WIRRAL COUNCIL

CABINET - 19 MARCH 2009

REPORT OF THE DIRECTOR OF FINANCE

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2009 TO 2012

1. EXECUTIVE SUMMARY

1.1. This report sets out the Treasury Management and Investment Strategy for 2009-2012 in accordance with the CIPFA Code of Practice for Treasury Management in Public Services.

2. TREASURY MANAGEMENT AND INVESTMENT STRATEGY STATEMENTS

2.1 Attached to this report is the Treasury Management Strategy Statement for 2009 to 2012 which incorporates the Investment Strategy.

2.2 This provides a comprehensive analysis of the financial position of the Council and complies with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities.

3. FINANCIAL IMPLICATIONS

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

4. STAFFING IMPLICATIONS

4.1. There are none arising out of this report.

5. EQUAL OPPORTUNTIES IMPLICATIONS

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. There are no implications for any particular Member or Ward.

12. BACKGROUND PAPERS

12.1. Code of Practice for Treasury Management in Public Services – CIPFA 2002

12.2. Prudential Code for Capital Finance in Local Authorities – CIPFA 2003.

13 RECOMMENDATIONS

That

(1) the Treasury Management and Investment Strategy for 2009 to 2012 be approved;

(2) the Prudential Indicators be adopted; and

(3) the Council Officers listed in Appendix D be authorised to approve payments from the bank accounts for all treasury management activities.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/38/09

**TREASURY MANAGEMENT STRATEGY STATEMENT
AND INVESTMENT STRATEGY 2009-2012**

Contents

Appendices

1. Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") requires local authorities to set the Treasury Management Strategy Statement (TMSS) for borrowing each financial year.

1.2 CIPFA has defined Treasury Management as:
"the management of the organisation's 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."

1.3 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Treasury management risks are identified in the approved Treasury Management Practices; the main risks to the treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels and thereby in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

1.4 The strategy also takes into account the outlook for interest rates, the current treasury position and the approved Prudential Indicators (attached as Appendix A). The PIs relevant to the treasury management strategy are set out below:

PI No		2008-09 Approved	2008-09 Revised	2009-10 Estimate	2010-11 Estimate	2011-12 Estimate
6	Authorised Limit for External Debt	*£445m*	*£465m*	*£475m*	*£490m*	*£500m*
7	Operational Boundary for External Debt	*£435m*	*£450m*	*£460m*	*£475m*	*£485m*
9	Upper Limit for Fixed Interest Rate Exposure	*100 %*	*100 %*	*100 %*	*100%*	*100 %*
10	Upper Limit for Variable Rate Exposure	*100 %*	*100%*	*100 %*	*100 %*	*100 %*
12	Upper Limit for total principal sums invested over 1 yr	*£10m*	*£30m*	*£30m*	*£30m*	*£30m*

1.5 The TMSS also incorporates the Investment Strategy.

2. The Treasury Position

2.1 The estimated treasury position for 31 March 2009 is:

	31 March 2009 Estimate £m	%
External borrowing:		
Fixed rate - PWLB	136	44
Fixed rate - Market	164	53
Variable rate - PWLB	0	0
Variable rate - Market	10	3
Total external debt	**310**	**100**
Investments:		
Managed in-house		
- Short-term deposits	75	88
- Long-term deposits	10	12
Total Investments	**85**	**100**

2.2 The estimate for interest payments in 2009-10 is £14.4m and for interest receipts is £1.4m.

3. Outlook for Interest Rates

The economic interest rate outlook provided by the treasury advisor, Arlingclose, is attached at Appendix B. It is summarised below.

(a) Background

Central bankers acted decisively in October 2008 as the effective breakdown of financial systems threatened to destabilise the global economy. It included Government sponsored recapitalisations, interventions through the provision of liquidity and guarantees for lending; in some instances nationalisation of private sector financial institutions; the removal of compromised assets from banks' balance sheets through special finance mechanisms; and co-ordinated emergency interest rates cuts. The UK, Eurozone and US economies contracted in the third and fourth quarters of 2008.

(b) Outlook

- **Availability of credit** is likely expected to remain restricted and credit conditions challenging, particularly as banks change their lending behaviour and lower their lending risk. The poorly functioning transmission mechanism for lower rates to be passed to consumers could cause governments to intervene directly between banks and corporations/ individuals.

- **Inflation**: The elevated levels of commodity, food and energy inflation which exerted a powerful squeeze on real incomes in 2008 are expected to fade in 2009. CPI, which had risen to 5.2% in 2008, is now expected to fall below the Monetary Policy Committee lower boundary of 1%. Whilst this will provide consumers with some relief, lower inflation erodes debt burdens more slowly.
- **Labour market**: Unemployment, already at 6%, is expected to rise further. The fear of unemployment will keep wage bargaining and wage inflation to a minimum.
- **Housing / Consumer Confidence**: The prospect of negative housing equity, and/or rising unemployment and depressed asset values could culminate in a further loss of confidence. Consumers and businesses will scale back spending to conserve or repair their balance sheets.
- **Growth:** The effort to reduce ballooning debt will hit economic activity and growth in the UK, US and in Europe. The prospects for growth remain uniformly poor in for much of 2009. Asset values are forecast to drop further, particularly those which are commodities- and housing-related.
- **Interest rates / Central Bank policies**: To avoid deflation and to mitigate the severity of the economic slowdown, there will be a growing willingness by Central Bankers to resort to abnormally low interest rates and/or some form of quantitative easing (i.e. using more unconventional methods such as expanding the central bank balance sheet and injecting cash into the economy), sooner rather than later.
  - **UK**: During the autumn of 2008 and in early 2009, the Bank of England Monetary Policy Committee cut rates by a cumulative 4%, bringing the Bank Rate down to 1%, a level the Bank deemed appropriate for the prevalent economic conditions. Over the next year the Bank Rate may yet be cut again.
  - **US**: The Federal Funds rate was cut to 1%, before the decision in December 2008 to lower the rate to a range between 0% and 0.25% alongside the announcement of quantitative easing policies (among them, the purchase of large and unlimited quantities of agency and mortgage backed debt and the potential purchase of longer term Treasury debt).
  - **Euroland**: The European Central Bank is expected to cut rates more cautiously from the current level of 2% due to the different imbalances in each of the member states.

Market conditions and volatility: Market volatility remains high, risk appetite is at low ebb; markets are expected to continue in ‘capital preservation mode’ into early 2009. Although LIBOR is falling, the gap between official and market interest rates is likely to remain relatively wide for some months to come.

The deterioration in public finances – both via the cost of shoring up the financial system and also as recession hits the Government revenue streams – and the growing budget deficit will require significant new gilt issuance in 2009. This excess supply is expected to push longer dated yields higher although not aggressively so. Short-dated gilt yields are however expected to fall with the gathering momentum of a fall in official policy rates.

The price destruction in equities will keep stock markets subdued and, even though there may be tentative signs of stability, it would be too early to say if the bottom has been reached.

The Arlingclose forecast for the UK Bank Rate (January 2009) is:

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Official Bank Rate									
Upside risk							+0.25	+0.25	+0.25
Central case	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.50**	**2.00**	**2.50**	**2.50**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.50	-0.50	-0.50	-0.50

The probability of zero or near zero interest rates – unthinkable just a few months ago – is now very high. The economic outlook provides both opportunities and challenges for the treasury strategy in 2009-10.

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 A. The CFR will determine the requirement to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget. Physical borrowing may be greater or less than the CFR.

PI No. 3 Capital Financing Requirement	31/3/2009 Approved £m	31/3/2009 Revised £m	31/3/2010 Estimate £m	31/3/2011 Estimate £m	31/3/2012 Estimate £m
CFR	**336**	**334**	**347**	**359**	**367**

4.2 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.

4.3 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 may in turn produce an increased requirement to charge MRP in the Revenue Account.

4.4 The cumulative estimate of the long-term borrowing requirement is calculated as follows:

	31/3/2009 Estimate £m	31/3/2010 Estimate £m	31/3/2011 Estimate £m	31/3/2012 Estimate £m
Capital Financing Requirement	334	347	359	367
Less: Existing Profile of Borrowing	284	270	255	242
Cumulative Borrowing Requirement	**50**	**77**	**104**	**125**

4.5 The Council maintains 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 options in borrowing from the PWLB, the market and other sources identified in the Treasury Management Practices Schedules 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 *Variable Rate borrowing* : The shocks in the financial markets in the second half of 2008 leaves the UK in a different era in respect of official interest rates which are forecast to fall below 1%. By December 2008 the rates for PWLB variable-rate borrowing had fallen substantially and are forecast to fall to very low levels in 2009 as the Bank Rate is cut further.

4.8 *Fixed rate borrowing* : Gilts across all maturities will initially benefit from their status of safe haven assets in uncertain economic times. As yields fall initially, fixed PWLB rates across most maturities could challenge historic lows. As the UK Bank Rate falls to 1% or lower, short-dated yields and PWLB rates should provide some attractive fixed rate borrowing opportunities.

4.9 I will evaluate with Arlingclose the relative merits of a strategic exposure to variable rate debt. 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 the investment balances. Should 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.

4.10 Actual borrowing undertaken and the timing will depend on capital expenditure levels, interest rate forecasts and market conditions during the year, in order to minimise borrowing costs. This may include borrowing in advance of future years' requirements provided that overall borrowing is maintained within the projected CFR and the approved Affordable Borrowing Limit.

4.11 The Council will undertake a financial options appraisal process to establish the '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 The rescheduling of PWLB debt since the introduction of its repayment rates on 1 November 2007 has not ceased, but has become undoubtedly harder and places greater emphasis on the timing and type of new borrowing. PWLB rates exhibited a fair degree of volatility in 2008-09; should a similar pattern emerge in 2009-10, this could provide some rescheduling opportunities.

5.3 Any rescheduling activity will be undertaken within the treasury management policy and strategy. The debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis.

5.4 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).

5.5 Any borrowing and debt rescheduling activity will be reported to the next Finance and Best Value Overview and Scrutiny Committee meeting.

6. Investment Policy and Strategy

Background

6.1 Guidance from the Government on Local Government Investments in England requires, similarly, that an Annual Investment Strategy (AIS) be set. The Guidance permits the TMSS and the AIS to be combined into one document.

Investment Policy

6.2 The general policy objective is to invest 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 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 Government Guidance. Potential instruments for use within the investment strategy are contained in Appendix C.

6.4 The credit crisis has refocused attention on the treasury management priority of security of capital money invested. The Council will continue to maintain a counterparty list 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 (for example, statements of potential Government support). The Council will also take into account information on corporate developments of, and market sentiment towards, investment counterparties.

.

6.5 The estimated levels of investments are set out in paragraph 2.1 of this report.

Investment Strategy

6.6 The global financial market storm in 2008 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.

6.7 By February 2009 the UK Bank Rate had fallen to 1%, its lowest level since the 1950s. It is expected that the Bank Rate will fall to near zero in 2009-10, short-term money market rates will continue to fall to 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 monies.

6.8 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 Finance and Best Value Overview and Scrutiny Committee. (see section, 7 Policy on Delegation)

Investments managed in-house:

6.9 The shorter term cashflow investments are made with reference to the outlook for the UK Bank Rate and money market rates. For this money, the Council will mainly invest in

- 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 (Constant NAV) investing predominantly in Government securities
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV) investing in instruments issued primarily by financial institutions;
- Deposits with other local authorities
- Business reserve accounts
- Term deposits (Investing money with Banks and Building Societies for a fixed time period or term in return for a rate of interest)
- Certificates of deposit.

6.10 Protection against the downward movement in interest rates through 1-year deposits and through longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments and will likely 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 UK Government Credit Guarantee Scheme 2008 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

6.11 Investments meeting the definition of capital expenditure can be financed from capital or revenue resources. They are also subject to Government 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 MRP Guidance, MRP must be applied over a 20 year period.

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

6.13 All investment activity will comply with the accounting requirements of the local authority SORP.

Icelandic Investments

6.14 In early October 2008 all three of Iceland's major banks (Glitnir, Kaupthing and Landsbanki) collapsed following difficulties in re-financing short-term debt coupled with a run on deposits. In the UK, the Financial Services Authority (FSA) put Kaupthing, Singer & Friedlander (the UK subsidiary of Kaupthing) and Heritable Bank the UK subsidiary of Landsbanki) into Administration. The Administrators will be seeking to find purchasers for, and will continue to manage, the banks' businesses and loan books to maximize recovery for creditors.

6.15 Wirral had a deposit of £2m with Heritable Bank. The process of Administration will determine the extent of any recoverable amount and also the timescale over which any such payments will be made. The Council will however be required under the SORP to account for the impairment of these financial assets in the 2008/09 Income and Expenditure Account. The Department for Communities and Local Government (DCLG) published draft Regulations in December 2008 aimed at deferring the impact of impairment until 2010/11. The consultation deadline for the draft regulations was 23 January 2009. Once these regulations have been agreed the Council will assess the options available and decide the best course for any potential impairment.

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 Financial Services Division 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 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 accounts 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 D.

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 Finance and Best Value Overview and Scrutiny Committee.

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. Annual 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

9.3 MRP in 2009/10: 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 2009/10 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be presented 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.

10. Reporting on the Treasury Outturn

10.1 The Director of Finance will report to the Finance and Best Value Overview and Scrutiny Committee on treasury management activity / performance as follows :

(a) Quarterly against the strategy approved for the year.
(b) The Director of Finance will produce an outturn report on treasury activity no later than 30 September after the financial year end.

APPENDIX A

Prudential Indicators FY 2009-10 to FY 2011-12

1 Background:

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 Prudential Indicators. It should be noted that CIPFA undertook a review of the Code in early 2008. The outcome from that review has yet to be published.

2. Estimates of Capital Expenditure:

2.1 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**	2008-09	2008-09	2009-10	2010-11	2011-12
		Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
	Total	**78**	**83**	**80**	**72**	**58**

2.2 Capital expenditure will be financed as follows:

Capital Financing	2008-09	2008-09	2009-10	2010-11	2011-12
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
Capital receipts	4	4	4	5	5
Capital Grants	43	48	48	40	29
Revenue contributions	0	0	0	0	0
Supported borrowing	8	8	7	7	7
Unsupported borrowing	23	23	21	20	17
Total	**78**	**83**	**80**	**72**	**58**

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

3. Ratio of Financing Costs to Net Revenue Stream:

3.1 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. The definition of financing costs is set out at paragraph 87 of the Prudential Code.

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

No. 2	**Ratio of Financing Costs to Net Revenue Stream**	2008-09	2008-09	2009-10	2010-11	2011-12
		Approved %	Revised %	Estimate %	Estimate %	Estimate %
	Total	**6.61**	**5.11**	**7.04**	**7.24**	**7.25**

4. Capital Financing Requirement:

4.1 The Capital Financing Requirement (CFR) measures the underlying need to borrow for capital purposes. 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**	31/3/08	31/3/09	31/3/10	31/3/11	31/3/12
		Approved	Revised	Estimate	Estimate	Estimate
		£m	£m	£m	£m	£m
	Total CFR	**312.3**	**333.5**	**347.6**	**359.4**	**367.2**

4.2 The year–on-year change in the CFR is due to the following

Capital Financing Requirement	2008-09	2008-09	2009-10	2010-11	2011-12
	Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
Balance B/F	312.3	315.2	333.5	347.6	359.4
Capital expenditure financed from borrowing (per 2.2)	36.3	31.1	28.2	27.1	23.7
Revenue provision for debt Redemption.	-8.2	-8.3	-9.6	-10.8	-11.4
Principal repayments of transferred debt by other Merseyside Local Authorities	-4.5	-4.5	-4.5	-4.5	-4.5
Balance C/F	**335.9**	**333.5**	**347.6**	**359.4**	**367.2**

4.3 In order to ensure that over the medium term net borrowing will only be for capital purposes, the Council should make sure that net external borrowing does not, except in the short term, exceed the Capital Financing Requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

4.4 Wirral had no difficulty meeting this requirement in 2007-08 nor are difficulties envisaged for the current or future financial years.

5 Actual External Debt:

5.1 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 31/3/2008**	£m
	Borrowing	287.2
	Total	**287.2**

6. Incremental Impact of Capital Investment Decisions:

6.1 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**	2008-09	2009-10	2010-11	2011-12
		Approved £	Estimate £	Estimate £	Estimate £
	Increase in Band D Council Tax	**27.22**	**24.87**	**9.69**	**5.79**

6.2 The increase in Band D Council Tax reflects the increases in running costs and/or increases in the provision for Capital Financing Charges of £2.6m to undertake borrowing of £28m arising from the proposed capital programme.

7 Authorised Limit and Operational Boundary for External Debt:

7.1 The Council has an integrated treasury management strategy and manages the treasury position in accordance with the 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.

7.2 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.

7.3 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.

7.4 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**	2008-09	2008-09	2009-10	2010-11	2011-12
		Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
	Borrowing	445.0	455.0	465.0	480.0	490.0
	Other Long Term Liabilities	0.0	10.0	10.0	10.0	10.0
	Total	**445.0**	**465.0**	**475.0**	**490.0**	**500.0**

7.5 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.

7.6 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 Cabinet.

No. 7	**Operational Boundary for External Debt**	2008-09	2008-09	2009-10	2010-11	2011-12
		Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
	Borrowing	435.0	445.0	455.0	470.0	480.0
	Other Long Term Liabilities	0.0	5.0	5.0	5.0	5.0
	Total	**435.0**	**450.0**	**460.0**	**475.0**	**485.0**

8. Adoption of the CIPFA Treasury Management Code:

8.1 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**
	The Council approved the adoption of the CIPFA Treasury Management Code at the Cabinet meeting on 30 March 2005.

9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

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

9.2 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.

9.3 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.

		2008-09	2008-09	2009-10	2010-11	2011-12
		Approved %	Revised %	Estimate %	Estimate %	Estimate %
No. 9	**Upper Limit for Fixed Interest Rate Exposure**					
	Borrowings	n/a	100	100	100	100
	Investments	n/a	100	100	100	100
	Net	**100**	**200**	**200**	**200**	**200**
No. 10	**Upper Limit for Variable Rate Exposure**					
	Borrowings	n/a	50	50	50	50
	Investments	n/a	100	100	100	100
	Net	**100**	**150**	**150**	**150**	**150**

9.4 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.

10 Maturity Structure of Fixed Rate borrowing:

10.1 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.

10.2 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

11. Upper Limit for total principal sums invested over 364 days:

11.1 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**	2008-09	2008-09	2009-10	2010-11	2011-12
		Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
		10	**30**	**30**	**30**	**30**

The Arlingclose Forecast for Interest Rates (January 2009)

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Official Bank Rate									
Upside risk							+0.25	+0.25	+0.25
Central case	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**	**1.50**	**2.00**	**2.50**	**2.50**
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.50	-0.50	-0.50	-0.50
1-yr LIBID									
Upside risk									
Central case	**2.50**	**1.75**	**1.50**	**1.50**	**1.50**	**1.75**	**2.00**	**2.75**	**3.00**
Downside risk	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
5-yr gilt									
Upside risk									
Central case	**3.00**	**2.75**	**2.50**	**2.00**	**2.00**	**2.50**	**2.75**	**3.00**	**4.00**
Downside risk		-0.50	-0.50	-0.50	-0.50	-0.50			
10-yr gilt									
Upside risk									
Central case	**3.40**	**3.10**	**3.00**	**3.00**	**3.00**	**3.50**	**3.75**	**4.00**	**4.50**
Downside risk	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50			
20-yr gilt									
Upside risk		+0.10	+0.10	+0.10	+0.10	+0.10			
Central case	**4.00**	**4.00**	**4.00**	**4.25**	**4.25**	**4.50**	**4.75**	**4.75**	**4.75**
Downside risk		-0.10	-0.10	-0.10	-0.10	-0.10			
50-yr gilt									
Upside risk	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10	+0.10
Central case	**3.90**	**3.90**	**4.00**	**4.00**	**4.25**	**4.50**	**4.50**	**4.50**	**4.50**
Downside risk	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10

- The inflationary threats of 2008 turn into the deflationary reality of 2009. Central Banks under pressure to reduce rates decisively – even to zero or near-zero – to avoid the perils of a destructive and prolonged recession.
- The downturn in the UK gathers pace and the economy contracts for much of 2009. Prospects for Bank of England "quantitative easing" increasingly likely.
- Pension, hedge and insurance fund values struggle and lead to enhanced demand for longer dated gilts.

Underlying assumptions

- Despite central bank intervention to raise bank capital and improve liquidity, conditions in money and credit markets remain very difficult as banks' lending behaviour changes fundamentally.
- Consumer spending and business investment stall, hampered by the credit drought.
- Falling house prices compel households to review savings levels and repair balance sheets (where possible).
- Commodity prices continue to fall. CPI is projected to fall below the MPC 1% lower threshold in 2009, providing some relief for the overstretched consumer, but eroding debt burdens more slowly.
- Fear of rising unemployment dampens confidence and any prospect of sizeable wage demands.

- UK public finances will worsen as the recession bites, resulting in a slew of gilt issuance in 2009. This will ultimately push gilt yields higher, although not aggressively so.
- Global growth and activity continue to weaken. The Federal Reserve has already cut rates to a range between 0% and 0.25% and has engaged in 'quantitative easing'. The ECB could bring rates down to 2% as European economies struggle with falling domestic and international demand.

APPENDIX C

Specified and Non Specified Investments

Specified Investments identified for use**:**

Specified Investments will be those that meet the criteria in Government 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 and Scotland.
- 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).

"Specified" Investments identified for 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 (Constant NAV) investing predominantly in Government securities
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV) investing in instruments issued primarily by financial institutions;
- 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.

For credit rated counterparties, the minimum criteria will be the short-term / long-term ratings assigned by one or more of the following agencies (Moody's Investors Services, Standard & Poor's, Fitch Ratings)

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

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

For information, the table below shows the various ratings that are given to investments by the various rating agencies and a description of the perceived risk.

	Ratings			
Agencies	**Fitch**	**Moody's**	**Standard & Poor's**	***Notes***
Short Term	F1+ F1	P-1	A-1+ A-1	Highest credit quality with an extremely high or superior ability to repay
	F2	P-2	A-2	Good credit quality with a satisfactory or strong ability to repay
	F3	P-3	A-3	Fair credit quality with an acceptable or adequate ability to repay
	B		B	Speculative grade. Vulnerable to adverse changes in financial and economic conditions
	C		C	High Default Risk
	D		D or SD	Payment Default Imminent
Long Term Investment Grade	AAA	Aaa	AAA	Highest credit quality, minimal credit risk, extremely strong ability to repay.
	AA+ AA AA-	Aa1 Aa2 Aa3	AA+ AA AA-	Very high credit quality, very low credit risk, very strong ability to repay.
	A+ A A-	A1 A2 A3	A+ A A-	High credit quality, low credit risk, strong ability to repay.
	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	Good credit quality, current expectations of low credit risk, adequate ability to repay.
				The ratings extend downwards to weaker and weaker credit strength and quality

* Bold items highlight the Council's investment criteria.

Source: Fitch, Moody's, Standard and Poor's, Arlingclose.

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

Non-Specified Investments determined for use:

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for 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	40% 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 managers will be by reference to the fund guidelines contained in the agreement between the Council and the individual manager.

APPENDIX D

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. Smith

Head of ICT – John O. Carruthers

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

Head of Financial Services – Thomas W. Sault

Head of Support Services – Stephen J. Rowley

Head of Change – Jacqueline Roberts

Chief Accountant – Peter J. Molyneux

Chief Accountant – Robert D. Neeld

Chief Accountant – Jenny Spick