ITEM No …8………..

REPORT TO: **POLICY AND RESOURCES COMMITTEE – 13 MARCH 2017**

REPORT ON: **TREASURY MANAGEMENT STRATEGY 2017/2018**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **83-2017**

1 PURPOSE OF REPORT

This report introduces the Dundee City Council Treasury Management Strategy Statement and Annual Investment Strategy for 2017-2018, the preparation of which is a requirement of the Council's Treasury Policy Statement and the CIPFA Code of Practice on Treasury Management.

2 RECOMMENDATION

The Committee are asked to:

1 note that in terms of the Treasury Policy Statement, the Executive Director of Corporate Services is obliged to present the annual Treasury Management Strategy at the start of each financial year.

2 approve the strategy proposed by the Executive Director of Corporate Services for 2017/2018 as set out in the attached document "Treasury Management Strategy 2017/2018".

3 FINANCIAL IMPLICATIONS

There are no direct financial implications arising from the recommendations in this report. However, decisions made within the Treasury Management function will affect the cost of the Council's long and short-term borrowing in 2017/2018 and future years. The 2017/2018 Revenue Budget has been set including a provision of £26.182m for Capital Financing Costs and this is based on an average Loans Fund Interest rate of 4.1%

4 BACKGROUND

The Council's Treasury Policy Statement (Article XVI of the Minute of Meeting of the Policy and Resources Committee of 14 March 2016, Report No 89-2016 refers) requires that the Policy and Resources Committee will receive and consider the Treasury Management Strategy in advance of each new financial year.

5 TREASURY MANAGEMENT STRATEGY 2017/2018

The Council's Treasury Management Strategy for 2017/2018 is set out in detail in the attached document. The net new borrowing required in 2017/2018 is £69m. In light of this there is expected to be phased borrowing during the year. This will be based on cash flow and interest rate monitoring to determine the term and value of each loan taken.

In light of the continuing uncertainties in the finance market, lending transactions will be closely monitored to achieve maximum security of capital. This will involve using all available sources of information to assess the financial strength of any counterparties.

6 POLICY IMPLICATIONS

This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

7 CONSULTATION

The Chief Executive and the Head of Democratic and Legal Services have been consulted.

8 BACKGROUND PAPERS

None

MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **6 MARCH 2017**

DUNDEE CITY COUNCIL

TREASURY MANAGEMENT STRATEGY 2017-2018

Executive Director of Corporate Services
February 2017

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1. INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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 the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.2 Treasury Management Strategy for 2017/18

The strategy for 2017/18 covers two main areas:

Capital Planning

- the capital plans and the prudential indicators..

Treasury Management

- current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- borrowing strategy;
- debt rescheduling;
- investment strategy;

These elements cover requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and Scottish Government Investment Regulations not included in the Treasury Policy.

2. CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The figures below are based on the Capital Plan 2017-2022 approved by Policy and Resources Committee on 31 October 2016, report 331-2016 refers.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £000s	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	73,830	99,553	138,883	54,145	29,329
HRA	13,604	22,286	20,936	15,559	15,307
Total	**87,434**	**121,839**	**159,819**	**69,704**	**44,636**

Other long term liabilities - The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £000s	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Financed by:					
Capital receipts	5,556	10,470	5,717	4,994	4,791
Capital grants	46,084	48,070	54,384	19,133	17,765
Net financing need for the year	**35,794**	**63,299**	**99,718**	**45,577**	**22,080**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as prudent annual repayments from revenue need to be made which reflect the useful life of capital assets financed by borrowing. The Council may choose whether to use scheduled debt amortisation, (loans pool charges), or another suitable method of calculation in order to repay borrowing.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £74.099m of such schemes within the CFR (as at 31st March 2016).

The Council is asked to approve the CFR projections* below:

£000s	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Capital Financing Requirement					
CFR – non housing	308,463	338,932	406,066	426,400	425,222
CFR – housing	175,325	175,236	177,723	179,134	179,937
Total CFR	**483,788**	**514,168**	**583,789**	**605,534**	**605,159**
Movement in CFR	**8,225**	**30,380**	**69,621**	**21,745**	**(375)**

Movement in CFR represented by					
Net financing need for the year (above)	35,202	52,639	92,353	45,577	22,080
Less scheduled debt amortisation	(26,977)	(22,259)	(22,732)	(23,832)	(22,455)
Movement in CFR	**8,225**	**30,380**	**69,621**	**21,745**	**(375)**

* The table above excludes PFI and finance leases

3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The Council's treasury portfolio position at 31 March 2016, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£000s	**2015/16 Actual**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
External Debt					
Debt at 1 April	521,378	535,794	567,919	635,570	655,182
Expected change in Debt	16,531	34,131	69,631	21,755	(356)
Expected change in Other long-term liabilities	(2,115)	(2,006)	(1,980)	(2,143)	(2,000)
Actual gross debt at 31st March	**535,794**	**567,919**	**635,570**	**655,182**	**652,826**
The Capital Financing Requirement	**483,788**	**514,168**	**583,789**	**605,534**	**605,159**
Under / (over) borrowing	**52,006**	**53,751**	**51,781**	**49,648**	**47,677**
Split of actual gross debt at 31st March					
External Debt (Gross)	461,695	495,826	565,457	587,212	586,856
Other Long term Liabilities	74,099	72,093	70,113	67,970	65,970

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2017/18 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Executive Director of Corporate Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

Operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary £000s	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	496,000	565,000	587,000	587,000
Other long term liabilities	72,000	70,000	68,000	66,000
Total	568,000	635,000	655,000	653,000

Authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

a) This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35 (1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

b) The Council is asked to approve the following authorised limit:

Authorised limit £m	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	521,000	590,000	612,000	612,000
Other long term liabilities	72,000	70,000	68,000	66,000
Total	593,000	660,000	680,000	678,000

3.3 Prospects for interest rates

A more detailed interest rate forecast and economic commentary are set out in appendix 5.2.

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
5yr PWLB rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. On current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.

During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is thought likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not expected until quarter 2 2019, after those negotiations have been concluded. However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK with forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

The overall longer run trend is for gilt yields and PWLB rates to gently rise. The expected substantial rise in US interest rates over the next few years would likely exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is dependent on how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate growth, combat the threat of deflation and reduce levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major polls in Europe, including Germany, France and Holland
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats

- Weak capitalisation of some European banks, especially Italian.

- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.

- UK economic growth and increases in inflation are weaker than we currently anticipate.

- Weak growth or recession in the UK's main trading partners - the EU and US.

The potential for **upside risks to current forecasts** for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.

- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;

- Gilt yields have recently risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new long-term borrowing that may cause temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2017/18 treasury operations. The Executive Director of Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- ***if it was felt that there was a significant risk of a sharp FALL in long and short term rates*** (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- ***if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast***, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to Committee.

3.5 Debt rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential 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 the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to Committee.

3.6 Borrowing interest risk

The table below details estimated debt levels, estimated new borrowing (gross) and the indicative interest cost along with a cost analysis if interest rate fluctuate by 0.1%.

£000s	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
External debt (Gross)	495,826	565,457	587,212	586,856
Planned Refinancing -				
Short Term	51,500			
Long Term	10,495	11,490	9,490	11,081
New Borrowing to support Capital Plan	53,299	92,736	45,577	22,080
New Borrowing (Gross)	**115,294**	**104,226**	**55,067**	**33,161**
Interest rate	3%	3%	3%	3%
Indicative cost (Full year)	3,459	3,127	1,652	992
Interest rate movement	-/+ 0.1%	-/+ 0.1%	-/+ 0.1%	-/+ 0.1%
Indicative cost (Full year)	115	104	55	33
Indicative cost cumulative	115	219	274	307

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to stay flat at 0.25% until quarter 2 2019 and not to rise above 0.75% by quarter 1 2020. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 - 2018/19 0.25%
- 2019/20 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

2016/17	0.25%	2020/21	0.75%
2017/18	0.25%	2021/22	1.00%
2018/19	0.25%	2022/23	1.50%
2019/20	0.50%	2023/24	1.75%
Later years			2.75%

The overall balance of risks to these forecasts is currently probably slightly skewed to the downside in view of the uncertainty over the final terms of Brexit. If growth expectations disappoint and inflationary pressures are minimal, the start of increases in Bank Rate could be pushed back. On the other hand, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk i.e. Bank Rate increases occur earlier and / or at a quicker pace.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to100 days) in order to benefit from the compounding of interest.

4.2 Investment interest risk

The Council holds relatively low levels of cash which helps limit borrowing costs. The table below details projections for investment cash balance (31 March), the average investment cash balance, investment interest.

£000s	Actual 2015/16	Estimate 2016/17	Estimate 2017/18	Estimate 2018/19	Estimate 2019/20
Investment cash balance (31 March)	1,260	5,000	5,000	5,000	5,000
Average investment cash balance	10,873	10,000	10,000	10,000	10,000
Investment interest	59	50	50	50	50
Average interest rate	0.54%	0.50%	0.50%	0.50%	0.50%

The above investment interest is generated from call accounts and Money Market Funds. We are currently budgeting for £50,000 of income each year based on an average interest rate of 0.50% and an average cash balance of £10m.

5. APPENDICES

5.1 CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2016/17 – 2019/20

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital expenditure

The figures below are based on the Capital Plan 2017-2022 approved by Policy and Resources Committee on 31 October 2016, report 331-2016 refers.

Capital expenditure £000s	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Jobs & Regeneration	10,087	22,323	29,383	9,890	847
Recreation, Culture, Arts & Heritage	22,620	30,506	48,000	3,425	1,725
Children & Families	21,598	18,514	32,650	12,220	3,000
Health & Social Care – Older People & Adults	333	542	651	3,190	3,729
Community Safety / Public Protection	3,812	6,758	9,511	6,329	2,782
Digital & ICT	1,994	2,399	2,770	2,420	2,520
Sustainable City Infrastructure	8,208	7,856	7,208	7,158	8,158
Corporate Asset Management	5,178	10,655	8,710	9,513	6,568
Non-HRA	**73,830**	**99,553**	**138,883**	**54,145**	**29,329**
HRA	**13,604**	**22,286**	**20,936**	**15,559**	**15,307**
Total	**87,434**	**121,839**	**159,819**	**69,704**	**44,636**

Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

%	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Non-HRA	7.5	7.7	8.4	8.0
HRA	40.6	40.1	39.8	40.4

The estimates of financing costs include current commitments and the proposals in this budget report.

b. Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

£	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council tax - band D	(0.01)	(2.73)	1.75	11.12

The above figures reflect the incremental impact of the capital investment decisions on the Council Tax, but this expenditure can be afforded within the Capital Financing Cost Revenue Budget for 2016/17 and future years, and this investment will lead to future Revenue Budget Savings which will offset the capital cost, but which are unquantifiable at this point in time.

Estimates of the incremental impact of capital investment decisions on housing rent levels

Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

c. Incremental impact of capital investment decisions on housing rent levels

£	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly housing rent levels	(0.10)	0.29	0.09	0.01

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

Treasury indicators for debt

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

£m	2017/18	2018/19	2019/20
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	30%	30%	30%
Maturity structure of fixed interest rate borrowing 2017/18			
		Lower	**Upper**
Under 12 months		0%	10%
12 months to 2 years		0%	15%
2 years to 5 years		0%	25%
5 years to 10 years		0%	25%
10 years plus		50%	95%
Upper limit for total principal sums invested for over 364 days		n/a	No sums will be invested longer than 364 days

5.2 INTEREST RATE FORECASTS 2016 – 2020

The table below shows Capita Asset Services current UK Interest Rate Forecast.

Bank Rate	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%

5yr PWLB Rate	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.40%	1.60%	1.80%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%

10yr PWLB Rate	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.20%	2.30%	2.40%	2.55%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%

25yr PWLB Rate	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.75%	2.90%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%

50yr PWLB Rate	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.70%	2.80%	2.90%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012.

5.3 MATURITY PROFILE OF EXTERNAL BORROWING

The tables below shows a maturity profile of the Council's external borrowing portfolio as at 31 March 2016. The profile comprises of loans from Public Works Loan Board (PWLB), Lender Option Borrower Option loans (LOBOs) from Banks and temporary loans from other Local Authorities.