WIRRAL COUNCIL

CABINET

22 FEBRUARY 2010

REPORT OF THE DIRECTOR OF FINANCE

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2010 TO 2013

1. EXECUTIVE SUMMARY

1.1. This report sets out the Treasury Management and Investment Strategy for 2010-2013 in accordance with the CIPFA Code of Practice for Treasury Management in Public Services.

2. TREASURY MANAGEMENT AND INVESTMENT STRATEGY STATEMENTS

2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services requires local authorities to determine the Treasury Management Strategy Statement. This statement incorporates the Investment Strategy, as required under the Department for Communities and Local Government (DCLG) Investment Guidance. Together, these cover the Council financing and investment strategy for the forthcoming financial year.

2.2 CIPFA has defined treasury management 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."

2.3 The Council is responsible for treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are important and integral elements of treasury management activities. The main risks to the treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

2.4 The Council acknowledges that effective treasury management will provide support towards the achievement of business and service objectives. The Council is committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective treasury management.

2.5 The purpose of the attached Treasury Management Strategy Statement is to set:

- The Treasury Management Strategy for 2010-13 - The long term direction for Council borrowing, debt rescheduling and investments.
- The Prudential Indicators – information to ensure that capital investment is affordable, prudent and sustainable.
- The Minimum Revenue Provision (MRP) Statement – policy on the repayment of long term debt.
- Authorised signatories for treasury management activities.
- The adoption of the revised CIPFA Treasury Management Code of Practice.

3. FINANCIAL IMPLICATIONS

3.1 Approval and implementation of this strategy will limit financial risks while helping to minimise financing costs and maximise investment returns.

4. STAFFING IMPLICATIONS

4.1. There are none arising out of this report.

5. EQUAL OPPORTUNITIES/EQUALITY IMPACT ASSESSMENT

5.1. There are none arising out of this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1. There are none arising out of this report.

7. LOCAL AGENDA 21 IMPLICATIONS

7.1. There are none arising out of this report.

8. PLANNING IMPLICATIONS

8.1. There are none arising out of this report.

9. ANTI-POVERTY IMPLICATIONS

9.1. There are none arising out of this report.

10. SOCIAL INCLUSION IMPLICATIONS

10.1. There are none arising out of this report.

11. LOCAL MEMBER SUPPORT IMPLICATIONS

11.1. None for this report

12. BACKGROUND PAPERS

- DCLG Local Authority Investment Guidance,2004
- DCLG Changes to the Capital Financing System Consultation, 2009
- Code of Practice for Treasury Management in Public Services (Fully Revised Second Edition), CIPFA 2009.
- Prudential Code for Capital Finance in Local Authorities (Fully Revised Second Edition), CIPFA 2009.

13. RECOMMENDATIONS

13.1 That Members approve the Treasury Management and Investment Strategy for 2010 to 2013.

13.2 That the Prudential Indicators be adopted.

13.3 That Members approve the Minimum Revenue Provision policy.

13.4 That the Council Officers listed in Appendix F be authorised to approve payments from Council bank accounts for all treasury management activities.

13.5 That the revised CIPFA Treasury Management Code of Practice be adopted.

IAN COLEMAN
DIRECTOR OF FINANCE

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Wirral Council
Treasury Management Strategy Statement and Investment Strategy
2010-11 to 2012-13

Treasury Management and Investment Strategy 2010-11 to 2012-13

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APPENDICES

Treasury Management and Investment Strategy 2010-11 to 2012-13

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to determine the Treasury Management Strategy Statement (TMSS). This statement also incorporates the Investment Strategy, as required under the Department for Communities and Local Government (DCLG) Investment Guidance. Together, these cover the financing and investment strategy for the forthcoming financial year.

1.2 In response to the financial crisis in 2008 and the collapse of the Icelandic banks, CIPFA revised the TM Code and Guidance Notes as well as the Prudential Indicators. DCLG is also in the process of revising and updating the Investment Guidance.

1.3 CIPFA has defined treasury management 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."

1.4 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are important and integral elements of its treasury management activities. The main risks to the treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

1.5 The Council acknowledges that effective treasury management will provide support towards the achievement of its objectives. It is, therefore, committed to the principles of achieving value for money and to employing suitable comprehensive performance measurement techniques within the context of effective treasury management.

1.6 The strategy also takes into account the impact of the Council Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected treasury position (Appendix A), the prudential indicators (Appendix B) and the outlook for interest rates (Appendix C).

1.7 The purpose of this Treasury Management Strategy Statement is to approve:

- Treasury Management Strategy for 2010-11 (Borrowing - Section 4, Debt Rescheduling - Section 5, Investments - Section 6)
- Prudential Indicators (Appendix B note: PI No. 6 - The Authorised Limit is a statutory limit)
- MRP Statement – Section 9

- Use of Specified and Non-Specified Investments – Appendices D

2. Balance Sheet and Treasury Position

2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) and together with balances and reserves are the core drivers of treasury management activity. The estimates, based on the current revenue budget and capital programme, are set out below:

	31 Mar 10 Revised £m	**31 Mar 11 Estimate £m**	**31 Mar 12 Estimate £m**	**31 Mar 13 Estimate £m**
CFR	385	387	379	369
Balances & Reserves	94	91	90	90
Net Balance Sheet Position	291	296	289	279

2.2 The level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix A. Market conditions, interest rate expectations and credit risk considerations will influence the strategy in determining the borrowing and investment activity against the underlying Balance Sheet position.

2.3 As the CFR represents the level of borrowing for capital purposes and revenue expenditure cannot be financed from borrowing, net physical external borrowing should not exceed the CFR other than for short term cash flow requirements. It is permissible under the Prudential Code to borrow in advance of need up to the level of the estimated CFR over the term of the Prudential Indicators. Where this takes place the cash will form part of its invested sums until the related capital expenditure is incurred. This being the case net borrowing should not exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years other than in the short term due to cash flow requirements. The draft revisions to the DCLG Investment Guidance recommend that the Strategy should state Authority policies on investing money borrowed in advance of need.

2.4 The move to International Financial Reporting Standards (IFRS) has implications for the Capital Financing Requirement components on the balance sheet. Analysis of Private Finance Initiative (PFI) schemes and operating leases against IFRS requirements may result in the related long term assets and liabilities being brought onto the Council balance sheet. The estimates for the CFR and Long Term Liabilities will, therefore, need to take into account such items. This will influence the determination of the Affordable Borrowing Limit and Operational Boundary.

2.5 The estimate for interest payments in 2010-11 is £11m and for interest receipts is £0.7m. (These figures exclude the interest cost of the PFI schemes that may be brought on to the balance sheet.)

3. Outlook for Interest Rates

3.1 The economic interest rate outlook provided by the treasury advisor, Arlingclose, is attached at Appendix C. Financial markets remain reasonably volatile as the structural changes necessary within economies and the banking system evolve. This volatility provides opportunities for active treasury management. The Council will reappraise the strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

4. Borrowing Requirement and Strategy

4.1 The underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement (CFR) – see Appendix B. The CFR represents the cumulative capital expenditure of the Local Authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for debt redemption (MRP) from within the revenue budget each year.

4.2 Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow) and in turn produce an increased requirement to charge MRP in the Revenue Account.

4.3 Physical external borrowing may be greater or less than the CFR but in accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

4.4 The cumulative estimate of the maximum long-term borrowing requirement is estimated by comparing the projected CFR with the profile of the current portfolio of external debt and long term liabilities over the same financial horizon, as follows:

	31 Mar 10 Revised £m	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m
Capital Financing Requirement	385	387	379	369
Less: Existing Profile of Borrowing and Other Long Term Liabilities	338	325	307	287
Cumulative Maximum External Borrowing Requirement	**47**	**62**	**72**	**82**
Balances & Reserves	**94**	**91**	**90**	**90**
Cumulative Net Borrowing Requirement/Investments	**-47**	**-29**	**-18**	**-8**

4.5 The strategy is to maintain maximum control over borrowing activities as well as flexibility on the loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term. A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Prudential Indicators.

4.6 In conjunction with advice from the treasury advisor, Arlingclose, the Council will keep under review the options it has in borrowing from the PWLB, the market and other sources up to the available capacity within the CFR and Affordable Borrowing Limit (defined by CIPFA as the Authorised Limit).

The outlook for borrowing rates:

4.7 The interest rates at which the Council can borrow money from the PWLB are directly linked to gilt yields. Short-dated gilt yields are forecast to be lower than medium- and long-dated gilt yields during 2010-11. Despite additional gilt issuance to fund the UK Government support to the banking industry; short-dated gilts are expected to benefit from expectations of lower interest rates as the economy struggles through a recession. Yields for these maturities will fall as expectations for lower interest rates mount.

4.8 The differential between investment earnings and debt costs, despite long term borrowing rates being around historically low levels, remains acute and this is expected to remain a feature during 2010-11. The so-called “cost of carry” associated with long term borrowing compared to temporary investment returns means that the appetite for new long term borrowing brings with it additional short-term costs. It is not surprising that the use of internal resources in lieu of borrowing has been the most cost effective means of financing capital expenditure but, at some stage, internal resources will become depleted and require topping up.

4.9 PWLB variable rates have fallen below 1%. They are expected to remain low as the Bank Rate is maintained at historically low levels to enable the struggling economy to emerge from the recession. Against a backdrop of interest rates remaining lower for longer and a continuation of the cost of carry backdrop, a passive borrowing strategy, i.e. borrow long term funds as they are required may remain appropriate. Equally, variable rate funds (that avoid the cost of carry) or EIP (equal instalments of principal) that mitigate the impact are both active considerations.

4.10 Decisions to borrow at low, variable rates of interest will be taken after considering the absolute level of longer term interest rate equivalents and the extent of variable rate earnings on investment balances. When longer term rates move below the cost of variable rate borrowing any strategic exposure to variable interest rates will be reviewed and, if appropriate, reduced.

4.11 The PWLB remains the preferred source of borrowing given the transparency and control that its facilities continue to provide.

4.12 The Council has £174m loans which are LOBO loans (Lender Option Borrower Option) all of which are currently in, or will be in, their option state in 2010-11. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and also repayment of the loan without penalty. The Council may utilise cash resources for repayment or may consider replacing the loans by borrowing from the PWLB.

4.13 The Council will undertake a financial options appraisal process to establish a 'value for money' judgement in the use of resources.

5. Debt Rescheduling

5.1 The Council will continue to maintain a flexible policy for debt rescheduling. Market volatility may provide opportunities for rescheduling debt from time to time. The rationale for rescheduling would be one or more of the following:

- Savings in interest costs with minimal risk
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
- Amending the profile of maturing debt to reduce any inherent refinancing risks

5.2 Any rescheduling activity will be undertaken within the treasury management policy and strategy. The Council will agree in advance with Arlingclose the strategy and framework within which debt will be repaid/rescheduled if opportunities arise. Thereafter, the debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by Arlingclose and discussed with Council officers.

5.3 All rescheduling activity will comply with the accounting requirements of the Local Authority SORP and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573 as amended by SI 2008/414).

5.4 Any borrowing and debt rescheduling activity will be reported in the next quarterly treasury management monitoring report to the Cabinet and subsequently to the Council.

6. Investment Policy and Strategy

Background

6.1 Guidance from the DCLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

Investment Policy

6.2 To comply with the DCLG guidance, the general policy objective is to invest its surplus funds prudently. The investment priorities are:

- Security of the invested capital
- Liquidity of the invested capital
- An optimum yield which is commensurate with security and liquidity

The DCLG revised draft guidance on investments reiterates security and liquidity as the primary objectives of a prudent investment policy. The speculative procedure of borrowing purely in order to invest is unlawful.

6.3 Investments are categorised as ‘Specified’ or ‘Non Specified’ investments based on the criteria in the DCLG Guidance. Potential instruments for Council use within the investment strategy are contained in Appendix D.

6.4 The credit crisis has refocused attention on the treasury management priority of security of capital money invested. The draft revisions to the DCLG Investment Guidance state that a specified investment is one made with a body or scheme of “high credit quality”. The Council will continue to maintain a counterparty list based on these criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength as outlined in paragraph 6.13.

6.5 The DCLG revised draft guidance also recommends that the Investment Strategy should set out the procedures for determining the maximum periods for which funds may prudently be committed. Such decisions will be based on an assessment of the Balance Sheet position with the limit being set in Prudential Indicator 12 - Upper Limit for total principal sums invested over 364 days.

6.6 A further recommendation in the draft guidance states that strategy should detail Authority policies on investing money borrowed in advance of spending needs, identifying any measures to minimise such investments, including any limits on:

- Amounts borrowed
- Periods between borrowing and expenditure

A comment on the management of risks, including the risk of loss of the borrowed capital and the risk associated with interest rate changes would also be expected. Limits on the amount borrowed in advance of need are identified in the Cumulative Maximum External Borrowing Requirement for future financial years set out in the table at paragraph 4.4. This also sets the periods between borrowing and expenditure. The management of risks, including the risk of loss of the borrowed capital, are identical to all forms of investment as set out in this strategy. The risks associated with interest rate changes are based on the interest rate forecast at Appendix C and the current cost of carry referred to in section 4 above.

6.7 The current level of investments is presented in Appendix A.

Investment Strategy

6.8 The global financial market storm in 2008 and 2009 has forced investors of public money to reappraise the question of risk versus yield. Income from investments is a key support in the Council budget. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates are likely to remain at very low levels which will have a significant impact on investment income. The Council strategy must, however, be geared towards this development whilst adhering to the principal objective of security of invested money.

6.9 The Director of Finance, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the Cabinet and Council. (see section 7.0, Policy on Delegation).

Investments Managed In-House

6.10 The shorter term cashflow investments are made with reference to the outlook for the UK Bank Rate and money market rates.

6.11 In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office.

6.12 Currently the Council has restricted investment activity to:

- The Debt Management Agency Deposit Facility (The rates of interest from the DMADF are below equivalent money market rates. However, the returns are an acceptable trade-off for the guarantee that capital is secure.)
- AAA-rated Money Market Funds with a Constant Net Asset Value
- Deposits with other local authorities
- Business reserve accounts and term deposits
- Bonds issued by Multilateral Development Banks

6.13 Conditions in the financial sector have begun to show signs of improvement, albeit with substantial intervention by Government authorities. In order to diversify the counterparty list, the use of comparable non-UK Banks for investments is now considered appropriate. The sovereign states whose banks the Council will now consider are Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the U.S.A. These countries and the banks within them will be selected after analysis and careful monitoring of:

- Credit Ratings (minimum long-term A+)
- Credit Default Swaps
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms or potential support from a well-resourced parent institution
- Share Price

6.14 The Council has also taken into account information on corporate developments and market sentiment towards the counterparties. The Council and the treasury advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

6.15 There remains a heightened state of sensitivity to risk. Vigilance is key. This modest expansion of the counterparty list is an incremental step. In order to meet requirements of the revised CIPFA Treasury Management Code, the Council is focusing on a range of indicators (as stated above), not just credit ratings.

6.16 Limits for Specified Investments are set out in Appendix D.

6.17 To protect against a prolonged period of low interest rates, 1-year deposits and longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments (see Appendix D). The longer-term investments will be likely to include:

- **Supranational bonds (bonds issued by multilateral development banks):** The joint and individual pan European Government guarantees in place on these bonds provide security of the principal invested. Even at the lower yields likely to be in force, the return on these bonds could be attractive relative to the increasingly low outlook for official interest rates.
- **UK Government guaranteed bonds and debt instruments issued by banks/building societies**: The Government 2008 Credit Guarantee Scheme permits specific UK institutions to issue short-dated bonds with an explicit Government guarantee. The bonds are issued at a margin over the underlying gilt and would be a secure longer-term investment option. (These bonds would, under existing statute, be capital expenditure investments.)

Investments which constitute capital expenditure

6.18 Investments meeting the definition of capital expenditure can be financed from capital or revenue resources. They are also subject to the DCLG Guidance on Non-Specified Investments. Placing of such investments has accounting, financing and budgetary implications. Whilst it is permissible to fund capital investments by increasing the underlying need to borrow, it should be noted that under the DCLG MRP Guidance, MRP must be applied over a 20 year period.

6.19 The Council has determined a maximum of £10m limit to investments which constitute capital expenditure.

6.20 All investment activity will comply with the accounting requirements of the Local Authority SORP.

7. Policy on Delegation

7.1 The Council has responsibility for all matters concerned with treasury management. These are delegated to the Director of Finance in accordance with the Constitution scheme of delegation.

7.2 On a day to day basis the Treasury Management Team within the Accountancy Section carries out the treasury management activities.

7.3 Decisions on short term investments and short term borrowings may be made on behalf of the Director of Finance by the Group Accountant for Treasury Management or any of the members of the Treasury Management Team who are empowered to agree deals subject to their conforming to the treasury management strategy and policies outlined in this report.

7.4 Actual authorisation of payments from the bank account will be made by the Director of Finance, the Deputy Director of Finance, the Finance Heads of Service or the Chief Accountants, listed in Appendix E.

7.5 Decisions on long term investments or long term borrowings (i.e. for periods greater than one year) may be made on behalf of the Director of Finance by the Group Accountant or the Senior Assistant Accountants on the Treasury Management Team and will be reported to the Cabinet and subsequently to the Council.

7.6 All officers will act in accordance with the policies contained within this document.

8. Balanced Budget Requirement

8.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

9. 2010-11 MRP Statement

9.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

9.2 The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

This does not preclude other prudent methods

9.3 MRP in 2010-11: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

9.4 The MRP Statement will be submitted to Council before the start of the 2010-11 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

9.5 The Council will apply Option 1 in respect of supported capital expenditure and Option 3 in respect of unsupported capital expenditure.

9.6 For prudence, when Option 3, the asset life method, is applied to the funding of an asset with a life greater than 25 years the Council will apply a default asset life of 25 years. Estimating assets lives over 25 years is difficult to achieve accurately; therefore, using a default of 25 years is considered the most prudent approach and is in keeping with the Regulations.

9.7 MRP in respect of PFI and leases brought on Balance Sheet under the 2009 SORP and IFRS will also be calculated using Option 3 and will match the annual principal repayment for the associated deferred liability.

10. Reporting on the Treasury Outturn

10.1 The Director of Finance will report to the Cabinet and subsequently, to the Council on treasury management activity / performance as follows :

- Quarterly against the strategy approved for the year. (CIPFA requires as a minimum a mid-year and year end review of treasury activity).
- The Council will produce an Outturn Report on treasury activity no later than 30 September after the financial year end.
- The Council Excellence Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

APPENDIX A

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio as at 31 Dec 09 £m	%	31-Mar-10 Revised £m	31-Mar-11 Estimate £m	31-Mar-12 Estimate £m	31-Mar-13 Estimate £m
External Borrowing:						
Fixed Rate – PWLB	100.53	36.67	113.91	113.25	111.19	109.16
Fixed Rate – Market	173.60	63.33	173.60	173.60	173.60	170.50
Variable Rate – PWLB	0.00	0.00	0.00	0.00	0.00	0.00
Variable Rate – Market	0.00	0.00	0.00	0.00	0.00	0.00
Existing Long-Term liabilities	274.13	100.00	287.51	286.85	284.79	279.66
IFRS Long-Term Liabilities:						
PFI (2009/10)	0.00	0.00	65.00	62.05	59.09	56.14
Operating Leases (2010/11 onwards)	0.00	0.00	0.00	7.00	6.00	5.00
Total External Debt	274.13	100.00	352.51	355.90	349.88	340.80
Investments:						
Managed in-house						
Deposits with Banks and Building Societies	93.00	86.11	64.00	58.00	57.00	57.00
Deposits with Money Market Funds	14.00	12.96	28.00	28.00	28.00	28.00
Deposits in Supranational Bonds and Gilts	1.00	0.93	2.00	5.00	5.00	5.00
Total Investments	108.00	100.00	94.00	91.00	90.00	90.00
Net Borrowing Position	166.13		193.51	195.85	194.79	189.66

APPENDIX B

PRUDENTIAL INDICATORS 2010-11 TO 2012-13

1. Background

1.1 There is a requirement under the Local Government Act 2003 for local authorities to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Net Borrowing and the Capital Financing Requirement

2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Local Authority should ensure that the net external borrowing 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.

2.2 The Director of Finance reports that the Authority had no difficulty meeting this requirement in 2009/10, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

No. 1	**Capital Expenditure**	2009-10	2009-10	2010-11	2011-12	2012-13
		Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
	Total	**80**	**92**	**79**	**47**	**39**

3.2 Capital expenditure will be financed as follows:

Capital Financing	2009-10	2009-10	2010-11	2011-12	2012-13
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
Capital receipts	4	4	3	3	3
Capital Grants	48	70	61	33	26
Revenue contributions	0	1	1	0	0
Supported borrowing	7	7	5	5	3
Unsupported borrowing	21	10	9	6	7
Total	**80**	**92**	**79**	**47**	**39**

Note: the element to be financed from borrowing impacts on the movement in the Capital Financing Requirement.

4. Ratio of Financing Costs to Net Revenue Stream

4.1 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 borrowing costs.

4.2 The ratio is based on costs net of investment income.

No. 2	Ratio of Financing Costs to Net Revenue Stream	2009-10	2009-10	2010-11	2011-12	2012-13
		Approved %	Revised %	Estimate %	Estimate %	Estimate %
	Total	**7.04**	**8.26**	**8.74**	**8.66**	**8.28**

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing. It is an aggregation of the amounts shown for Fixed and Intangible Assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure.

No. 3	Capital Financing Requirement	31.3.10	31.3.10	31.3.11	31.3.12	31.3.13
		Approved	Revised	Estimate	Estimate	Estimate
		£m	£m	£m	£m	£m
	Total CFR	**347.6**	**385.0**	**387.3**	**378.7**	**369.0**

5.2 The year on year change in the CFR is due to the following:

Capital Financing Requirement	2009-10	2009-10	2010-11	2011-12	2012-13
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
Balance B/F	333.5	319.4	385.0	387.3	378.7
Capital expenditure financed from borrowing	28.2	17.4	14.3	10.9	10.0
Items brought back on to the balance sheet (PFI & leases)	0	65.0	7.0	0	0
Revenue provision for debt Redemption.	-9.6	-11.8	-14.0	-14.5	-14.7
Principal repayments of transferred debt by other Merseyside Local Authorities	-4.5	-5.0	-5.0	-5.0	-5.0
Balance C/F	**347.6**	**385.0**	**387.3**	**378.7**	**369.0**

6. Actual External Debt

6.1 This indicator is obtained directly from the balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

No. 4	**Actual External Debt as at 31.03.2009**	£m
	Borrowing	
	Total	**296.2**

7. Incremental Impact of Capital Investment Decisions

7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

No. 5	**Incremental Impact of Capital Investment Decisions**	2009-10	2010-11	2011-12	2012-13
		Approved £	Estimate £	Estimate £	Estimate £
	Increase in Band D Council Tax	**24.87**	**8.47**	**3.73**	**2.82**

7.2 The increase in Band D Council Tax reflects the increases in running costs and/or increases in the provision for Capital Financing Charges to undertake borrowing arising from the proposed capital programme.

8. Authorised Limit and Operational Boundary for External Debt:

8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

8.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with existing commitments, proposals for capital expenditure and financing and the approved treasury management policy statement and practices.

8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

No. 6	**Authorised Limit for External Debt**	2009-10	2009-10	2010-11	2011-12	2012-13
		Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
	Borrowing	465	411	469	467	457
	Other Long Term Liabilities	10	73	15	8	8
	Total	**475**	**484**	**484**	**475**	**465**

8.5 The Operational Boundary links directly to the estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

8.6 The Director of Finance has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of Council.

No. 7	**Operational Boundary for External Debt**	2009-10	2009-10	2010-11	2011-12	2012-13
		Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
	Borrowing	455	401	459	457	447
	Other Long Term Liabilities	5	68	10	3	3
	Total	**460**	**469**	**469**	**460**	**450**

9. Adoption of the CIPFA Treasury Management Code

9.1 This indicator demonstrates that the Council has adopted the principles of best practice.

No. 8	**Adoption of the CIPFA Code of Practice in Treasury Management**
	Council will approve the adoption of the CIPFA Code of Treasury Management at its meeting on 1 March 2010.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments).

10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

10.3 In order to increase the understanding of this indicator, separate upper limits for the percentage of fixed and variable rates are shown for borrowing and investment activity, as well as the net limit.

		2009-10	2009-10	2010-11	2011-12	2012-13
		Approved %	Revised %	Estimate %	Estimate %	Estimate %
No. 9	**Upper Limit for Fixed Interest Rate Exposure**					
	Borrowings	100	100	100	100	100
	Investments	100	100	100	100	100
	Net	**200**	**200**	**200**	**200**	**200**
No. 10	**Upper Limit for Variable Rate Exposure**					
	Borrowings	50	50	50	50	50
	Investments	100	100	100	100	100
	Net	**150**	**150**	**150**	**150**	**150**

10.4 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the treasury management strategy.

11. Maturity Structure of Fixed Rate borrowing

11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No. 11	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %
	under 12 months	0	100
	12 months and within 24 months	0	100
	24 months and within 5 years	0	100
	5 years and within 10 years	0	100
	10 years and above	0	100

12. Upper Limit for Total Principal Sums Invested Over 364 Days

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

No. 12	Upper Limit for Total Principal Sums Invested Over 364 Days	2009-10	2009-10	2010-11	2011-12	2012-13
		Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
		30	**30**	**30**	**30**	**30**

APPENDIX C

ARLINGCLOSE ECONOMIC AND INTEREST RATE FORECAST

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Official Bank Rate													
Upside risk			+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	**0.50**	**0.50**	**0.50**	**1.00**	**1.50**	**2.00**	**2.50**	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**
Downside risk				-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
1-yr LIBID													
Upside risk			+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	**1.25**	**1.25**	**1.50**	**1.75**	**2.25**	**3.00**	**3.50**	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt													
Upside risk	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	**2.70**	**2.80**	**2.90**	**3.00**	**3.25**	**3.50**	**3.75**	**4.00**	**4.25**	**4.25**	**4.25**	**4.25**	**4.25**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt													
Upside risk		+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50
Central case	**3.75**	**3.75**	**4.00**	**4.00**	**4.25**	**4.25**	**4.50**	**4.50**	**4.75**	**5.00**	**5.00**	**5.00**	**5.00**
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt													
Upside risk	+0.25	+0.50	+0.50	+0.50	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50
Central case	**4.25**	**4.50**	**4.75**	**4.75**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt													
Upside risk	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	**4.25**	**4.50**	**4.50**	**4.50**	**4.75**	**4.75**	**4.75**	**4.75**	**4.75**	**5.00**	**5.00**	**4.75**	**4.75**
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- The recovery in growth is likely to be slow and uneven, more “W” than “V” shaped. The Bank of England will stick to its lower-for-longer stance on policy rates.
- Gilt yields will remain volatile; Yields have been compressed by Quantitative Easing (QE) and will rise once QE tapers off and if Government debt remains at record high levels.
- The path of the base rate has been downgraded to reflect the fragile state of the recovering economy and the severe fiscal correction that will be coming post General Election that will dampen aggregate demand and cut household cashflow. Expectations of central bank exit strategies and their timing will increase volatility in sovereign bond yields and equities.
- There are significant threats to the forecast from potential downgrades to sovereign ratings and/or political instability.

<u>Underlying assumptions:</u>

- The Bank of England’s Quantitative Easing (QE) program which injected £200bn to insure against the downside risks to growth and stimulate the economy officially ends 26 January 2010. We estimate that QE has depressed gilt yields by around 0.7%.
- The Bank forecasts GDP to grow by 4% in 2011 but concedes growth could be impeded by corporate and consumer balance sheet adjustments, restrictions in bank credit and consumers’ cautious

spending behaviour. This is an optimistic forecast in our view; Evidence of recovery is scant with weak real economic data and rising unemployment. Quarter four 2009 grew by just 0.1%.

- Looming bank regulation and liquidity and capital requirements will curb bank lending activity. The Bank retains the option to reduce the rate on commercial banks' deposits to encourage them to lend. But FSA regulations will force banks to buy more gilts which could help slow the rise in yields in 2010/11.
- The employment outlook remains uncertain. Pay freezes, short hours, job cuts and a migration toward part time employment will continue into 2010 keeping the headline unemployment number down.
- Inflation is not an immediate worry for the Bank which forecasts CPI to rise due to higher commodity prices and VAT reverting to 17.5%. Commodity prices and VAT will push inflation over 3% prompting a letter from the Bank's Governor to the Chancellor in quarter one 2010.
- The UK fiscal deficit remains acute. Cuts in public spending and tax increases are now inevitable and more likely to be pushed through in 2010 by a new Government with a clear majority, however a hung parliament cannot be ruled out and would be potentially disruptive to financial markets.
- The net supply of gilts will rise to unprecedented levels in 2010. Failure to articulate and deliver on an urgent and credible plan to lower Government borrowing to sustainable levels over the medium term will be negative for gilts.
- The Federal Reserve Chairman Bernanke's diagnosis of a weak U.S. economy and labour market signal that the Fed's "extended period" of low rates may get even longer. The outlook for the Eurozone is more optimistic but the European Central Bank will only increase rates after a durable upturn in growth.

APPENDIX D

SPECIFIED AND NON SPECIFIED INVESTMENTS

DCLG has produced draft revised Investment Guidance for Local Authorities in England and this section would therefore be subject to review and amendment if the final version differs from the draft.

Specified Investments

Specified Investments Defined

Specified Investments will be those that meet the DCLG Guidance, i.e. the investment:-

- is sterling denominated
- has a maximum maturity of 1 year
- meets the "high" credit criteria as determined by the Council or is made with the UK Government or is made with a Local Authority in England, Wales or Scotland.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate)

Types of Specified Investments

Specified Investments identified for Council use are:

- Deposits in the DMO Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- Certificates of deposit with banks and building societies
- Gilts : (bonds issued by the UK Government)
- Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a constant net asset value (CNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Minimum Credit Rating Criteria for Specified Investment

For credit rated counterparties, the minimum criteria will be the short-term/long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard & Poor's, Fitch Ratings:

Long-term minimum: A1 (Moody's) or A+ (S&P) or A+ (Fitch)
Short-term minimum: P-1 (Moody's) or A-1 (S&P) or F1 (Fitch).

This means that the Council will only make investments that have high credit rating, or above, for both long and short term investments.

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties and will not rely solely on these credit ratings.

Investment Limits

Counterparty Limits
For in-house investments the maximum limit per institution (UK and non-UK bank, building society and Money Market Fund) will be £15m.

Group Limits
For in-house investments the maximum limit per banking group will be £15m.

Sovereign Country Limits
For in-house investments within UK banks and building societies the maximum sovereign limit will be 100% of total investments.

For in-house investments within non-UK banks the maximum sovereign limit will be £30m. This means that all Council investments can be made with non-UK institutions but it limits the risk of over-exposure to any one country.

The limits above are maximum limits. The Treasury Management Team will adjust individual counterparty, group and country limits according to individual circumstances but remain within these maximum limits.

Non-Specified Investments

Having considered the rationale and risk associated with Non-Specified Investments, the following has been determined for Council use:-

	In-house use	Use by fund managers	Maximum maturity	Max % of portfolio	Capital expenditure?
▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies	✓	✓	*5 yrs*	*40%* in aggregate	No
Gilts and bonds ▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK Government ▪ Sterling denominated bonds by non-UK sovereign Governments	✓ (on advice from treasury advisor)	✓	*10 years*	*50%* in aggregate	No
Money Market Funds and Collective Investment Schemes (pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573) but which are not credit rated	✓ (on advice from treasury advisor)	✓	These funds do not have a defined maturity date	*50%*	No

-Government guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies -Non-guaranteed bonds and debt instruments (e.g. floating rate notes) issued by corporate bodies -Collective Investment Schemes (Pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573	✓(on advice from treasury advisor)	✓	*10 years* *10 years* These funds do not have a defined maturity date	*£10M*	**Yes**

1. In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.
2. The use of the above instruments by fund manager(s) will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

Minimum Credit Rating Criteria for Non-Specified Investment
For credit rated counterparties, the minimum criteria will be the short-term/long-term ratings assigned by various agencies which may include Moody's Investors Services, Standard & Poor's, Fitch Ratings:

Long-term minimum: Aa3 (Moody's) or AA- (S&P) or AA- (Fitch)
Short-term minimum: P-1 (Moody's) or A-1+ (S&P) or F1+ (Fitch).

Investment Limits
The limits for each type of non specified investment are shown in the table above. However, the individual counterparty, group and country limits stated with the specified investment section takes precedent over the limits in the table above.

APPENDIX E

AUTHORISED SIGNATORIES

The following officers are authorised to make payments, either via the online banking system or by signing cheques, and issue other instructions relating to Treasury Management transactions on behalf of Wirral Borough Council:

Director of Finance – Ian E. Coleman

Deputy Director of Finance – David L.H. Taylor-Smith

Head of ICT – John O. Carruthers

Head of Benefits, Revenue and Customer Services – Malcolm J. Flanagan

Head of Financial Services – Thomas W. Sault

Head of Support Services – Stephen J. Rowley

Head of Transformational Change – Jacqueline Roberts

Chief Accountant – Peter J. Molyneux

Chief Accountant – Robert D. Neeld

Chief Accountant – Jenny Spick