic slowdown, this list did not include any of the banks that the County Council were authorised to invest in.

38. The CIPFA Guidance on Prudential Property Investment was reviewed and it indicated a legal concern over local authorities borrowing to invest in property. It was confirmed that the County Council’s commercial investment strategy was based on the usage of capital receipts and not funded from borrowing. As a result of the practice of some authorities using borrowing to fund commercial investment the treasury team had recently instigated a policy of maximising exposure to £5m per local authority

39. The Panel discussed the high level of County Council cash balances throughout the year and agreed secure ways to hold the funds in line with the AIS.

40. The Panel monitored Brexit developments, as the original deadline to leave the European was extended to October 2019. The Panel considered advice from the County Council’s treasury advisors, Arlingclose, on the implications of a no deal Brexit on short-term investments; foreign domiciled Money Market Funds (MMF) were perceived to have some liquidity risk in the event of a no deal Brexit. As an alternative, the Panel ensured the Council had access to the Government’s DMO deposit account facility with the flexibility to increase limits temporarily for UK domiciled MMFs, near to the original March deadline. As the County Councils investment strategy was viewed as cautious, no additional measures were required.

41. As a result of the Covid-19 pandemic the Panel took the decision to hold more cash on a shorter-term basis so that the Council had the ability to respond rapidly to any situation which may have arisen in an uncertain and changing environment. In addition, the cashflow of the Authority was also reviewed regularly and discussed so that an insight into possible pressures could be gained to further inform decisions.

42. During the year, the Panel discussed the treasury reports required for 2019/20 from the revised CIPFA Codes of Practice on Treasury Management and the Prudential Code, and revised guidance on Local Government Investments and MRP from the Ministry of Housing, Communities and Local Government (MHCLG). In addition to the reports outlined in **paragraph 2**, the Panel approved two new reports for 2019/20; the Capital Strategy and the Commercial Investment Strategy.

43. The Commercial Investment Strategy covers the requirements of MHCLG Guidance, in relation to investments held for service purposes or for commercial profit. Although commercial investments could be considered for 2019/20, the Council's 2019/20 treasury annual investment strategy remained low risk, with a focus on safeguarding assets by investing in low risk institutions, and with a view to liquidity and diversification. The Panel considered there was no need to change this strategy during 2019/20.

<u>Credit risk management</u>

44. The following table sets out the credit ratings awarded by credit rating agencies for the counterparties that the County Council was invested with at 31 March.

Credit Rating	**31 March 2019**	**31 March 2020**
	£m	**£m**
AAA	64.0	85.2
'A' range (including 'A+' and 'A-')	3.8	4.7
Local authorities	41.5	94.0
Total investments	**109.3**	**183.9**

45. The 2019/20 AIS set the minimum credit-rating of a counterparty at a long-term rating of 'A - ', where available. Counterparties rated below this level were automatically precluded from being on the lending list. From the table above, the highest rating ('AAA') was that given to MMFs, whilst the bank investments were graded in the 'A' range.

46. Whilst most local authorities are unrated by credit rating agencies, both regulations (which list local authorities as acceptable bodies to invest in) and their status as tax raising bodies make them highly creditworthy.

47. A copy of the current lending list (at the time of writing this report) is attached at **Appendix 3**.

Treasury Management Investment transactions

48. Surplus cash is invested in money market instruments to earn interest in accordance with the AIS. All investments must comply with Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 which ensure authorities cannot ‘speculate’ with public funds, for example, authorities cannot invest surplus cash directly in the stock market.

49. Treasury officers are authorised to invest in approved counterparties without further approval from the Panel or members. These are called standard investments and include the UK Government, short term Money Market funds and banks and building societies recommended by the County Council’s treasury advisors.

50. In addition, the AIS allows investments in non-standard investments subject to approval from the Panel chaired by the County Treasurer. Collective Investment Schemes are a category within non-standard investments that include Enhanced MMFs.

51. The Country Council has an investment in the Royal London Cash Plus MMF; this Enhanced MMF has the same characteristics as same day liquidity MMFs but has a 3-day notice period and recommended investment duration of at least 6 months, due to a longer investment horizon. The Royal London Cash Plus MMF has allowed the Council to earn an increased yield in a low interest rate environment.

52. The County Council’s same day notice MMFs converted from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) structure in January 2019. The assets of LVNAV MMFs are marked to market, meaning the dealing NAV (unit price) may fluctuate. However, the regulations confirm they will be allowed to maintain a constant dealing NAV provided they meet strict criteria and minimum liquidity requirements.

53. The following table summarises some key facts about the investment transactions over the last two years.

	2018/19	**2019/20**
Total Transactions in year	£1.180 billion	£0.934 billion
Total Interest receipts	£1.735 million	£2.019 million
Average return on investments	1.49%	1.46%
7-day LIBID* (benchmark)	0.51%	0.50%
Additional return generated	0.98%	0.96%
Adjusted without long-term local authority investments	0.61%	0.67%

** London Interbank BID interest rate*

54. The previous table shows that the level of total interest receipts in 2019/20 was higher than in the previous year. The total interest receipts figure includes interest receipts from £30m of long-term local authority investments. These were made at an average rate of 4.02%, significantly higher than current market interest rates.
55. Although interest receipts were higher in 2019/20, the average return on investments was lower. This is because long-term local authority investment interest receipts, which paid a higher rate of interest, formed a lower proportion of total interest receipts; hence when long-term local authority investments are excluded, the yield was higher than in the previous year. In addition, the County Council also held a higher balance of cash throughout 2019/20, allowing higher balances to invest giving greater returns and savings on borrowing costs.

56. The long-term local authority investments were originally approved by Cabinet in 2013, for a maximum of £45m. Although the County Council made a number of short-term local authority investments during 2019/20, no further long-term investments were made due to a lack of demand from borrowers.

57. Approved investments at 31 March 2020 stood at £183.910 million (£109.328 million at 31 March 2019) and these can be analysed as follows:

Long-term local authority	**£m**	**Term**
Derby City Council	7.500	28/11/2030
Derby City Council	7.500	28/11/2031
Redcar and Cleveland Borough Council	7.500	29/11/2032
Redcar and Cleveland Borough Council	7.500	29/11/2033
Short-term local authority		
West Dunbartonshire Council	5.000	29/05/2020
Uttlesford District Council	3.000	01/05/2020
South Somerset District Council	5.000	17/04/2020
Windsor and Maidenhead Royal Borough Council	5.000	27/07/2020
Kingston upon Hull City Council	5.000	19/08/2020
Kingston upon Hull City Council	5.000	19/09/2020
Nottingham City Council	3.000	08/06/2020
Plymouth City Council	5.000	29/06/2020
Kirklees Council	5.000	15/05/2020
Fife Council	5.000	19/08/2020
Highland Council	3.000	07/09/2020
Warrington Borough Council	5.000	09/04/2020
London Borough of Southwark	5.000	23/06/2020
Surrey County Council	5.000	01/06/2020
Banks and building societies		
Lloyds (as banking provider)	4.660	Instant Access
Money Market Funds		
Black Rock	13.250	Instant Access

Insight	16.000	Instant Access
Federated	17.000	Instant Access
Aberdeen	17.000	Instant Access
State Street	17.000	Instant Access
Enhanced Money Market Funds		
Royal London Cash Plus	5.000	2-day notice
TOTAL	**183.910**	

Compliance with other matters

58. The following other matters can be confirmed:

(i) In accordance with financial regulations, the Treasury Management Panel, chaired by the Section 151 Officer and comprising other senior finance officers, met regularly to consider treasury matters;

(ii) All treasury related transactions were undertaken by authorised officers and within the limits approved by the County Council;

(iii) All investments were to counterparties on the approved lending list current at the time and fully met the requirements of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008; and

(iv) The County Council operated within the limits and Prudential Indicators for treasury management as set out in the County Council's Treasury Management Practices except for variable interest rates. This indicator is calculated based on the highest expected cash balance in the year which was surpassed as a result of a government grant for additional costs in respect of the Covid-19 pandemic for £22.296m. This fact was discussed by the Treasury Management Panel and arrangements made for the secure deposit of funds in line with the AIS. The outturn for all Prudential Indicators is shown in **Appendix 4**.

List of Background Documents

1. Treasury Management in the Public Services: Code of Practice (CIPFA) (2017)
2. Prudential Code for Capital Finance in Local Authorities (CIPFA) (2017)
3. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
4. Statutory Guidance on Local Government Investments – Issued under Section 15(1) (a) of the Local Government Act 2003 (2018)
5. Statutory Guidance on Minimum Revenue Provision – Issued under section 21 (1A) of the Local Government Act 2003 (2018)
6. Localism Act 2011 – Guidance on the General Power of Competence in sections 1 to 6.

Contact Details

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Appendix 1

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Equalities implications – There are no equalities implications arising from this report.

Legal implications – There are no legal implications arising from this report.

Resource and value for money implications – The resource and value for money implications are contained within the body of the report.

Risk implications – Counterparty, interest rate and refinancing risk arising because of treasury management activity have been considered in the body of this report.

Climate change implications – There are no climate change implications arising from this report.

Health impact assessment screening – There are no health impact assessment implications arising from this report.

Appendix 2

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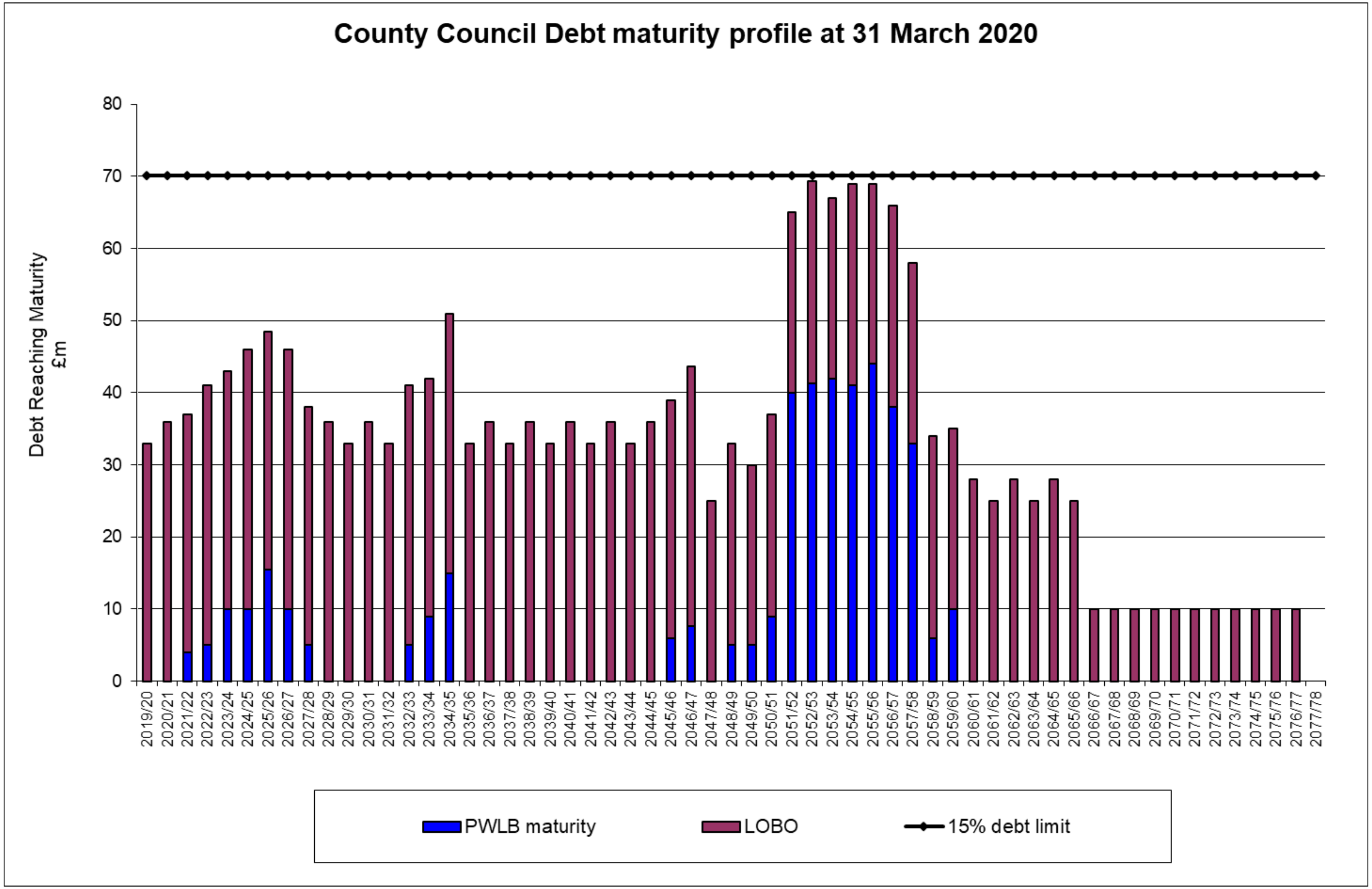

Appendix 3

Cabinet 19 August 2020

Approved lending list - July 2020	
	Time limit
Regulation investments	
DMADF account	6 months
UK Government Treasury Bills	6 months
UK local authority	12 months
Banks and building societies	
Barclays	35 days
Lloyds	35 days
Nationwide	35 days
Santander	35 days
MMF's	
Black Rock	same day
Insight	same day
Federated	same day
Aberdeen	same day
State Street	same day
Enhanced MMF's	
Royal London Cash Plus	3-day notice

Appendix 4

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Prudential Indicators for Treasury Management

Indicator	Estimate 2019/20	Actual Position at 31/03/20
1. External debt		
Authorised Limit for borrowing	£632m	£468m
Authorised Limit for other liabilities	£249m	£242m
TOTAL	**£881m**	**£710m**
Operational Boundary for borrowing	£515m	£468m
Operational Boundary for other liabilities	£249m	£242m
TOTAL	**£764m**	**£710m**
External loans	**£468m**	**£468m**
The Authorised Limit is the maximum level of external borrowing which should not be exceeded. It is linked to the estimated level of borrowing assumed in the capital programme. *The Operational Boundary represents an estimate of the day to day limit for treasury management borrowing activity based on the most likely i.e. prudent but not worst-case scenario.* *"Other liabilities" relate to PFI schemes which are recorded in the County Council's accounts.*		
2. Interest rate exposures		
a. Upper Limit (Fixed)	£557m	£438m
b. Upper Limit (Variable)	(£170m)	(£183m)
The County Council has set upper limits of fixed and variable borrowing and investments. The effect of setting these upper limits is to provide ranges within which the County Council will manage its exposure to fixed and variable rates of interest. Negative figures are shown in brackets; these relate to the 'high- point' of investments at a variable rate which are not offset by variable borrowings. The exposure to variable rate movements has been reduced using cash in lieu of borrowing.		
3. Maturity structure of borrowing		
See Graph at **Appendix 2**		
This indicator relates to the amount of loans maturing in specified periods. The overarching principle is that steps should be taken from a risk management point of view to limit exposure to significant refinancing risk in any short period of time. The County Council currently applies the practice of ensuring that no more than 15% of its total gross fixed rate loans mature in any one financial year. *Because this is a complex situation for the County Council, involving PWLB loans, LOBO loans with uncertain call dates and the use of internal cash, specific indicators have not been set. Instead the County Council will manage its exposures within the limits shown in the graph at **Appendix 2**. This graph shows all LOBO call options on a cumulative basis; in fact, the actual pattern of repayment, although uncertain, will not be of this magnitude.*		
4.Upper limit for total principal sums invested for longer than a year (from maturity)		
This limit has been set at the total amount that could be invested in non-standard investments as per the County Council's policy which is the maximum that could be invested for 1 year or over.	£95m	£30m