FAREHAM
BOROUGH COUNCIL

Report to the Executive for Decision
04 November 2019

Portfolio:	Policy and Resources
Subject:	**Treasury Management and Capital Monitoring 2019-20**
Report of:	Deputy Chief Executive Officer
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:
This report summarises the Council's investment activity and capital expenditure up to 30 September 2019 and provides details of the Council's money market transactions. It also provides information on the performance against the Treasury and Prudential Indicators.

Executive summary:
During the first half of the year the Council operated within the Treasury and Prudential Indicators.

The overall investment position is set out in the following table:-

	31 March 2019 Actual £'000	**Movement £'000**	**31 Sept 2019 Actual £'000**
Total borrowing	45,510	2,000	47,510
Total investments	(13,100)	(6,100)	(19,200)
Net borrowing	**32,410**	**(4,100)**	**28,310**

A summary of the capital programme expenditure against budgets in the current year, is set out in the following table:-

Capital Programme	**Budget 2019/20 £'000**	**Budget to 30 Sep 19 £'000**	**Actual to 30 Sep 19 £'000**	**Variation £'000**
General Fund	27,015	6,076	6,114	38
HRA	9,374	4,307	1,366	-2,941
Total	**36,389**	**10,383**	**7,480**	**-2,903**

Recommendation:
It is recommended that the Executive notes the Treasury Management and Capital Monitoring Report for 2019/20.

Reason:
To inform the Executive of the Council's investment, borrowing and capital programme activity up to 30 September 2019.

Cost of proposals:
Not applicable.

Appendices:	**A:** Economic Commentary and Outlook by Arlingclose **B:** Treasury and Prudential Indicators
Background papers:	None
Reference papers:	Treasury Management Strategy and Prudential Indicators 2019-20, Council, 22 February 2019 Prudential Code for Capital Finance in Local Authorities (2017) Treasury Management in the Public Services Code of Practice (2017)

FAREHAM
BOROUGH COUNCIL

Executive Briefing Paper

Date:	04 November 2019
Subject:	Treasury Management and Capital Monitoring Report 2019-20
Briefing by:	Deputy Chief Executive Officer
Portfolio:	Policy and Resources

INTRODUCTION

1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management at least twice yearly (mid-year and at year end). This report therefore ensures the Council is implementing best practice in accordance with the Code.

2. The Council's Treasury Management Strategy for 2019/20 was approved by Full Council on 22 February 2019.

3. The Council has borrowed and invested large sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

4. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Full Council, covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy for 2019/20 was approved by Full Council on 22 February 2019.

5. An economic commentary by the Council's Treasury Advisors, Arlingclose, can be found in Appendix A.

6. The report also includes progress to 30 September 2019 on the Capital Programme.

BORROWING ACTIVITY

7. At 30 September 2019, the Council held £47.5 million of loans, (an increase of £2 million on 31 March 2019). The Council expects to borrow externally up to £5 million in 2019/20 to part fund the capital programme.

8. The Council's main objective when borrowing continues to be striking an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which the funds are required.

9. With short-term interest rates remaining much lower than long-term rates, the Council considered it to be more cost effective in the near term to use internal resources and short-term loans. This strategy enabled the Council to reduce net borrowing costs and reduce overall treasury risk.

10. Borrowing activity to 30 September 2019 was:

	Balance on 31 March 2019 £'000	Balance on 30 Sept 2019 £'000	Average Rate
Long-term borrowing	40,000	40,000	3.50%
Short-term borrowing	3,000	5,000	0.90%
Portchester Crematorium	2,510	2,510	0.25%
Total Borrowing	**45,510**	**47,510**	

The Council holds investments from Portchester Crematorium Joint Committee which is treated as a temporary loan.

INVESTMENT ACTIVITY

11. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £13 and £19 million due to timing differences between receipts and payments.

12. The CIPFA Code and government guidance gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

13. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20. The policy details the high quality and secure counterparty types the Council can invest with.

14. Given the increasing risk and low returns from short-term unsecured investments, the Council has further diversified into more secure and higher yielding asset classes. £4 million that is available for longer-term investment was moved from bank and building society deposits into externally managed strategic pooled diversified income funds.

15. These funds have no defined maturity date, but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

16. Details on investment activity to 30 September 2019 are summarised in the table below:

	Balance on 31 March 2019 £'000	Balance on 30 Sept 2019 £'000	Average Rate
Long-term Pooled Funds	2,000	6,000	4.16%
Banks and Building Societies	6,000	9,000	0.96%
Local Authorities	3,000	0	-
Money Market Funds	2,100	4,200	0.69%
Total Investments	**13,100**	**19,200**	

17. Readiness for Brexit: The scheduled leave date for the UK to leave the EU is 31 October 2019 and there remains little political clarity as to whether a deal will be agreed by this date and there is the possibility that the exit date is pushed back yet again. As 31 October approaches, the Council will ensure there are enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity required in the near term and that its account with the Debt Management Account Deposit Facility (DMADF) remains available for use in an emergency.

COMMERCIAL PROPERTIES

18. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return.

19. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased 9 commercial investment properties (including a retail park purchased in April 2019) as summarised below, averaging a return of 6.9% and expected to generate rental income of £2 million during 2019/20.

Property Type	Purchase Cost £'000	Current Value £'000
Retail	28,515	26,850
Commercial	1,721	2,250
Other	1,890	2,050
Total	**32,126**	**31,150**

20. The current value has decreased overall by £0.98 million mainly in the retail sector, offset by increases in the commercial and other sector. However, the annual rental income achieved is in line with forecast.

21. Property valuations are undertaken annually, to ensure that the Council's balance sheet reflects the current opinion of the value of the Council's assets. Fluctuations in value do not represent actual gains or losses, but do indicate market sentiment, which is often linked to rental income levels and lease terms and conditions.

22. The Council's total investment property portfolio is shown below and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	Current Value £'000
Retail	42,162
Commercial	10,011
Other	4,373
Office	3,759
Leisure	1,167
Total	**61,472**

BUDGETED INCOME AND OUTTURN

23. Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities.

24. The Council's budgeted net interest received for the year is £515,900 (£481,480 in 2018/19) and we are currently on target to achieve this by year end. The increase in budget is due to placing investments in longer term pooled funds with higher yields.

COMPLIANCE WITH TREASURY AND PRUDENTIAL INDICATORS

25. The Council confirms compliance with its Treasury and Prudential Indicators for 2019/20, which was set on 22 February 2019 as part of the Council's Treasury Management Strategy.

26. Performance for the first half of the year is shown in Appendix B. During the financial year to date the Council has operated within the treasury limits and prudential indicators.

CAPITAL PROGRAMME

27. On 4 February 2019, the Executive approved the 2019/20 capital programme for General Fund services of £20.2 million and Housing Revenue Account (HRA) of £8.6 million giving a combined total of £28.8 million.

28. Details of actual capital expenditure in 2018/19 were reported to the Executive on 1 July 2019 and it was noted that the carry forward on the capital programme was £6.8 million for the General Fund and £0.8 million for HRA services. The total carry forward of £7.6 million has now been included in the capital programme for 2019/20 bringing the total to £36.4 million (£19.8 million in 2018/19).

29. The Remodelling of Ferneham Hall capital scheme was approved by the Executive in September 2019. The £12.35 million scheme will be added to the 2020/21 capital programme as part of the revised budget setting process.

30. The following table sets out the updated capital programme for 2019/20 and has been used as the basis for monitoring progress to 30 September 2019:-

	Approved Programme 2019/20 £	**2018/19 Slippage £**	**Updated Programme 2019/20 £**
Health & Public Protection	0	10,000	10,000
Streetscene	574,000	(3,000)	571,000
Leisure & Community	378,100	48,400	426,500
Housing	500,000	249,900	749,900
Planning & Development	0	18,900	18,900
Policy & Resources	18,726,200	6,512,400	25,238,600
Total General Fund	**20,178,300**	**6,836,600**	**27,014,900**
Housing Revenue Account	8,574,600	799,100	9,373,700
Updated Capital Programme	**28,752,900**	**7,635,700**	**36,388,600**

MAJOR CAPITAL SCHEMES

31. The Council has a number of major capital schemes where budgeted expenditure for 2019/20 is in excess of £500,000. These schemes, with forecast budget to 30 September 2019, are detailed in the following table:-

Capital Scheme	Budget 2019/20 £	Budget to 30 Sep 19 £	Actual to 30 Sep 19 £	Variation £
Daedalus Schemes	10,228,000	150,000	146,168	-3,832
Town Centre Hotel	8,035,000	0	0	0
Commercial Property Acquisition	5,110,000	5,110,000	5,019,877	-90,123
HRA Capitalised Repairs/Renewals	4,199,000	1,520,000	610,125	-909,875
Highlands Road New Build	3,097,800	1,545,000	25,116	-1,519,884
Bridge Road New Build	1,344,800	640,800	226,652	-414,148
Civic Offices Improvements	765,000	0	0	0
Disabled Facilities Grant	749,900	375,000	0	-375,000
Vehicles and Plant	646,400	150,000	144,247	-5,753
HRA Stock Repurchases	554,500	556,500	353,170	-203,330

32. Progress updates on the major schemes are detailed below:-

(a) The major scheme at **Daedalus** is Faraday Business Park. Due to the complexities of the site there have been delays due to additional design and risk analysis. Planning consent has been secured and pre-consultants are engaged working on the detailed design. Construction is forecast to start in June 2020 with the aim to complete by March 2021. The budget will be reprofiled to reflect current spending plans.

(b) The **Town Centre Hotel** scheme is no longer proceeding, so the budget will now be removed from the Capital Programme.

(c) An additional retail park was purchased in April 2019 bringing the total number of **Commercial Property Acquisitions** since January 2013 to 9.

(d) Expenditure for **HRA Capitalised Repairs/Renewals** is underspent against the budget to date. A stock condition survey has been undertaken and will inform a detailed programme of works that will be reflected in the revised capital programme budget.

(e) The new build scheme at **Highlands Road**, comprising 18 x one and two bedroom flats, commenced in August 2019 and is anticipated to complete August 2020. Demolition of the bungalow and site clearance is complete, but the recent wet weather has affected ground works and further ecological work is needed which may extend contract length.

(f) The new build scheme at **Bridge Road**, comprising 2 x three bedroom and 3 x two bedroom terraced properties, commenced in June 2019 and is anticipated to complete February 2020. Although there has been some delay due to wet weather affecting the brickwork programme, the contractor still expects to complete on time.

(g) Capital works at the **Civic Offices** are currently going through a prioritisation process, working with key internal and external stakeholders of the offices. It is unlikely there will be any significant capital works this financial year.

(h) The processing of **Disabled Facilities Grants** has passed to Portsmouth

City Council. There has been a delay in invoicing for the first half of the year.

(i) Expenditure to date on **Vehicles and Plant** has been for two second-hand refuse vehicles, two second-hand transit tippers, a tractor and three flail mowers. There will be an underspend at the end of the year as the procurement of two new refuse vehicles has taken longer than expected and, along with the long lead times, means that these vehicles should now be delivered in April 2020.

(j) One general needs property and 50% of a shared ownership property have been purchased so far in the current financial year for **HRA Stock Repurchases**.

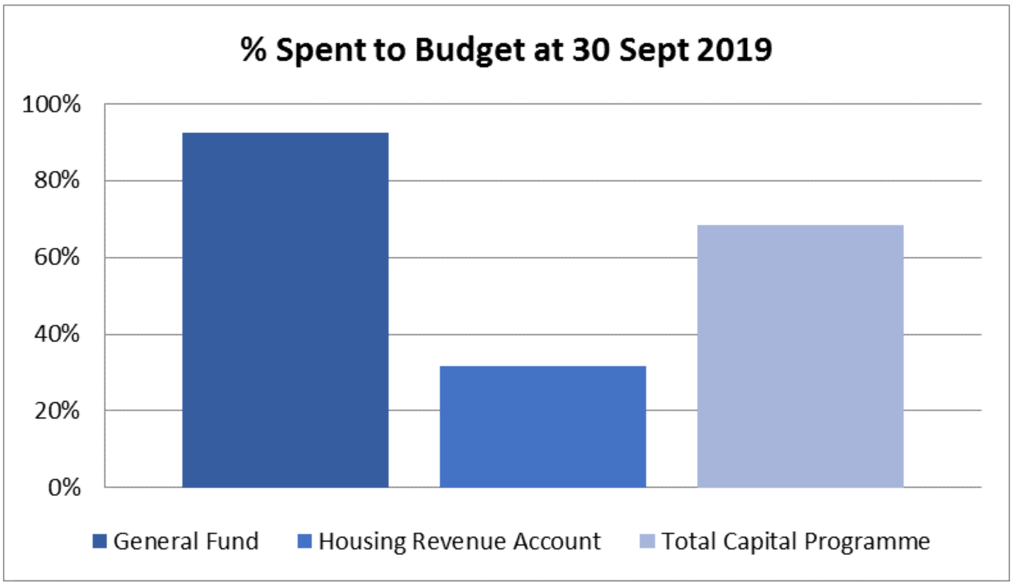
CAPITAL MONITORING

33. The following table provides summary information for the period to 30 September 2019, for all the schemes within each portfolio.

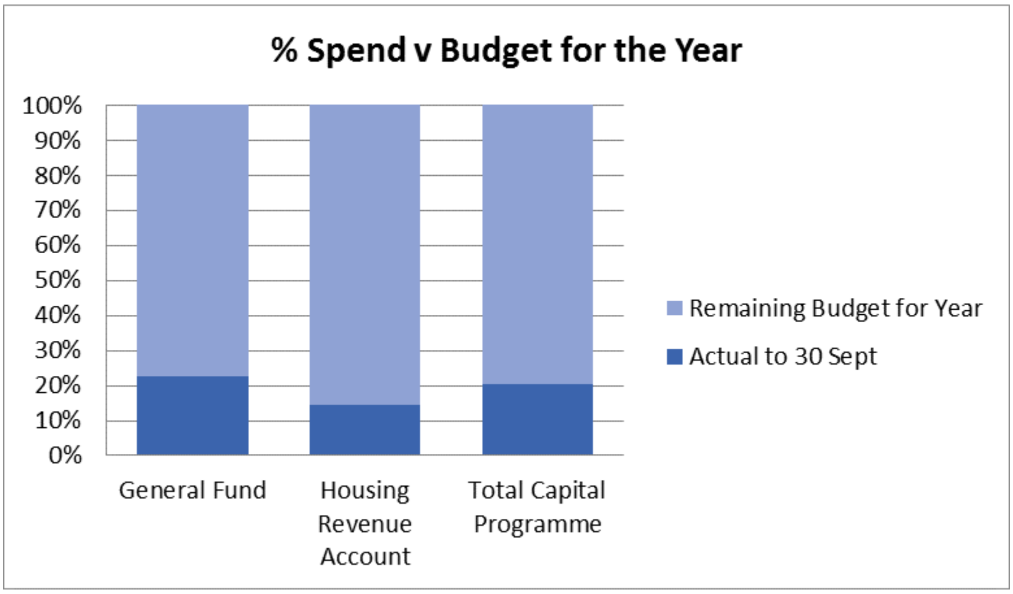
	Budget 2019/20	Budget to 30 Sep 19	Actual to 30 Sep 19	Variation
	£	£	£	£
Health and Public Protection	**10,000**	**0**	**0**	**0**
Streetscene	**571,000**	**125,350**	**201,976**	**76,626**
- Holly Hill Cemetery Extension	250,700	125,350	195,601	70,251
- Bus Shelters	320,000	0	0	0
- Other	300	0	6,375	6,375
Leisure and Community	**426,500**	**358,300**	**265,565**	**-92,735**
- Buildings	143,600	150,000	145,828	-4,172
- Play and Parks	250,000	200,000	116,455	-83,545
- Other Community Schemes	32,900	8,300	3,282	-5,018
Housing	**749,900**	**375,000**	**0**	**-375,000**
Planning and Development	**18,900**	**0**	**0**	**0**
Policy and Resources	**25,238,600**	**5,742,115**	**5,646,187**	**-95,928**
- Daedalus	10,228,000	150,000	146,168	-3,832
- Town Centre Hotel	8,035,000	0	0	0
- Commercial Property Acquisition	5,110,000	5,110,000	5,019,877	-90,123
- Civic Offices	765,000	0	0	0
- Depot	210,000	210,000	218,823	8,823
- Vehicles and Plant	646,400	150,000	144,247	-5,753
- ICT	244,200	122,115	117,072	-5,043
Total General Fund	**27,014,900**	**6,600,765**	**6,113,728**	**-487,037**
Housing Revenue Account				
- New Build	4,442,600	2,185,800	341,703	-1,844,097
- Capitalised Repairs/Renewals	4,199,000	1,520,000	610,125	-909,875
- Stock Repurchases	554,500	556,500	353,170	-203,330
- Other HRA Schemes	177,600	45,000	60,833	15,833
Total Housing Revenue Account	**9,373,700**	**4,307,300**	**1,365,831**	**-2,941,469**
Total Capital Programme	**36,388,600**	**10,908,065**	**7,479,559**	**-3,428,506**

34. The charts below show the actual expenditure to 30 September 2019 as a percentage of the programme for the equivalent period and for the whole year.

35. 69% of the capital programme has been spent compared to the profiled budget for the first half of the year.



36. 21% has been spent compared to the total budget for the year. The budgets will be reviewed and re-phased where applicable as part of the forthcoming budget setting process.



RISK ASSESSMENT

37. In the current economic climate, there are continued risks that financial institutions holding Council investments could default and be unable to fulfil their commitments to repay the sums invested with them.

38. To help mitigate this risk, the Council maintains a list of approved institutions based on a grading system operated by the Council's treasury management advisors. Maximum limits are also set for investments with individual institutions.

Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4589).

APPENDIX A

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE

Economic background: UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.

The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.

Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and has committed to leaving the EU on 31st October regardless of whether a deal is reached with the EU. Mr Johnson prorogued Parliament which led some MPs to put forward a bill requiring him to seek a Brexit extension if no deal is in place by 19th October. The move was successful and, having been approved by the House of Lords, was passed into law. The Supreme Court subsequently ruled Mr Johnson's suspension of Parliament unlawful.

Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.

The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.

Financial markets: After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.

Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.

Credit background: Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.

There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

APPENDIX B

2019/20 INDICATORS – HALF YEARLY PERFORMANCE

PRUDENTIAL INDICATORS

1) Level of Planned Capital Expenditure

ON TRACK

This prudential indicator is a summary of the Council's capital expenditure plans and shows how these plans are being financed by capital or revenue resources.

Capital Expenditure and Financing	**Revised Estimate £'000**	**Actual to 30 Sept £'000**
Health and Public Protection	10	0
Streetscene	571	202
Leisure and Community	427	266
Housing	750	0
Planning Development	19	0
Policy and Resources	25,239	5,646
Total General Fund	**27,016**	**6,114**
HRA	**9,374**	**1,366**
Total Expenditure	**36,390**	**7,480**
Capital Receipts	1,439	106
Capital Grants	4,132	330
Capital Reserves	7,791	1,398
Revenue	1,501	492
Internal Borrowing	21,527	5,154
Total Financing	**36,390**	**7,480**

Expenditure to 30 September is within the overall revised budget for the year. The budgets will be reviewed and re-phased where applicable as part of the forthcoming budget setting process.

2) The Council's Borrowing Need (Capital Financing Requirement)

ON TRACK

The Capital Financing Requirement (CFR) is 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 financed by borrowing will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing in line with the asset's life.

	Estimate £'000	Actual to 30 Sept £'000
General Fund	59,846	39,382
HRA	51,141	51,141
Total CFR	**110,987**	**90,523**

The CFR is slightly lower than projected due to lower internal borrowing for Daedalus capital expenditure.

3) Financing Costs as % of Net Revenue Stream

ON TRACK

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	Estimate	Actual to 30 Sept
General Fund	6%	6%
HRA	14%	16%
Total	**11%**	**12%**

4) Housing Revenue Account (HRA) Ratios

ON TRACK

Due to the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on £49.3 million of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	Estimate	End of Year Forecast
HRA debt £'000	49,268	49,268
HRA revenues £'000	12,321	12,506
Number of HRA dwellings	2,417	2,385
Ratio of debt to revenues %	4.00	3.94
Debt per dwelling £	£20,382	£20,660

TREASURY INDICATORS

5) Investments - Principal Sums Invested for Periods Longer than 364 Days

ON TRACK

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

£M	Estimate	Actual
Principal sums invested > 364 days	10	6

£6 million is placed with a pooled property fund which is a long-term investment and the remaining investments are currently placed for less than 364 days to allow cash to be available for schemes in the capital programme that require internal borrowing.

6) Borrowing - Gross Debt and the Capital Financing Requirement

ON TRACK

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. The indicator shows that total debt is expected to remain below the CFR.

£'000	Estimate £'000	Actual to 30 Sept £'000
Debt at 1 April	58,017	45,510
Expected change in debt	16,000	2,000
Gross Debt at 31 March	**74,017**	**47,710**
Capital Financing Requirement (CFR)	110,987	90,523
Under/(Over) Borrowing	**36,970**	**42,813**
CFR for last, current and next 2 years	**424,843**	**391,607**

7) Borrowing - Limits to Borrowing Activity

ON TRACK

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

	Limit £'000	Actual £'000
Operational Boundary		
Borrowing	78,000	47,510
Other long-term liabilities	4,000	0
Total	**82,000**	**47,510**
Authorised Limit		
Borrowing	132,000	47,510
Other long-term liabilities	6,000	0
Total	**138,000**	**47,510**

Total debt at 30 September was £47.5 million. During the first half of 2019/20 the Authorised Limit of £138 million was not breached at any time.

8) Interest Rate Exposures

ON TRACK

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed are, shown in the table below.

Upper limits on interest rate exposures	Limit %	Actual %
Upper limit on variable interest rate exposures	25	19
Upper limit on fixed interest rate exposures	100	81

9) Maturity Structure of Borrowing

ON TRACK

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are:

Maturity structure of borrowing	Upper Limit %	Actual %
Loans maturing within 1 year	25	16
Loans maturing within 1 - 2 years	25	0
Loans maturing within 2 - 5 years	25	0
Loans maturing within 5 - 10 years	50	0
Loans maturing in over 10 years	100	84

The £40m HRA loans represent 84% of loans maturing in over 10 years. The Council holds investments from Portchester Crematorium which is treated as a temporary loan and £5 million short-term loan. These represent 16% of loans maturing within 1 year.

10) Commercial Investments - Proportionality

ON TRACK

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Strategy.

£'000	2019/20 Budget	Actual to 30 Sept
Gross service expenditure	46,627	19,050
Investment income	4,555	2,258
Proportion	**9.8%**	**11.9%**

11) Total Risk Exposure

ON TRACK

This indicator shows the Council's total exposure to potential investment losses.

Total Investment Exposure	2019/20 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	12,000	19,200
Commercial Investments	64,082	61,472
Total	**76,082**	**80,672**

12) How Investments are Funded

ON TRACK

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing	2019/20 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	0	0
Commercial Investments	17,972	**23,522**
Total	**17,972**	**23,522**

Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4589)