

WIRRAL COUNCIL

COUNCIL EXCELLENCE OVERVIEW AND SCRUTINY COMMITTEE

8 JULY 2010

REPORT OF THE DIRECTOR OF FINANCE

TREASURY MANAGEMENT ANNUAL REPORT 2009/10

1. EXECUTIVE SUMMARY

1.1 This report presents a review of Treasury Management activities in 2009/10 and confirms compliance with treasury limits and prudential indicators. It has been prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

2. BACKGROUND

2.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the "management of the Council'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".

2.2 In November 2009 CIPFA released the revised Code of Practice for Treasury Management in the Public Services and accompanying Guidance Notes and the revised Prudential Code for Capital Finance in Local Authorities. The Department for Communities and Local Government (DCLG) also issued revised Guidance on Local Authority Investments for English local authorities. The revised Codes/Guidance re-emphasise an appropriate approach to risk management, particularly in relation to the security and liquidity of invested funds.

2.3 The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and as a minimum, formally report on their treasury activities and arrangements to full Council mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate that they have properly fulfilled their responsibilities, and enable those with responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives.

- 2.4 Cabinet approves the Treasury Management Strategy at the start of each financial year. This identifies how it is proposed to finance capital expenditure, borrow and invest in the light of capital spending requirements, the interest rate forecasts and the expected economic conditions. At the end of each financial year Cabinet receives this Annual Report which details performance against the Strategy. The Council Excellence Overview & Scrutiny Committee has received quarterly monitoring reports in 2009/10 as part of the General Financial matters report. From 2010/11 there will be a separate quarterly Treasury Management report to Cabinet.
- 2.5 The Council has adopted the Treasury Management Code of Practice and has revised its treasury policy and practices documentation to take account of the requirements and changes in the revised Codes and Guidance.

3. ECONOMIC OUTLOOK FOR 2009/10

- 3.1 At the time of determining the Treasury Strategy Statement for 2009/10, in February 2009, the outlook for the economy and interest rates was as follows:
- 3.2 The UK, Eurozone and US economies were contracting; globally economies faced a prolonged recession or period of weakness following the financial market meltdown in the autumn of 2008. Availability of credit was restricted as banks undertook to repair their balance sheets. This exacerbated the slowdown as finance for small businesses effectively came to a standstill.
- 3.3 Asset values were falling and were forecast to drop further, particularly those which related to commodities and housing. The increase in food and energy inflation which impacted on real incomes in 2008 was, however, expected to fade in 2009. Wage inflation was forecast to remain low and the labour market to remain weak with the threat of unemployment likely to influence consumers to scale back spending and save instead.
- 3.4 The UK Bank Rate had been cut to 0.5% and in March 2010 the Bank of England announced its initial £75 billion of Quantitative Easing (QE). There remained a sizeable gap between short-dated LIBOR rates (i.e. the rates at which banks are willing to borrow from other banks) and the Bank Rate with this gap forecast to narrow. Gilts were expected to benefit from QE, resulting in lower yields.

4. THE ECONOMY AND EVENTS IN 2009/10

- 4.1 The economic recession and downturn in growth extended into 2009. The Bank of England forecast UK growth to fall by 3.9% in 2009, whilst inflation was forecast to be heading lower and staying lower for longer. The depth of the recession was borne out by the 5.9% year-on-year fall in Gross Domestic Product (GDP) recorded in the second quarter of 2009. The service sector - the dominant element of the UK economy - stalled despite optimistic surveys to the contrary. The recovery began in the final quarter of 2009 with growth registering 0.4%.

- 4.2 In order to stimulate growth, the Bank of England maintained the Bank Rate at 0.5% throughout the year. The Bank also took extreme measures on an extraordinary scale to revive the economy through its Quantitative Easing (QE) programme. Financed by the issuance of central bank reserves QE, which was initially announced at £75 billion was extended in stages to £200 billion.
- 4.3 The Bank appears to have successfully staved off the real risk of deflation. The increased supply of money in the system due to QE did not, however, translate into an increase in the movement of money in the system as banks were still unwilling to lend, and consumers were unwilling to borrow at pre-crisis levels. The housing market showed some signs of stability but increases in house prices were modest with house prices nationally registering a year on year growth of 9% at the end of March 2010.
- 4.4 Consumer Price Inflation, having hit a high of 5.2% in September 2008, began the year at 3.2% (February 2009), fell to a low of 1.1% in September 2009 as oil, commodity, utility and food prices (the main drivers of high inflation in 2008) fell out of the year-on-year statistical calculations. Thereafter, inflation pushed higher with rising oil and transport costs and VAT reverting to 17.5%. CPI at year end was 3.0% (February 2010).
- 4.5 Companies and households on the whole reduced rather than increased their levels of debt. Credit remained scarce and at a premium compared to that of two years earlier. As businesses retrenched, rather than hiring workers, unemployment rose to just under 2.5 million and wage growth was muted.
- 4.6 The November 2009 Budget was primarily about public debt. The Chancellor's forecast for net public sector borrowing in 2009/10 was £175 billion or 12.4% of GDP. Gross gilt issuance was expected to hit £220 billion in 2009/10. The credit rating agency, Standard & Poor's responded to the debt that the UK Government was building up and lack of a credible plan to reduce the debt by changing the UK rating outlook from stable to negative.
- 4.7 The outlook for 2010 was, therefore, for a period of slow and patchy growth in the economy accompanied by high unemployment. The UK fiscal deficit remained acute. Cuts in public spending and tax increases were becoming inevitable and a credible plan to reduce the deficit was urgently required after the May General Election.
- 4.8 LIBOR and LIBID rates (i.e. the rates at which banks are willing to borrow from and lend to other banks) which had been high in early 2009, slowly moved down towards the Bank Rate of 0.5%. UK Government Gilts were the main beneficiary of the economic downturn (it is an asset class that responds positively to poor economic news); they also formed the significant bulk of the QE purchases and are thought to have pushed gilt yields, and consequently the cost of borrowing, lower by 0.5%.

4.9 A summary of the changes that have occurred in the various Interest Rates are in Appendix A.

5. BORROWING: STRATEGY AND OUTTURN

5.1 The Council borrowing requirement for 2009/10 and that of two succeeding financial years was estimated at £79 million of which Unsupported Borrowing amounted to £61 million.

5.2 Capital expenditure levels, market conditions and interest rate levels were monitored during the year in order to minimise borrowing costs over the medium-to-longer term without compromising the longer-term stability of the loan portfolio. The Council had sufficient scope within its debt maturity profile to undertake borrowing in the most appropriate maturity periods.

5.3 During the first half of the year, the rate of return from investments was low and the perceived risk of investments was relatively high making it more appropriate to reduce the level of investment. By not reinvesting as investments matured the Council was able to use this money to fund capital expenditure. This, temporarily, reduced the need to undertake new long term borrowing and also alleviated the difficulty and risk in finding a safe counterparty to invest with. This approach also helped generate savings as borrowing money long term to fund the capital programme would have incurred an interest rate of approximately 4.5% while investments were only earning approximately 0.5%. It is recognised that utilising investments in lieu of borrowing clearly has a finite duration; investments are not permanent surplus money but, rather, money set aside for a specific future reason. Future borrowing would be required to support capital expenditure.

5.4 During the second half of the year borrowing conditions improved. PWLB borrowing rates were relatively “steep” (rates for short-dated maturity loans were much lower than for longer-dated maturities) reflecting sharply lower official interest rates of just 0.5% and the reasonably optimistic expectations for inflation. The demand for gilts generated by QE more than offset the supply of new gilts issued to reduce the deficit; resulted in lowering gilt yields by around 0.7% and, therefore, lowered borrowing costs. However, it was expected that QE would be withdrawn over time and, coupled with the prospect of a downgrade to the sovereign rating from the increasing burden of the fiscal deficit, the risk of higher interest rates could not be ruled out. Against this outlook, the Treasury Management Team viewed long term rates of 4% or below to be prudent and affordable borrowing opportunities. Equal Instalments of Principal (EIP) loans also reflected the steepness exhibited in the borrowing curve. EIP loan principal is repaid evenly over the life of the loan and thus avoids adding to specific peaks in the maturity profile of debt.

5.6 Considering all these factors the Council undertook the following long term borrowing in 2009/10:

Date	Lender	Amount £000	Fixed/ Variable	Rate (%)	Final Maturity	Terms
10 Feb 10	PWLB	5,000	Fixed	3.04	19 Dec 2019	EIP
03 Mar 10	PWLB	5,000	Fixed	2.94	19 Dec 2019	EIP

5.7 In 2009/10 two PWLB long term loans matured and were repaid:

Date	Lender	Principal £000	Rate %
15 Jun 09	PWLB	10,000	4.160
15 Mar 10	PWLB	4,000	8.625

5.8 The opening and closing external borrowing portfolio (excluding PFI):-

	Balance at 01/4/09 £000	%	Maturing loans £000	New Borrowing £000	Balance at 31/3/10 £000	%
<u>Long-term Borrowing</u>						
Fixed rate loans - PWLB	110,529	37	(14,000)	10,000	106,529	38
Fixed rate loans – Market	173,600	59	0	0	173,600	62
<u>Other Public Bodies</u>	283	0	(36)	0	247	0
<u>Temporary Borrowing</u>	11,800	0	(11,800)	0	0	0
TOTAL EXTERNAL DEBT	296,212		(25,836)	10,000	280,376	

5.9 The average rate of interest payable on the Council debt portfolio remains at 5.9%. The average remaining life of the debt within the portfolio is 18 years.

5.10 Following consideration of the Capital Programme against the stringent definitions of what constitutes capital expenditure Cabinet on 14 January 2010 approved the transfer of £3.96 million of capital schemes to departmental revenue budgets. This reduction in the previously planned Capital Programme together with the savings generated from the revised borrowing strategy enabled the funding to be transferred from the Treasury Management capital financing budget to meet the costs that were now within the departmental revenue budgets.

- 5.11 The actual borrowing costs of £10.8 million were in line with the revised budget. The need to borrow in accordance with Council requirements will be kept under review in 2010/11.

6. DEBT RESCHEDULING ACTIVITY

- 6.1 The main objectives of debt rescheduling are to reduce the overall exposure to the risk of interest rate movements, to lower the long-term interest charges paid on debt, to smooth the maturity profile without compromising the overall longer-term stability or to alter the volatility profile (i.e. exposure to variable rate debt).
- 6.2 Debt rescheduling has become more challenging and places greater emphasis on the timing and type of new borrowing. No debt rescheduling took place in 2009/10.
- 6.3 The portfolio continues to be reviewed by the Treasury Management Team and our advisors, Arlingclose, for debt rescheduling opportunities.

7. INVESTMENTS: STRATEGY AND OUTTURN

- 7.1 The Council held average cash balances of £102 million during the year. These represent general working cash balances / capital receipts as well as the reserves and provisions which are maintained for specific purposes.
- 7.2 The DCLG Guidance on Investments, revised during 2009/10, reiterated security and liquidity as the primary objectives of a prudent investment policy. Although the Guidance became operative on 1 April 2010, the principal recommendations are similar to the credit risk management requirements in the revised Treasury Management Code. In the revised Guidance, Specified Investments are those made with a body or scheme of "high credit quality". Both the Guidance and the revised Code emphasise that counterparty credit criteria should not rely on credit ratings alone but should include a wider range of indicators. The revised Code nonetheless requires that ratings assigned by all three rating agencies – Fitch, Moody's and Standard & Poor's – be taken into account and the lowest rating be used.
- 7.3 In determining suitable investment counterparties, the Council was already taking into consideration economic and financial information as well as evaluating alternative assessments of credit strength. For example, potential sovereign support, sovereign strength as evidenced by the ratings and GDP, sovereign and counterparty credit default swaps.
- 7.4 Managing counterparty risk continued to be the overwhelming investment priority. Financial markets remained unstable, particularly at the beginning of 2009/10, and against this background investments were placed with a small, select list of counterparties.

- 7.5 'Specified' and 'non-specified' investments were determined for use having assessed their risks and benefits, risk threshold and investment objectives (see Appendix B). New investments were restricted to the Debt Management Office (DMO), AAA-rated Money Market Funds, Gilts, AAA-rated supranational bonds, investments with banks and building societies which were Eligible Institutions under the UK Government 2008 Credit Guarantee Scheme and with a long-term AA- (AA minus) rating. The reduced investment return from investing with highly rated counterparties was viewed as an acceptable risk-reward trade-off.
- 7.6 The UK Bank Rate was maintained at 0.5% from March 2009 onwards. Money market rates soon fell to, and remained at, historic lows. Whilst existing investments provided some insulation against falling rates, new investments could only be made at the prevailing lower rates of interest and an adjustment was made in the 2009/10 Budget to reflect this impact.
- 7.7 The investment income for the year was £2.4 million which compared favourably with the budget of £1.2 million. The variance is principally due to:-
- Average investment balances during the year being £12 million higher than originally budgeted which was mainly due to slippage in capital expenditure.
 - Historically held unit trust investments were sold at the year-end which generated a one off profit of approximately £0.4 million.
 - Continuing proactive daily cash flow management by the Treasury Management Team.
- 7.8 The opening and closing investment portfolio is summarised below.

	Balance at 01/4/09 £000	%	Balance at 31/3/10 £000	%
INVESTMENTS				
<u>Current Assets (Short Term)</u>				
Loans and Receivables – Specified	49,550	58	91,300	86
Available for sale financial assets – Specified	24,231	29	6,000	6
Available for sale financial assets – Non- Specified	466	0	0	0
<u>Long-term investments</u>				
Loans and Receivables – Non Specified	10,000	12	0	0
Available for sale financial assets – Non Specified	919	1	8,477	8
TOTAL INVESTMENTS	85,166		105,777	

- 7.9 The average return on investments for 2009/10 was 1.34%. To place this figure in context, in 2009/10 the average Bank of England base rate was 0.5% and the average three month interbank lending rate (LIBOR) was 0.91%.
- 7.10 All investments made during the year complied with the agreed Treasury Management Strategy, Prudential Indicators, Treasury Management Practices and prescribed limits. Maturing investments were repaid in full and in a timely manner.
- 7.11 In terms of Icelandic investments the Council had £2 million deposited with Heritable Bank and Members have received regular updates regarding the circumstances and the latest situation. In March 2009 an Audit Commission report confirmed that Wirral Council had acted, and continues to act, prudently and properly in all its investment activities.
- 7.12 The latest information from the Administrator projects a base case return to creditors of between 79-85p in the £ and the final recovery could be higher. To date £0.7 million has been received with further payments due in 2010/11. If Heritable Bank is unable to repay in full I have also made a pre-emptive claim against Landsbanki Islands HF for the difference. When the original investment was made it was with Landsbanki Islands HF providing a guarantee to reimburse the Council should Heritable be unable to repay. It should be noted that Landsbanki Islands HF is also in administration.

8. MINIMUM REVENUE PROVISION (MRP)

- 8.1 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. The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method
- 8.2 Options 1 and 2 can be used on all capital expenditure incurred before 1 April 2008 and on Supported Capital Expenditure on or after that date. Options 3 and 4 are considered prudent options for Unsupported Capital Expenditure on or after 1 April 2008 and can also be used for Supported Capital Expenditure whenever incurred.
- 8.3 The MRP policy for 2009/10 was approved by Cabinet on 21 March 2009 when it was agreed that Option 1 would be adopted for Supported Borrowing and Option 3 for Unsupported Borrowing.

8.4 Under Option 3, the asset life method, the funding of an asset with a life greater than 25 years a default asset life of 25 years is used in keeping with the Regulations. MRP in respect of Private Finance Initiative (PFI) and leases which are now on the Balance Sheet will, in accordance with International Financial Reporting Standards and the 2009 Statement of Recommended Practice, also be calculated using Option 3.

9. COMPLIANCE WITH TREASURY LIMITS AND TREASURY-RELATED PRUDENTIAL CODE INDICATORS

9.1 The Treasury Management Strategy is within the limits and parameters set in the Treasury Policy Statement and Prudential Indicators against the prevailing market opportunities.

9.2 Cabinet on 21 March 2009 approved the recommended Prudential Indicators for 2009/10. (See Appendix C).

(a) Authorised Limit for External Debt

This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the existing commitments, proposals for capital expenditure and financing and with the approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set at £475 million for 2009/10.

(b) Operational Boundary for External Debt

This limit is set to reflect the best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and is based on the Authorised Limit excluding the headroom for unusual cash movements. For 2009/10 the limit was set at £460 million.

The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. Total external borrowing and other long-term liabilities were within both limits.

(c) Upper Limits for Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	Estimated %	Actual %
Upper Limit for Fixed Rate exposure	100	159
Upper Limit for Variable Rate exposure	100	-59

The negative percentage for variable rate exposure demonstrates that there were more variable rate investments than variable rate debt in 2009/10.

(d) Maturity Structure of Fixed Rate borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. 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.

	Upper limit %	Lower limit %	Actual Borrowing at 31/3/10 £m	Percentage of total at 31/3/10 %
under 12 months	100	0	16	5.7
12 months and within 24 months	100	0	14	5.0
24 months and within 5 years	100	0	57	20.4
5 years and within 10 years	100	0	28	10.0
10 years and above	100	0	165	58.9

The limits were set to ensure there were no restrictions on the length of borrowing that could be undertaken thereby providing maximum flexibility to capitalise on beneficial opportunities that may arise during a period of financial uncertainty. The actual maturity structure reflects a balanced maturity structure.

(e) Total principal sums invested for periods longer than 364 days

This indicator is set in order to manage the risk inherent in investments longer than 364 days. For 2009/10 this limit was set at £30 million and at their peak, these investments totalled £12 million.

10. OTHER ITEMS

- 10.1 During the year Internal Audit carried out a review of the efficiency and effectiveness of the Treasury Management system controls. The Treasury Management control environment was assessed as being 'excellent'.

11. FINANCIAL IMPLICATIONS

- 11.1 In the financial year 2009/10 the treasury management activities resulted in £1.2 million of additional receipts from investment income and this sum has been returned to balances in 2009/10.

12. STAFFING IMPLICATIONS

- 12.1 There are none arising out of this report.

13. EQUAL OPPORTUNITIES IMPLICATIONS

- 13.1 There are none arising out of this report.

14. COMMUNITY SAFETY IMPLICATIONS

14.1 There are none arising out of this report.

15. LOCAL AGENDA 21 IMPLICATIONS

15.1 There are none arising out of this report.

16. PLANNING IMPLICATIONS

16.1 There are none arising out of this report.

17. ANTI-POVERTY IMPLICATIONS

17.1 There are none arising out of this report.

18. SOCIAL INCLUSION IMPLICATIONS

18.1 There are none arising out of this report.

19. LOCAL MEMBER SUPPORT IMPLICATIONS

19.1 There are none arising out of this report

20. BACKGROUND PAPERS

20.1 Code of Practice for Treasury Management in Public Services – CIPFA 2009.
Prudential Code for Capital Finance in Local Authorities – CIPFA 2009.

21. RECOMMENDATIONS

21.1 That the Treasury Management Annual Report be noted.

21.2 That it be noted that the additional investment income of £1.2 million in 2009/10 has been transferred to the General Fund balance.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/119/10

APPENDIX A

INTEREST RATE COMPARISONS 2009/10

PWLB Borrowing rates %

	1 year	4½-5 years	10-10½ years	19½-20 years	29½-30 Years	39½-40 years	49½-50 years
Low	0.68	2.47	3.30	4.01	4.10	4.13	4.17
Average	0.90	2.89	3.93	4.45	4.50	4.52	4.52
High	1.23	3.29	4.42	4.84	4.80	4.83	4.84

PWLB Repayment rates %

	1 year	4½-5 years	10-10½ years	19½-20 years	29½-30 years	39½-40 years	49½-50 years
Low	0.43	1.83	2.93	3.74	3.84	3.79	3.73
Average	0.65	2.47	3.68	4.19	4.24	4.15	4.07
High	0.98	2.88	4.17	4.59	4.55	4.47	4.40

Bank Rate, Money Market rates

	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-year SWAP Bid	3-year SWAP Bid	5-year SWAP Bid
Minimum	0.50	0.200	0.250	0.250	0.350	0.490	0.830	1.517	2.050	2.808
Average	0.50	0.368	0.390	0.470	0.695	0.928	1.283	1.914	2.540	3.254
Maximum	0.50	0.750	0.520	1.050	1.500	1.800	2.150	2.447	3.117	3.770
Spread		0.550	0.270	0.800	1.150	1.310	1.320	0.930	1.068	0.963

APPENDIX B

SPECIFIED AND NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY THE COUNCIL

1. Specified Investments (these will have a maximum maturity of 1 year)
 - Deposits in the Debt Management Office 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
 - Money Market Funds, i.e. 'AAA' liquidity funds with a 60-day Weighted Average Maturity (WAM)
 - Other Money Market Funds – i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534

2. Non-Specified Investments

	Maximum maturity	Max % or limit (£) of portfolio	Capital expenditure?
<ul style="list-style-type: none"> ▪ Deposits with banks and building societies ▪ Certificates of deposit with banks and building societies 	<i>5 years</i>	<i>40%</i> in aggregate	No
Gilts and bonds <ul style="list-style-type: none"> ▪ 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 	<i>10 years</i>	<i>40%</i> 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	These funds do not have a defined maturity date	<i>50%</i>	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	<i>10 years</i> <i>10 years</i> These funds do not have a defined maturity date	<i>£10M</i>	Yes

COMPLIANCE WITH PRUDENTIAL INDICATORS 2009/10

1 Estimated and Actual Capital Expenditure

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

Prudential Indicator	2009/10	2009/10
	Estimated £m	Outturn £m
Capital Expenditure	80	64

2 Estimated and Actual Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments.

Prudential Indicator	2009/10	2009/10
	Estimated %	Outturn %
Ratio of Financing Costs to Net Revenue Stream	7.04	5.43

3 Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures 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. The Authority had no difficulty meeting this requirement in 2009/10 and no difficulties are envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

4 Affordable Borrowing Limit, Authorised Limit and Operational Boundary for External Debt

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.

Authorised Limit: This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with existing commitments, proposals for capital expenditure and financing and with the approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set at £475 million for 2009/10.

Operational Boundary: This is limit is set to reflect the best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was set at £460 million for the financial year.

The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits.

5 Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of approved capital investment decisions on Council Tax when the budget for the year was set.

Prudential Indicator	2009/10 £
Incremental Impact of Capital Investment Decisions	
Increase in Band D Council tax	24.87

There is no variation to Council Tax once it has been set prior to the commencement of the financial year.

6 Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

Interest Rate Exposure	Fixed Rate of Interest	Variable Rate of Interest	Total
Borrowings	£280 m	£0 m	£280 m
Proportion of Borrowings	100%	0%	100%
Upper Limit	100%	50%	
Investments	£4 m	£102 m	£106 m
Proportion of Investments	4%	96%	100%
Upper Limit	100%	100%	
Net Borrowing	£276 m	£-102 m	£174 m
Proportion of Total Net Borrowing	159%	-59%	100%

7 Maturity Structure of Fixed Rate borrowing

This indicator is to limit 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.

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.

	Upper limit %	Lower limit %	Actual Borrowing at 31/3/10 £m	Percentage of total at 31/3/10 %
under 12 months	100	0	16	5.7
12 months and within 24 months	100	0	14	5.0
24 months and within 5 years	100	0	57	20.4
5 years and within 10 years	100	0	28	10.0
10 years and above	100	0	165	58.9

8 Total principal sums invested for periods longer than 364 days

This indicator is set in order to manage the risk inherent in investments longer than 364 days. For 2009/10 this limit was set at £30 million and at their peak, these investments totalled £12 million.

9 Adoption of the CIPFA Treasury Management Code

The Council confirms its adoption of the CIPFA Code of Practice for Treasury Management in Public Services.