

**EXECUTIVE – 17 SEPTEMBER 2009**

**AUDIT COMMITTEE – 21 SEPTEMBER 2009**

**Subject:** **Treasury Management Report, First quarter 2009/10**

**Director/Head of Service:** Head of Finance

**Decision Issues:** These matters are within the authority of the Committee

**Decision type:** Non-key

**Classification:** This report is open to the public.

**CCC Ward(s):** All

**Summary:** *This report details the results of the council's treasury management activities in the first quarter of the financial year ended 31 March 2010. It covers performance, risk and compliance issues under the eight headings set out in the introduction below.*

**To Resolve:** That the report be noted.

**SUPPORTING INFORMATION**

**1. Introduction**

The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2001 was adopted by this council on 8 April 2002 and this council fully complies with its requirements. The primary requirements of the Code are:

- a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- c) Receipt by the cabinet/council of an annual strategy report for the year ahead and an annual review report of the previous year.
- d) Delegation by the council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

Treasury Management in this context is defined as:

'The management of the local authority'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.'

This annual report covers:

- the council's current treasury position
- performance measurement
- the borrowing strategy for 2009/10
- the borrowing outturn for 2009/10
- compliance with treasury limits
- investment strategy for 2009/10

- investment outturn for 2009/10
- debt rescheduling

CIPFA issued an interim Treasury Management guidance document in March 2009, highlighting Best Practice recommendations for Local Authorities to follow. The document suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Council is embracing Best Practice in accordance with CIPFA's recommendations. It is expected that CIPFA will issue an updated Treasury Management Code of Practice in the autumn of 2009.

## 2. Current Portfolio Position

The Council's debt position at the beginning and end of the quarter was as follows:

	30 June 2009 Principal		Rate	31 March 2009 Principal	Rate
Fixed rate funding:					
- PWLB	£23m			£20.5m	
- Market	£0.01m	£23.01m	4.58%	£7.51m	4.66%
Variable rate funding:	-	-		-	
<b>Total Debt</b>		<b>£23.01m</b>	<b>4.58%</b>	<b>£28.01m</b>	<b>4.66%</b>
Investments (excluding £6m in Icelandic banks):					
- in house	£15m			£33m	
- call accounts	£15m			£1.8m	
<b>Total Investments</b>		<b>£30m</b>		<b>£34.8m</b>	

NB. PWLB = Public Works Loan Board

## 3. The Strategy for 2009/10

### Annual Investment Strategy:

The Treasury Management Strategy Statement (TMSS) for 2009/10 was approved by Council on 5 February. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity

The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions as laid out in the Treasury Management Strategy, also taking into account the Credit Default Swap (CDS) additional information provided by Sector.

A full list of fixed-term deposit investments held as at 30 June 2009, and details of Fitch's credit ratings are shown in Appendix A.

[Update at 20 August 2009: All of these investments have been returned to the council by the due dates, leaving only the investment with Cater Allen, a wholly owned subsidiary of the Abbey group which is owned and 100% supported by Banco Santander of Spain (not due back until 15 September) and with Ulster Bank (not due back until 18 January)]

As illustrated in the economic background section below, investment rates available in the market are at a historical low point. The average level of funds available for investment purposes in the first quarter of 2009/10 was £21.714m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

#### Performance

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.49%	6.06%	£329,270

The council outperformed the benchmark by 557 basis points. This is because the benchmark return is based on the rates available from 2009/10, whereas the majority of the council's return to date derives from 1-year fixed-term investments taken out before mid September before interest rates plummeted. The Council's budgeted investment return for 2009/10 is £627,200 (which allowed for these investments already taken out) and performance for the year is projected to just about meet this target, providing the committee is comfortable with the council starting to again take out fixed term investments with government-backed banks in line with the latest much-restricted third-party list.

#### Borrowing:

##### Prudential Indicators:

It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Prudential Indicators (affordability limits) are outlined in the approved TMSS.

(A full list of the approved limits is shown in Appendix B)

Officers can confirm that the Prudential Indicators were not breached during the first quarter of 2009/10.

Sector's target rate for new long term borrowing for the first quarter of 2009/10 was 4.50%. Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement - CFR), new external borrowing of £2.5m was undertaken in May 2009 from the PWLB at a rate of 2.52%. As outlined below, interest rates have gradually **increased** during the quarter across all bands, with the low points in early April and the high points in early to mid June. It is anticipated that further borrowing will be undertaken during this financial year, depending upon interest rates for both borrowing and investing.

The table shows the PWLB rates available during the quarter:

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.81%	2.47%	3.3%	4.25%	4.46%
Date	02/04/2009	02/04/2009	02/04/2009	02/04/2009	02/04/2009
High	1.2%	3.2%	4.06%	4.77%	4.85%

Date	09/06/2009	12/06/2009	12/06/2009	12/06/2009	12/06/2009
Average	0.97%	2.80%	3.71%	4.56%	4.66%

#### 4. Economic Background and Interest Rates

The first quarter of the financial year of 2009 saw:

GDP (Gross Domestic Product) contract by 2.4% during last quarter, the largest fall for over 50 years, despite some expectations for an improvement in UK output data.

Monetary policy loosened further via the extension of the Bank of England's quantitative easing programme, but lending growth is still slow;

Unemployment rise and earnings growth fall;

Inflation fall further, but oil prices rise;

Bond yields and equity prices rise in response to the improved economic outlook;

Sterling appreciate, but only to a level well below its 2007 peak;

Activity strengthen to a similar extent in the US, but a much weaker extent in Europe.

The first quarter saw some encouraging signs that the rate of contraction in the economy had eased considerably. Retail sales grew by 1.0% in April, and while they fell back in May, they remained above March's level. Consumer confidence continued to pick up. Industrial production rose by 0.2% month on month in April, the first rise since November 2007, and the Nationwide house price index rose in May and June, leading to the first quarterly rise since Q4 2007.

April's budget announced an injection of £5.2bn in 2009/10, but a tightening of £5.2bn in 2011/12. The Chancellor forecast that public sector net borrowing would increase to 12.5% of GDP in 2009/10 and that net debt as a percentage of GDP would leap from 41.2% in 2008/09 to 62.9% in 2009/10, before peaking at 94.2% in 2015/16. This may have a significant impact on the UK economy.

After rapidly cutting official interest rates to a record low of 0.5%, the MPC (Monetary Policy Committee of the Bank of England) increased the amount of asset purchases under the Bank's quantitative easing (QE) programme from £75bn to £125bn in May. The MPC still retains the option to extend these purchases by a further £25bn before having to ask the Chancellor for further authorisation. However, while QE does at least seem to have been successful in improving liquidity in financial markets, its impact on the real economy remains limited.

Inflationary pressures within the economy continued to reduce in the quarter, although at a slower rate than had been expected. The key factors in this trend are tax rises and increasing oil prices. While the headline rate of CPI inflation fell to 2.2% in May, the reduction was smaller than the consensus expected. RPI inflation fell to -1.1% in May.

## Economic Forecast

The Council's Treasury Advisers, Sector, provides the following forecast for interest rates:

	Sept 09	Dec 09	Mar 10	Jun 10	Sept 10	Dec 10	Mar 11	Jun 11	Sept 11	Dec 11	Mar 12	Jun 12
Bank rate	0.50%	0.50%	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.75%	4.25%	4.50%	4.75%
5 yr PWLB rate	2.70%	2.75%	2.85%	3.10%	3.30%	3.45%	3.75%	4.00%	4.40%	4.70%	4.85%	5.00%
10 yr PWLB rate	3.65%	3.70%	3.70%	3.80%	3.95%	4.15%	4.40%	4.65%	4.85%	5.00%	5.05%	5.20%
25 yr PWLB rate	4.40%	4.40%	4.50%	4.50%	4.55%	4.70%	4.80%	4.95%	4.95%	5.10%	5.20%	5.30%
50 yr PWLB rate	4.55%	4.55%	4.60%	4.65%	4.75%	4.85%	4.95%	5.05%	5.10%	5.25%	5.25%	5.35%

This indicates that the Bank Rate will remain at an historical low level until mid-way through 2010, by which time the economy is expected to have improved. For the same reason, PWLB rates are expected to increase over time.

## 5. Borrowing Outturn for 2009/10

### Treasury Borrowing

The loan listed below was raised during the quarter.

Date of Advance	Lender	Principal	Period	Interest Rate
21.5.09	PWLB	£2,500,000	4.5 years	2.52%

No PWLB loans have been repaid so far this year.

**Debt Performance** - As highlighted in section 2 above the average debt portfolio interest rate has moved over the quarter from 4.66% to 4.58%. The approach during the quarter was to take advantage of the comparatively low rates in the shorter to medium term. The council will continue to monitor rates and decide whether it is better to fund expenditure from borrowing or from maturing investments.

## 6. Compliance with Treasury Limits/Prudential Borrowing Limits

During the quarter the council operated within the treasury limits and Prudential Indicators set out in the council's Treasury Policy Statement and annual Treasury Strategy Statement. The total debt outstanding is £23m against an authorised limit of £35.8m.

## 7. Investments Strategy for 2009/10

**Internally Managed Investments** – The authority manages its cash flow investments in-house and invests with the institutions listed in the authority's approved lending list. The authority invests for a range of periods from a week to 365 days dependent on cash flow and the interest rates on offer. However, since the banking crisis last autumn, the council has only made one fixed term deposit of £2 million for a period of 364 days in January 2009. The remaining maturities have all been placed in money market funds or used to redeem PWLB debt prematurely.

## 8. Investments Outturn for the first quarter 2009/10

Detailed below is the result of the investment strategy undertaken by the Council:

### Internally Managed Investments

Funds managed internally averaged £21,714,286 during the first quarter of 2009/10. The return on these investments for the quarter was £329,270.

The performance against the benchmark is as follows:

Quarter 1	Net rate of return	Actual 7 day LIBID rate (uncompounded)
2009/10	6.06%	0.49%

The performance exceeded the benchmark by such a large amount because nearly all of the investments were placed 12 months ago when interest rates were much higher than they are now. Nearly all of the investments will be maturing during the summer and therefore the rate of return will decline significantly.

Councillors will be aware that the Council recently had £6m locked up in Icelandic banks: £4m with the Heritable Bank and £2m with Glitnir. The administrators of the Heritable Bank repaid £673,871 on 30 July. The latest information received by the Council implies that we should expect to recover around £3,343,020 in total from the Heritable bank and £1,870,151 from Glitnir. However, these figures may be subject to fluctuations, in particular the deposit with Glitnir if local authorities are no longer classed as preferred creditors by the bank. Although considered unlikely, if this should occur, then we should expect to recover only around £800,000 from Glitnir.

### Call accounts

#### **Global Treasury Funds plc (Money Market Fund)**

From 1 April 2002 S.I.451 gave local authorities the power to invest in a new investment known commonly as a Money Market Fund (MMF). MMFs can generate much better returns than funds invested overnight with the bank because funds are pooled to allow investors to benefit from wholesale rates and because they are invested in a range of high quality securities and they utilise experienced fund managers. The fund has the highest credit rating of AAA.

The council, on 16 December 2002, approved the use of the Royal Bank of Scotland's Global Treasury Funds.

The return for the period to 30 June 2009 was £1,129 on an average balance of £568,293 producing an average rate of 0.8%. This is a reasonable return in the current climate and compares favourably with the alternative investment in 'Overnight' funds.

#### **Alliance & Leicester Commercial Bank**

Acting upon advice received from Sector, the council's treasury management advisors, a call account was opened with the Alliance & Leicester on 21 August 2007. The return on funds invested in this account for the period to 30 June 2009 was £1,411 on an average balance of £707,364 producing an average return also of 0.8%.

### **Henderson Liquid Assets Fund**

In order to enhance the liquidity and security of the council's investments, a further money market fund was opened in December 2008. The council's advisors assisted with selecting a suitable fund, and it was decided to use the above AAA rated fund, which is currently giving one of the best returns in the market. The fund is one of the larger funds and has been in the market for a relatively long time. The average balance invested over the quarter was £6,601,903. The return on this balance was £21,176, an average rate of 1.29%.

### **SUMMARY OF THE ABOVE FOR THE FIRST QUARTER 2009/10**

Manager	Value of Funds at 30.6.2009 £	Net Return £	Net Rate of Return Current quarter %
In-house *	15,000,000	329,270	6.06
Internal benchmark	-	-	0.49
Global (MMF) Fund	367	1,129	0.8
Alliance & Leicester	1,500,002	1,411	0.8
Henderson Liquid Assets (MMF)	13,506,362	21,176	1.29
<b>TOTAL INVESTMENTS*</b>	<b>£30,006,731</b>	<b>£352,986</b>	<b>4.77</b>

\* these figures exclude Icelandic investments of £6m; we do not expect to receive any further interest receipts on these investments.

### **9. Debt rescheduling**

There have been no opportunities during the quarter where officers have considered it to be to the council's advantage to carry out any debt rescheduling. PWLB rates have been rising recently and it is possible that an opportunity may arise to reschedule some debt later in the financial year.

### **10. Certificates of Deposit (CDs)**

CDs are tradable instruments issued by the major clearing banks, and thus are much more liquid than fixed term deposits which have to be held until maturity. CDs are bought and sold through CREST, the UK automated stock exchange settlement system for the sales and purchases of UK registered securities that is operated by CRESTCo.

At its meeting on 30 July, the Executive approved the policy of investing in Certificates of Deposit in line with current treasury limits. The council took out a CD of £5m for 6 months at 1% with Barclays Bank on 27 August.

### **11. Relevant Council Policy**

Treasury Management Policy

### **12. Options available:**



## Appendix A – Fixed Term Deposit Investments at 30 June 2009

Counter party	Amount	Dates		Interest rate	Interest amount	Current Fitch ratings – Note 3			
		From 2008	To 2009			Long-term	Short-term	Individual	Support
Bank of Scotland	£1m	1 July	1 July	6.75%	£67,500.00	AA-	F1+	E	1
Bank of Scotland	£1m	3 July	3 July	6.75%	£67,500.00	AA-	F1+	E	1
Bank of Scotland	£1m	6 Aug	6 Aug	6.51%	£65,100.00	AA-	F1+	E	1
Cater Allen Note 1.	£1m	20 Aug	19 Aug	6.35%	£63,326.03	AA-	F1+	B	1
Cater Allen Note 1.	£1m	16 Sept	15 Sept	6.35%	£63,326.03	AA-	F1+	B	1
Close Brothers	£2m	7 Aug	6 Aug	6.35%	£126,652.05	A	F1	B	5
EBS	£1m	15 Aug	14 Aug	6.14%	£61,231.78	BBB	F1+	C/D	2
Irish Nationwide BS	£2m	15 Aug	14 Aug	6.50%	£129,643.84	BBB-	F1+	D/E	2
Progressive BS	£1m	7 Aug	6 Aug	6.30%	£61,231.78	Not rated			
West Bromwich BS	£2m	15 Aug	14 Aug	6.10%	£121,665.75	BBB-	F3	C/D	3
Ulster Bank Ltd	£2m	19 Jan 2009	18 Jan 2010	2.25%	£44,876.71	A1+	F1+	C/D	1
Total	£15m								

### Notes

1. Cater Allen is a wholly owned subsidiary of the Abbey group which is owned and 100% supported by Banco Santander of Spain
2. As well as the investments listed above, the council also has £4m deposited with the Heritable Bank, £2m of which should have been returned on 17 December 2008, £1m was due back on 8 January and £1m was due back on 15 January 2009 together with £231,449.32 interest in total. We received £673,871 from the administrators of the Heritable on 30 July and expect to receive further dividends in due course.
3. The council also has £2m deposited with the Glitnir bank in Iceland and is also due ££119,671 in interest from them. It is expected that a substantial portion of this will be returned during 2010/11.
4. The definitions of the Fitch ratings are as follows: -
  - Long-term – gives an indication of the credit risk in the long term i.e. over one year
  - Short-term – gives an indication of the credit risk in the short term i.e. less than one year
  - Individual – the likelihood that the financial institution will get into difficulties

- Support – the likelihood than an institution will receive external support if it should get into difficulties.

## **Fitch Ratings**

### **International Long-Term Credit Ratings**

International Long-Term Credit Ratings (LTCR) may also be referred to as Long-Term Ratings. When assigned to most issuers, it is used as a benchmark measure of probability of default and is formally described as an Issuer Default Rating (IDR). The following rating scale applies to foreign currency and local currency ratings:

#### **Investment Grade**

##### **AAA**

Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

##### **AA**

Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

##### **A**

High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

##### **BBB**

Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

#### **Speculative Grade**

##### **BB**

Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing,

##### **CCC**

□ For issuers and performing obligations, default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favourable business or economic conditions.

##### **C**

□ For issuers and performing obligations, default is imminent.

### **International Short-Term Credit Ratings**

The following ratings scale applies to foreign currency and local currency ratings. A Short-term rating has a time horizon of less than 13 months for most obligations. Short-term ratings thus place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

##### **F1**

Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

##### **F2**

Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

##### **F3**

Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non investment grade.

##### **B**

Speculative. Minimal capacity for timely payment of financial commitments, plus vulnerability to near term adverse changes in financial and economic conditions.

## C

High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon a sustained, favourable business and economic environment.

## D

Indicates an entity or sovereign that has defaulted on all of its financial obligations.

### Notes to International Short-Term ratings:

The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' Long-term rating category, to categories below 'CCC', or to Short-term ratings other than 'F1'.

**Rating Watch:** Ratings are placed on Rating Watch to notify investors that there is a reasonable probability of a rating change and the likely direction of such change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or maintained. Rating Watch is typically resolved over a relatively short period.

**Rating Outlook:** An Outlook indicates the direction a rating is likely to move over a one to two-year period. Outlooks may be positive, stable or negative. A positive or negative Rating Outlook does not imply a rating change is inevitable. Similarly, ratings for which outlooks are 'stable' could be upgraded or downgraded before an outlook moves to positive or negative if circumstances warrant such an action. Occasionally, Fitch Ratings may be unable to identify the fundamental trend. In these cases, the Rating Outlook may be described as evolving.

### Support Ratings

#### *The Purpose and Function of Support Ratings*

Support ratings offer Fitch's judgement of a potential supporter's (either a sovereign state's or an institutional owner's) propensity to support a bank and of its ability to support it. Its ability to support is set by the potential supporter's own Fitch Long-term debt rating, both in foreign currency and, where appropriate, in local currency.

Support ratings have a direct link to Long-term debt ratings, but they do not, nevertheless, assess the intrinsic credit quality of a bank. Rather they communicate Fitch Ratings' judgement on whether the bank would receive support should this become necessary.

#### *Criteria and Method*

As already indicated, two types of potential supporter are predicated: sovereign states and institutional owners. The following are taken into account as determinants of the propensity of sovereigns and institutions to support banks:

**Sovereign unitary or federal state support:** there are three broad categories of criteria: state guarantees and commitments; relationship with the state; and importance of the bank to the state.

**Institutional owner or owners:** there are four broad categories of criteria: guarantees and commitments; percentage control; nature of the owner; and importance of the bank to the owning institution(s).

#### **1 denotes:**

A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.

#### **2 denotes:**

#### **4 denotes:**

A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'B'.

#### **5 denotes:**

A bank for which external support, although

A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.

**3 denotes:**

A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating floor of 'BB-'.

**Individual Ratings**

Individual Ratings are assigned only to banks. These ratings, which are internationally comparable, attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank's exposure to, appetite for, and management of risk, and thus represent our view on the likelihood that it would run into significant difficulties such that it would require support.

The principal factors we analyze to evaluate the bank and determine these ratings include profitability and balance sheet integrity (including capitalization), franchise, management, operating environment, and prospects. Finally, consistency is an important consideration, as is a bank's size (in terms of equity capital) and diversification (in terms of involvement in a variety of activities in different economic and geographical sectors).

**A denotes:**

A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment or prospects.

**B denotes:**

A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

**C denotes:**

An adequate bank, which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-term rating floor no higher than 'B-' and in many cases no floor at all.

**D denotes:**

A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with a greater number of potential deficiencies of external origin.

**E denotes:**

A bank with very serious problems, which either requires or is likely to require external support.

**F denotes:**

A bank that has either defaulted or, in Fitch's opinion, would have defaulted if it had not received external support. Examples of such support include state or local government support, (deposit) insurance funds; acquisition by some other corporate entity or an injection of new funds from its shareholders or equivalent.

**Notes:**

Gradations may be used among the five ratings: i.e. A/B, B/C, C/D, and D/E.

**(s)**

An Individual rating may be followed by the suffix (s), denoting that it is largely based on public information, though supplemented by data obtained from the rated entity.

## Appendix B - Prudential Indicators

### Borrowing Requirement

<b>New Borrowing</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
	<b>£ ' 000</b>	<b>£ ' 000</b>	<b>£ ' 000</b>	<b>£ ' 000</b>
General Fund	2,668	6,940	7,244	1,547
HRA	324	324	324	324
<b>TOTAL</b>	<b>2,992</b>	<b>7,264</b>	<b>7,568</b>	<b>1,871</b>

### Affordable Borrowing Indicator

The estimate of the incremental impact of capital investment decisions for 2009/10 – 2011/12 proposed in the capital programme reports, over and above capital investment decisions that have previously been taken by the council are:

	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
Additional Gen.Fund Revenue Costs of Borrowing	£51k	£282k	£1,051k
Additional HRA Costs of Borrowing	£2k	£16k	£45k
<b>Affordable Borrowing Indicator</b>			
<b>Increase in council tax per annum (for a band D property)</b>	<b>£1.01p</b>	<b>£5.44p</b>	<b>£20.13p</b>
Increase in housing rent per week	£0.00p	£0.04p	£0.10p

### Financing Costs

Financing costs are Principal and Interest Payable less Interest Receivable. The indicator uses the ratio of these to the “net revenue stream” which is equivalent to:

- the budget requirement i.e. the amount to be met from government grant and local taxpayers (for general fund) and
- the amount to be met from housing subsidy and rent income (for the HRA).

	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Ratio of financing costs to net revenue stream</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
General Fund	0.6	5.6	7.3	8.1
HRA	0.5	1.3	1.3	0.7

The costs above are **all** financing costs – not just those incurred in relation to the latest capital programme. Without comparative figures from other local authorities at this stage it is difficult to comment on the above figures other than to note that the % for general fund is increasing from 2010/11- because of the assumed increase in net borrowing. It is however lower than previous years because of the assumed additional interest earned on capital receipts.

## Limit on net borrowing (i.e. borrowing less investments)

In order to ensure that over the medium term, **net** borrowing will only be for a capital purpose, the local authority has to ensure that **net external borrowing** does not, except in the short term, exceed the total of capital financing requirement in the preceding year (£27,700k estimated at 31/03/09 derived from the balance sheet) plus the estimates of any additional capital financing requirement for the next three financial years i.e. £41,400k for General Fund and the Housing Revenue Account (HRA). This could have constrained the programme, but as Canterbury's borrowing is now less than its investments, so that its net borrowing is now negative, (it used to be close to nil), there shouldn't be any difficulty in meeting this requirement.

## Limits on external debt (gross)

The first limit (“**the authorised limit**”) is the actual **maximum** limit for external debt.

The second limit (“**the operational boundary**”) is based on the same estimates as the authorised limit but reflects the Director of Corporate Services' estimate of the **most likely**, prudent but not worst case scenario, without the additional room included within the authorised limit.

Treasury Management Prudential Indicators	2008/09 Approved	2009/10	2010/11	2011/12
<b>The Authorised Limit for external debt</b>	<b>£ ' 000</b>	<b>£ ' 000</b>	<b>£ ' 000</b>	<b>£ ' 000</b>
Borrowing	35,500	35,800	43,300	45,200
Other long term liabilities (e.g. long-term debtors – Mortgagors, Housing Act Advances, Misc.Loans)	1,300	1,300	1,300	1,300
<b>TOTAL</b>	<b>36,800</b>	<b>37,100</b>	<b>44,600</b>	<b>46,500</b>
<b>Operational boundary for external debt</b>				
Borrowing	34,500	34,800	42,300	44,200
Other long term liabilities (e.g. long-term debtors – Mortgagors, Housing Act Advances, Misc.Loans)	1,200	1,200	1,200	1,200
<b>TOTAL</b>	<b>35,700</b>	<b>36,000</b>	<b>43,500</b>	<b>45,400</b>

The above figures from 2009/10 start from the current level of external debt £22.5m (as per section 1a above) and add £5m, say, for temporary debt for the operational boundary and £6m for the authorised limit and then add on the total borrowing requirements set out in section 1c above.

## Interest Rate Exposures

### (Interest payable on borrowing LESS interest receivable on investments)

Interest rate risk management is a top priority for local authorities. While fixed-rate borrowing and investment can contribute to reducing the uncertainty surrounding future interest rate projections, in times of fluctuating rates, in order to generate optimum performance, it is advisable to retain a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio.

The setting of upper limits has the effect of setting ranges within which an authority would limit its exposure to both fixed and variable interest rate movements.

	2008/09 Approved	2009/10	2010/11	2011/12
	%	%	%	%
<b>Fixed interest rate exposure</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Variable interest rate exposure</b>	<b>80</b>	<b>80</b>	<b>80</b>	<b>80</b>

### **Maturity Structure of Borrowing**

This indicator is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

	2008/09 Approved	2009/10	2010/11	2011/12
<b>Amount of projected borrowing that is fixed rate, maturing in each period as a percentage of total projected borrowing that is fixed rate:</b>				
	%	%	%	%
Under 12 months	<b>25</b>	<b>25</b>	<b>40</b>	<b>45</b>
12 months and within 24 months	<b>25</b>	<b>25</b>	<b>40</b>	<b>45</b>
24 months and within 5 years	<b>30</b>	<b>25</b>	<b>40</b>	<b>45</b>
5 years and within 10 years	<b>40</b>	<b>25</b>	<b>40</b>	<b>45</b>
10 years and above	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Previously all of the borrowing was repayable over more than 10 years, the repayment dates being spread across a variety of periods from 2036 to 2058. However, the new borrowing will mature in less than five years.

### **Total principal sums invested for periods longer than 364 days.**

The council does not usually invest for longer than 364 days, but as a safeguard it is recommended that the limit should be £12m for investments maturing beyond 31/03/10 and 31/03/11 and £2m for maturities beyond 31/03/12 to enable officers to enter into forward contracts.