Leeds CITY COUNCIL

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Report of the DIRECTOR OF RESOURCES

Executive Board

Date: 8th February 2008

Subject: TREASURY MANAGEMENT STRATEGY 2008/09

Electoral Wards Affected:	Specific Implications For:
	Equality and Diversity ☐
	Community Cohesion ☐
	Narrowing the Gap ☐

Eligible for Call In: no

Not Eligible for Call In (Details contained in the report): ☐

EXECUTIVE SUMMARY

1. This report sets out for Members' approval the Treasury Management Strategy for 2008/09, and also provides an update on the implementation of the 2007/08 strategy.

2. The Council's level of net external debt is anticipated to be £1,312m by March 2008, slightly lower than was anticipated in November 2007 but in line with the approved strategy for 2007/08. Revenue savings of £12.8m from treasury management activity during the year have been achieved which includes £2m assumed in the budget.

3. Loans of £70m have been borrowed in advance of the 2008/09 borrowing requirement, in order to lock in long term borrowing at low rates currently available, and maximise investment returns until the funds are needed.

4. It is proposed to increase the Authorised Limit for external debt by £50m to £1,650m from 2008/09 onwards. It is also proposed to increase the Operational Boundary to £1,530m in 2008/09, £1,560m in 2009/10 and £1,590m in 2010/2011.

1 Purpose Of This Report

1.1 This report sets out for approval by Members the Treasury Management Strategy for 2008/09 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2007/08.

2 Background Information

2.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.

2.2 The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators. Council must similarly set any in year revision of these limits. In order to comply with this legal requirement recommendations 7.2, 7.3, and 7.4 of this report are not eligible for call-in.

2.3 The Code of Practice requires that policy statements are prepared for approval by the Council at least twice a year. The Policy and Strategy Statement for 2007/08 was approved by full Council on 21st February 2007, and a review of the 2007/08 strategy was considered by Executive Board on 14th November 2007.

3 Main Issues

3.1 <u>Review of Strategy and Borrowing Limits 2007/08</u>

3.1.1 The current debt forecasts are given in Table 1 below, which shows that net external borrowing is now expected to be £1,312m by the end of 2007/08. This is lower than expectations in both February and November 2007. These reductions are due to a combination of capital programme slippage and improved cash balances which make it possible to defer borrowing.

3.1.2 The US, UK and EU economies have all been on the upswing of the economic cycle during 2005 and 2006 and so interest rates were successively raised in order to cool their economies and to counter the build up of inflationary pressures. The US is ahead of both the UK and EU in the business cycle and started on the downswing of the economic cycle during 2007. The Federal Reserve rate peaked at 5.25% and was first cut in September by 0.5% to 4.75%. This was a response to the rapidly deteriorating prospects for the economy in the face of the downturn in the housing market, the sub prime mortgage crisis and the ensuing liquidity crisis which started in August 2007 and has subsequently resulted in banks making some major write offs of losses on debt instruments containing sub prime mortgages. Banks have also tightened their lending criteria which has hit hard those consumers with poor credit standing.

3.1.3 In the UK GDP growth has been strong during 2007 and hit 3.3% year on year in Q3. Growth is expected to slow down from 3.0% in 2007 as a whole to 2.0% in 2008. There has been higher than expected influx of workers from Eastern Europe which has underpinned strong growth and dampened wage inflation. House prices started on the downswing in Q3 2007 and this is expected to continue into 2008.

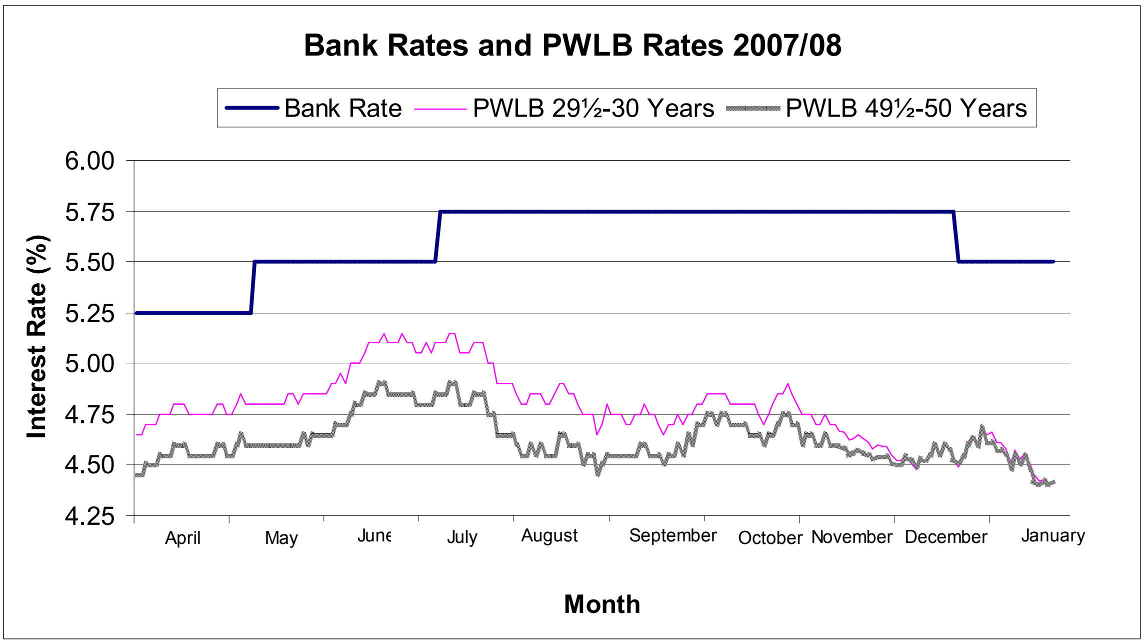
Table 1

ANALYSIS OF BORROWING 2007/08		2007/08 Feb 07 £m	2007/08 Nov 07 £m	2007/08 This Report £m
Net Borrowing at 1 April		1,261	1,198	**1,198**
New Borrowing for the Capital Programme – Non HRA		47	95	**33**
New Borrowing for the Capital Programme – HRA		117	115	**112**
Debt redemption costs charged to Revenue (Incl HRA)		(25)	(24)	**(27)**
Reduced/(Increased) level of Revenue Balances		(3)	(3)	**(4)**
Net Borrowing at 31 March*		1,397	1,381	**1,312**
* Comprised as follows				
Long term borrowing	Fixed	1,287	1,277	**1,357**
	Variable	55	35	**25**
	New Borrowing	36	69	**0**
Short term Borrowing		19	0	**0**
Total External Borrowing		1,397	1,381	**1,382**
Less Investments		-	0	**70**
Net External Borrowing		1,397	1,381	**1,312**
% borrowing funded by short term and variable rate loans		8%	8%	**2%**

Note: The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

3.1.4 Interest rate movements during the year are shown in Chart 1 below. The bank rate moved upwards in May and July to a peak of 5.75%. The combination of increases in Bank Rate and hence variable mortgage rates, short term mortgage fixes expiring and being renewed at higher rates, food prices rising at their fastest rate since 1993 and increases in petrol prices, have all put consumer spending power under major pressure.

Chart 1



3.1.5 The Bank of England’s Monetary Policy Committee (MPC) is very concerned at the build up of inflationary pressures especially the rise in the oil price to $90 – 100 per barrel (was $30 in 2003) and the consequent likely knock on effects on general prices. The prices of UK manufactured goods have risen at the fastest rate in 16 years (November 2007 – 4.5%). Food prices have also risen at their fastest rate for fourteen years (6.6% annual increase) driven by strong demand from China and India. Consequently, the MPC is going to be much more cautious about cutting rates compared to the Federal Reserve in the face of these very visible inflationary pressures. In addition, UK growth was still exceptionally strong in Q3, as has been the growth in the money supply. The downward trend in Bank Rate is now expected to be faster than at first thought after the initial cut in December 2007 to 5.50%, in view of the MPC minutes which showed a unanimous MPC vote for a cut and the consideration given to a half per cent cut. This demonstrated how concerned the MPC is at the potential impact of the credit crunch on the economies of the western world. The MPC’s room for cutting rates is considered limited by concerns over inflationary pressures. However, if those pressures subside, the Councils advisors consider there is further downward risk to the forecast which currently only allows for 0.25% cuts in Q1 and Q2 2008 before Bank Rate stabilises at 5.0% for the next two years.

3.1.6 Since the July half year report long term rates have continued to trade sideways between the range of 4.40% and 4.75% for the 45-50 year period. The Council’s treasury advisors’ latest forecasts are that the 50 year PWLB rate is expected to remain around 4.50% in Q1 2008.

3.1.7 Market conditions enabled further rescheduling to be undertaken after estimates were prepared for 2007/08. This generated savings of £3m in 2007/08 the details of the transactions were reported in the Treasury Management Annual Report 2006/07.

3.1.8 In 2007/08 monitoring of long term rates has presented opportunities to restructure £610.19m of loans as shown in Table 2 to generate current and future year revenue savings. This included £575.19m of PWLB loans and a further £35m of market loans. These market loans are termed Lenders Option Borrowers Option (LOBO) and contain clauses which allow the lender, at pre-determined dates, to vary the interest rate on the loan. If one of these options is exercised and the new rate is not accepted, the borrower then has the option to repay the loan without penalty.

3.1.9 To meet the borrowing requirement for the year, new loans of £115m have been taken from the PWLB of which £100m was arranged before 01/04/07. Details of new borrowing for 2007/08 undertaken during the year are set out in Table 3.

3.1.10 Members will be aware that the Council's Treasury team has been pro-active in taking advantage of opportunities to reschedule long-term debt, as fluctuations in the money markets and changing economic conditions have allowed. This has resulted in a lower average borrowing interest rate, reduced interest payments and the generation of cash discounts. A discount on a loan is achieved when a loan is prematurely repaid to the Public Works Loans Board (PWLB) the loan’s interest rate is below the current interest rate that the PWLB can charge for a new loan that has the same length of time left to run on it.

Table 2

Rescheduling 2007/08									
Premature Repayments						**Replacement Borrowing**			
Date	**Amount (£m)**	**Original Rate (%)**	**Discount Rate (%)**	**Premium/ (Discount) (£m)**		**Date**	**Amount (£m)**	**Term (Years)**	**Interest Rate (%)**
PWLB						**PWLB**			
02/05/07	24	4.7	4.8	(0.360)		04/05/07	50	49.5	4.55
02/05/07	25	4.75	4.8	(0.188)		04/05/07	19	48.5	4.55
02/05/07	20	4.7	4.8	(0.302)		30/05/07	112	49	4.6
09/05/07	25	5.625	5.1	1.476		30/05/07	30	47	4.6
09/05/07	25	5.625	5.1	1.530		30/05/07	34	47.5	4.6
09/05/07	20	5.625	5.1	1.266		30/05/07	42	49.5	4.6
09/05/07	20	5.625	5.25	0.756		30/05/07	86	45	4.6
09/05/07	6.75	5.625	4.95	0.578		30/05/07	56	46	4.6
09/05/07	22	4.4	4.7	(1.227)		22/06/07	42.23	47.5	4.85
09/05/07	22	4.4	4.65	(1.039)		22/06/07	10	49.5	4.85
09/05/07	26	4.4	4.65	(1.235)		02/08/07	79	45	4.55
09/05/07	22	4.4	4.65	(1.051)		02/08/07	14	50	4.55
09/05/07	22	4.4	4.65	(1.058)					
31/05/07	30	4.25	4.7	(2.447)					
31/05/07	20	4.25	4.7	(1.645)					
31/05/07	20	4.25	4.7	(1.658)					
08/06/07	10	10.875	5.5	3.852					
08/06/07	9.4	11.25	5.5	3.864					
08/06/07	10.35	7.875	5.45	1.987					
08/06/07	2.4	6.25	5.25	0.263					
08/06/07	0.75	5.625	5.1	0.049					
08/06/07	20	4.3	4.8	(1.689)					
08/06/07	30	4.3	4.7	(2.576)					
26/06/07	19.21	7.875	5.65	3.339					
26/06/07	30	4.25	4.8	(3.339)					
20/07/07	0.32	7.875	5.65	0.055					
20/07/07	31	5.875	5.25	2.428					
20/07/07	7.01	7.75	4.85	3.796					
20/07/07	30	4.25	4.9	(3.529)					
20/07/07	25	4.25	4.85	(2.751)					
Sub Total	**575.19**			**(0.855)**		**Sub Total**	**574.23**		
LOBOs						**LOBOs**			
03/04/07	5	3.4				02/07/07	15	70	4.295
03/04/07	10	3.3				03/07/07	10	70	4.290
05/04/07	10	3.48		(0.554)		03/07/07	10	70	4.285
02/05/07	10	3.96							
Sub Total	**35**			**(0.554)**		**Sub Total**	**35**		
Total	**610.19**			**(1.409)**			**609.23**		

3.1.11 On 1st November 2007 the PWLB implemented changes to the way the Council can borrow and prematurely repay loans. A two tier structure to interest rates has been introduced which allows Councils to borrow new money at one interest rate, but repay money at a lower interest rate thereby reducing the cash discounts available to the Council.

3.1.12 In the past the PWLB had only used one interest rate for a loan of the same length. Prior to these changes the Council, subject to market conditions, had the potential to reschedule £303m of loans that would generate discounts and interest savings in 2007/08 and beyond. However, after the changes, based on rates at 3rd January 2008, there are no rescheduling opportunities that would generate discounts or make interest savings. These changes severely restrict the effective management of the Council's long term-debt portfolio and reduce the opportunities to fairly take advantage of movements in the markets and generate discounts and interest savings for the Council in current and future years.

3.1.13 The opportunity to borrow £70m of the 2008/09 funding requirement was taken, enabling funds to be invested out until required. In doing so the Council was able to take advantage of higher interest rates on deposits as a result of the credit crunch and year end funding constraints in the money markets. Details are shown in Table 3. The funds were secured as Lenders Option Borrowers Option (LOBO) which are described in 3.1.9. These loans were secured at more than 0.5% lower than the cheapest PWLB loan available. Borrowing the 2008/09 requirement in advance of need has generated additional savings in 2007/08 of £0.4m.

Table 3

New Borrowing for 2007/08 Requirement				
Date	Source	Amount (£m)	Term (Years)	Interest Rate (%)
Undertaken in 2006/07				
19/05/06	PWLB	20	43	4.25
19/05/06	PWLB	20	44	4.25
19/05/06	PWLB	30	50	4.25
19/05/06	PWLB	30	42	4.25
Undertaken in 2007/08				
02/08/07	PWLB	15	45	4.55
		115		
Pre Funding for 2008/09 Requirement				
Date	Source	Amount (£m)	Term (Years)	Interest Rate (%)
20/12/07	LOBO	20	70	4.08
21/12/07	LOBO	25	70	4.06
21/12/07	LOBO	25	70	4.07
		70		

3.1.14 The effect of changes to the accounting treatment of premiums and discounts has limited the value of discounts that can be taken directly to revenue in 2007/08. However monitoring of market conditions has enabled debt rescheduling to generate savings of £6.9m

3.1.15 Treasury management activity overall in 2007/08 has generated savings of £12.8m which includes £2m already assumed in the budget. A breakdown of the full £12.8m savings are shown in Table 4.

Table 4

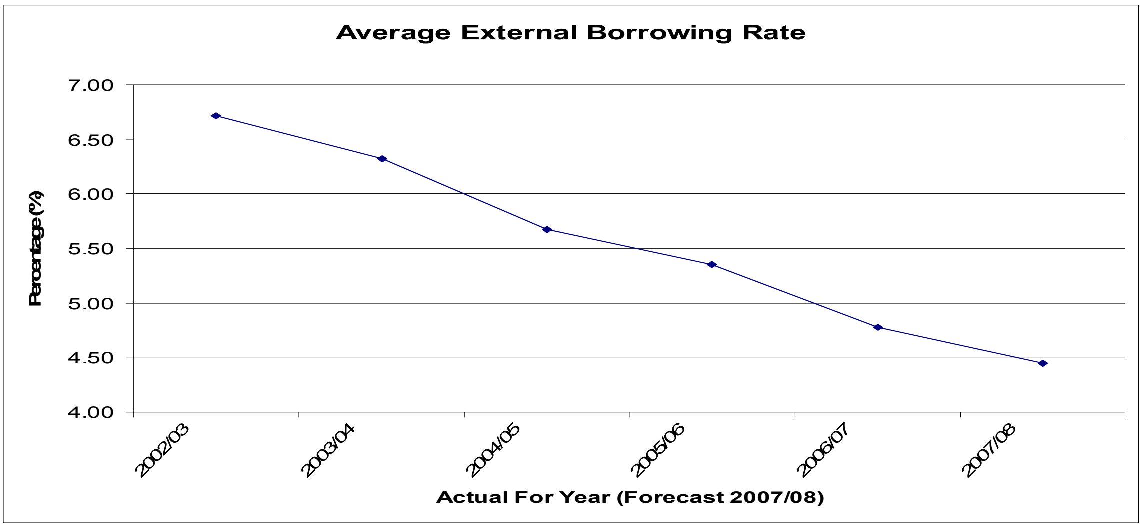
Analysis of savings	**£m**
Debt Rescheduling 2006/07 impact on 2007/08	(3.0)
Debt Rescheduling 2007/08	(3.9)
Additional revenue balances	(5.1)
Additional borrowing requirement / costs	0.5
Accounting for premiums and discounts	(0.9)
Borrowing in advance of need 2008/09	(0.4)
Total Savings*	**(12.8)**

*Includes £2m included in the budget

3.2 Interest Rate Performance

3.2.1 The average rate of interest paid on the Council's external debt for 2006/07 was 4.78% as reported in the Annual Treasury Management Report 2006/07 to Executive Board on 22nd August 2007. This rate is now forecast to fall to 4.45% for 2007/08. Chart 2 shows how the average external borrowing rate has fallen from 6.72% in 2002/03.

Chart 2



3.3 Strategy for 2008/09

3.3.1 Table 5 shows that net borrowing is expected to rise from £1,312m by £138m to £1,450m during the course of 2008/09 of which £70m was secured in 2007 and invested until required.

Table 5

ANALYSIS OF BORROWING 2007/08 – 20010/11		2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Net Borrowing at 1 April		1,198	1,312	1,450	1,478
New Borrowing for the Capital Programme – Non HRA		33	128	44	55
New Borrowing for the Capital Programme - HRA		112	35	15	0
Debt redemption costs charged to Revenue (Incl HRA)		(27)	(24)	(29)	(29)
Reduced/(Increased) level of Revenue Balances		(4)	(1)	(2)	(1)
Net Borrowing at 31 March		1,312	1,450	1,478	1,503
* Comprised as follows					
Long term borrowing	Existing Fixed	1,357	1,242	1,345	1,368
	Existing Variable	25	140	105	110
	New Borrowing	0	68	28	25
Short term Borrowing		0	0	0	0
Total External Borrowing		1,382	1,450	1,478	1,503
Less Investments		70	-	-	-
Net External Borrowing		1,312	1,450	1,476	1,503
% gross borrowing exposed to interest rate risk		2%	14%	9%	9%

Note:Borrowing exposed to interest rate risk in any one year is made up of short term borrowing, new long term borrowing and existing variable loans (i.e. LOBOs with an option falling within the year).

3.3.2 As already stated in paragraph 3.1.6, Bank rates forecast currently only allow for 0.25% cuts in Q1 and Q2 2008 before Bank Rate stabilises at 5.0% for the next two years. The forecast is for the 50 year PWLB new borrowing rate to be within the range 4.45% to 4.60% between Q1 2008 and Q1 2011. The 25 year PWLB rate is expected to fall progressively from 4.65% to reach 4.50% in Q4 2008 and to then be on the rise from Q1 2009 to reach 4.70% in Q1 2010 and 4.75% in Q1 2011.

3.3.3 Borrowing strategies will focus on undertaking new borrowing in or near the 25 – 30 year period so as to minimise the spread between the PWLB new borrowing and early repayment rates as there is little, or no difference in the new borrowing rate between rates in these periods and the 50 year rate. This then maximises the potential for debt rescheduling at a later time by minimising the spread between these two rates.

3.3.4 This strategy also means that after some years of focusing on borrowing at or near the 50 year period, the Council will be able to undertake borrowing in a markedly different period and so achieve a better spread in their debt maturity profile.

3.3.5 The Director of Resources will continue to monitor market conditions so that debt rescheduling and interest savings can be made. However, the continuation of the current spread between new borrowing and rescheduling rates will severely affect the ability of the Council to reschedule PWLB loans and generate cash discounts and interest savings.

3.4 Borrowing Limits for 2007/08, 2008/09, 2009/10 and 2010/11

3.4.1 The Council is required to set its limits for external debt for 2007/08, 2008/09, 2009/10 and 2010/11 in accordance with the Local Government Act 2003, having regard for CIPFA's prudential code. These limits and other prudential indicators are detailed in Appendix A.

3.4.2 The authorised limit represents the legislative limit on the Council's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, in order for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed. It is recommended that Council approve the following authorised limits for its gross external debt for the next three years. Council is also asked to delegate authority to the Director of Resources to make adjustments between the two separate limits provided that the overall limit remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change.

3.4.3 It is proposed to increase authorised limits by £50m from 2008/09 onwards as outlined below

Recommended: Authorised Limits as follows:

Authorised Limit	**2007/08 £m**	**2008/09 £m**	**2009/10 £m**	**2010/11 £m**
Borrowing	1600	1,650	1,650	1,650
Other Long Term Liabilities	40	40	40	40
Total	**1,640**	**1,690**	**1,690**	**1,690**

3.4.4 The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be seen as a management tool for ongoing monitoring of external debt, and may be breached temporarily due to unusual cash flow movements as did occur on 30/05/07 for one day due to a rescheduling exercise. However, a sustained or regular trend above the operational boundary should trigger a review of both it and the authorised limit.

3.4.5 It is proposed to increase the operational boundary by £70m, £30m and £30m in 2008/09, 2009/10 and 2010/2011. This is to take account of slippage in the capital programme from 2007/08 and revised requirements from 2008/09 onwards. The full details are included in the Capital Programme report also on this Executive Board Agenda.

3.4.6 The Council is asked to approve the operational boundaries set out below, and to delegate authority to the Director of Resources to make adjustments between the two separate boundaries provided that the overall boundary remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change.

Recommended: Operational Boundaries as follows:

Operational Boundary	**2007/08 £m**	**2008/09 £m**	**2009/10 £m**	**2010/11 £m**
Borrowing	1,460	1,530	1,560	1,590
Other Long Term Liabilities	30	30	30	30
Total	**1,490**	**1,560**	**1,590**	**1,620**

3.5 Treasury Management Indicators

3.5.1 The first prudential indicator in respect of treasury management is that the Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. This was adopted by the Council at the Executive Board meeting on the 13th March 2003.

3.5.2 The Council is required to set an upper limit on its fixed interest rate exposures for 2008/09, 2009/10, and 2010/11. This limit represents the maximum proportion of its net borrowing (i.e. measured as a percentage of its total borrowing less investments) which the Council will have at any given time during the period at fixed interest rates. The purpose of the limit is to ensure that the Council has the flexibility to take advantage of falling interest rates by ensuring a minimum level of variable rate debt. However setting a limit less than 100% can restrict the Council's ability to borrow in advance of need when long term fixed interest rates are at their low point. (This is the case since in general amounts borrowed in advance are invested, meaning that the net borrowing figure on which the limit is based will be lower than the total borrowing outstanding.) Therefore to provide the Council with maximum flexibility it is recommended that a limit of 115% be set for each year.

Recommended: Upper limit on fixed interest rate exposures for 2008/09, 2009/10 and 2010/11 of 115%

3.5.3 The Council is required to set an upper limit on its variable interest rate exposures for 2008/09, 2009/10 and 2010/11. This limit represents the maximum proportion of debt the Council will have at any given time during the period at variable interest rates and exposed to interest rate rises. In evaluating this figure, LOBOs are treated as being variable in years in which options occur and fixed in other years. The limit should be set in order to maintain a balance between managing the risk of rates rises and allowing sufficient flexibility to take advantage of any falls in rates. It is therefore recommended that a limit of 40% of debt be set for each year.

Recommended: Upper limit on variable interest rate exposures for 2008/09, 2009/10 and 2010/11 of 40%

3.5.4 The Council is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate and are proposed as follows:

	Cumulative Upper limit	Lower limit
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	50%	0%
10 years and above	90%	25%

Recommended: Upper and Lower limits on fixed rate maturity structure as above.

3.6 Investment Strategy and Limits

3.6.1 The Council's external debt is reduced by the availability of revenue balances. The Treasury Policy allows for the external investment of these balances should this prove cost effective. This could be undertaken by the Council or by External Fund managers on the Council's behalf. Throughout 2007/08, the Director of Resources has kept the interest outlook under review and investment of surplus balances in general has been limited to cash flow and liquidity management. The exception to this has been the investment of amounts borrowed to pre-fund £70m of the 2008/09 requirement.

3.6.2 The Director Resources will continue to monitor the interest rate outlook and seek to maximise the return on revenue balances. This will be done by the use of external fund managers or directly with counterparties by investing in a range of investment instruments, for example, fixed rate deposits, callable range accruals etc, with a full assessment of the risks involved

3.6.3 With effect from the 1st April 2004, to coincide with the introduction of the Prudential code, ODPM issued legislation and guidance on Local Government Investments. This legislation allows Councils with external debt to hold investments for more than 364 days, a freedom not previously allowed. Further freedoms were also introduced which give Councils greater flexibility and hence access to higher returns, provided that any investment strategy is consistent with the Prudential framework. The Prudential code requires that Councils set limits on investments for periods longer than 364 days. It is proposed to maintain the limits as outlined below.

Recommended: Upper limit on sums invested for periods longer than 364 days:

Total principal sum invested for a period longer than 364 days	**2007/08 £m**	**2008/09 £m**	**2009/10 £m**	**2010/11 £m**
Upper limit	150	150	150	150

3.6.4 Within these overall limits, the Council's treasury policy restricts the amount which can be invested at any one time with individual borrowers, in order to minimise the exposure to risk. The Council's treasury advisers provide regularly updated lists of credit ratings for potential borrowers, drawn from an international credit rating agency. The agreed treasury policy is to lend up to £15m to institutions with an excellent credit rating (typically UK clearing banks or other large financial institutions), and up to £5m for up to 3 months to institutions with good credit ratings. A number of these institutions exist within the same group of companies as parents or subsidiaries. To further limit the risk exposure of the council a group borrowing limit of £30m is in place. These limits do not apply to the Councils' Banker where we have an unlimited deposit facility as part of our banking arrangements.

3.6.5 In accordance with the Prudential code the Council has created and maintained a Treasury Management Policy, which was approved by full Council in February 2007. There have been no changes to this policy throughout the year.

4 Implications For Council Policy And Governance

4.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities.

4.2 The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators. Any in year revision of these limits must similarly be set by Council.

4.3 The Code of Practice requires that policy statements are prepared for approval by the Council at least twice a year. This treasury management strategy statement for 2008/09 seeks approval in accordance with the code.

5 Legal And Resource Implications

5.1 The treasury management strategy for 2008/09 and update of 2007/08 recognises the increase in borrowing required to fund the capital programme requirements of both General Fund and HRA. Provision for the revenue cost of this borrowing has been made within the revenue budget.

6 Conclusions

6.1 The treasury management strategy 2008/09 enables borrowing to be undertaken to fund the capital programme for both General Fund and HRA.

7 Recommendations

That the Executive Board :

7.1 Approve the initial treasury strategy for 2008/09 as set out in Section 3.3 and note the review of the 2007/08 strategy and operations set out in Section 3.1 and 3.2.

7.2 Recommend to Council the setting of borrowing limits for 2007/08, 2008/09 and 2009/10 as set out in Section 3.4.

7.3 Recommend to Council the setting of treasury management indicators for 2007/08, 2008/09 and 2009/10 as set out in Section 3.5.

7.4 Recommend to Council the setting of investment limits for 2007/08, 2008/09 and 2009/10 as set out in Section 3.6.

Appendix A

Leeds City Council - Prudential Indicators 2007/08 - 2010/11

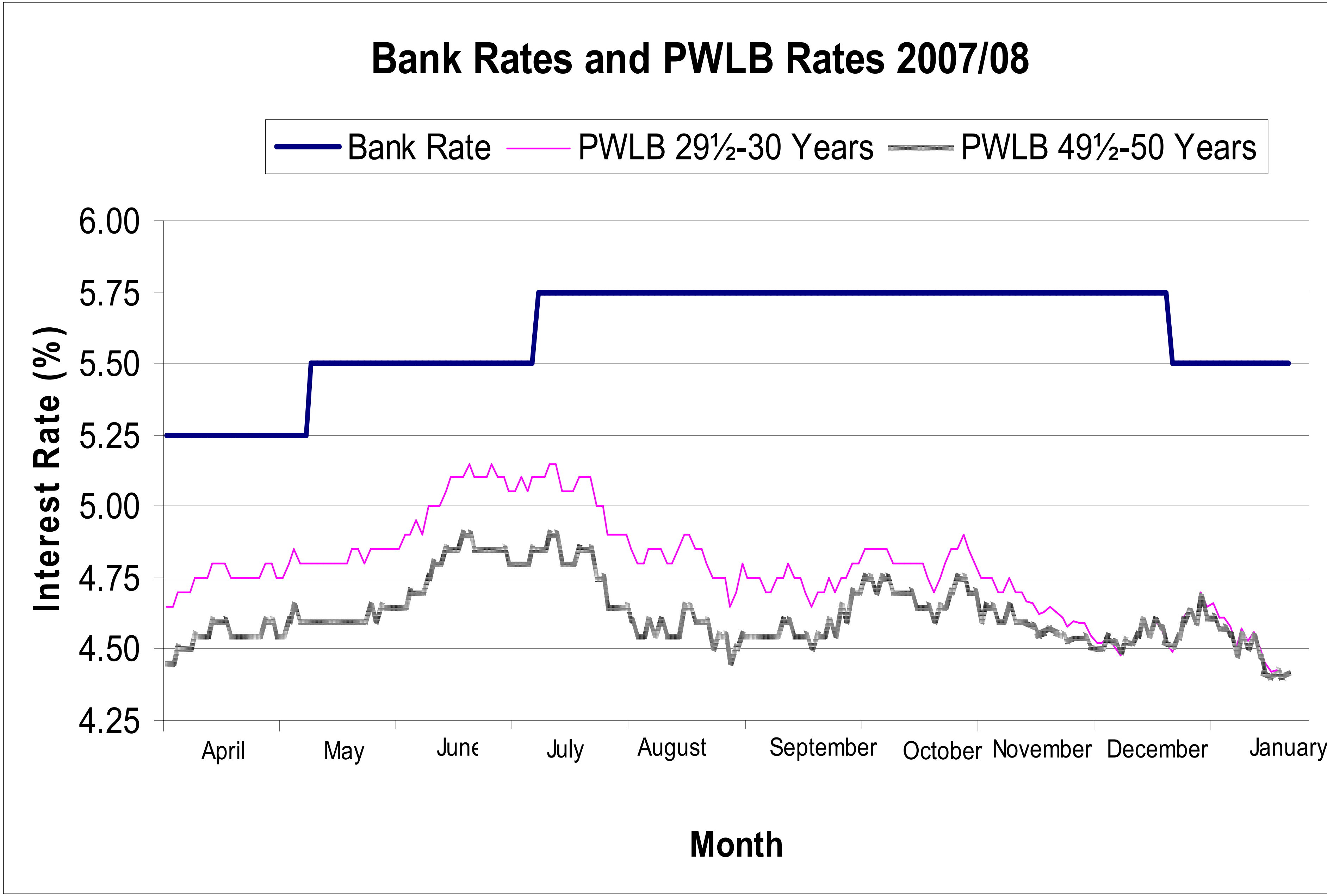
No.	PRUDENTIAL INDICATOR	2007/08	2008/09	2009/10	2010/11
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
	Ratio of Financing Costs to Net Revenue Stream				
1	General Fund - Excluding DSG (Note1)	8.14%	8.99%	10.79%	10.50%
2	HRA	13.47%	13.89%	13.89%	12.84%
	Impact of Unsupported Borrowing on Council Tax & Housing Rents	**£ . P**	**£ . P**	**£ . P**	**£ . P**
3	increase in council tax B7(band D, per annum) (Note 2)	48.67	56.86	62.69	62.69
4	increase in housing rent per week	0.00	0.00	0.00	0.00
5	Net Borrowing and the capital financing requirement (Note 3)	OK	OK	OK	OK
	Estimate of total capital expenditure				
6	Non HRA	235,947	242,777	210,152	143,171
7	HRA	164,253	80,784	58,733	36,495
	TOTAL	400,200	323,561	268,885	179,666
	Capital Financing Requirement (as at 31 March)	**£'000**	**£'000**	**£'000**	**£'000**
8	Non HRA	949,693	783,361	798,907	824,915
9	HRA	478,000	783,179	797,890	797,890
	TOTAL	1,427,693	1,566,540	1,596,797	1,622,805

No.	PRUDENTIAL INDICATOR	2007/08	2008/09	2008/09	2008/09
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**
10	**Authorised limit for external debt - (Note 5)**				
	borrowing	1,600,000	1,650,000	1,650,000	1,650,000
	other long term liabilities	40,000	40,000	40,000	40,000
	TOTAL	1,640,000	1,690,000	1,690,000	1,690,000
11	**Operational boundary - (Note 5)**				
	borrowing	1,460,000	1,530,000	1,560,000	1,590,000
	other long term liabilities	30,000	30,000	30,000	30,000
	TOTAL	1,490,000	1,560,000	1,590,000	1,620,000
14	**Upper limit for fixed interest rate exposure**				
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%	115%
15	**Upper limit for variable rate exposure**				
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%	40%
17	**Upper limit for total principal sums invested for over 364 days (Note 5**	150,000	150,000	150,000	150,000
	(per maturity date)				

16	Maturity structure of fixed rate borrowing 2007/08	Cumulative Upper Limit	Projected 31/03/08
	under 12 months	30%	0.00%
	12 months and within 24 months	30%	8.62%
	24 months and within 5 years	40%	13.55%
	5 years and within 10 years	50%	2.46%
	10 years and above	90%	75.37%

Notes.

1. **The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the Net Revenue Charge less the Dedicated Schools Grant (DSG). The Government changed the funding of education to DSG from 2006/07.**
2. **The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property.**
3. **In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that net external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.**
4. **Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.**
5. **Prudential indicator 13 relates to the adoption of the CIPFA Code of Practice on Treasury Management. The Council formally adopted this Code of Practice in March 2003.**


Bank Rates and PWLB Rates 2007/08
Bank Rate
PWLB 29½-30 Years
PWLB 49½-50 Years
6.00
5.75
5.50
5.25
5.00
4.75
4.50
4.25
Interest Rate (%)
April
May
June
July
August
September
October
November
December
January
Month

Appendix B