PART 1	ITEM NO.

REPORT OF THE EXECUTIVE LEAD MEMBER FOR FINANCE AND SUPPORT SERVICES

TO COUNCIL ON WEDNESDAY, 21 NOVEMBER 2018

TITLE: TREASURY MANAGEMENT STRATEGY MID YEAR REVIEW 2018/19

RECOMMENDATIONS:

It is recommended that the City Mayor and Members note the contents of the report and approve the update to the prudential indicators.

EXECUTIVE SUMMARY:

This report provides a progress report on the treasury management strategy for 2018/19 and updates the prudential indicators. Members are requested to approve the update to the prudential indicators

BACKGROUND DOCUMENTS:
Various working papers in the Finance division including:

- Treasury management strategy 2018/19 reported to council on 28 February 2018
- Treasury management practices TMPs 1 to 12 and supporting schedules
- Treasury management in the public services, code of practice and cross-sectoral guidance notes (CIPFA), "CIPFA Code"
- Treasury management in the public services, guidance notes for local authorities including police authorities and fire authorities (CIPFA), "CIPFA guidance"

KEY DECISION: ~~YES /~~ NO

DETAILS: overleaf

1 BACKGROUND

1.1 The Council operates a balanced budget which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation ensures this cash flow is adequately planned with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially longer term cash flow planning to ensure the Council can meet its capital spending schedule. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 Treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks."

1.4 The revised Codes also introduced an additional requirement from 2019/20 for all local authorities to prepare a Capital Strategy which is intended to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

A report setting out our Capital Strategy will be taken to the full council, alongside the budget report before 31 March 2019.

2 INTRODUCTION

2.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to the Overview and scrutiny board.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2018/19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the budget report, and prudential indicators;
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

3 ECONOMIC UPDATE AND INTEREST RATES

Economics update

The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August and then back to 2.4% in September due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. Given 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.

3.2 Interest rate forecast

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate than before the crash. Link's forecast assumes no increase in Bank Rate in February 2019 ahead of the deadline in March for Brexit and that the MPC will wait until August 2019 before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the pace of any change will be dependent on Brexit.

4 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

4.1 The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the council on 28 February 2018. The council's Annual Investment Strategy, which is incorporated into the TMSS, outlines the council's investment priorities as *security of capital* and *liquidity*. The council also aims to achieve the optimum return (*yield*) in investments, commensurate with the proper levels of security and liquidity.

4.2 In the current economic climate it is considered appropriate to keep a significant proportion of investments short term (less than 1 year) and only invest with high credit rated financial institutions or those guaranteed by the UK government, using Link Asset Services' suggested creditworthiness approach, including sovereign credit rating and credit default swap (CDS) overlay information provided by Link Asset Services.

4.3 During the first half of 2018/19 the council has taken £22.6m in long term borrowing from the public works loan board, this is to finance the increase in the capital financing requirement for 2018/19 which is forecast to rise by £65.4m as a consequence of the capital expenditure in the capital programme financed by unsupported borrowing.

4.4 Investments and borrowing during the first six months of the year have been in line with the strategy. Currently the target is to hold £25m in callable investments in order to provide the necessary liquidity for the council's cashflow.

4.5 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5 The Council's Capital Position (Prudential Indicators)

5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital expenditure	2018/19 Original estimate £M	2018/19 Current position £M	2018/19 Revised estimate £M
General fund	138.4	44.1	139.9
HRA	0.0	0.0	0.0
Total	138.4	44.1	139.9

5.2 Changes to the Financing of the Capital Programme

The table shows the funding of the capital expenditure plans. The borrowing requirement line of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

Total capital expenditure financed by	2018/19 Original estimate £M	2018/19 Revised estimate £M
Grants	26.6	40.0
Borrowing requirement	111.8	99.9
Total	138.4	139.9

5.3 Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying need to incur borrowing for a capital purpose. It also shows the Operational Boundary for external debt, The Operational Boundary for External Debt is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an early warning indicator to ensure the authorised limit is not breached. Similarly to the authorised limit it also provides scope for the Council to borrow in advance of need. The prudential indicators have been updated to reflect changes to the underlying need to borrow due to the changes in the forecast borrowing requirement. In addition, for other long term liabilities, the limit has been changed to enable the council to lease assets if that is the most cost effective method of financing a purchase.

	2018/19 Estimate	2018/19 Revised estimate
Prudential indicator CFR	£M	£M
General fund	711.0	685.4
HRA	1.5	1.5
Total	**712.5**	**686.9**
annual change in CFR	76.7	65.4
Prudential indicator - operational boundary for external debt		
Borrowing	606.0	574.3
Other long term liabilities	185.5	195.3
Total debt (year end position)	791.5	769.6

5.4 **Limits to Borrowing Activity**

The first key control applied to treasury activity is a prudential indicator to ensure that, over the medium term, debt will only be for a capital purpose, so no borrowing to invest. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. As the total debt at the end of the year is forecast to be £686.9m and the forecast CFR is £686.9m with additional CFR forecast in 2019/20 and 2020/21 of £42.7 and £32m respectively. (see appendix 2) this test has been complied with.

This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2018/19 Original estimate	2018/19 Current position	2018/19 Revised estimate
	£M	£M	£M
Borrowing	528.0	431.9	501.6
Other long term liabilities	185.5	188.5	185.3
Total debt (year end position)	**713.5**	**620.4**	**686.9**
CFR (year end position)	712.5	712.5	686.9

Long term liabilities reduce as PFI schemes payments are made and as transferred debt (from the break up of Greater Manchester Council) is repaid. By the end of the year a further 6 months of payments will have been made, this will reduce the balance nearer to that forecast.

The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Prudential indicator - authorised limit for external debt	2018/19 Original estimate £M	2018/19 Current position £M	2018/19 Revised estimate £M
Borrowing	658.0	431.9	626.3
Other long term liabilities	185.5	188.5	205.3
Total debt (year end position)	843.5	620.4	831.7

Appendix 2 details the prudential and treasury indicators for the next 4 years.

6 Investment Portfolio 2018/19

6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by the forecasts in section 3.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

6.2 The Council held £69.480m of investments as at 30 September 2018 (£70.65m at 31 March 2018) and the investment portfolio yield for the first 6 months of the year is 0.86% against current bank rate of 0.75%.

6.3 The Chief Finance Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2018/19.

6.4 The Council's budgeted investment return for 2018/19 is £0.346m, and performance for the year to date is £0.089m above budget.

6.5 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function. It provides sufficient creditworthy counterparties for the council's investments.

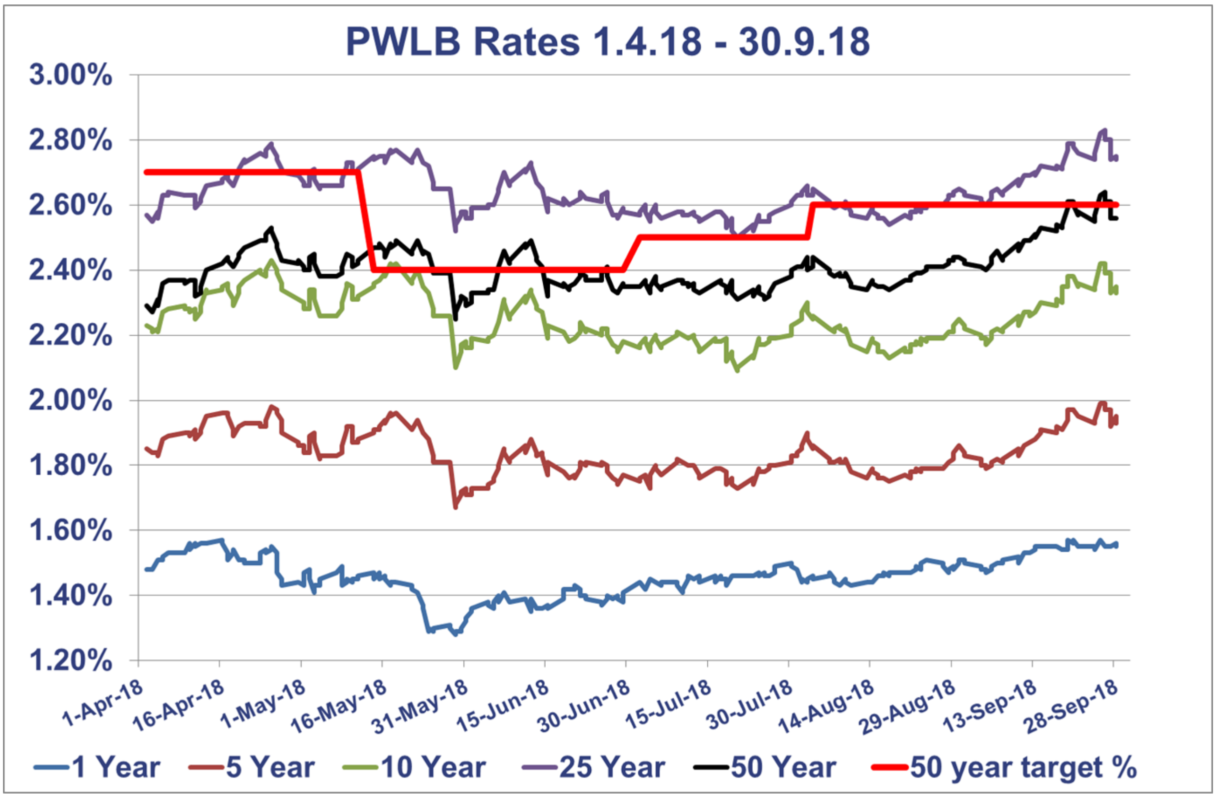
6.6 There has been no change in the council's risk appetite for investments.

7 Borrowing

7.1 The Council's capital financing requirement (CFR) for 2018/19 is forecast to be £686.9m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 5.4 shows the Council has borrowings of £620.4m.

7.2 Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement - CFR), new borrowing has been taken from the Public Works Loan Board, £17m at a fixed rate of 2.32% for 50 years and £5.6m at 2.40% for 38 years in order to take advantage of low fixed rates to fund the capital expenditure in the 2018/19 capital programme and the associated forecast rise in the CFR.

7.3 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:



	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

8 Debt Rescheduling

8.1 No debt rescheduling has been undertaken to date in the current financial year.

9 Other

UK banks – ring fencing

9.1 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

9.2 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

9.3 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

IFRS9 accounting standard

9.4 This accounting standard came into effect from 1 April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds, third party loans, commercial investments), are likely to be impacted. The impact on the council is likely to be negligible for treasury investments.

English local authorities

9.5 The Ministry of Housing, Communities and Local Government (MHCLG), are currently conducting a consultation for a temporary override to allow English local authorities time to adjust their portfolio of investments. Members will be updated when the result of this consultation is known.

Changes in risk appetite

9.6 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports. There has been no change in the council's risk appetite for investments.

10 CONCLUSION AND RECOMMENDATIONS

10.1 The council has taken £22.6m of PWLB borrowing and has continued to manage a portfolio of short term borrowing in order to take advantage of the low interest rates currently available in the market.

10.2 The council has stayed within prudential limits in the review period.

10.3 Members are requested to approve the changes to the prudential indicators detailed in appendix 2.

Joanne Hardman
–Chief Finance Officer

KEY COUNCIL POLICIES: Treasury management strategy; budget strategy.

EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS: Not applicable

ASSESSMENT OF RISK:

The monitoring and control of risk underpins all treasury management activities. The main risks are of adverse or unforeseen fluctuations in interest rates and security of capital sums.

LEGAL IMPLICATIONS Supplied by: Tony Hatton, Principal Solicitor

The Treasury Management Strategy sets out the Council's policies for managing its investments which includes giving priority to security and liquidity.

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its Treasury Management Strategy at the start of each new financial year and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. It is noted that CIPFA is currently conducting an exercise to revise the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code, which is anticipated to be made available in November 2017.

The Council is also required to "determine for the current financial year an amount of Minimum Revenue Provision (MRP) that it considers to be prudent." It is also required to submit a statement on the Council's policy for its annual MRP to the Council for approval before the start of the financial year to which the provision will relate. The Treasury Strategy Management 2017/18 was set out in a report to Council and approved by them on the 22 February 2017. This complied with the relevant requirements of the Local Government Act 2003 and the CIPFA Treasury Management Code. This further report to Council provides a progress report on the Treasury Management Strategy for 2017/18.

FINANCIAL IMPLICATIONS: This report has been prepared by the Finance division of the Service Reform service group. The costs of borrowing: minimum revenue provision, interest and debt management expenses, are borne by the corporate capital financing budget.

PROCUREMENT IMPLICATIONS provided by: Not applicable

HR IMPLICATIONS provided by: Not applicable

OTHER SERVICE GROUPS CONSULTED: Not applicable

CONTACT OFFICERS: Tony Thompstone TEL NO: 0161 793 2016

WARDS TO WHICH REPORT RELATES: None specifically.

Glossary of Terms **Appendix 1**

Base rate – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Capital financing requirement – reflects the local authority underlying need to borrow for a capital purpose.

Consolidated rate of interest (CRI) – is the average rate of interest for external borrowing during the year.

Fixed rate funding - a fixed rate of interest throughout the time of the loan. the rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the government borrows. Interest rates will reflect the level of interest shown by investors when the government auctions gilts.

LOBO – "Lender offer, borrower option", a financial instrument where the lender may choose to vary the interest rate at certain break points. Only if the lender chooses to vary the interest rate, the borrower has an option to terminate the arrangement at no penalty.

Market - The private sector institutions - banks, building societies etc.

Maturity profile - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the council vulnerable to current interest rates in that year.

Monetary Policy Committee (MPC) – the independent body which determines base rate.

PWLB - Public Works Loan Board. An institution managed by the government to provide loans to public bodies at rates which reflect the rates at which the government is able to sell gilts.

Variable rate funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may change on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt that matures in the year and needs replacing, and the more debt subject to variable interest rates, the greater the volatility.

Yield curve - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short term loans compared to long term loans. An inverted yield curve is the opposite of this.

Appendix 2
Revised Prudential and Treasury Indicators

Prudential Indicators	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	£M	£M	£M	£M	£M
Capital Expenditure					
Non-HRA	50.4	139.9	56.3	43.8	20.0
HRA	0.0	0.0	0.0	0.0	0.0
Total	50.4	139.9	56.3	43.8	20.0
Capital financing requirement (CFR)					
Non-HRA	620.0	685.4	692.2	687.2	665.2
HRA	1.5	1.5	1.5	1.5	1.5
Total	621.5	686.9	693.7	688.7	666.7
Annual Change in CFR					
Non-HRA	26.9	99.9	42.7	32.0	20.0
HRA	0.0	0.0	0.0	0.0	0.0
Debt repayment provision MRP	-41.8	-34.5	-35.9	-37.0	-42.0
Total	-14.9	65.4	6.8	-5.0	-22.0
Ratio of financing costs to net revenue stream	%	%	%	%	%
Non-HRA	20.3%	22.5%	22.4%	23.5%	23.9%
HRA	2.1%	2.1%	2.1%	2.1%	2.1%

Treasury Indicators	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Operational boundary for external debt	£M	£M	£M	£M
Borrowing	559.7	574.3	577.1	566.6
Other long term liabilities	191.8	195.3	188.7	182.2
Total	751.4	769.6	765.8	748.7

Treasury Indicators	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Authorised limit for external debt	£M	£M	£M	£M
Borrowing	634.4	626.3	617.1	606.6
Other long term liabilities	191.8	205.3	198.7	192.2
Total	826.1	831.7	815.8	798.7

Treasury Indicators					
					Estimated position at year end
		All Years			
Maturity structure for fixed rate borrowing		**Upper Limit**	**Lower Limit**	%	£M
Under 12 months		75%	0%	42%	290.4
12 and within 24 months		50%	0%	6%	37.7
24 months and within 5 years		50%	0%	19%	128.3
5 years and within 10 years		50%	0%	4%	29.6
10 years and above		100%	25%	29%	200.9
Maturity structure for variable rate borrowing		**Upper Limit**	**Lower Limit**	%	£M
Under 12 months		10%	0%	0%	0.0
12 and within 24 months		0%	0%	0%	0.0
24 months and within 5 years		0%	0%	0%	0.0
5 years and within 10 years		0%	0%	0%	0.0
10 years and above		0%	0%	0%	0.0
	2018/19	**2019/20**	**2020/21**		**Estimated position at year end**
Upper Limit for Investments beyond 365 days	£40m	£40m	£40m		£0

The operational boundary limits for external debt reflect the estimate of the most likely, prudent, but not worst case, scenario without the additional headroom included within the authorised limit.

These indicators should be considered together. Whilst all the council's borrowing is fixed, the amount due to mature in the next 12 months looks high at £290.4m, this is partly explained because the figure includes £133m of LOBO loans that are callable in 2018/19, it is unlikely that LOBO loans will be called over the next few years as the LOBO interest rates already exceed current market rates and the option to change lies with the banks. The forecast £147.1m of temporary borrowing due for renewal within 12 months; is in-line with the council's current strategy.

There is currently a 1.5% differential between short term interest rates and 10 year maturity PWLB rates. Although the current strategy is to utilise very low short term rates, as rates start to rise the case for switching from short term debt will need to be considered. With £147.1m of temporary borrowing, the additional call on the revenue budget of switching from temporary borrowing to a 10 year fix would be £2.207m per year. Each 0.25% rise in base rate increases the annual interest cost on a total of £147.1m in temporary borrowing by £0.370m.

For exceptional reasons only, such as a large scale voluntary transfer of assets, the indicators may be temporarily flexed to allow repayment and rescheduling of borrowing.