

THE HIGHLAND COUNCIL

Resources Committee

18th February 2009

Agenda Item	
Report No	

Treasury Management Strategy Statement – 2009/10

Report by Depute Chief Executive & Director of Finance

Summary

The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in Local Authorities. A requirement of the Code is for an annual Treasury Management Strategy Statement to be approved by Council for the forthcoming financial year.

In compliance with the Code, the attached Treasury Management Strategy Statement for 2009/10 is submitted for approval.

1. Introduction

- 1.1 The Local Government in Scotland Act 2003 and supporting regulations require the Council to comply with the Prudential Code and therefore to agree Prudential Indicators to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The CIPFA Code of Practice on Treasury Management in the Public Services also requires the Council to set out its treasury management strategy for borrowing and investment.
- 1.2 The suggested strategy for 2009/10 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser. The strategy covers:
 - capital expenditure and associated borrowing – (2009/10–2011/12)
 - prudential indicators – (2009/10 – 2011/12)
 - current portfolio position
 - prospects for interest rates
 - economic background
 - borrowing strategy
 - debt rescheduling
 - investment strategy
- 1.3 It is a statutory requirement under Section 93 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, a local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in

interest charges caused by increased borrowing to finance additional capital expenditure and any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2. Capital Expenditure and Associated Borrowing – (2009/10 to 2011/12)

- 2.1 It is a statutory duty under part 7 of the Local Government in Scotland Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to allocate to capital expenditure. The amount so determined is termed the “Affordable Capital Expenditure Limit”. In Scotland the estimate of capital expenditure for 2009/10 represents the legislative limit specified in section 35(1) of the Local Government in Scotland Act 2003.
- 2.2 The Council must have regard to the Prudential Code when setting the Affordable Capital Expenditure Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.
- 2.3 Whilst termed an “Affordable Capital Expenditure Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as finance leases. The affordable capital expenditure limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.
- 2.4 The Council’s agreed Capital Expenditure levels for 2009/10 to 2011/12 both gross and net (ie funded from borrowing) as agreed by the Council in September 2008, and adjusted for subsequent changes to that programme, are detailed in Prudential Indicators A3 and A4 in Appendix 1.

3. Prudential Indicators for 2009/10 – 2011/12

- 3.1 The importance of treasury management has been enhanced as a result of the freedoms provided by the Prudential Code for Capital Finance in Local Authorities which became effective on 1st April 2004. This is a professional Code that sets out a framework for self regulation of capital spending, in effect allowing Councils to invest in capital projects without any limit as long as the investment is affordable, prudent and sustainable.
- 3.2 Prudential indicators have been prepared based on the existing General Fund, Housing Revenue Account (HRA) and, where appropriate, Joint Boards’ Capital Programmes and are detailed in Appendix 1. They are relevant for the purposes of setting an integrated treasury management strategy and are submitted for approval. The Council will shortly be reviewing its rolling capital programme and will therefore consider any consequent updates to Prudential Indicators in due course.

4. Current Portfolio Position

- 4.1 The Council’s treasury portfolio position at 31st December 2008 comprised:

		Principal	Ave. Rate	
		£m	£m	%
Fixed Rate Funding	PWLB	416		5.67
	Market	57		3.32
			473	
Variable Rate Funding	PWLB	0		0
	Market	82		5.15
			82	
Total Debt (gross)			555	5.35
Total Investments			49	4.78

5. Prospects for Interest Rates

5.1 The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Sector's interest rate forecasts as at 6 December 2008 are detailed in the table below;

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011	Q/E2 2011	Q/E3 2011	Q/E4 2011	Q/E1 2012
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%
5yr PWLB rate	2.50%	2.25%	2.15%	2.15%	2.15%	2.45%	2.80%	3.15%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB rate	3.10%	2.75%	2.55%	2.55%	2.55%	2.85%	3.25%	3.65%	4.15%	4.40%	4.70%	4.75%	4.85%
25yr PWLB rate	4.00%	3.95%	3.95%	3.95%	4.00%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.00%	5.05%
50yr PWLB rate	3.85%	3.80%	3.80%	3.80%	3.85%	3.90%	4.00%	4.25%	4.40%	4.70%	4.80%	4.95%	5.00%

5.2 Sector's current interest rate view is that the Bank Rate : -

- will fall from current levels because of the intensifying global recession
- Starting 2009 at 2.00%, Bank Rate is forecast to fall to 0.5% in Q1 2009
- It is then expected to remain there until starting to rise gently up from Q2 2010 till it reaches 4.0% in Q1 2012.
- There is downside risk to these forecasts if the recession proves to be deeper and more prolonged than currently expected.

6. Economic Background

6.1 Introduction

- The sub prime crisis of early 2008 was supplanted by the banking crisis of autumn 2008. The world banking system came near to collapse and governments around the world were forced to recapitalise and rescue their major banks.
- The resulting dearth of lending from banks anxious to preserve capital led to

economic forecasts being sharply reduced and recession priced into markets. This in turn led to sharp falls in oil and other commodity prices with the result that inflation, which in the UK was running at over 5%, became yesterday's story and recession fears drove interest rate sentiment and policy.

- A co-ordinated global interest rate cut of 50bp took place on 8th October 2008. Forecasts in the UK were for further sharp cuts in interest rates as recession fears grew.

6.2 International

- Early in 2008 the US economy was being badly affected by the housing market slump. Interest rates were at 2% and inflation was being dragged higher by the inexorable rise in commodity prices. The ECB was very concerned about rising inflation and less about the state of the economy.
- The second quarter of 2008 was torn between inflation worries on the one hand, with oil rising towards \$150 per barrel, and the deteriorating economic outlook on the other.
- In the second and third quarters of the year the financial crisis erupted and escalated as the world became aware of the extent of the sub-prime fiasco and the impact it was having on institutions that had invested in these issues.
- In September Fannie Mae/Freddie Mac (the mortgage banks) and AIG, the insurance giant, had to be bailed out by the US Federal Government.
- Then in mid September, Lehman Bros., the investment bank, was allowed to fail. This triggered a domino effect with other banks and financial institutions having to be rescued or supported by governments around the world.
- After the collapse into receivership of the Icelandic banks in early October, other countries then started to feel the strain and a number had to approach the IMF for support.
- Eventually even the Asian 'Tiger' economies were affected, including India and China, and it became clear that the crisis had become a global one and no country was insulated from it.
- The financial crisis had therefore precipitated an economic crisis and there was a co-ordinated global interest rate cut with the Fed, ECB and MPC all cutting rates by 50bp on 8th October. The Fed subsequently cut rates again by 50bp to 1% on 29th October and again on 16 December to a band of 0.0% to 0.25% in an attempt to stave off the oncoming recession. Inflation was widely regarded as yesterday's problem.
- On 4th November the USA elected Barack Obama as President with little immediate financial impact.
- The ECB reduced rates again on 6th November by 50bp and by its biggest ever cut of 75bp on 4 December to reach 2.5%.

6.3 UK

- Gross Domestic Product (GDP): growth was already slowing in 2008 from 2007 before the full impact of the credit crunch was felt. Earlier in 2008 GDP was 2.3% whereas in the autumn the figure fell back to -0.3% and was then expected to continue to be negative going into 2009.
- Wage inflation remained relatively subdued as the Government kept a firm lid on public sector pay. Private sector wage growth was kept in check by the slowing economy.
- Growth slowed across the economy and unemployment rose throughout the

year with forecasts of 2 million unemployed by the end of the financial year. This figure was forecast to continue increasing through 2010.

- Notwithstanding the pressures on household finances consumer spending still remained reasonably buoyant although the trend was slowing as the year progressed.
- Bank lending came to a virtual standstill in the autumn as the credit crunch tightened its grip and various banks internationally had to be rescued, or supported, by their governments.
- The Government and Bank of England supplied massive amounts of liquidity to the banking market in an attempt to reignite longer inter-bank lending.
- The Government took action in September to either supply finance itself to recapitalise some of the major clearing banks or to require the others to strengthen their capital ratios by their own capital raising efforts. This was so that these banks would be seen to have sufficient reserves to last through the coming recession with its inevitable increase in bad loans etc.
- The housing market also came to a virtual standstill as lenders demanded larger deposits and higher fees. House sales and prices both dropped sharply.
- Government finances deteriorated as income from taxation dropped as the economy slowed and the cost of the bailout of the banks was added to the deficit.
- U.K. equity prices declined sharply in the 3rd and 4th quarters as the impending recession was priced into the markets. Prices hit five year lows and volatility was extremely high.
- The story of 2008 has been the credit crunch, the banking crisis and the change in economic outlook from slow growth to outright recession. After the initial concerns about the impact of the credit crunch in the earlier part of 2008 it appeared as though the storm had been weathered. The UK's MPC had been very concerned about CPI inflation, which had been rising sharply on the back of higher commodity and food prices. Bank Rate reached a peak of 5.75% in July 2007 after which cuts of 0.25% occurred in December 2007 and February and April 2008 before the major cuts in the autumn. The economic data had been indicating a slowing economy for some while but it was not sufficiently weak to force the MPC into another cut. It was the strength of the banking crisis, pre-empted by the collapse of Lehmans in New York that eventually drove the MPC to cut interest rates by 50bp on October 8th in concert with the Federal Reserve, the ECB and other central banks. It was then appreciated that the economic downturn would be much more severe than previously thought and interest rates were subsequently slashed by 150bps on 6 November, 100bps on 4 December and 50 bps on 8 January 2009.
- The London Inter Bank Offer Rate (LIBOR) spread over Bank Rate has also been a feature, and a concern, of 2008/9. Because of the credit fears and the reluctance of lenders to place cash for long periods 3 month LIBOR (the rate at which banks will lend to one another) has been substantially higher than Bank Rate. This has meant that the MPC's power over monetary policy has been eroded by the widening of this spread between LIBOR and Bank Rate and it

has therefore had a limited ability to bring relief to hard pressed borrowers through lower interest rates. However, the power of the Government over the semi nationalised clearing banks had considerable impact in enforcing pro rata reductions to the 150 bps Bank Rate cut in November on some borrowing rates.

- The Government has abandoned its 'golden rule'. The pre Budget Report on 14 November revealed the Government's plans for a huge increase in Government borrowing over coming years as a result of falling tax revenues and also due to tax cuts and increases in Government expenditure in the short term designed to help stimulate economic growth to counter the recession.

7. Borrowing Strategy

7.1 The Sector forecast is as follows: -

(These forecasts are based around an expectation that there will normally be variations of +/- 25bp during each quarter around these average forecasts in normal economic and political circumstances. However, greater variations can occur if should there be any unexpected shocks to financial and/or political systems.) These forecasts are for the PWLB new borrowing rate: -

- The 50 year PWLB rate is expected to remain around current levels of about 3.80 - 3.90% until Q3 2010 when it is forecast to rise to 4.00%. The rate then edges up gradually to reach 5.00% at the end of the forecast period.
- The 25 year PWLB rate is expected to drop to 3.95% in Q2 2009 and stay around there until starting to rise in Q1 2010 and then to eventually reach 5.05% at the end of the forecast period.
- The 10 year PWLB rate is expected to drop to 2.55% in Q3 2009 but then to start rising again in Q2 2010 to eventually reach 4.85% at the end of the forecast period.
- The 5 year PWLB rate is expected to fall to a floor of 2.15% during Q3 2009. The rate then starts rising in Q2 2010 to eventually reach 4.60% at the end of the forecast period.

7.2 This forecast indicates, therefore, that there is a range of options available for borrowing strategy for 2009/10. Variable rate borrowing is expected to be cheaper than long term borrowing and will therefore be attractive throughout the financial year compared to simply taking long term fixed rate borrowing. Under 10 year PWLB rates are expected to be substantially lower than longer term PWLB rates so this will open up a range of choices for new borrowing to spread debt maturities away from a concentration in long dated debt. Rates are expected to be slightly lower at the middle to end of the year than earlier on so it may be advantageous to borrow later in the year.

7.3 When long term PWLB rates fall back to the central forecast rate of about 3.95%, borrowing should be made at any time in the financial year. A suitable trigger point for considering new fixed rate long term borrowing, therefore, would be 3.95%. The central forecast rate will be reviewed in the light of movements in the slope of the yield curve, spreads between PWLB new borrowing and early payment rates, and

any further changes that the PWLB may introduce to their lending policy and operations.

Consideration will also be given to borrowing fixed rate market loans at 25 – 50 basis points below the PWLB target rate if they become available again.

7.4 External v Internal Borrowing

- The next financial year is expected to be a time of historically abnormally low Bank Rates. This opens up an opportunity to review the strategy of undertaking external borrowing.
- As long term borrowing rates are expected to be higher than rates on the loss of investment income and look likely to be so in the medium term, any new external borrowing will be managed in order to maximise savings in the short term.
- The running down of investments also has benefits of reducing exposure to interest rate and credit risk.

7.5 Against this background caution will be adopted with the 2009/10 treasury operations. The Director of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the Council's Resources Committee at the next available opportunity.

7.6 In normal times the main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.
- if it were felt that there was a significant risk of a sharp fall in long and short term rates, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

7.7 It is important for local authorities to remain vigilant about counterparty credit ratings as a basis for ensuring that investments can be undertaken safely, especially for longer periods of time. This has been reinforced as a prime consideration after the freezing of some local authority investments by Icelandic banks now in receivership. The approach of this authority is, therefore, to reduce investment balances when appropriate by taking advantage of any long term debt repayment opportunities, and to only lend to counterparties who fall within the Council's strict lending criteria. This criteria is reviewed daily.

8. Debt Rescheduling

8.1 The introduction of different PWLB rates on 1 November 2007 for new borrowing as

opposed to early repayment of debt, and the setting of a spread between the two rates of up to 50 basis points for the longest period loans has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date. However, interest savings may still be achievable through using Lenders Option Borrowers Option loans (LOBOs) and other market loans should these become available again after the drying up of their supply during autumn 2008.

- 8.2 Due to short term borrowing rates being expected to be considerably cheaper than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a rebalancing of the authority's debt maturities towards a flattening of the maturity profile as in recent years there has been a skew towards longer dated PWLB.
- 8.3 Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.
- 8.4 As average PWLB rates in some maturity periods are expected to be minimally higher earlier on in the financial year than later on, there may be greater potential for making marginally higher interest rate savings on debt by doing debt restructuring earlier on in the year. Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 7 above.
- 8.5 The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
 - help fulfil the strategy outlined in paragraph 7 above; and
 - enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 8.6 All rescheduling will be reported to the Council's Resources Committee at the meeting following its action.

9. Investment Strategy

9.1 Investment Policy

The Council will have regard to CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

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

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

The Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's (or other rating agency if applicable) rating will be used. All credit ratings will be monitored daily. The Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service.

If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the of the minimum acceptable rating for placing investments with that body, then no further investments will be made with that body.

Fully Nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch has assigned an F rating which means that at a historical point of time, this bank failed and is now owned by the Government.

However, these institutions are now recipients of an F1+ short term rating as they effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

Another situation is where a Bank has not been fully nationalised but receives substantial support (greater than 50% ownership) from the UK Government, in which case the individual rating is E (i.e. the Fitch definition is "A Bank which requires external support"). This may become a continuing theme in the near term and the credit policy needs to be flexible to cater for this.

9.2 **Interest Rate Outlook:**

The UK Bank Base Rate started on a downward trend from 5.75% in December 2007 with further cuts of 0.25% in February and April 2008, then 0.5% in October, 1.5% in November, 1% in December and 0.5% in January 2009 to reach 1.5% currently. Further cuts of 1.0% are expected during Q1 2009. The Rate is expected to stabilise at 0.50% until starting to rise gradually with the first increase in Q2 2010 and then to be back up to 4.00% during Q1 2012.

The Council will therefore avoid locking into longer term investment deals while investment rates are down at historically low levels.

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Recommendation

Members are invited to approve the Treasury Management Strategy Statement for 2009/10 and note the Prudential Indicators for 2008/09 – 2011/12 as detailed in Appendix 1 of the report.

Signature:

Designation: Depute Chief Executive & Director of Finance

Date: 3rd February 2009

Author(s): B Williams, Head of Corporate Finance

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This Treasury Management Strategy Report is a document impacting on the whole of the Highland population and therefore all aspects of equalities have to be cross referenced against all duties which apply. This Strategy Report has been screened for its impact on equalities groups, and does not require a full equalities impact assessment.

Prudential Code Indicators

	Prudential Indicator			
Projected outturn	A. Indicators for Affordability, Prudence and Capital Expenditure	Estimate	Estimate	Estimate
2008/09		2009/10	2010/11	2011/12
%	1. Ratio of financing costs to net revenue stream	%	%	%
7.46%	General Fund	7.80%	8.02%	8.16%
34.95%	Housing Revenue Account	32.81%	32.07%	32.06%
	These indicators show the capital financing costs (interest charges/receipts and the provision for the repayment of debt) as a percentage of government grant (revenue), Council Tax, Rents and other income. This allows the authority to track how much of its annual income is needed to pay for its capital investment plans compared to its day to day running costs.			
£ p	2. Estimates of the Incremental impact of capital investment decisions on:	£ p	£ p	£ p
£nil	Council Tax (Band D)	£nil	£23.16	£34.78
£nil	Rents (weekly figures based on a 48 week year are shown in brackets)	£nil	£54.65 (£1.14)	£61.05 (£1.27)
	These indicators demonstrate the notional impact of varying capital programmes expressed as a cost on the Band D Council Tax and Rents. <i>These are not actual increases in Council Tax and rent, as the Council has or will identify savings and other measures to minimise the impact on tax and rent levels.</i> <i>There is a zero incremental impact on Council Tax and Rents for 2008/09 and 2009/10 as Council Tax and Housing Rents have already been set for these years.</i>			
£'m	3. Estimates of Capital Expenditure (Gross)	£'m	£'m	£'m
73.439	General Fund	72.245	73.395	76.875
12.000	Housing Revenue Account	13.213	14.179	14.437
85.439	TOTAL	85.458	87.574	91.312
	Expressed in absolute terms rather than as a ratio, these show the overall levels of capital			

	investment irrespective of how they are being funded.			
£'m	4. Estimates of Capital Expenditure (Net) LOCAL INDICATOR	£'m	£'m	£'m
45.605	General Fund	48.323	42.949	44.295
3.570	Housing Revenue Account	8.431	9.923	9.914
49.175	TOTAL	56.754	52.872	54.209
	Net capital expenditure indicators show the level of capital programme financed from borrowing			
Projected outturn		Estimate	Estimate	Estimate
£'m	5. Capital Financing Requirement	£'m	£'m	£'m
448.017	General Fund	475.561	496.276	517.174
142.943	Housing Revenue Account	145.050	148.745	152.253
590.960	TOTAL	620.611	645.021	669.427
32.761	Joint Boards	30.866	29.168	27.511
623.721	TOTAL (inc. Joint Boards)	651.477	674.189	696.938
£'m	6. Annual Change in Capital Financing Requirement	£'m	£'m	£'m
24.497	Non – HRA(including Police/Fire)	25.649	19.017	19.241
(3.361)	HRA	2.107	3.695	3.508
21.136	Total	27.756	22.712	22.749
	These indicators demonstrate the level of the Council's underlying need to borrow for capital purposes.			
£'m	7. Net External Borrowing and the Capital Financing Requirement	£'m	£'m	£'m
(114.200)		(114.188)	(114.176)	(109.165)
	This indicator shows the expected borrowing position net of investments compared to the Capital Financing Requirement in 5, above. It shows that, over the medium term, net borrowing will only be for capital purposes. The negative figures confirm this position.			
£'m	8. Net Borrowing Requirement	£'m	£'m	£'m
21.182	In year borrowing requirement	27.768	22.724	27.760
	This indicator represents an estimate of the annual sums that the Council expects to borrow from the long term money market (including the PWLB) to fund the Council's capital expenditure programme and replace maturing debt.			

	PRUDENTIAL INDICATOR			
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS			
	Treasury Management Code of Practice The Council has adopted the CIPFA code of Practice on Treasury Management			
	Quite simply this indicator identifies whether an authority has adopted CIPFA's Code of Practice for Treasury Management.			
Projected Outturn		Estimate	Estimate	Estimate
2008/09		2009/10	2010/11	2011/12
£'m		£'m	£'m	£'m
	External debt			
599.2	Authorised Limit	614.7	636.2	663.7
569.5	Operational Boundary	597.3	620.0	647.8
	This indicator identifies two limits in relation to the Council's total external debt. The Authorised Limit is the maximum level of external borrowing which should not be exceeded. The limit is linked to the estimated level of borrowing assumed in the Capital Programmes. In addition an Operational Boundary is required which represents the Director of Finance's estimate of the day to day limit for the Treasury Management activity based on the most likely i.e. prudent but not worse case scenario.			
	Interest Rate Exposures			
623.7	Upper Limit (Fixed)	651.5	674.2	696.9
218.3	Upper limit (Variable)	228.0	236.0	243.9
	Interest rate exposures of debt net of investments are required to be set in compliance with the Code. This limits the Council's exposure to both fixed and variable interest rate movements as part of the overall risk management strategy for Treasury Management activities. It promotes a prudent strategy aimed to avoid the adverse effects of fluctuating interest rates. The limits are based on estimates of net principal outstanding.			
0	Upper limit for the maturing of investments made for periods longer than 364 days	0	0	0
	The above indicators have been set to contain the Council's exposure to the possibility of loss that might arise as a result of having to seek early redemption of principal sums			

	<p>invested over the longer term. <i>There are currently no powers within Scotland to invest for periods in excess of 1 year but it is expected there will be new legislation shortly. As a consequence, the Council's current investment strategy is to maintain only temporary, shorter-term investments for portfolio management purpose. This affords operational flexibility and enables returns to be compounded more frequently.</i></p>			
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Maturity structure of fixed rate borrowing during 2008/09	upper limit	lower limit
under 12 months	15%	%
12 months and within 24 months	15%	%
24 months and within 5 years	30%	%
5 years and within 10 years	50%	%
10 years and above	100%	25%
<p>This indicator identifies the amount of debt 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.</p> <p>The Council currently applies the prudent practice of ensuring that no more than 30% of its total gross fixed rate debt matures in any one financial year unless triggered through specific debt restructuring exercises.</p>		