Leeds
CITY COUNCIL

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Report of the DIRECTOR OF RESOURCES

Executive Board

Date: 12th February 2010

Subject: TREASURY MANAGEMENT STRATEGY 2010/11

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

Eligible for Call In	✓	Not Eligible for Call In (recommendations 7.2 to 7.5)	✓

EXECUTIVE SUMMARY

1. This report sets out for Members' approval the Treasury Management Strategy for 2010/11, and also provides an update on the implementation of the 2009/10 strategy.

2. The Council's level of net external debt is anticipated to be £1,482m by 31/03/10, £31m below expectations in November 2009. Revenue savings of £8.6m from treasury management activity during the year have been achieved, including £6.2m assumed in the budget.

3. The authorised limit for borrowing remain unchanged with the 2011/12 limit of £1.9bn rolled forward into 2012/13. The operational boundary for borrowing remains unchanged with the 2011/12 limit of £1.76bn being rolled forward into 2012/13.

4. Members are asked to adopt the revised CIPFA Treasury Management Code of Practice 2009 and revised Prudential code.

1 Purpose Of This Report

1.1 This report sets out for approval by Members the Treasury Management Strategy for 2010/11 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2009/10.

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. In addition adoption of the Prudential Code is a decision for full Council and therefore recommendation 7.5 is not subject to 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 2009/10 was approved by full Council on 13th February 2009, and a review of the 2009/10 strategy was considered by Executive Board on 4th November 2009.

3 Main Issues

3.1 <u>Review of Strategy and Borrowing Limits 2009/10</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 £1,482m by the end of 2009/10. This is £31m less than expectations in November 2009.

Table 1

ANALYSIS OF BORROWING 2009/10		2009/10 Feb 09 Report £m	2009/10 Nov 09 Report £m	2009/10 This Report £m
Net Borrowing at 1 April		1,408	1,373	**1,373**
New Borrowing for the Capital Programme – Non HRA		98	144	**113**
New Borrowing for the Capital Programme – HRA		12	10	**10**
Debt redemption costs charged to Revenue (Incl HRA)		(26)	(25)	**(25)**
Reduced/(Increased) level of Revenue Balances		20	11	**11**
Net Borrowing at 31 March*		1,512	1,513	**1,482**
Capital Financing Requirement				**1,619**
* Comprised as follows				
Long term borrowing	Fixed	1,349	1,294	**1,319**
	Variable (less than 1 Year)	105	30	**5**
	New Borrowing	77	112	**81**
Short term Borrowing		0	108	**98**
Total External Borrowing		1,531	1,544	**1,503**
Less Investments		19	31	**21**
Net External Borrowing		1,512	1,513	**1,482**
% borrowing funded by short term and variable rate loans		12%	16%	**12%**

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.

3.1.2 The credit crunch storm of August 2007 that eventually fed through to the near collapse of the world banking system in September 2008 has continued to affect all economies around the world. Most of the major economies of the world entered into a very sharp recession during 2009. Many governments were forced to recapitalise and rescue banks. This process is ongoing with many banks still reluctant to lend as they begin the process of repairing their weakened balance sheets.

3.1.3 Central banks have kept their rates between 0.10 – 1.00% in order to counter the effects of a world recession. Growth returned to the US and the EU economies in the third quarter of 2009. The UK is only just showing signs of emerging from the recession in the last three months of 2009.

3.1.4 The threat of inflation has reduced in most major economies and is currently not seen as being a problem for at least the next two years due to the large amount of spare capacity and high unemployment preventing wage growth. In many countries there have been widespread pay freezes in 2009 and these are likely to be persistent for some time. There still remains the threat of deflation in some economies if they dip back into recession.

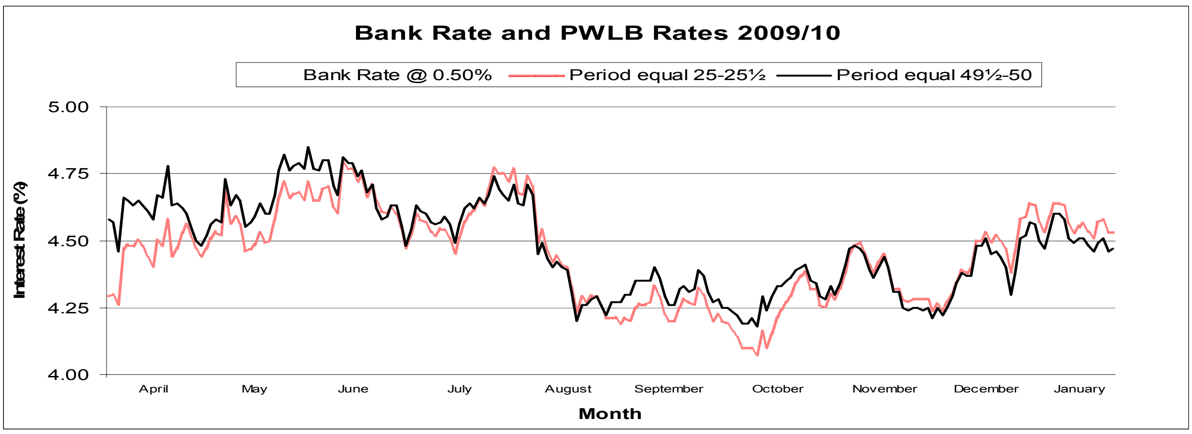
3.1.5 The UK fiscal deficit is 6.4% of GDP, about £90bn, which is planned to fall annually by £11bn over the next eight years. This is similar to the peak deficit of 7% in 1990s which was remedied to a surplus of 1.6% in the space of 6 years helped by strong, steady economic growth of 3% p.a. supported by a relaxation in monetary policy that compensated for the fiscal squeeze.

3.1.6 Medium to long term gilt yields, or the interest paid on government debt, are currently artificially low due to the Bank of England's Quantitative Easing operations. £200bn of gilts, commercial bonds and paper are being purchased under this scheme which has inflated prices and depressed yields. The level of quantitative easing may be increased but once complete, yields will inevitably rise as a consequence not only of this, but also because of the continued need to finance the large fiscal deficit.

3.1.7 Most major economies have resorted to a huge expansion of fiscal stimulus packages in order to encourage a fast exit from recession. This, together with expenditure on direct support provided to ailing banks, has led to a drastic expansion in government debt levels which will take many years to eliminate and to restore the previous health of national finances.

3.1.8 The bank rate has remained at a historic low of 0.5% and is expected to remain there for some time. The Chart below also shows that that long term rates have fluctuated between 4.18% and 4.85% for 50 year loans. As expected in the November half year report to Executive Board the 50 year rate has moved upwards from 4.24% to 4.47% and is expected to continue to move higher.

Chart 1



3.1.9 Since the November half year report short term rates have remained at historic low levels. The Council's treasury advisors' latest forecast for Quarter 1 2010 are that the 50 year PWLB rate will be around 4.6% and the 25 Year PWLB around 4.55%. These rates are predicted to remain volatile as the economy starts its recovery process.

3.1.10 In the Treasury Management half year report to Executive Board on 4/11/2009 members were updated on the rescheduling of £151m in 2008/09 and £88m in 2009/10 of PWLB debt into short term debt. Debt totaling £239m was repaid and funded through surplus cash balances and short term loans at less that 0.5%. To mitigate against future increases in interest rates and smooth volatility some of these loans have been refinanced as shown in Table 2.

Table 2

Rescheduling Affecting 2009/10								
Premature repayments					New Replacement Borrowing			
Date	Amount (£m)	Original Rate (%)	Discount Rate	Premium / (Discount) (£m)	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB								
Repaid 2008/09	151							
22/04/2008	46	4.30	4.36	(0.533)	30/06/2009	30	9	3.57
22/04/2008	27	4.35	4.36	(0.052)	30/06/2009	30	12	3.97
22/04/2008	15	4.55	4.36	0.553	10/08/2009	30	14	4.19
					10/08/2009	30	9	3.83
Sub Total	**239**			**(0.032)**		**120**		
LOBO's (Call Date)								
	None							
Sub Toal	**0**			**0**		**0**		
Market Loans								
					31/07/2009	5	1	0.55
					31/07/2009	2	2	1.50
					03/08/2009	5	1	0.55
					03/08/2009	5	1	0.55
					06/08/2009	5	1	0.55
					12/08/2009	10	2	1.55
					01/09/2009	3	2	1.50
					03/09/2009	5	2	1.40
					04/09/2009	5	1	0.55
Sub Total	**0**			**0**		**45**		
Total	**239**			**(0.032)**		**165**		

3.1.11 The above rescheduling has resulted in a shift from long term fixed debt to short term fixed debt (less than 5 years). This is illustrated by comparing the ratio of short term debt to long term debt. Prior to rescheduling this ratio was 23% : 77% and has now risen to its current level of 32% : 68%. Whilst short term fixed debt has increased to 32%, it is still within acceptable levels.

3.1.12 The forecast borrowing requirement for 2009/10 is now £109m of which £15m was pre-funded in 2008/09. The remaining borrowing requirement is still to be arranged in 2009/10. The levels of capital programme slippage, cash reserves, economic conditions and short term interest rates will continue to be monitored before additional monies are borrowed. Given that short term rates are at historical lows the Council will continue to fund the remaining borrowing requirement, if required, at short term rates.

Table 3

Pre Funding for 2009/10 Requirement				
Date	Source	Amount (£m)	Term (Years)	Interest Rate (%)
12/11/08	PWLB	15	4.5	3.59
		15		

3.1.13 The rescheduling of debt through the continued monitoring of the financial and money markets has enabled savings of £8.6m to be made against £6.2m assumed in the budget. These savings are identified in table 4 below.

Table 4

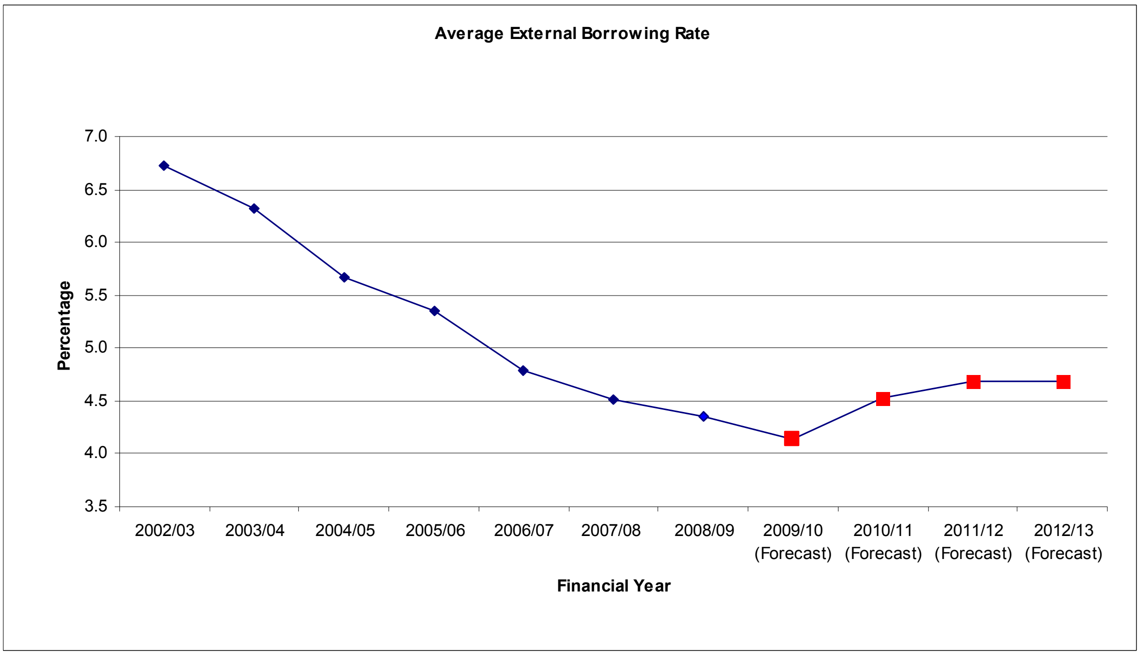
Analysis of savings	£m
Reduction in MRP from reduced spend in 08/09	(1.5)
Market Debt continuing at existing levels	(0.4)
Reduced interest costs from : - rescheduling long term debt to short term - funding the 09/10 borrowing requirement at lower short term rates - using revenue balances to fund spend	(6.7)
Total Savings*	**(8.6)**

*Includes £6.2m 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 2008/09 was 4.35% as reported in the Annual Treasury Management Report 2008/09 to Executive Board on 22nd July 2009. This rate is now forecast to fall to 4.14% for 2009/10. Chart 2 shows how the average external borrowing rate has fallen from 6.72% in 2002/03. As rates begin to rise the expectation is that the Councils average cost of borrowing will also begin to rise.

Chart 2



3.3 Strategy for 2010/11

3.3.1 Table 5 shows that net borrowing is expected to rise by £98m to £1,580m during the course of 2010/11. The increase in the borrowing requirement is as a result of slippage of the 2009/10 capital programme and additional borrowing taken to replace falling capital receipts thereby maintaining major parts of the capital programme. Executive Board is asked to refer to the Capital Programme 2009 – 2014 Report presented elsewhere on this agenda for details of the capital programme.

Table 5

ANALYSIS OF BORROWING 2009/10 – 2012/13		2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m
Net Borrowing at 1 April		1,373	1,482	1,580	1,659
New Borrowing for the Capital Programme – Non HRA		113	111	107	52
New Borrowing for the Capital Programme - HRA		10	16	3	3
Debt redemption costs charged to Revenue(Non HRA)		(25)	(28)	(31)	(34)
Reduced/(Increased) level of Revenue Balances		11	(1)	0	9
Net Borrowing at 31 March		1,482	1,580	1,659	1,689
* Comprised as follows					
Long term borrowing	Existing Fixed	1,319	1,369	1,503	1,602
	Existing Variable (Less than 1yr)	5	110	55	50
	New Borrowing	81	122	122	48
Short term Borrowing		98	0	0	0
Total External Borrowing		1,503	1,601	1,680	1,700
Less Investments		21	21	21	11
Net External Borrowing		1,482	1,580	1,659	1,689
% gross borrowing exposed to interest rate risk		12%	14%	11%	6%

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 The forecast is for the Bank rate to increase from a record low of 0.5% to 1.5% by March 2011. There are a number of uncertainties in the forecasts that are dependent on the economic recovery that are identified as:

- degree of speed and severity of fiscal contraction after the general election;
- timing and amounts of the reversal of Quantitative Easing;
- speed of recovery of banks' profitability and balance sheet imbalances;
- whether consumers will have the confidence to spend or will continue to save; and
- whether the depreciation of sterling will allow an increase in exports

3.3.3 The overall balance of risks is weighted to the downside i.e. the pace of economic growth disappoints and Bank Rate increases are delayed. However there remains significant risks that long term gilt yields and PWLB rates will rise markedly. The forecast is for the 50 year PWLB new borrowing rate to rise to 5.0% with some forecasters predicting 6.0%. The 25 year PWLB rate is also expected to rise to 4.9%.

3.3.4 Low short term interest rates will focus any new borrowing in the very short periods. PWLB rates on loans of less than ten years duration are expected to be substantially lower than longer term PWLB rates offering a range of options for new borrowing which will spread debt maturities away from a concentration in long dated debt.

3.3.5 When very short term interest rates start to rise longer term borrowing will be locked in when prudent. Longer term debt will be taken with regard to the rate available and the Council's maturity profile. There is expected to be little difference between 25 year and 50 year rates so therefore loans in the 25-30 year periods could be seen as being more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates is considerably less. This would maximise the potential for debt rescheduling and allow the Council to rebalance its debt maturity profile.

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

3.4 Borrowing Limits for 2009/10, 2010/11, 2011/12 and 2012/13

3.4.1 The Council is required to set its limits for external debt for 2009/10, 2010/11, 2011/12 and 2012/13 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 The Authorised limit remains at the same agreed level in 2009/10, 2010/11 and 2011/12. The 2012/13 Authorised limit has been set at the same level as for 2011/12 as shown below.

Recommended: Authorised Limits as follows:

Authorised Limit	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**
Borrowing	1,780	1,830	1,900	1,900
Other Long Term Liabilities	380	380	380	380
Total	**2,160**	**2,210**	**2,280**	**2,280**

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.

3.4.5 No change is proposed to the operational boundary in 2009/10, 2010/11 and 2011/12. The limits have been rolled forward into 2012/13. 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	**2009/10 £m**	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**
Borrowing	1,640	1,690	1,760	1,760
Other Long Term Liabilities	370	370	370	370
Total	**2,010**	**2,060**	**2,130**	**2,130**

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 2009/10, 2010/11, 2011/12 and 2012/13. 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 fixed 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 2009/10, 2010/11, 2011/12 and 2012/13 of 115%

3.5.3 The Council is required to set an upper limit on its variable interest rate exposures for 2009/10, 2010/11, 2011/12 and 2012/13. 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 the year in which an option occurs and fixed in other years. The limit should be set in order to maintain a balance between managing the risk of rate rises and allowing sufficient flexibility to take advantage of any fall 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 2009/10, 2010/11, 2011/12 and 2012/13 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:

Maturity structure of fixed rate borrowing	Lower Limit	Upper Limit	Cumulative Upper Limit
under 12 months	0%	10%	10%
12 months and within 24 months	0%	10%	20%
24 months and within 5 years	0%	30%	50%
5 years and within 10 years	0%	25%	75%
10 years and above	25%	90%	90%

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

3.6 <u>Investment Strategy and Limits</u>

3.6.1 The Council's actual external borrowing need is reduced by the availability of revenue balances. The Treasury policy allows for the external investment of these balances at advantageous rates but with due regard for security of capital invested. This could be undertaken by the Council or by External Fund managers on the Council's behalf. Throughout 2009/10, 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.

3.6.2 The Council's surplus monies continue to be held in short periods until required. As market sentiment to counter-party risk improves, together with enhanced returns surplus monies will be invested in accordance with the approved lending list. This lending list is based upon the assessment of the financial standing of counterparties as determined by international credit rating agencies and further refined and updated by the Council's advisors on a continual basis. The lending list is often further restricted based upon the Council's own view of the credit worthiness of counter-parties.

3.6.3 The investment strategy, as re-affirmed by Executive Board and full Council in February 2009, allows for the Council to invest in only the most highly rated financial institutions around the world. The Council will only lend up to a maximum of £15m to financial institutions that are rated as excellent. There is also a limit of £5m for financial institutions that are rated as very good.

3.6.4 The Director of Resources will continue to monitor the interest rate outlook and seek to maximise the return on revenue balances. This will be done directly with Counter parties investing in a range of investment instruments, for example, fixed rate deposits, callable range accruals etc, with a full assessment of the risks involved, but could also involve the use of fund managers.

3.6.5 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	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m
Upper limit	100	150	150	150

4 Implications For Council Policy And Governance

4.1 The legislative framework which governs the treasury management function is described in section 2. This framework includes compliance with the CIPFA Treasury Management Code of Practice.

4.2 Cipfa have just issued a revised treasury management code of practice the main changes which are shown in Appendix C. It is recommended that the revised code be adopted and to ensure that current treasury management practices and polices are aligned to the requirements of the revised code.

4.3 CIPFA has also issued a revised Prudential Code which primarily covers borrowing and the Prudential Indicators. It is recommended that the revised code is also adopted.

4.4 It should also be noted that the Department of Communities and Local Government is currently undertaking a consultation exercise on draft revised investment guidance which will result in the issue of amended investment guidance for English local authorities to come into effect from 1 April 2010. It is not currently expected that there will be any major changes required over and above the changes already required by the revised Code. Should any changes to the Treasury Management Policy be required, a further report will be presented to Members.

5 Legal And Resource Implications

5.1 The treasury management strategy for 2010/11 and update of 2009/10 recognises the 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 and the target set for treasury management savings.

6 Conclusions

6.1 The treasury management strategy 2010/11 enables borrowing to be undertaken to fund the capital programme for both General Fund and HRA with due regard to both forecast interest rates and the maturity of debt.

6.2 A revised CIPFA Treasury Management Code of Practice and a revised Prudential Code have been issued which will be formally adopted by the Council. When the details of these have been fully considered, any changes to the Treasury Management Policy will be subject to a further report to Members.

7 Recommendations

That the Executive Board :

7.1 Approve the initial treasury strategy for 2010/11 as set out in Section 3.3 and note the review of the 2009/10 strategy and operations set out in Sections 3.1 and 3.2.

7.2 Recommend to Council the setting of borrowing limits for 2009/10, 2010/11. 2011/12 and 2012/13 as set out in Section 3.4.

7.3 Recommend to Council the setting of treasury management indicators for 2009/10, 2010/11,2011/12 and 2012/13 as set out in Section 3.5.

7.4 Recommend to Council the setting of investment limits for 2009/10. 2010/11, 2011/12 and 2012/13 as set out in Section 3.6.

7.5 Recommend to full council to adopt the revised CIPFA Treasury Management Code of Practice 2009 and revised Prudential Code.

<u>Associated Documents</u>

a) Treasury Management Strategy 2009/10 – Executive Board 13th February 2009
b) Treasury Management Annual Report 2008/09 – Executive Board 22nd July 2009
c) Treasury Management Strategy Update 2009/10 – Executive Board 4th November 2009

Appendix A

Leeds City Council - Prudential Indicators 2009/10- 2012/13

No.	PRUDENTIAL INDICATOR	2009/10	2010/11	2011/12	2012/13
	(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS				
	Ratio of Financing Costs to Net Revenue Stream				
1	General Fund - Excluding DSG (Note1)	7.95%	10.79%	12.19%	13.12%
2	HRA	12.75%	14.23%	15.56%	15.33%
	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)	88.33	113.75	142.85	163.44
4	increase in housing rent per week	0.00	0.00	0.00	0.00
		£'000	**£'000**	**£'000**	**£'000**
5	**Net external borrowing requirement**	1,482,000	1,580,000	1,659,000	1,689,000
	The Net Borrowing Requirement should not exceed the capital financing requirement (Note 3)	OK	OK	OK	OK
	Estimate of total capital expenditure				
6	Non HRA	223,428	293,992	208,897	74,645
7	HRA	59,736	62,718	40,661	40,223
	TOTAL	283,164	356,710	249,558	114,868
	Capital Financing Requirement (as at 31 March)				
8	Non HRA	823,457	906,137	981,564	999,287
9	HRA	795,956	812,158	815,109	817,622
	TOTAL	1,619,413	1,718,295	1,796,673	1,816,909

No.	PRUDENTIAL INDICATOR	2009/10	2010/11	2011/12	2012/13
	(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**
10	**Authorised limit for external debt - (Note 5)**				
	borrowing	1,780,000	1,830,000	1,900,000	1,900,000
	other long term liabilities	380,000	380,000	380,000	380,000
	TOTAL	2,160,000	2,210,000	2,280,000	2,280,000
11	**Operational boundary - (Note 5)**				
	borrowing	1,640,000	1,690,000	1,760,000	1,760,000
	other long term liabilities	370,000	370,000	370,000	370,000
	TOTAL	2,010,000	2,060,000	2,130,000	2,130,000
14	**Upper limit for fixed interest rate exposure**				
	expressed as either:-				
	Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%	115%
	Net interest re fixed rate borrowing / investments				
15	**Upper limit for variable rate exposure**				
	expressed as either:-				
	Net principal re variable rate borrowing / investments OR:-	40%	40%	40%	40%
	Net interest re variable rate borrowing / investments				
		£'000	**£'000**	**£'000**	**£'000**
17	**Upper limit for total principal sums invested for over 364 days (Note 5)**	100,000	150,000	150,000	150,000
	(per maturity date)				

16	Maturity structure of fixed rate borrowing 2008/09	Lower Limit	Upper Limit	Cumulative Upper Limit	Projected 31/03/10
	under 12 months	0%	10%	10%	2.0%
	12 months and within 24 months	0%	10%	20%	8.1%
	24 months and within 5 years	0%	30%	50%	22.6%
	5 years and within 10 years	0%	25%	75%	7.7%
	10 years and above	25%	90%	90%	59.6%
					100.0%

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.**

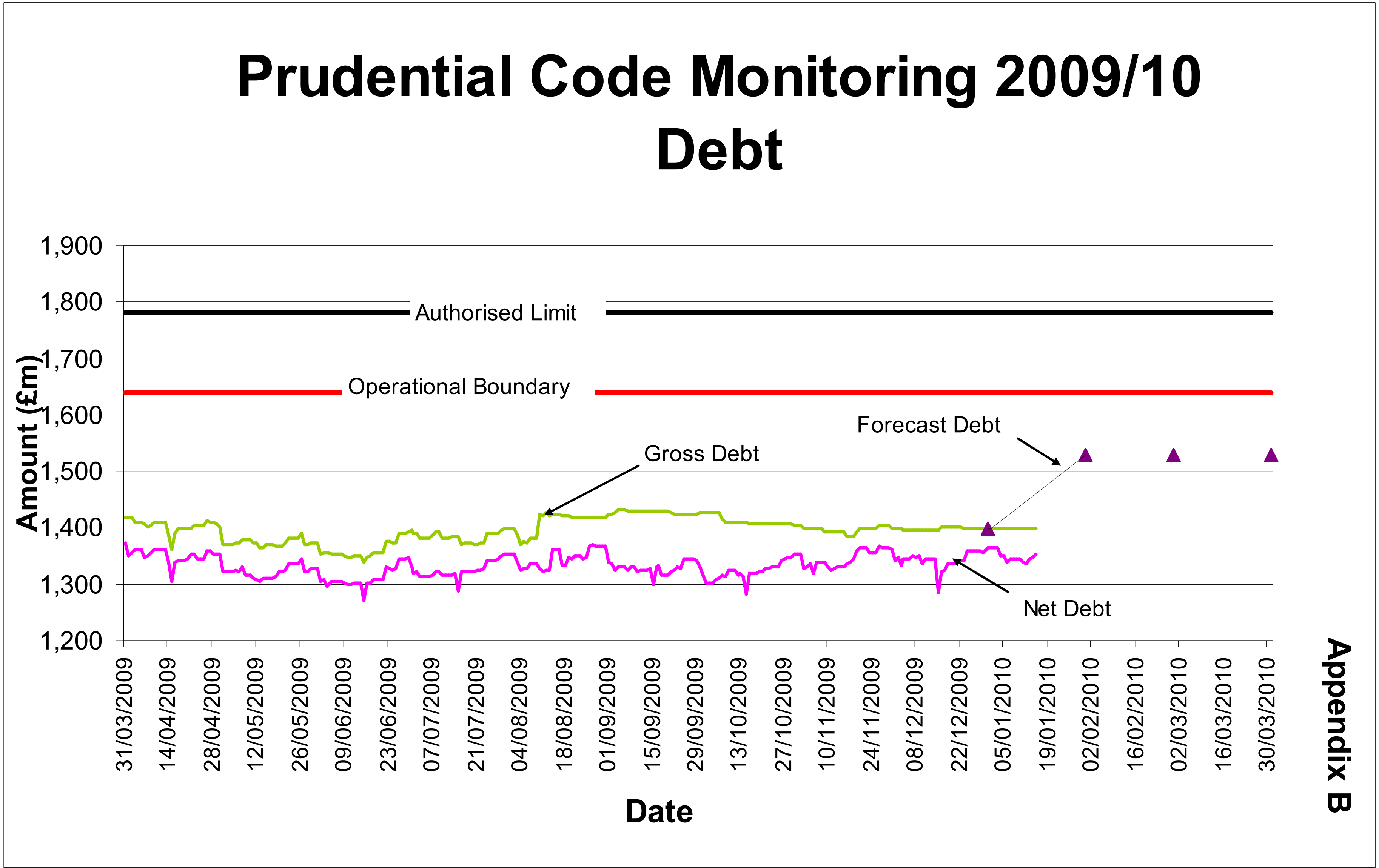
2 **The code requires that the Council identifies the capital financing costs arising from unsupported borrowing expressed as the amount per band D property. No assumption of treasury management savings have been made from 2011/12 onwards and will be reviewed at a later stage.**

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.**
From 2009/10 CIPFA is proposing to account for PFI schemes under IFRIC 12 resulting in PFI borrowings being brought onto Local Authority Balance Sheets.

6 **The HRA figures are based upon the continuation of the current Housing Subsidy Regime . However, it should be noted that the current review of Council Housing Finance may result in this being replaced by a system of self financing for local housing authorities.**



Prudential Code Monitoring 2009/10
Debt
1,900
1,800
1,700
1,600
1,500
1,400
1,300
1,200
Amount (£m)
Authorised Limit
Operational Boundary
Forecast Debt
Gross Debt
Net Debt
31/03/2009
14/04/2009
28/04/2009
12/05/2009
26/05/2009
09/06/2009
23/06/2009
07/07/2009
21/07/2009
04/08/2009
18/08/2009
01/09/2009
15/09/2009
29/09/2009
13/10/2009
27/10/2009
10/11/2009
24/11/2009
08/12/2009
22/12/2009
05/01/2010
19/01/2010
02/02/2010
16/02/2010
02/03/2010
16/03/2010
30/03/2010
Date

Appendix B

Appendix C

The Revised CIPFA Treasury Management Code of Practice 2009

In the light of the Icelandic situation in 2008, CIPFA has amended the CIPFA Treasury Management in the Public Services Code of Practice (the Code), Cross-Sectoral Guidance Notes and Guidance Notes and the template for the revised Treasury Management Policy Statement. It is also a requirement of the Code that this Council should formally adopt the Code. The revised Code has emphasised a number of key areas including the following:

a) All councils must formally adopt the revised Code and four clauses
b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
h) The main annual treasury management reports MUST be approved by full council.
i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.
k) Treasury management performance and policy setting should be subjected to scrutiny.
l) Members should be provided with access to relevant training.
m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
n) Responsibility for these activities must be clearly defined within the organisation.
o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).