

Treasury Management Strategy Statement  
and Investment Strategy 2009/10 to 2011/12

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## Treasury Management Strategy Statement and Investment Strategy 2009/10 to 2011/12

### 1. Background

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

1.2 CIPFA has defined Treasury Management as:

*"the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

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

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

1.4 The strategy also takes into account the outlook for interest rates, the Council's current treasury position and its approved Prudential Indicators (attached as Annexe 1). The PIs relevant to the treasury management strategy are set out below:

PI No.		2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
6	Authorised Limit for External Debt	£900m	£900m	£900m
7	Operational Boundary for External Debt	£875m	£875m	£875m
9	Upper Limit for Fixed Interest Rate Exposure	100 %	100 %	100 %
10	Upper Limit for Variable Rate Exposure	40 %	40 %	40 %
12	Upper Limit for total principal sums invested over 364 days	£60m	£60m	£60m

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11	Maturity structure of fixed rate borrowing :	Lower Limit	Upper Limit
		%	%
	under 12 months	0	25
	12 months and within 24 months	0	25
	24 months and within 5 years	0	50
	5 years and within 10 years	0	75
	10 years and above	0	100

1.5 This TMSS also incorporates the Council's Investment Strategy.

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**2. The Treasury Position**

2.1 The actual treasury position for 31/03/2008:

	31/03/08 Estimate	
	£m	%
<b>External borrowing:</b>		
Fixed rate - PWLB	508.6	
Fixed rate - Market	125.0	
Other long-term liabilities	4.6	
<b>Total external debt</b>	<b>638.2</b>	<b>7.22</b>
<b>Investments:</b>	<b>146.0</b>	
<b>Total Investments</b>	<b>146.0</b>	<b>6.04</b>

**3. Outlook for Interest Rates**

The economic interest rate outlook and commentary is provided by the Council's external advisers and is attached at Annexe 2.

**4. Borrowing Requirement and Strategy**

4.1 The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR). The CFR will determine the Council's requirement to make a Minimum Revenue Provision for Debt Redemption (MRP) from within its Revenue budget. Physical borrowing may be greater or less than the CFR.

CFR	2008/09 Estimate £'000	2008/09 Revised £'000	2009/10 Estimate £'000	2010/11 Estimate £'000	2011/12 Estimate £'000
Non-HRA	236,404	226,536	226,850	236,758	231,899
HRA	413,383	413,009	449,242	495,475	545,708
<b>Total CFR</b>	<b>649,787</b>	<b>639,545</b>	<b>676,092</b>	<b>732,233</b>	<b>777,607</b>

4.2 In accordance with the Prudential Code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

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- 4.3 Capital expenditure not financed from internal resources (i.e. Capital Receipts, Capital Grants and Contributions, Revenue or Reserves) will produce an increase in the CFR (the underlying need to borrow) and may in turn produce an increased requirement to charge MRP in the Revenue Account.
- 4.4 The cumulative estimate of the long-term borrowing requirement is calculated as follows:

	31/03/09 Estimate £'000	31/03/10 Estimate £'000	31/03/11 Estimate £'000	31/03/12 Estimate £'000
Capital Financing Requirement	639,545	676,092	732,233	777,607
<b>Less:</b>				
Existing Profile of Borrowing and Other Long Term Liabilities	638,196	639,545	676,092	732,233
<b>Borrowing Requirement</b>	<b>1,349</b>	<b>36,547</b>	<b>56,141</b>	<b>45,374</b>

- 4.5 The Council prefers to maintain maximum control over its borrowing activities as well as flexibility on its loans portfolio. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term. A prudent and pragmatic approach to borrowing will be maintained to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.
- 4.6 In conjunction with advice from its external advisers the Council will keep under review the options it has in borrowing from the PWLB, the market and other sources identified in the Treasury Management Practices Schedules up to the available capacity within its CFR and Affordable Borrowing Limit (defined by CIPFA as the Authorised Limit).
- 4.7 Short-dated gilt yields are forecast to be considerably lower than medium- and long-dated gilt yields during the financial year. Despite additional gilt issuance to fund the UK government's support to the banking industry, short-dated gilts are expected to benefit from expectations of lower interest rates as the economy struggles through a recession. Yields for these maturities will fall as expectations for lower interest rates mount.
- 4.8 The Council will evaluate with its external advisers the relative merits of a strategic exposure to variable rate debt. Decisions to borrow at low, variable rates of interest will be taken after considering the absolute level of longer term interest rate equivalents and the extent of variable rate earnings on the Council's investment balances.
- 4.9 Actual borrowing undertaken and the timing will depend on capital expenditure levels, interest rate forecasts and market conditions during the

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year, in order to minimise borrowing costs. The Council will be advised by its external advisers of the specific timing of borrowing. This may include borrowing in advance of future years' requirements provided that overall borrowing is maintained within the Council's projected CFR and its approved Authorised Borrowing Limit.

### 5. Debt Rescheduling

- 5.1 The Council will continue to maintain a flexible policy for debt rescheduling. Market volatility may provide opportunities for rescheduling debt from time to time. The rationale for rescheduling would be one or more of the following:
- Savings in interest costs with minimal risk.
  - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
  - Amending the profile of maturing debt to reduce any inherent refinancing risks.
- 5.2 The rescheduling of PWLB debt since the introduction of its repayment rates on 1 November 2007 has not ceased, but has become undoubtedly harder and places greater emphasis on the timing and type of new borrowing.
- 5.3 Any rescheduling activity will be undertaken within the Council's treasury management policy and strategy. The Council will agree in advance with its external advisers the strategy and framework within which debt will be repaid/rescheduled if opportunities arise. Thereafter the Council's debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by its external advisers and discussed with the Council's officers.
- 5.4 All rescheduling activity will comply with the accounting requirements of the local authority SORP and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573 as amended by SI 2008/414).
- 5.5 Borrowing and debt rescheduling activity will be reported to the Cabinet as appropriate.

### 6. Investment Policy and Strategy

#### Background

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

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### Investment Policy

6.2 The Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

The speculative procedure of borrowing purely in order to invest is unlawful.

6.3 The credit crisis has refocused attention on the treasury management priority of security of capital monies invested. The Council has reviewed its approach and will access and assess a wider range of indicators of credit strength than the pure reliance upon credit ratings. This includes a range of objective indicators (such as credit default swaps, share price movements and sovereign credit ratings, individual, financial strength, support ratings and economic indicators) as well as a subjective overlay. The use of Bloomberg reporting will be developed to assist in this.

6.4 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the ODPM Guidance.

6.5 Specified Investments will be those that meet the criteria in the ODPM Guidance, i.e. the investment

- is sterling denominated;
- has a maximum maturity of 1 year;
- meets the "high" credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland;.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

6.6 The Council's investments will be in the following investment instruments classified as Specified Investments:

- fixed term deposits in banks and building societies;
- certificates of deposit with banks and building societies;
- other local authorities;
- money market funds with a AAAM rating and a constant net asset value;
- UK Government bonds (Gilts); and,
- UK Treasury Bills;
- UK Government Debt Management Deposit Account Facility (DMADF).

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- 6.7 Non-Specified Investments will satisfy all the criteria of Specified Investments with one exception, they will have a maximum maturity of 6 years and the maximum exposure will be £60m. They will cover the following investments:
- Bonds issued by Multilateral Development Banks (i.e. European Investment Bank, World Bank);
  - Bonds issued by institutions with an explicit UK Government Guarantee; and,
  - UK Government bonds (Gilts); and,
  - Other local authorities.
- 6.8 The Chief Financial Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to the Cabinet as appropriate.
- 6.9 All investment activity will comply with the accounting requirements of the local authority SORP.

**Investment Counterparties**

- 6.10 Financial markets and financial institutions remain in a state of heightened risk as the impact of the credit crunch continues to adversely affect the global economy with particular volatility in the financial and banking sectors. In order to reduce risk the Council has considered adopting a more tiered approach to limits and ratings, including the use of sovereign ratings. However, this strategy is recommending an approach that goes further than this. The Council's investment activities have been restricted as a consequence in order to demonstrably address the prevailing higher risk backdrop and it is proposed to continue to restrict this and at the same time take advantage of more AAA rated government backed instruments. This will apply to all new transactions.
- 6.11 The Council is able to invest in the investment instruments outlined in 6.6 and 6.7 above but it is proposed that investments in banks and building societies (on a term or certificate of deposit basis) are limited to UK banks and building societies that have a minimum AA- long term credit rating and F1+ short term rating and are participants in the UK Government's Credit Guarantee Scheme (CGS).

This will limit activity to the following banks:

- Abbey National
- Barclays
- HSBC
- Lloyds Banking Group
- Royal Bank of Scotland



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and the following Building Society:

- Nationwide

The CGS effectively provides a UK Government Guarantee for these institutions, some of whom such as Lloyds Banking Group and Royal Bank of Scotland have effectively been partially nationalised by the UK Government.

It is proposed that deposits with these banks and building society are allowed for periods up to 12 months duration and £20m exposure limit per institution applies at a group level.

Given current conditions and the possibility of downgrade to the UK and its banks the Chief Financial Officer retains delegated power to allow the continuation of use of these six institutions even if they suffer downgrades below a long-term rating of AA- and a short-term rating of F1+, whilst the UK Government Guarantee remains in place.

The previous strategy allowed for the use of non-UK banks and building societies that had minimum ratings of A and F1.

- 6.12 The Council has an account with the Debt Management Deposit Account Facility (DMADF). This facility allows the Council to invest with the UK Government via HM Treasury for periods up to 6 months. There is no exposure limit on the DMADF as an investment counterparty.
- 6.13 The Council can utilise Money Market Funds with a AAAM rating and operating on a constant net asset value basis (CNAV). The Council can invest up to £10m in money market funds but has a maximum exposure limit to any one Fund of £5m.
- 6.14 Investments in other UK local authorities are permitted. There is a £30m exposure limit on each local authority as investment counterparties.
- 6.15 The Council is permitted to invest in sterling denominated bonds issued by HM Government (Gilts), bonds issued with a HM Government Guarantee and bonds issued by Multi Lateral Development Banks (i.e. European Investment Bank, World Bank). Investments in these bonds will be for periods of up to 6 years. The Council will look to utilise more of this highly secure government backed instruments.

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6.16 The permitted investments can be summarised as follows:

Investment	Maximum Counterparty Limit	Maximum Length of Investment	Criteria
Banks and Building Societies	£20m	1 year	Min AA- long term and F1+ rating plus CGS (or equivalent)
Local Authorities	£30m	5 years	
Money Market Funds	£5m	n/a	AAAm and CNAV
HM Government (DMADF )	Unlimited	6 months	
HM Government (Gilts and Treasury Bills)	Unlimited	6 years	
Bonds issued by Multilateral Development Banks	£60m	6 years	
Bonds issued with HM Government Guarantee	£60m	6 years	

The Chief Financial Officer will assess whether to restrict further within these limits based on the latest available market information and advice.

### **Investment Strategy**

6.17 With short term interest rates sharply lower and expected to decrease further in 2009, investment strategy would typically result in a lengthening of investment periods, where cash flow permits, in order to lock-in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.

6.18 Investment strategy will include investment for longer periods (up to 6 years) in bonds issued by HM Government, Multilateral Development Banks and bonds with a HM Government Guarantee to secure a level of acceptable risk adjusted return that should span the period of sharply lower interest rates. The bonds satisfy the investment objectives of the Council and as Non Specified Investments any investment will be limited to a maximum of £60m.

Remaining investments will be placed with the other approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return.

### **7. Icelandic Banks**

7.1 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 will be seeking to find purchasers for, and will continue to manage, the banks' businesses and loan

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books to maximize recovery for creditors. The Chief Financial Officer is on the statutory creditor's committee for the administration of the UK registered Heritable Bank, together with the Finance Director of Kent County Council representing all public sector bodies in this process.

- 7.2 Almost 120 Local Authorities have some exposure to these banks amounting to around £0.9bn. This is in the context of a reported total figure of £56bn invested in Icelandic banks. This Council had deposits of approximately £37m invested in three Icelandic institutions. The process of administration will determine the extent of any recoverable amount and also the timescale over which any such payments will be made. The Council will however be required under the SORP to account for the impairment of these financial assets in the 2008/09 Income and Expenditure Account. The Department for Communities and Local Government (DCLG) published draft Regulations in December 2008 aimed at deferring the impact of impairment until 2010/11. The Council will 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. [The consultation deadline for the draft regulations is 23 January 2009.]

### **8. Balanced Budget Requirement**

- 8.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

### **9. Annual MRP Statement**

- 9.1 For many years local authorities have been required by Statute and associated Statutory Instruments to charge to the Revenue Account an annual provision for the repayment of debt associated with expenditure incurred on capital assets. This charge to the Revenue Account was referred to as the Minimum Revenue Provision (MRP).
- 9.2 In February 2008 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Statutory Instrument 2008/414] were approved by Parliament and became effective on 31 March 2008. These regulations replace the formula based method for calculating MRP which existed under previous regulations under the Local Government Act 2003. The new regulations require a local authority to determine each financial year an amount of MRP which it considers to be prudent. Linked to this new regulation, the Department of Communities and Local Government (DCLG) has produced Statutory Guidance which local authorities are required to follow, setting out what constitutes a prudent provision.
- 9.3 The DCLG Guidance recommends that before the start of the financial year, a statement of MRP policy for the forthcoming financial year is approved by the full Council.

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- 9.4. The broad aim of the Policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits. In the case of borrowing supported by Revenue Support Grant, the aim is that MRP is charged over a period reasonably commensurate with the period implicit in the determination of that grant. MRP is not required to be charged to the Housing Revenue Account. Where a local authority's overall CFR is £nil or a negative amount there is no requirement to charge MRP.

**MRP Options:**

- 9.5. Four options for prudent MRP provision are set out in the DCLG Guidance. Details of each are set out below with a summary set out in Table 1:

**Option 1 – Regulatory Method:**

- 9.6 This method replicates the position that would have existed under the previous Regulatory environment. MRP is charged at 4% of the Authority's underlying need to borrow for capital purposes; the Capital Financing Requirement (CFR). The formula includes an item known as "Adjustment A" which was intended to achieve neutrality between the CFR and the former Credit Ceiling which was used to calculate MRP prior to the introduction of the Prudential System on 1 April 2004. The formula also took into account any reductions possible related to commutation of capital related debt undertaken by central government.

**Option 2 – CFR Method:**

- 9.7 This method simplifies the calculation of MRP by basing the charge solely on the authority's CFR but excludes the technical adjustments included in Option 1. The annual MRP charge is set at 4% of the non-housing CFR at the end of the preceding financial year.

**Option 3 – Asset Life Method:**

- 9.8 Under this method MRP is determined by the life of the asset for which the borrowing is undertaken. This can be calculated by either of the following methods:
- (a) Equal Instalments: where the principal repayment made is the same in each year, or
  - (b) Annuity: where the principal repayments increase over the life of the asset
- 9.9 MRP commences in the financial year following that in which the expenditure is incurred or, in the year following that in which the relevant asset becomes operational. This enables an MRP "holiday" to be taken in

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relation to assets which take more than one year to be completed before they become operational.

- 9.10 The estimated life of the asset will be determined in the year that MRP commences and will not be subsequently revised. However, additional repayments can be made in any year which will reduce the level of payments in subsequent years.
- 9.11 If no life can be reasonably attributed to an asset, such as freehold land, the life is taken to be a maximum of 50 years. In the case of freehold land on which a building or other structure is constructed, the life of the land will be treated as equal to that of the structure, where this would exceed 50 years.
- 9.12. In instances where central government permits revenue expenditure to be capitalised, the Statutory Guidance sets out the number of years over which the charge to revenue must be made.

### **Option 4 - Depreciation Method**

- 9.13 The depreciation method is similar to that under Option 3 but MRP is equal to the depreciation provision required in accordance with proper accounting practices to be charged to the Income and Expenditure account.

### **Conditions of Use**

- 9.14 The DCLG Guidance puts the following conditions on the use of the four options:

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. These options can also be used for Supported Capital Expenditure whenever incurred.

### **Policy**

- 9.15 The policy will be to use Option 1 (Regulatory Method) for supported borrowing and Option 3 (Asset Life Method) for unsupported borrowing.

## **10. Delegation**

- 10.1 The following delegations will apply for treasury management:

### Cabinet

Annual review of policy

Consideration of the strategy

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### Chief Financial Officer

Implementation of the policy and strategy, including the authority to raise loans, enter into leases and make investments. In each case this will be in accordance with procedures determined by the Chief Financial Officer as set out in the Treasury Management Practices.

## **11. Reporting**

11.1 The Chief Financial Officer will:

- prepare an annual strategy report and review of the policy for the consideration of the Cabinet and approval by Full Council;
- report six months after approval of the strategy on investment activity to General Purposes Committee;
- report annually to the Cabinet on the achievement of the previous year's strategy;
- report relevant, key details of the treasury management information to the Cabinet Member for Resources/the Cabinet as appropriate, such as performance indicators (including on security and liquidity), budget variances, debt restructuring, etc.
- the Treasury Management Practices documents will be updated accordingly for operational use – they will include additional weekly and monthly review meetings with officers.

## **12. Other Items**

### **CIPFA review of the Prudential Code.**

12.1 In early 2008 CIPFA undertook a consultation exercise to review the implementation and ongoing use of the Prudential Code. CIPFA has yet to publish its conclusions arising from the consultation process. In the event that amendments are made to the Code by CIPFA, these may need to be reflected in the Treasury Management and Investment Strategy documentation.

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PRUDENTIAL INDICATORS

Annexe 1

**Prudential Indicators FY 2009/10 to FY 2011/12**

**1. Background**

There is a requirement under the Local Government Act 2003 for local authorities to have regard to Cipfa's Prudential Code for Capital Finance in Local Authorities (the "Cipfa Prudential Code") when setting and reviewing their Prudential Indicators. It should be noted that CIPFA undertook a review of the Code in early 2008. The outcome from that review has yet to be published.

**2. Estimates of Capital Expenditure**

2.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

No. 1	Capital Expenditure	2008/09	2008/09	2009/10	2010/11	2011/12
		Approved £'000	Revised £'000	Estimate £'000	Estimate £'000	Estimate £'000
	Non-HRA	88,302	81,015	149,280	96,769	49,008
	HRA	58,093	53,097	49,725	58,790	62,790
	<b>Total</b>	<b>146,395</b>	<b>134,112</b>	<b>199,005</b>	<b>155,559</b>	<b>111,798</b>

2.2 Capital expenditure will be financed as follows:

Capital Financing	2008/09	2008/09	2009/10	2010/11	2011/12
	Approved £'000	Revised £'000	Estimate £'000	Estimate £'000	Estimate £'000
Capital receipts	18,167	18,893	<b>9,837</b>	7,772	13,905
Government Grants	57,143	49,119	<b>118,823</b>	64,030	30,341
Major Repairs Allowance	11,855	14,653	<b>12,407</b>	12,407	12,407
Revenue contributions	9,451	7,263	<b>12,330</b>	6,135	300
Supported borrowing	48,817	44,084	<b>42,186</b>	53,403	54,845
Unsupported borrowing	962	100	<b>3,422</b>	11,812	0
<b>Total</b>	<b>146,395</b>	<b>134,112</b>	<b>199,005</b>	<b>155,559</b>	<b>111,798</b>

*Note: the element to be financed from borrowing impacts on the movement in the CFR.*

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### 3. Ratio of Financing Costs to Net Revenue Stream

3.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The definition of financing costs is set out at paragraph 87 of the Prudential Code.

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

No. 2	Ratio of Financing Costs to Net Revenue Stream	2008/09	2008/09	2009/10	2010/11	2011/12
		Approved %	Revised %	Estimate %	Estimate %	Estimate %
	Non-HRA	5.93	5.66	<b>5.20</b>	5.21	5.08
	HRA	32.94	35.15	<b>33.59</b>	34.02	34.62
	<b>Total</b>	4.65	4.47	<b>4.08</b>	4.09	3.99

### 4. Capital Financing Requirement

4.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure.

No. 3	Capital Financing Requirement	31/03/09	31/03/09	31/03/10	31/03/11	31/03/12
		Approved £'000	Revised £'000	Estimate £'000	Estimate £'000	Estimate £'000
	Non-HRA	236,404	226,536	<b>226,850</b>	236,758	231,899
	HRA	413,383	413,009	<b>449,242</b>	495,475	545,708
	<b>Total CFR</b>	649,787	639,545	<b>676,092</b>	732,233	777,607



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

<b>Capital Financing Requirement</b>	2008/09	2009/10	2010/11	2011/12
	Revised £'000	Estimate £'000	Estimate £'000	Estimate £'000
<b>Balance B/F</b>	611,670	<b>639,545</b>	676,092	732,233
Capital expenditure financed from borrowing (per 2.2)	44,184	<b>45,608</b>	65,215	54,845
Revenue provision for debt Redemption.	(16,309)	<b>(9,061)</b>	<b>(9,074)</b>	<b>(9,471)</b>
Other items ( <i>specify</i> )				
<b>Balance C/F</b>	<b>639,545</b>	<b>676,092</b>	<b>732,233</b>	<b>777,607</b>

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

4.4 The Chief Financial Officer reports that this Council had no difficulty meeting this requirement in 2007/08 nor are difficulties envisaged for the current or future financial years.

## 5 Actual External Debt

5.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

<b>No. 4</b>	<b>Actual External Debt as at 31/03/08</b>	<b>£m</b>
	Borrowing	508.6
	Other Long-term Liabilities	125.0
	<b>Total</b>	<b>633.6</b>

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### 6. Impact of Capital Investment Decisions

6.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. On the assumption that supported borrowing is financed by government grant and that prudential borrowing is financed by savings or additional income, there is no direct impact on the level of council tax and housing rent. The full council tax and housing rent figures are shown below for information.

No.	Impact of Capital Investment Decisions	2009/10	2010/11	2011/12
5		Nil	Nil	Nil
		Proposed	Indicative	Indicative
	Band D Council Tax	<b>£1,184.32</b>	£1,219.85	£1,256.44
	Average Weekly Housing Rents	<b>£82.95</b>	£87.10	£91.45

### 7 Authorised Limit and Operational Boundary for External Debt

7.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

7.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

7.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

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7.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

No. 6	Authorised Limit for External Debt	2009/10	2010/11	2011/12
		Estimate £'000	Estimate £'000	Estimate £'000
	Borrowing	<b>895,419</b>	895,419	895,419
	Other Long-term Liabilities	<b>4,581</b>	4,581	4,581
	<b>Total</b>	<b>900,000</b>	<b>900,000</b>	<b>900,000</b>

7.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

7.6 The Chief Financial Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet and Council

No. 7	Operational Boundary for External Debt	2009/10	2010/11	2011/12
		Estimate £'000	Estimate £'000	Estimate £'000
	Borrowing	<b>870,419</b>	870,419	870,419
	Other Long-term Liabilities	<b>4,581</b>	4,581	4,581
	<b>Total</b>	<b>875,000</b>	<b>875,000</b>	<b>875,000</b>

## 8. Adoption of the CIPFA Treasury Management Code:

8.1 This indicator demonstrates that the Council has adopted the principles of best practice.

No. 8	Adoption of the CIPFA Code of Practice in Treasury Management
	The Council approved the adoption of the CIPFA Treasury Management Code at its meeting in May 2002.

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

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

9.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments

		2008/09	2008/09	2009/10	2010/11	2011/12
		Approved	Revised	Estimate	Estimate	Estimate
		%	%	%	%	%
<b>No. 9</b>	<b>Upper Limit for Fixed Interest Rate Exposure</b>	100	100	<b>100</b>	100	100
<b>No. 10</b>	<b>Upper Limit for Variable Rate Exposure</b>	40	40	<b>40</b>	40	40

9.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

## 10 Maturity Structure of Fixed Rate borrowing

10.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

10.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

<b>No. 11</b>	<b>Maturity structure of fixed rate borrowing</b>	<b>Lower Limit</b>	<b>Upper Limit</b>
		<b>%</b>	<b>%</b>
	under 12 months	0	25
	12 months and within 24 months	0	25
	24 months and within 5 years	0	50
	5 years and within 10 years	0	75

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10 years and above	0	100
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**11. Upper Limit for total principal sums invested over 364 days**

11.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

No	Upper Limit for total principal sums invested over 364 days	2008/09	2008/09	2009/10	2010/11	2011/12
12		Approved £m	Revised £m	Estimate £m	Estimate £m	Estimate £m
		<b>60.00</b>	<b>60.00</b>	<b>60.00</b>	<b>60.00</b>	<b>60.00</b>

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## Annexe 2

### External advisers forecast for Interest Rates (December 2008)

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

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

#### Underlying assumptions

- Despite central bank intervention to raise bank capital and improve liquidity, conditions in money and credit markets remain very difficult as banks’ lending behaviour changes fundamentally.
- Consumer spending and business investment stall, hampered by the credit drought.
- Falling house prices compel households to review savings levels and repair balance sheets (where possible).

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- Commodity prices continue to fall. CPI is projected to fall below the MPC's 1% lower threshold in 2009, providing some relief for the overstretched consumer, but eroding debt burdens more slowly.
- Fear of rising unemployment dampens confidence and any prospect of sizeable wage demands.
- UK public finances are in poor shape and will worsen as the recession bites, resulting in a slew of gilt issuance in 2009. This will ultimately push gilt yields higher, although not aggressively so.
- Global growth and activity continue to weaken. The Federal Reserve has already cut rates to a range between 0% and 0.25% and has engaged in 'quantitative easing'. The ECB could bring rates down to 2% as European economies struggle with falling domestic and international demand.