WIRRAL COUNCIL

CABINET

25 JUNE 2009

REPORT OF THE DIRECTOR OF FINANCE

TREASURY MANAGEMENT ANNUAL REPORT 2008/09

1. EXECUTIVE SUMMARY

1.1 This report presents an overview of Treasury Management activity in 2008/09 and confirms compliance with treasury limits and prudential indicators. It has been prepared in accordance with the CIPFA Treasury Management Code and the 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 Council cash flows, banking and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks". This Council has adopted the Code and complies with its requirements.

2.2 Cabinet approves the treasury strategy report at the start of each financial year which 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 the financial year Cabinet receives this annual report which details the performance against the strategy. The Finance and Best Value Overview and Scrutiny Committee (now the Council Excellence Overview and Scrutiny Committee) receive quarterly monitoring reports.

2.3 The Prudential Capital Finance System came into force on 1 April 2004. The Council determines at a local level its capital expenditure and can borrow or use alternative financing methods to finance capital spending provided that capital plans are demonstrably affordable, prudent and sustainable, and options appraisal supports asset management planning. The Prudential Code for Capital Finance in Local Authorities requires indicators to be set – some of which are limits – for a minimum of three forthcoming financial years.

2.4 The Department for Communities and Local Government (DCLG) Guidance on Local Government Investments in England came into effect on 1 April 2004. The emphasis of the guidance is on security and liquidity of invested money. The Council is required to establish an annual investment strategy and to determine 'specified' and 'non specified' investments for use during the year.

2.5 In March 2009 the CIPFA Treasury Management Panel issued an interim bulletin "Treasury Management in Local Authorities – Post Icelandic Collapse". CIPFA intends to revise both the Treasury Management Code and Guidance Notes in the light of local authorities' exposures to the failed Icelandic banks. Formal guidance will follow after consultation on and publication of the revised Treasury Management Code.

3. ECONOMIC OUTLOOK FOR 2008/09

3.1 At the time of determining the 2008/09 Treasury Strategy in February 2008, the outlook for the economy and interest rates was as follows:-

3.2 Inflation and the outlook for inflation gave cause for concern with the price of oil having reached $100/barrel. Elevated food prices, fuel and transportation costs were expected to put upward pressure on Consumer Price Inflation (CPI). The effects of the credit crunch and the ensuing market turmoil experienced in the second half of 2007 were however expected to weaken UK business activity and growth. Tighter credit terms and availability was expected to weigh negatively on the UK housing market and on consumer spending.

3.3 The Bank of England had cut rates to 5.25% in January 2008. Further cuts were expected taking the Bank Rate to 4.75% in 2008 as stresses in financial markets and a deteriorating economic outlook increased the risks to growth.

3.4 The elevated short-dated Libor and Libid (inter bank lending) rates witnessed in the last quarter of 2007 were expected to revert to more normal levels and reflect the outlook for the direction of interest rates. Gilt yields were expected to fall as the economy slowed. The risk to lower yields was that an increased gilt supply would be required to address the Government funding shortfall.

4. THE ECONOMY AND EVENTS IN 2008/09

4.1 Inflation rose higher than anticipated; CPI for May breached the Monetary Policy Committee 3% outer boundary; CPI for August reached a high of 4.7%. The price of oil reached nearly $145/barrel and food and commodity prices remained elevated. Higher levels of inflation did not however result in higher wage settlements as the spectre of slowing growth and deflation trumped concerns over inflation.

4.2 Economic conditions in the UK, Eurozone and US economies deteriorated rapidly into the worst post-war recession. In the UK, the HBOS measure of house prices slumped by 17.5% in 2008/09. The dearth of availability of secured and unsecured finance posed a significant risk to consumer and corporate spending. Unemployment rose to 6.7%. The tightening in credit conditions and the economic malaise became entrenched; this rapidly impacted on growth which fell nearly 3.8% over the 12-month period. The UK looked like it was heading for a long and deep recession.

4.3 2008 saw the worst upheaval in credit and financial markets for some decades. The stresses in the financial markets threatened to quickly turn the liquidity crisis into a solvency crisis. In August and September 2008 several banking and financial stocks fell victim to intense negative investor sentiment and even the prices of high-grade credit took on the characteristics of distressed debt.

4.4 The financial crisis reached boiling point following the collapse of Lehman Brothers in September 2008. It ultimately prompted governments and central banks to act unilaterally to shore up their financial systems. These included bank bailouts and direct capital injections into banks and financial institutions. Lloyds TSB agreed to acquire HBOS; Cheshire and Derbyshire building societies individually approached Nationwide BS to be acquired by the latter. The Government injected significant capital into Royal Bank of Scotland Group (it now owns over 70%) and the Lloyds Banking Group. Financial bailouts and support for banks were replicated in much of Europe and in the US, with increasing pressure from the regulatory authorities for banks to raise their capital ratios to survive the worst of the economic downturn.

4.5 Policy rates in the UK and US were rapidly cut to near zero. In the UK the Bank of England cut rates from 5% in April 2008 to 0.5% by March 2009. As interest rates had reached terminal levels but were not having much effect in reflating the economy, the Bank of England initiated its Quantitative Easing (QE) programme in March 2009 under which the Bank would buy back an initial £75bn of gilts over a 3-month period with the purpose of lowering gilt yields and ultimately borrowing costs for the UK corporate sector.

4.6 Government projections for growth in the November 2008 Pre Budget Report were overly optimistic; it was soon apparent that the shortfall in public finances would have to be made good through hefty gilt issuance, estimated in January 2009 to rise to £175 bn in 2009/10.

4.7 It was not surprising that money market rates and gilts yields exhibited extreme volatility during the financial year. Money market rates spiked as the banking crisis intensified and confidence crumbled. 3-month Libor, a proxy for the direction of policy rates, climbed to a high of 6.4% in October; this despite markets' forecast that the Bank Rate was set to fall below 3%. Short-term money market rates remained elevated despite the large cuts in the Bank Rate and only began to move down towards the Bank Rate in early 2009 when, following efforts to recapitalise banks, some stability seemed to have returned to the banking and financial sector.

4.8 Short-dated gilt yields benefited most from negative sentiment. The 5-year gilt yield dropped by nearly 3.2% from its high of 5.3% in June 2008 to a low of 2.1% in March 2009. 10-year yields fell from 4.85% in October to a low of 2.95% in March 2009. Longer dated yields (30-50 year maturities) exhibited relatively less volatility; ranging between 3.60% and 4.70%.

4.9 A summary of the volatile changes that have occurred in the UK money market rates, gilt yields and PWLB rates is included as Appendix A.

5. BORROWING: STRATEGY AND OUTTURN

	Balance at 01/4/2008 £000	%	Maturing loans £000	New Borrowing £000	Balance at 31/3/2009 £000	%
<u>Long-term Borrowing</u>						
Fixed rate loans - PWLB	113,803	40	3,274	0	110,529	37
Fixed rate loans – Market	163,600	57	0	0	173,600	59
Variable rate loans - PWLB	0	0	0	0	0	0
Variable rate loans – Market	10,000	3	0	0	0	0
<u>Other Public Bodies</u>	337	0	54	0	283	0
<u>Temporary Borrowing</u>	0	0	0	11,800	11,800	4
TOTAL EXTERNAL DEBT	**287,740**		**3,328**	**11,800**	**296,212**	

5.1 On 15 March 2009 three PWLB loans matured and were repaid:-

Lender	Principal £	Rate %
PWLB	117,647	10.250
PWLB	156,862	10.500
PWLB	3,000,000	10.125

5.2 The average rate of interest payable on the debt portfolio remains at 5.9%. The effect of repaying the above high interest loans was counterbalanced by two market loans that had preordained, stepped, increase in interest rate built into their contract which took effect in 2008/09. The average remaining life of the debt within the portfolio is 18 years.

5.3 During the year the borrowing strategy was amended so as not to undertake long term borrowing to meet the cost of capital expenditure. Instead, as the rate of return from investments diminished and the perceived risk of investments increased, it was more appropriate to reduce the level of investment. As investments matured this money was used to temporarily fund capital expenditure. This reduced the need for new long term borrowing and alleviated the risk in finding a safe counterparty to invest with.

5.4 Investments comprise money set aside for a specific, future, reason. There were times when the Council undertook temporary borrowing to meet cash-flow pressures. £11.8m of short term temporary borrowing currently costs 0.5% which is significantly less than long term borrowing.

5.5 This strategy has been adopted in the short term in response to complex and unique market conditions as is it is not a strategy that would normally be cost effective but is beneficial at this time. The Treasury Management Team continues to monitor the situation to ensure that as the economic conditions change the strategy is adjusted accordingly.

5.6 As reported throughout 2008/09 the management of the cash-flow reduced the need for temporary borrowing, which realised a budget saving of £0.5m for 2009/10. With savings on interest payments the overall savings in 2008/09 were £1.2m against budgeted interest payments.

6. DEBT RESCHEDULING ACTIVITY

6.1 The main objective of debt rescheduling is 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 its volatility profile (i.e. exposure to variable rate debt).

6.2 The PWLB introduced a separate, lower set of repayment rates on 1 November 2007 to calculate the premium paid or the discount received on premature redemption of loans. These lower repayment rates have resulted in reducing, but not eliminating, PWLB rescheduling opportunities. The lower rates have increased the costs associated with the premium payable or diminished the discount receivable, thus reducing the cost savings achievable.

6.3 Debt rescheduling has become more challenging and places greater emphasis on the timing and type of new borrowing. No debt rescheduling took place in 2008/09. The portfolio continues to be reviewed by the Treasury Management Team and the consultants, Arlingclose, for debt rescheduling opportunities.

7. ANNUAL INVESTMENT STRATEGY AND OUTTURN

7.1 The Council held average cash balances of £95m during the year. These represent working cash balances (including schools), capital receipts and reserves held for specific purposes, such as the Insurance Fund.

7.2 The, DCLG Guidance on Local Government Investments in England gives priority to security and liquidity and the aim is to achieve a yield commensurate with these principles. Having assessed the risks associated with the various potential investment instruments, the Council determined the ‘specified’ and ‘non-specified’ investments it would use during the year (Appendix B). These decisions were taken to suit Council circumstances, return aspirations and risk tolerances.

	Balance at 01/4/2008 £000	%	Balance at 31/3/2009 £000	%
INVESTMENTS				
Current Assets (Short Term)				
Loans and Receivables - Specified	60,500	80	49,550	58
Available for sale financial assets - Specified	14,830	20	24,231	29
Available for sale financial assets – Non- Specified	578	0	466	0
Long-term investments				
Loans and Receivables – Non Specified	0	0	10,000	12
Available for sale financial assets – Non Specified	1,031	0	919	1
TOTAL INVESTMENTS	76,939		85,166	

7.3 The existing investments are a combination of long-dated investments (i.e. with maturities in excess of one year) and short-term investments reflecting previous strategies and decisions. The mix of long- and short-term investments enables the Council to maintain an appropriate level of liquidity and enables it to mitigate re-investment risk (the risk that a large proportion of maturing investments is reinvested when interest rates are at a cyclical low). Appendix C analyses investments by the country, credit risk rating and the period of investment.

7.4 The investment income for the year was £4.9m compared to a budget of £2.7m and the variance is principally due to a combination of the following:

- Average investment balances held during the year were £15m higher than originally budgeted mainly due to slippage in capital expenditure.
- The prevailing money market rates of interest were initially higher than forecast primarily due to the financial crisis which benefited the new term deposits made during the year.
- Continuing cash flow management by the Treasury Management Team.

7.5 The average return on investments for 2008/09 was 5.25%. This figure compares favourably with the average Bank of England base rate of 4.25% and the average 3 month interbank lending rate (LIBOR) of 4.65%.

7.6 Financial markets and financial institutions remained in a state of heightened risk as the impact of the financial crisis continued to adversely affect the global economy. Investment activities were restricted as a consequence in order to demonstrably address the prevailing higher risk backdrop. The Council applied higher minimum credit criteria (in the double-A category at the very least) for investments and to keep term deposit maturities to a maximum of 12 months. In doing so, this demonstrated adherence to the overriding principles of security and liquidity which are cornerstones of the investment policy. The Council accepted the diminution in investment return from investing with highly rated counterparties as an acceptable risk-reward trade-off.

7.7 During September and October 2008 when confidence in the markets was extremely fragile and counterparty risk at its most elevated, the Council responded by placing new and maturing investments with the Debt Management Agency Deposit Facility (guaranteed by HM Treasury) and with highly liquid AAA-rated Money Market Funds.

7.8 Thereafter the Council restricted new lending to UK institutions which could use the Government's 2008 Credit Guarantee Scheme (CGS*) and with long-term ratings in the 'double-A' category. The institutions meeting this criteria were Abbey National, Barclays Bank, Clydesdale Bank, HSBC Bank, Lloyds TSB Bank and Bank of Scotland (both part of the Lloyds Banking Group), Nationwide Building Society and Royal Bank of Scotland,

*_The CGS was announced in October 2008 to stabilise the UK banking system and provide solvency support for the "systemically critical" banking institutions in the UK. The Government's CGS is not an explicit guarantee for deposits but is the main platform to maintain the solvency of institutions critical to the UK financial stability._

7.9 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 to the Council in full and in a timely manner apart from the Investment with an Icelandic Institution.

7.10 In early October 2008 all three of Iceland's major banks (Glitnir, Kaupthing and Landsbanki) collapsed following their difficulties in re-financing their 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 are seeking to find purchasers for, and will continue to manage, the banks' businesses and loan books to maximize recovery for creditors.

7.11 This Council had deposits of £2m with Heritable Bank and Members have received regular updates regarding the circumstances and the current situation. In March 2009 an Audit Commission report confirmed that Wirral Council has acted, and continues to act, prudently and properly in all its investment activities.

7.12 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 is required under accounting rules to impair these financial assets in the 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 Council will then have the opportunity to apply to the DCLG for a capitalisation direction in that year, although no guarantee can be given that a direction will be granted. The granting of a capitalisation direction allows the impairment cost to be spread over a number of years.

7.13 Based on present information, the Administrators projections indicate a base case return to creditor of between 70-80 pence in the £. The Administrators have estimated that the return to creditors improves where the book is run-off over a longer time period (i.e. 70p return through to end of 2010 and 80p return through to end of 2012). If conditions improve over this period of time the final recovery could be higher than the base case above and the Council remains confident that the money will be repaid in full.

8. MINIMUM REVENUE PROVISION (MRP)

8.1 There is now a statutory requirement to make a "prudent provision" for MRP (SI 2008 No.414). Statutory Guidance issued by the DCLG in March 2008 makes recommendations to local authorities on the interpretation of the term "prudent provision". Local authorities are to have regard to this Guidance which provides four options:

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 2008/09 approved by Cabinet was that the Council will continue to adopt Option 1 for supported and unsupported borrowing and look to implement statutory changes in the future.

8.4 In 2008/09 £2.4m was set-aside to fund the revenue impact of changes in accounting for MRP. However, due to complexities in the capital programme and impending changes to accounting treatment this has been deferred until 2009/10 when the changes are required by statute. It is therefore recommended that the £2.4m allocated for 2008/09 be set aside within the MRP reserve.

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

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

9.2 Cabinet at its meeting on 13 March 2008 approved the recommended Prudential Indicators for 2008/09 (see Appendix D):-

(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 existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set at £445m for 2008/09.

(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 2008/09 the limit was set at £435m.

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; at its peak this figure was £306m.

(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 the portfolio of investments.

	Estimated %	Actual %
Upper Limit for Fixed Rate exposure	100	96
Upper Limit for Variable Rate exposure	100	-22

The negative percentage for variable rate exposure demonstrates that there were more variable rate investments than variable rate debt in 2008/09.

(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 31/3/2009 £m	Percentage of total at 31/3/2009 %
under 12 months	100	0	14	4.9
12 months and within 24 months	100	0	15	5.3
24 months and within 5 years	100	0	56	19.7
5 years and within 10 years	100	0	34	12.0
10 years and above	100	0	165	58.1

The limits were set to ensure there were no restrictions on the length of borrowing the Council could undertake 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 allow the Council to manage the risk inherent in investments longer than 364 days. For 2008/09 this limit was set at £11m. At their peak, these investments totalled £10m.

10. OTHER ITEMS

10.1 The achievements of the Treasury Management Team in 2008 were recognised by the Local Government Chronicle (LGC) with the Investment Officer of the Year being awarded to the responsible officer at Wirral.

11. FINANCIAL IMPLICATIONS

11.1 In the financial year 2008/09 the Council realised benefits through its treasury management activities of £1.2m in reduced interest payments on borrowings and £2.2m ‘windfall receipts’ from investment income.

11.2 It is recommended that the £2.4m allocation for Minimum Revenue Provision (MRP) contributions be set aside within the MRP reserve to be used when the accounting changes are implemented.

11.3. For 2009/10 the budget includes a saving for reduced interest payments of £0.5m. The ‘windfall receipts’ from investment income are unlikely to recur and the budget has been adjusted accordingly.

12. STAFFING IMPLICATIONS

12.1. There are none arising out of this report.

13. EQUAL OPPORTUNTIES 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 2002
Prudential Code for Capital Finance in Local Authorities – CIPFA 2003.
CIPFA Local Auhtority Accounting Panel (LAAP) Bulletins 78 / 79 / 81/ 82

21. RECOMMENDATIONS

21.1 That the Treasury Management Annual Report be agreed.

21.2. That the benefits from improved cash flow management which realised savings/additional income of £3.4m in 2008/09 be noted.

21.3 That the transfer of the 2008/09 allocation of MRP to reserves be agreed.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/129/09

APPENDIX A

INTEREST RATE COMPARISONS 2008/09

PWLB Borrowing rates %

	1yr	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
Minimum	0.65	2.31	3.11	3.85	3.94	3.90	3.86
Average	**3.17**	**3.97**	**4.44**	**4.71**	**4.56**	**4.49**	**4.43**
Maximum	5.61	5.59	5.48	5.26	4.97	4.87	4.84
Spread	4.96	3.28	2.37	1.41	1.03	0.97	0.98

PWLB Repayment rates %

	1yr	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
Minimum	0.40	1.94	2.79	3.58	3.69	3.53	3.40
Average	**2.92**	**3.64**	**4.16**	**4.45**	**4.30**	**4.11**	**3.98**
Maximum	5.36	5.33	5.22	4.99	4.71	4.50	4.39
Spread	4.96	3.39	2.43	1.41	1.02	0.97	0.99

Gilt Yields %

	5 year	10 year	15 year	20 year	30 year	50 year
31/03/2008	3.89	4.35	4.59	4.57	4.38	4.21
30/06/2008	5.17	5.13	5.12	5.05	4.68	4.38
30/09/2008	4.19	4.44	4.71	4.68	4.50	4.40
31/12/2008	2.44	3.02	3.86	3.96	3.66	3.64
31/03/2009	2.35	3.16	3.89	4.03	4.16	4.32

Source : Bloomberg

Bank Rate, Money Market rates

Date	Bank Rate %	7-day LIBID %	1-month LIBID %	3-month LIBID %	6-month LIBID %	12-month LIBID %	2yr Swap Bid %	3-yr Swap Bid %	5-yr Swap Bid %
Minimum	**0.50**	0.350	0.700	1.450	1.620	1.820	1.948	2.266	2.822
Average	**3.62**	**3.532**	**4.012**	**4.487**	**4.606**	**4.685**	**4.279**	**4.378**	**4.505**
Maximum	5.25	5.500	6.100	6.250	6.250	6.500	6.504	6.497	6.270
Spread	4.75	5.150	5.400	4.800	4.630	4.680	4.556	4.231	3.448

Source : Bloomberg

Note : minimum, maximum and average rates/yields are those daily rates/yields during the year.

APPENDIX B

SPECIFIED / NON-SPECIFIED INVESTMENTS DETERMINED FOR USE BY COUNCIL

1. Specified Investments : (these will have a maximum maturity of 1 year)
   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
   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
▪ 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	*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	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	*10 years* *10 years* These funds do not have a defined maturity date	*£10M*	Yes

APPENDIX C

ANALYSIS OF INVESTMENTS AS AT 31 MARCH 2009

	Credit Rating		Maturity of Investment					
Financial Institution / Instrument and Country	**Long Term Rating**	**Short Term Rating**	**Instant Access**	**0-3 Months**	**3-6 Months**	**6-12 Months**	**Over 12 Months**	**Balance Invested as at 31 March**
			£000	**£000**	**£000**	**£000**	**£000**	**£000**
LOANS AND RECEIVABLES								
Banks								
UK	AA-	F1+	2,750	1,200	14,100	13,700	6,000	37,750
UK-Heritable	unrated		-	-	-	-	2,000	2,000
Ireland	A-	F1	-	1,500	-	-	-	1,500
Total Investment with Banks			**2,750**	**2,700**	**14,100**	**13,700**	**8,000**	**41,250**
Building Societies								
UK	AA-	F1+	-	2,500	-	9,300	2,000	13,800
UK	A	F1	-	2,500	-	-	-	2,500
UK	A-	F1	-	-	-	-	2,000	2,000
Total Investment with Building Societies			**-**	**5,000**	**-**	**9,300**	**4,000**	**18,300**
TOTAL LOANS AND RECEIVABLES			**2,750**	**7,700**	**14,100**	**23,000**	**12,000**	**59,550**
AVAILABLE FOR SALE FINANCIAL ASSETS								
Gilts	AAA	F1+	-	-	-	181	919	1,100
Money Market Fund	AAA	F1+	24,050	-	-	-	-	24,050
Other Unit Trust	n/a	n/a	466	-	-	-	-	466
TOTAL AVAILABLE FOR SALE ASSETS			**24,516**	**-**	**-**	**181**	**919**	**25,616**

Investments in counterparties which fall outside the approved credit risk criteria, as stated in the Treasury Management Strategy Statement, do so because either the counterparty rating has fallen since the investment was made or the investment was made prior to the tighter credit risk criteria being approved.

APPENDIX D

COMPLIANCE WITH PRUDENTIAL INDICATORS 2008/09

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	2008/09	**2008/09**
	Estimated £m	**Outturn £m**
Capital Expenditure	82	**70**

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	2008/09	**2008/09**
	Estimated %	**Outturn %**
Ratio of Financing Costs to Net Revenue Stream	6.61	**4.87**

3 Capital Financing Requirement

3.1 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. This requirement was met in 2008/09.

Prudential Indicator	31/3/09	31/3/09	31/3/10	31/3/11
	Estimated £	Outturn £	Estimated £	Estimated £
Capital Financing Requirement	335.9	317.1	345.3	356.0

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

4.1 **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 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 £445m for 2008/09.

4.2 **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 £435m for the financial year.

4.3 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; at its peak this figure was £306m.

5 Incremental Impact of Capital Investment Decisions

5.1 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	2008/09 £
Incremental Impact of Capital Investment Decisions	
Increase in Band D Council tax	27.22

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

6.1 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 the portfolio of investments.

Prudential Indicator	2008/09	**2008/09**
	Estimated %	**Actual Peak Exposure %**
Upper Limit for Fixed Rate Exposure	100	96
Upper Limit for Variable Rate Exposure	100	-22

7 Maturity Structure of Fixed Rate borrowing

7.1 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.

7.2 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.

Maturity structure of fixed rate borrowing	Upper limit %	Lower limit %	Actual Borrowing as at 31/3/2009 £m	Percentage of total as at 31/3/2009 %
under 12 months	100	0	14	4.9
12 months and within 24 months	100	0	15	5.3
24 months and within 5 years	100	0	56	19.7
5 years and within 10 years	100	0	34	12.0
10 years and above	100	0	165	58.1

8 Total principal sums invested for periods longer than 364 days

8.1 This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days. For 2008/09 this limit was set at £11m. At their peak, these investments totalled £10m.

9 Adoption of the CIPFA Treasury Management Code

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