Humberside Police Authority
Resources Committee
20 September 2011

Police Authority
27 September 2011

Agenda Item 15

Joint Report of the Chief Constable and Deputy Chief Executive and Treasurer

TREASURY MANAGEMENT ANNUAL REPORT 2010/11

PURPOSE OF THE REPORT

1. The purpose of this report is to introduce the Annual Treasury Management Report for 2010/11 on the performance of the Treasury Management function,

BACKGROUND

2. The Prudential Code for Capital Finance in Local Authorities (the Prudential Code) underpins the system of capital finance. Local authorities, including police authorities, determine their own programmes for capital investment and the Prudential Code has been developed as a professional code of practice to support authorities, when making decisions on strategic planning, asset management and capital investment.

3. It seeks to ensure that authorities operate within a clear framework to satisfy themselves that investment plans are considered affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. The process is designed to support and record local decision making in a manner that is publicly accountable.

4. Authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties in accordance with the Local Government Act 2003.

5. A primary requirement of the Code is the formulation and agreement by the full Authority of a Treasury Management Strategy Statement (TMSS) and details of Treasury Management Practices (TMPS). These set out the responsibilities, delegation and reporting arrangements with regard to treasury management.

6. The original TMSS for 2010/11 was approved in March 2010. It was updated on 22 March 2011, after the budget for 2011/12 and Medium Term Financial Strategy (MTFS) were approved in February 2011.

7. The TMSS requires members to receive a minimum of a mid-year review and an annual report on treasury management activities. The mid-year review was considered by the Police Authority on 7 December 2010. This report ensures that the Authority meets the requirements of the Strategy, and therefore the Code.

8. Treasury Management in this context is defined as: “the management of the organisation’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”.

9. The Annual Report has been prepared in conjunction with Sector, the Authority’s treasury management advisers.

INFORMATION

10. The Annual Treasury Management Report for 2010/11 is attached at Annex A. This formal report supplements the monthly investment reports provided to Members via the Authority’s website and the recent briefing by Sector to members and officers on 17 August 2011.

11. Details of performance and information on the agreed Prudential and Treasury Management Indicators are set out in Appendix 1 to the Report.

OPTIONS, RISKS AND OPPORTUNITIES

12. The TMSS sets out detailed information in relation to risks associated with treasury management activity and proposed mitigating actions whilst acknowledging that the risk cannot be entirely eliminated. The TMSS and the TMPs and the procedures detailed within them are intended to limit the Authority’s exposure to unforeseen and unbudgeted financial consequences of treasury management activity.

13. The reporting requirements are intended to ensure that treasury management activity has been conducted in accordance with the policy and strategy agreed by the Police Authority and that treasury management operations have been performed within agreed limits.

14. Sector have provided officers of the Authority and the Force with additional information in relation to treasury management activity. However it must be recognised that the responsibility for all decisions with regard to policies, strategy and transactions remain with the Authority.

POLICING PLAN AND PERFORMANCE

15. Effective treasury management arrangements are an important factor in ensuring that the Force and the Authority operate efficiently. It also contributes towards delivering value for money and the strategic aim of seeking to deliver improved performance through the best use of resources.

FINANCIAL IMPLICATIONS

16. The Annual Treasury Management Report sets out details of the treasury management activity undertaken in the period 1 April to 31 March 2011. The financial implications of this activity have been factored into the Authority’s

budget and budget monitoring reports and the MTFS continues to be revised to reflect the forecast of future interest rates along with other factors.

LEGAL IMPLICATIONS

17. The Authority is required to comply with the requirements of the Local Government Act 2003 and to have regard to guidance from the Department for Communities and Local Government and the CIPFA Code when determining its treasury management policy and strategies together with detailed practices.

18. The TMSS requires the Police Authority to consider a mid-term review of treasury management activity and an annual report.

EQUALITIES AND DIVERSITY AND HUMAN RIGHTS

19. There is no direct impact on equality and diversity and human rights issues as a result of this report.

CONCLUSIONS

20. The Annual Report sets out comprehensive information on treasury management activity undertaken during the period 1 April 2010 – 31 March 2011 and provides a commentary on events affecting the money markets during the financial year.

21. The report indicates that the Authority has operated in compliance with agreed treasury management practices and within the prudential indicators set out in the TMSS agreed prior to the start of the financial year and updated in March 2011.

RECOMMENDATION

22. It is recommended that Members consider and note the Annual Treasury Management Report for 2010/11.

TIM S. HOLLIS
Chief Constable

JOHN BATES
Deputy Chief Executive and Treasurer

Contact Officer:	John Bates
Tel:	01482 220785
Background Documents:	JB/TM/2010/11 Annual report

HUMBERSIDE POLICE AUTHORITY

Annual

Treasury Management

Report 2010/11

Annual Treasury Management Report 2010/11

Purpose

This Authority is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2010/11. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2010/11 the minimum reporting requirements were that the full Authority should receive the following reports:

- an annual treasury strategy in advance of the year (Police Authority 22 March 2010)
- a mid year treasury update report (Police Authority 7 December 2010)
- an annual report following the year describing the activity compared to the strategy (this report)

Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by members.

This Authority also confirms that it has complied with the requirement under the Code to give prior scrutiny to the reports on treasury management strategy by the Resource Committee before they were reported to the full Authority. In future all of the above reports will be reported to the Resources Committee ahead of consideration by the Police Authority. Member were offered the opportunity of training on treasury management issues undertaken by Sector, the Authority's treasury management advisers, on 30 January 2011 in order to support Members' scrutiny role. The Chair of the Authority, the Chair of the Finance Committee and the Lead Member for Treasury Management attended together with senior officers from the Police Authority Secretariat and the Force.

Executive Summary

During 2010/11, the Authority complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2009/10 Actual £000	2010/11 Original £000	2010/11 Actual £000
Actual capital expenditure	9,313	23,485	4,341
Total Capital Financing Requirement:	28,979	28,519	29,482
Net borrowing	-9,552	20,195	-7,515
External debt	8,781	8,187	8,187
Investments			
• Longer than 1 year	0	0	0
• Under 1 year	18,333	8,990	15,702
• Total	18,333	8,990	15,702

Other prudential and treasury indicators are to be found in the main body of this report. The Deputy Chief Executive and Treasurer can confirm that no borrowing was undertaken during the year and the statutory borrowing limit (the authorised limit) was not breached.

The financial year 2010/11 continued the challenging environment of previous years; low investment returns and continuing counterparty risk continued.

Recommendation

The Authority is recommended to note the annual treasury management report for 2010/11and refer the report to the full Police Authority

Introduction and background

This report summarises:

- Capital activity during the year;
- Impact of this activity on the Authority's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. The Authority's Capital Expenditure and Financing 2010/11

The Authority undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2009/10 Actual £'m	2010/11 Estimate £'m	2010/11 Actual £'m
Total capital expenditure	**9.313**	**23,485**	**4.341**
Resourced by:			
• Capital receipts	-	-	0.277
• Capital grants	2.164	2.164	2.007
• Revenue	0.057	-	0.431
Un-financed capital expenditure	**7.092**	**21.321**	**1.626**

2. The Authority's overall borrowing need

Formatted: Bullets and Numbering

The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's debt position. The CFR results from the capital activity of the Authority and what resources have been used to pay for the capital spend. It represents the 2010/11 un-financed capital expenditure (see above table) and prior years' net or un-financed capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Authority's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Authority's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Authority.

Reducing the CFR – The Authority's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Authority is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Authority's 2010/11 MRP Policy (as required by CLG Guidance) was approved as part of the Treasury Management Strategy approved by the Authority on 23 March 2011.

The Authority's CFR for the year is shown below, and represents a key prudential indicator.

CFR	31 March 2010 Actual £'m	31 March 2011 Original £'m	31 March 2011 Revised £'m	31 March 2011 Actual £'m
Opening balance	22.903	28.519	27.445	28.979
Add unfinanced capital expenditure (as above)	7.092	21.321	2,952	1.626
Add adjustment for the inclusion of on-balance sheet PFI and leasing schemes (if applicable)	-	-	0	-
Less MRP	-1.016	-1.053	-1.021	-1.123
Closing balance	28.979	48.787	29,376	29.482*

* Sector have carried out a balance sheet review that has confirmed the CFR shown above.

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

Net borrowing and the CFR - In order to ensure that borrowing levels are prudent over the medium term the Authority's external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Authority is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2010/11 plus the expected changes to the CFR over 2011/12 and 2012/13. This indicator allows the Authority some flexibility to borrow in advance of its immediate capital needs in 2010/11. The table below highlights the Authority's net borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2010 Actual	31 March 2011 Original	31 March 2011 Revised	31 March 2011 Actual
Net borrowing position	-£9.552m	£20.915m	-£9,902	-£7.515m
CFR	£28.979m	£48.787m	£29,376m	£29.482m

The authorised limit - The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Authority does not have the power to borrow above this level. The table below demonstrates that during 2010/11 the Authority has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of 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.

	2010/11 Original	2010/11 Revised
Authorised limit	£48.70m	£51.47m
Maximum gross borrowing position	£29.48m	£29.38m
Operational boundary	£46.70m	£49.47m
Average gross borrowing position	£14.71m	£9.56m
Financing costs as a proportion of net revenue stream	1.08%	0.58%

3. Treasury Position as at 31 March 2011

Formatted: Bullets and Numbering

The Authority's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices (TMPs). At the beginning and the end of 2010/11 the Authority's treasury position was as follows:

TABLE 1	31 March 2011 Principal		Rate/ Return	Average Life yrs	31 March 2010 Principal	Rate/ Return
Fixed rate funding:						
-PWLB	£8.171m	£8.171m	5.77%		£8.758m	5.81%
Variable rate funding:						
-PWLB	£0.016m	£0.016m	0.66%		£0.023m	0.49%
Total debt		***£8.187m***	***5.76%***	***15.77***	***£8.781m***	***5.80%***
CFR		***£29.482m***			***£28.979m***	
Over/ (under) borrowing		***(£21.295m)***			***(£20.198m)***	
Investments:						
- in house	£15.702m		1.01%		£18.333	3.35%
Total investments		***£15.702m***	***1.01%***		***£18.333m***	***3.35%***

The maturity structure of the debt portfolio was as follows:

	31 March.2010 actual	31 March.2011 actual
Under 12 months	£0.594m	£0.593m
12 months and within 24 months	£0,593m	£0.581m
24 months and within 5 years	£1.742m	£1.732m
5 years and within 10 years	£2.787m	£2.726m
10 years and above	£3.065m	£2.555m

The maturity structure of the investment portfolio was as follows:

	2009/10 Actual £000	2010/11 Actual £000
Investments		
- Longer than 1 year	-	-
- Under 1 year	18,333	15,702
Total	18,333	15,702

Formatted: Bullets and Numbering

The exposure to fixed and variable rates was as follows:

	31 March 2010 Actual	2010/11 Original Limits	2010/11 Revised Limits	31 March 2011 Actual
Fixed rate	-95%	145%	-83%	-108%
Variable rate	195%	-45%	183%	208%

Formatted: Bullets and Numbering

4. The Strategy for 2010/11

The expectation for interest rates within the strategy for 2010/11 anticipated low but rising Bank Rate (starting in quarter 4 of 2011) with similar gradual rises in medium and longer term fixed interest rates over 2010/11. Variable or short-term rates were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to postpone borrowing to avoid the cost of holding higher levels of investments and reduce counterparty risk.

The actual movement in interest rates broadly followed the expectations in the strategy, as detailed in the following section.

5. The Economy and Interest Rates

2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75 – 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.

UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

The change in the UK political background was a major factor behind weaker domestic growth expectations. The new coalition Government struck an aggressive fiscal policy stance, evidenced through heavy spending cuts announced in the October Comprehensive Spending Review, and the lack of any “giveaway” in the March 2011 Budget. Although the main aim was to reduce the national debt burden to a sustainable level, the measures are also expected to act as a significant drag on growth.

Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government’s debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected (during February / March 2011) to cause the Monetary Policy Committee to start raising Bank Rate earlier than previously expected.

The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May), then Ireland (December), were forced to accept assistance from a combined EU / IMF rescue package. Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government bonds.

Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at ultra low levels.

Risk premiums were also a constant factor in raising money market deposit rates beyond 3 months. Although market sentiment has improved, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, mean that investors remain cautious of longer-term commitment. The European Commission did try to address market concerns through a stress test of major financial institutions in July 2010. Although only a small minority of banks “failed” the test, investors were highly sceptical as to the robustness of the tests, as they also are over further tests now taking place with results due in mid-2011.

Chart 1: Bank Rate v LIBID investment rates

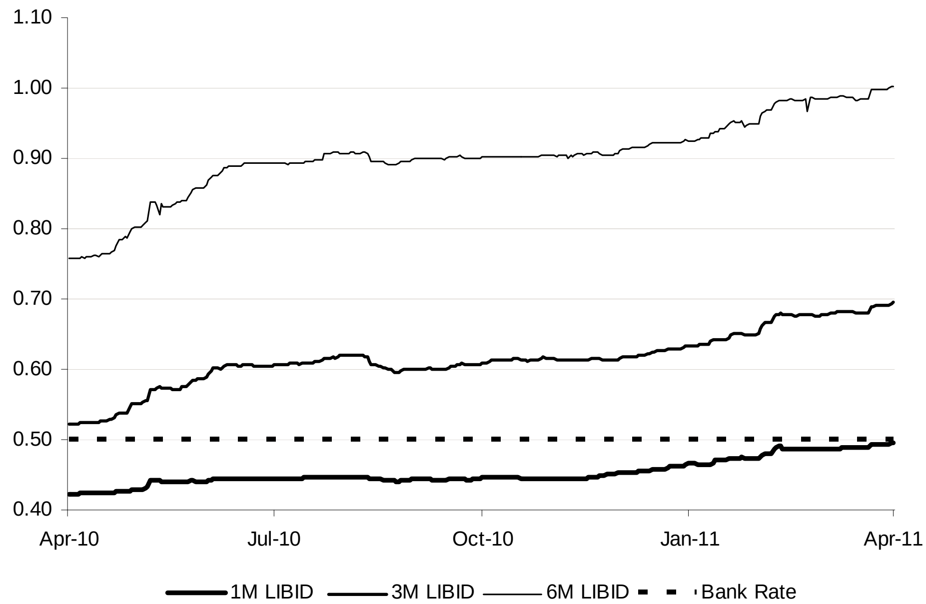
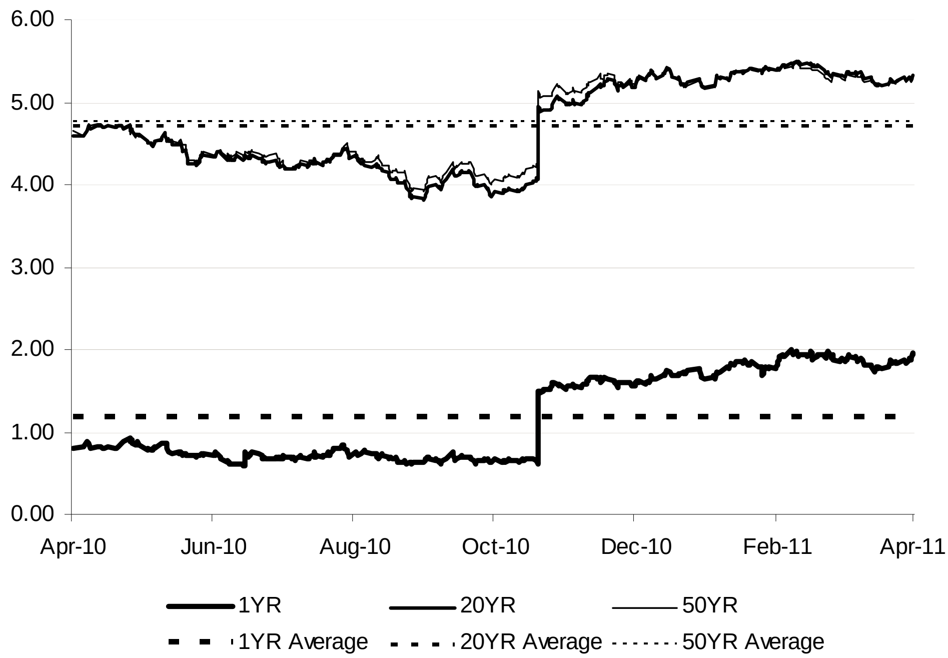


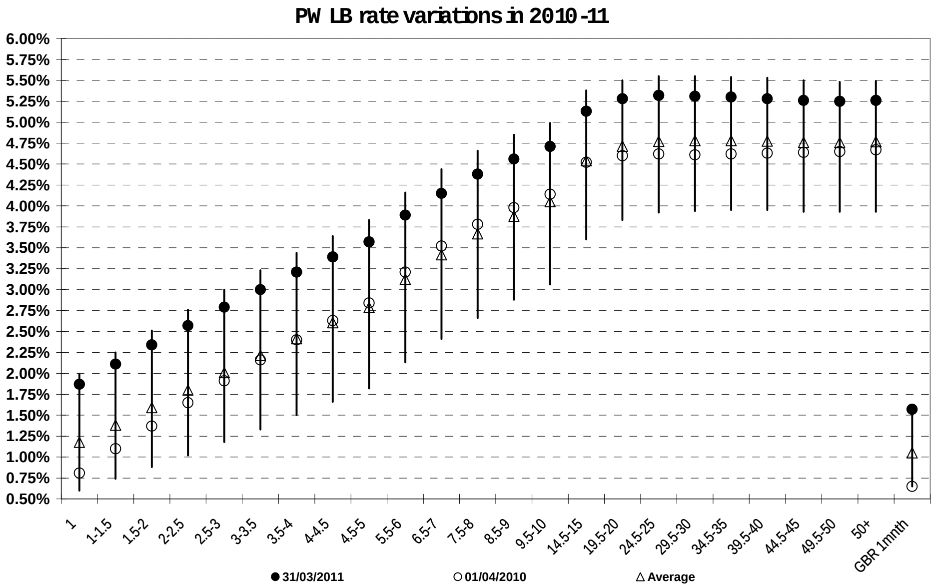
Chart 2: Average v new borrowing rates



6. Borrowing Rates in 2010/11

PWLB borrowing rates - the graph and table for PWLB maturity rates below show, for a selection of maturity periods, the range (high and low points) in rates, the average rates and individual rates at the start and the end of the financial year.

Variations in most PWLB rates have been distorted by the October 2010 decision by the PWLB to raise it borrowing rates by about 0.75 – 0.85% e.g. if it had not been for this change, the 25 year PWLB at 31 March 2011 (5.32%) would have been only marginally higher than the position at 1 April 2010.



PWLB BORROWING RATES 2010/11 for 1 to 50 years

	1	1.5-2	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
01/04/2010	0.810%	1.370%	1.910%	2.400%	2.840%	4.140%	4.620%	4.650%	0.650%
31/03/2011	1.870%	2.340%	2.790%	3.210%	3.570%	4.710%	5.320%	5.250%	1.570%
HIGH	1.990%	2.510%	3.000%	3.440%	3.830%	4.990%	5.550%	5.480%	1.570%
LOW	0.600%	0.880%	1.180%	1.500%	1.820%	3.060%	3.920%	3.930%	0.650%
Average	1.177%	1.590%	2.009%	2.413%	2.788%	4.050%	4.771%	4.756%	1.052%
Spread	1.390%	1.630%	1.820%	1.940%	2.010%	1.930%	1.630%	1.550%	0.920%
High date	07/02/2011	07/02/2011	07/02/2011	07/02/2011	09/02/2011	09/02/2011	09/02/2011	09/02/2011	07/03/2011
Low date	15/06/2010	12/10/2010	12/10/2010	12/10/2010	12/10/2010	31/08/2010	31/08/2010	31/08/2010	01/04/2010

7. Borrowing Outturn for 2010/11

Treasury Borrowing

Borrowing – No loans were drawn to fund the net un-financed capital expenditure and naturally maturing debt.

Rescheduling – No debt re-scheduling was undertaken during the year.

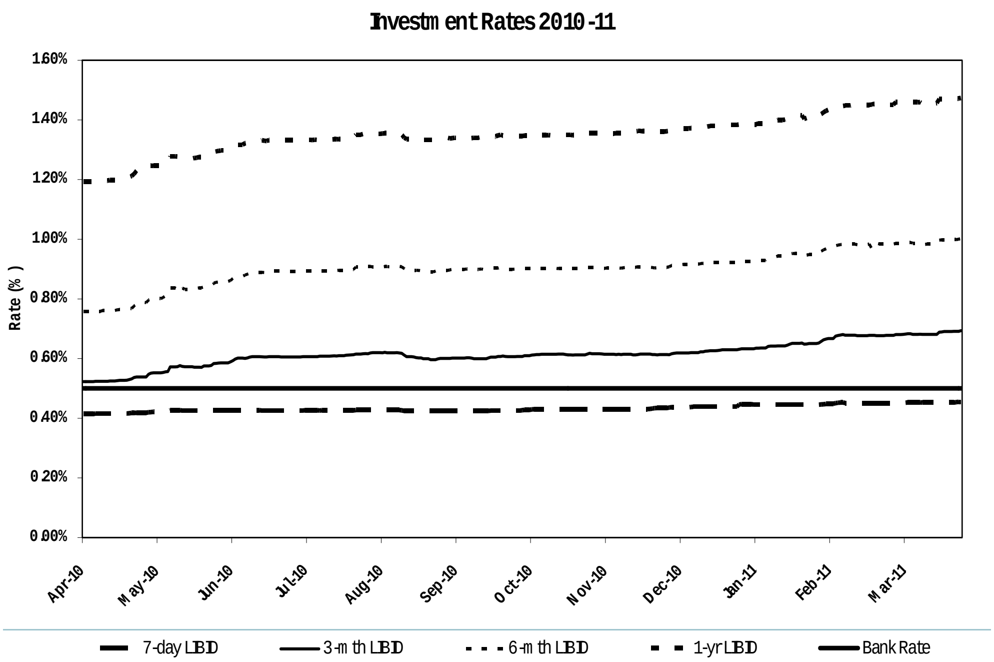
Repayment – The Authority repaid £0.594m during the year to PWLB in line with the terms of the original loans.

8. Investment Rates in 2010/11

The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. Bank Rate remained at its historical low of 0.5% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12 month rates picking up.

Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently in train. This highlighted the ongoing need for caution in treasury investment activity.

	Overnight	7 Day	1 Month	3 Month	6 Month	1 Year
01/04/2010	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
31/03/2011	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
High	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
Low	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
Average	0.43%	0.43%	0.45%	0.61%	0.90%	1.35%
Spread	0.03%	0.04%	0.07%	0.17%	0.24%	0.28%
High date	31/12/2010	30/03/2011	31/03/2011	31/03/2011	31/03/2011	31/03/2011
Low date	01/04/2010	01/04/2010	01/04/2010	01/04/2010	01/04/2010	01/04/2010



9. Investment Outturn for 2010/11

Investment Policy – The Authority's investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by the Authority on 23 March 2010. The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

Resources – The Authority's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Authority's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£m)	31 March 2010	31 March 2011
Cash and cash equivalents	16.2	14.0
Total	16.2	14.0

10. Icelandic Bank Defaults

This Authority had the following investments frozen in Icelandic banks:-

Institution	Amount (£)	Maturity Date	Interest Rate
Kaupthing Singer and Friedlander	1,000,000	22nd December 2008	6.45%
Heritable	1,000,000	22nd October 2008	5.92%
Heritable	2,000,000	3rd July 2009	6.52%
Heritable	1,570,000	21st September 2009	6.35%

The Icelandic Government has stated its intention to honour all its commitments as a result of their banks being placed into receivership. The U.K. Government is working with the Icelandic Government to help bring this about. At the current time, the process of recovering assets is still ongoing with the administrators. The Local Government Association is co-ordinating the efforts of all UK authorities with Icelandic investments. Members have been periodically updated on the latest developments on these efforts and this will continue.

At 31 March 2011, the Authority had received 50.08p/£ in respect of monies outstanding from Heritable with 53.00p/£ from KSF.

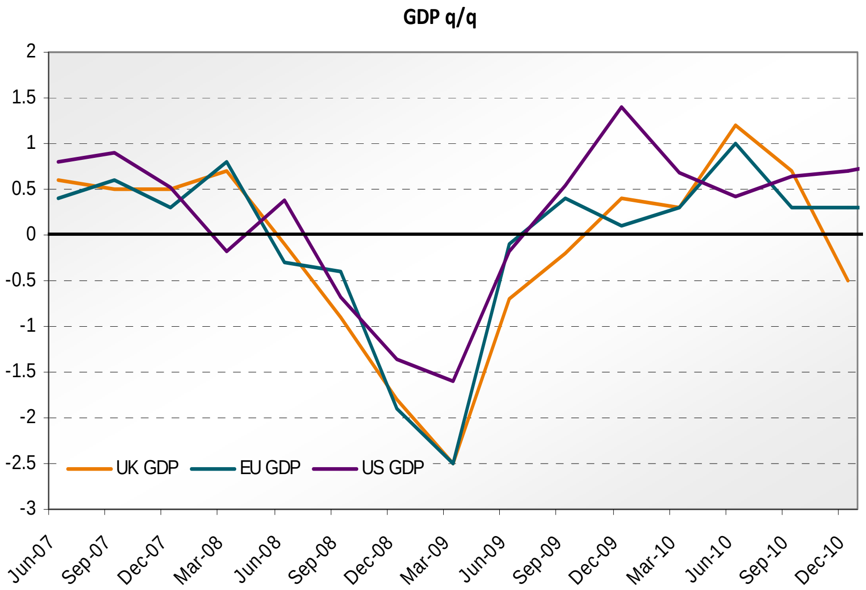
Appendix 1: Prudential and treasury indicators

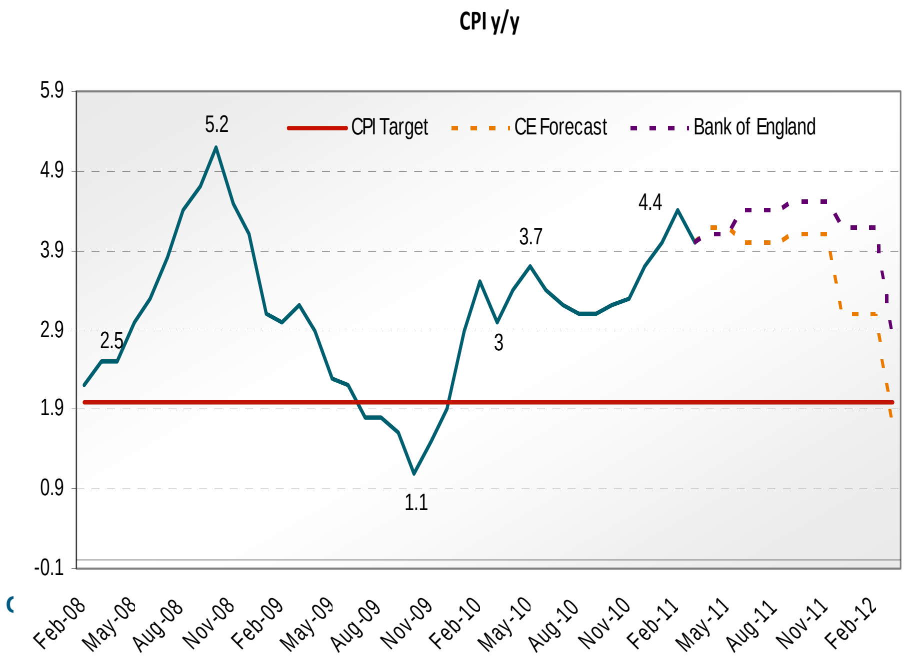
1. PRUDENTIAL INDICATORS	2009/10	2010/11	2010/11	2010/11
Extract from budget and rent setting report	**actual**	**original**	**revised**	**actual**
	£'000	**£'000**	**£'000**	**£'000**
Capital Expenditure	9,314	23,485	5,114	4,341
Ratio of financing costs to net revenue stream	%0.22	1.07%	0.58%	0.44%
Net borrowing requirement				
brought forward 1 April	9,964	8,792	8,781	8,781
carried forward 31 March	8,781	29,186	8,187	8,187
in year borrowing requirement	0	20,394	-594	-594
Capital Financing Requirement as at 31 March TOTAL	28,979	48,787	29,376	29,482
Annual change in Cap. Financing Requirement	6,076	20,268	1,931	504
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum *	-£0.56	£4.20	£0.79	£1.15

2. TREASURY MANAGEMENT INDICATORS	2009/10	2010/11	2010/11	2010/11
	actual	original	revised	actual
	£'000	£'000	£'000	£'000
Authorised Limit for external debt -				
borrowing	43,654	81,515	51,471	48,699
other long term liabilities	-	-	-	-
TOTAL	43,654	81,515	51,471	48,699
Operational Boundary for external debt -				
borrowing	43,654	79,515	49,471	46,699
other long term liabilities	-	-	-	-
TOTAL	43,654	79,515	49,471	46,699
Actual external debt	8,781	29,186	8,187	8,187
Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing / investments	-92%	152%	-83%	-108%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing / investments	192%	-52%	183%	208%

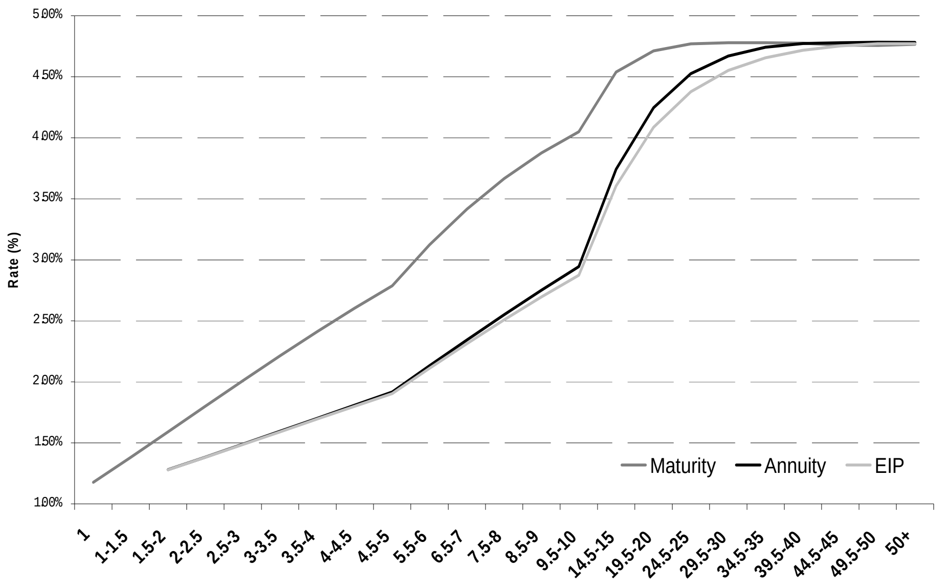
Maturity structure of fixed rate borrowing during 2010/11	upper limit	lower limit	Actual 2010/11
under 12 months	10%	0%	7.2%
12 months and within 24 months	10%	0%	7.1%
24 months and within 5 years	30%	0%	21.2%
5 years and within 10 years	60%	0%	33.3%
10 years and above	85%	25%	31.2%

Appendix 2: Graphs





Comparison of PWLB maturity, annuity and EIP new borrowing rates in 2010/11


5.00%
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
Rate (%)
1
1-1.5
1.5-2
2-2.5
2.5-3
3-3.5
3.5-4
4-4.5
4.5-5
5.5-6
6.5-7
7.5-8
8.5-9
9.5-10
14.5-15
19.5-20
24.5-25
29.5-30
34.5-35
39.5-40
44.5-45
49.5-50
50+
Maturity
Annuity
EIP