Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

9 MARCH 2011

REPORT OF HEAD OF FINANCIAL SERVICES

A.3 ANNUAL TREASURY STRATEGY for 2011/12 (INCLUDING PRUDENTIAL AND TREASURY INDICATORS)

(Report prepared by Jim Smetherham*)*

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To agree the Annual Treasury Strategy for 2011/12 (including Prudential And Treasury Indicators) for submission to Council.

EXECUTIVE SUMMARY

The Annual Treasury Strategy for 2011/12 including Prudential and Treasury Indicators (Appendix A) was initially considered by Cabinet on 16 February 2011. Cabinet agreed the Strategy for submission to Corporate Management Committee for review.

The Strategy submitted to Corporate Management Committee included minor changes in the last paragraph of "Section 1 Background" of the Annual Treasury strategy to reflect the latest position in respect of the refinancing of the Housing Revenue Account.(HRA) following the guidance issued by the Department of Communities and Local Government on 11 February 2011 which was too late to be included in the Cabinet agenda papers.

The Annual Treasury Strategy now attached as Appendix A includes that amendment.

Corporate Management Committee considered the Strategy at its meeting on 28 February 2011 and resolved

(b) That the Cabinet be informed that, in the opinion of this Committee, in pursuing its investment opportunities the Council should still continue to advocate the principle of "Safety over Return".

Cabinet are now asked to agree the Annual Treasury Strategy for 2011/12 (including Prudential And Treasury Indicators) for submission to Council.

RECOMMENDATION

That Cabinet notes the comment of the Corporate Management Committee and agrees that the Annual Treasury Strategy for 2011/12 (including Prudential And Treasury Indicators) attached at Appendix A be submitted to Council for approval.

APPENDICES
Appendix A – Annual Treasury Strategy for 2011/12 (including Prudential And Treasury Indicators)

Tendring
District Council

PRO BONO OMNIUM
FOR THE GOOD OF ALL

ANNUAL TREASURY STRATEGY FOR 2011/12

March 2011

Annual Treasury Strategy for 2011/12

The Annual Treasury Strategy has been prepared in accordance with the revised CIPFA Code and includes the following sections.

1. Background
2. Treasury Limits for 2011/12 to 2013/14
3. Prudential and Treasury Indicators for 2011/12 to 2013/14
4. Current Portfolio Position
5. Borrowing Requirement
6. Economic Position
7. Interest Rates
8. Borrowing strategy
   - 8.1 External v internal borrowing
   - 8.2 Net Debt Position
   - 8.3 Policy on borrowing in advance of need
9. Debt Rescheduling
10. Annual Investment Strategy
    - 10.1 Investment Policy
    - 10.2 Creditworthiness Policy
    - 10.3 Credit Limits
    - 10.4 Country Limits
    - 10.5 Investment Strategy
    - 10.6 End of year investment report

1. Background

The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The Council's risk appetite is low and it has taken, historically, a risk adverse approach to Treasury Management, with the security and liquidity of the investment the prime concern, and the budget for income from investments being formulated on this basis. The Annual Strategy for 2011/12 is based on this risk adverse approach continuing.

For a number of years the Council has engaged the services of treasury advisors to provide its officers with advice on treasury management issues. The current advisors are Sector Treasury Services (Sector). However the final decision and responsibility for the actions taken sits with the Council's own officers after considering that advice.

The details of the delegations and responsibilities for treasury management are contained within the Council's constitution as follows:-

- Part 3 – delegated powers - Responsibilities of Cabinet
- Part 3 – delegated powers – Finance Portfolio – delegation to officers and
- Part 4 – Financial Procedure Rules. Section 13.

The Localism Bill is proposing to bring in the self financing of the Housing Revenue Account (HRA) from 1 April 2012. Guidance on the arrangements was issued by the Department of Communities and Local Government on 11 February 2011 and indicates that the Council is likely to have to take on additional debt of approximately £33m. A full report will be presented to Members later in 2011/12 setting out the proposals and the Annual Treasury Strategy and the Prudential and Treasury indicators for 2012/13 will take into account the management of this additional debt and will need to include a separate HRA borrowing strategy. However this strategy for 2011/12 has been prepared on the basis of the current position.

2. Treasury Limits for 2011/12 to 2013/14

It is a statutory duty under Section 3 of the Act and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing

Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in Annex 1 of this report.

3. Prudential and Treasury Indicators for 2011/12 to 2013/14

Prudential and Treasury Indicators (as set out in Annex 1) are relevant for the purposes of setting an integrated Treasury Management Strategy. The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The revised Code published in November 2009 was adopted by the Council on 30 March 2010.

4. Current Portfolio Position

The Council's treasury position at 24 January 2011 comprised:

- Borrowing from The Public Works Loan Board (PWLB) of £22.237m at fixed rates at an average rate of interest of 4.97%
- Investments of cash flow surpluses, which include reserves and capital receipts, on a short-term basis (less than 1 year) totalling £31.188m at an average rate of interest of 0.54%.

5. Borrowing Requirement

The Council's borrowing requirement is as follows:

	2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
	actual	probable	estimate	estimate	estimate
New borrowing	688	705	688	688	688
Alternative financing arrangements	Nil	Nil	Nil	Nil	Nil
Replacement borrowing	Nil	Nil	Nil	Nil	Nil
Total new borrowing requirement	**688**	**705**	**688**	**688**	**688**

6. Economic Position

The sovereign debt crisis in 2010 has resulted in bale outs for two Eurozone countries: Greece and Eire. There are also concerns for other Eurozone countries and earlier in 2010 there was concern for the UK's rating. However, at present, the UK's AAA sovereign rating is not felt to be under threat.

Although growth in the UK to date has been unexpectedly high so far this year it is not felt that this will be continued. The Bank of England and Office for Budget Responsibility are forecasting around 2.5% which is above what most forecasters are expecting. The latest figures released by the Office of National Statistics (ONS) on 25 January 2011 showed that there was a 0.5% contraction in the Q4 UK GDP which it is felt reduces the prospect of an interest rate rise in the near term.

At present the economic outlook is uncertain. This uncertainty arises because it is very difficult to forecast the impact a number of discreet scenarios will have on the UK economy. The major areas likely to impact on the UK's ability for a strong economic recovery are:

- the speed of economic recovery in the UK's major trading partners - the US and EU
- the danger of currency war and resort to protectionism and tariff barriers if China does not address the issue of its huge trade surplus due to its undervalued currency
- the degree to which UK government austerity programmes will dampen economic growth and undermine consumer confidence
- the speed of rebalancing of the UK economy towards exporting and substituting imports
- the potential for more quantitative easing, and the timing of this in both the UK and US, and its subsequent reversal
- the speed of recovery of banks' profitability and the availability of credit to borrowers
- the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy

7. Interest Rates

A variety of forecasts published by a number of institutions has been provided to the Council. The following table gives Sector's view on Bank Rate movements and their forecast for the PWLB new borrowing rate based on that view.

	Mar 2011	Jun 2011	Sep 2011	Dec 2011	Mar 2012	Mar 2013	Mar 2014
Bank Base rate	0.50%	0.50%	0.50%	0.75%	1.00%	2.25%	3.25%
5yr PWLB rate	3.30%	3.30%	3.40%	3.50%	3.60%	4.30%	5.00%
10yr							

PWLB rate	4.40%	4.40%	4.40%	4.50%	4.70%	5.10%	5.40%
25yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%
50yr PWLB rate	5.20%	5.20%	5.20%	5.30%	5.30%	5.50%	5.70%

If recovery from the recession proves to be weaker and slower than currently expected, the Bank Rate increases may be delayed and/or could be lower than forecast.

8. Borrowing Strategy

8.1 External v Internal Borrowing

The main Prudential Indicator relevant to capital investment is the Capital Financing Requirement (CFR). This is the total outstanding capital expenditure that has not yet been funded from either revenue or capital resources and is therefore a measure of the Council's underlying borrowing need after taking into account the provision included in the revenue budgets for the repayment of outstanding debt.

The borrowing to finance the capital expenditure can be either from external sources or the Council can use its own internal resources.

The planned external debt compared to the CFR over the next 5 years is shown in the following table, together with the amount funded from internal resources.

	Revised 2010/11	Estimate 2011/12	Forecast 2012/13	Forecast 2013/14	Forecast 2014/15	Forecast 2015/16
	£000's	£000's	£000's	£000's	£000's	£000's
CFR as at 31 March	**26,808**	**27,181**	**27,567**	**27,965**	**28,375**	**28,796**
External debt as at 1 April	22,331	22,138	21,928	22,722	23,000	24,258
Less: estimated repayment of debt	(193)	(210)	(206)	(1,222)	(242)	(262)
Total estimated external debt as at 31 March	22,138	21,928	21,722	21,500	22,758	23,996

Forecast of internal financing	4,670	5,253	5,845	6,465	5,617	4,800
Forecast of external borrowing required to meet long term internal financing target			1,000	1,500	1,500	
Revised forecast of Internal borrowing	4,670	5,253	4,845	4,965	4,117	4,800

The above table shows, based on the current capital programme, that there is no need to borrow externally until 2012/13.

At the present time the cheapest form of borrowing is internal borrowing using the Council's earmarked reserves and capital receipts. Over the next three years investment rates are expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace external debt (this is referred to as internal borrowing). This would maximise short term savings.

However, short term savings by avoiding new long term external borrowing in 2011/12 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

However the use of internal resources is only a temporary solution as, in time, these reserves and capital receipts will be utilised to finance service initiatives and capital investment and at that point will not be available.

The Council's officers have made an assessment, based on advice from previous treasury advisors, of the amount of internal resources that it is prudent to use to finance capital expenditure and it is felt taking into account the Council's financial position, that £5m would, at the present time, and over the medium term, be an appropriate level of internal borrowing. However with the reduction in Government grants over the next 4 years following the 2010 Comprehensive Spending Review necessitating the use of these reserves to support the budget and facilitate the transformation of the Council this limit will be reviewed and may have to be reduced.

Any borrowing requirements during the next 5 years will take into account the availability of internal resources and where external borrowing is appropriate consideration will be given to the following options: the choice of which will be dependant upon the prevailing market rates at the time and the forecast of future interest rate movements.

1. Long term fixed rate maturity loans for periods up to 50 years to secure long term stability and protect the Council from interest rate fluctuations.
2. Where interest rate forecasts are that long term rates will be lower in future years
    - Variable or fixed rate loans for up to 10 years
    - Annuity or EIP (equal instalments of principal) loans instead of to maturity loans

The use of any particular option will depend on the interest rates at the time and the view as to the movement in interest rates in the future. At present all of the Council’s external debt is with the PWLB and although this is the preferred route external borrowing from the financial markets will be considered provided it is financially advantageous to do so and there are no additional administrative burdens that would negate the financial advantage.

Consideration will be given to borrowing some or all of the amounts scheduled to be borrowed in the period 2012/13 to 2014/15 in 2011/12 in accordance with the policy of borrowing in advance of need, as set out in section 8.3 below, so as to reduce the need to borrow when interest rates may be higher (see section 7 above).

Officers together with the treasury advisors have examined the potential for undertaking early repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt positions. However, the introduction by PWLB of significantly lower repayment rates than new borrowing rates in November 2007, compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that large premiums would be incurred by such action and cannot be justified on value for money grounds. This situation will be monitored in case the differential is narrowed by the PWLB or repayment rates rise substantially.

8.2 Net Debt Position

The Prudential Code requires the Council to consider the risks and benefits where there is a significant difference between the gross and net borrowing position. This comparison will help to assess the Council’s credit risk which would apply if the council has surplus resources invested at a low interest rate which could be used long term to repay existing debt or to negate the need for additional new debt both at higher interest rates. The table below sets out the Council’s probable position.

Comparison of gross and net debt positions at year end	2009/10	2010/11	2011/12	2012/13	2013/14
	actual	probable out-turn	estimate	estimate	estimate
	£'000	£'000	£'000	£'000	£'000
Actual external debt (gross)	22,331	22,138	21,928	22,722	23,000
Investments	18,850	17,000	15,000	15,000	15,000
Net debt	**3,481**	**5,593**	**6,928**	**7,722**	**8,000**

a) The Code defines investments as long and short term investments plus cash and bank equivalent and from this total should be deducted any investments held clearly and explicitly in the course of the provision and for the purposes, of operational services.
b) In this context the Council's various Earmarked Reserves and the Uncommitted Reserve all support the operational objectives of the Council. Similarly the HRA Balance and the Major Repairs Reserve support the operational objectives of the HRA.
c) The total investments as at 31 March 2010 were £18.85m. However General Fund and HRA reserves as mentioned in b) above totalled £21.7m. The difference is accounted for by internal funding of capital investments and the net position regarding current assets and liabilities.
d) The net debt position shows the Council:-
   - Has not borrowed beyond its cashflow capability
   - Does not have excess resources which could be used to repay debt long term.

Given the severe reductions in Local Government funding and the gradual reduction in the level of the Council's earmarked reserves and capital receipts, the overall strategy is to keep borrowing to the minimum. This both restricts the additional cost falling to the revenue account and ensures repayments can be made. If opportunity arises external debt will be repaid, although this is difficult under current arrangements as set out in section 9. If borrowing is required then as far as possible it will be internally financed within the parameters set out.

Against this background caution will be adopted with the 2011/12 treasury operations. The Head of Financial Services will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, and take the appropriate action in accordance with the Council's Financial Procedure Rules.

8.3 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

9. Debt Rescheduling

The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which has now been compounded since 20 October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans, and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

As short term borrowing rates will be considerably cheaper than longer term rates there may be some potential for some residual opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the size of premiums incurred, their short term nature, and the likely cost of refinancing these short term loans once they mature compared to the current rates of longer term debt in the existing portfolio.

Any opportunities for debt rescheduling will be considered if such action would be advantageous to the council. The reasons for any rescheduling to take place will include:

- the generation of cash savings and/or discounted cash flow savings
- helping to fulfil the strategy outlined above

- enhance the balance of the portfolio

Consideration will also be given to identifying if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

10. Annual Investment Strategy

10.1 Investment Policy

The Council will have regard to the Department of Communities and Local Government's (CLG) Guidance on Local Government Investments (the Guidance) issued in March 2004, any revisions to that guidance and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the Code). The Council's investment priorities when investing are: -

- The security of capital and
- The liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with these main priorities.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

Investment instruments identified for use in the financial year are listed in Annex 2 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

The majority of the Council's investments will be in Specified Investments although limited investments may be made in Non- Specified investments.

10.2 Creditworthiness Policy

This Council uses credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors. In determining the appropriate credit rating the Council will use the lowest rating available to determine the investment limits both in terms of amount and period for a particular counterparty. This is in accordance with the recommendations of The Code. Counterparties rated by only one agency will not be used. Counterparties will not meet the minimum rating criteria set out in the TMPs if their long term rating is B or below.

One of the credit rating agencies is much more aggressive in giving lower ratings than the other two agencies and this could result in the Council's counterparty list becoming too restrictive. If this happens the position will be discussed with the Council's treasury advisors and the Annual Treasury Strategy may need to be revised and approved by Council.

- All credit ratings will be monitored weekly**.** The Council is alerted to changes to ratings of all three agencies through its use of the Creditworthiness Service provided by Sector
- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use for a new investment will be withdrawn immediately.

The Code also recommends that credit ratings are not the sole determinant of creditworthiness and therefore the Council will also use available market information from a variety of sources including

1. The Creditworthiness Service utilises movements in Credit Default Swaps against the iTraxx benchmark and other market data on a weekly basis. This creditworthiness service information will be used to confirm the assessed creditworthiness derived from the three ratings agencies. Where the information from this service indicates a lower standing for a particular counterparty than that derived via the credit ratings then the investment limits and length of investments applicable to that counterparty will be adjusted accordingly or the counterparty removed from the list.
2. Market data and information,
3. Information on government support for banks and the credit ratings of that government support

10.3 Credit Limits

Through its approved Treasury Management Practices the Council will set maximum limits for the amount that can be invested with any counterparty. This limit will be determined by reference to the counterparty's credit rating and other criteria. In addition the amount invested in building societies and Certificates of Deposit is also limited to 50% of the total investment portfolio.

100% of the Council's investments may be in Treasury Bills or Gilts or invested with the Government's Debt Management Office (DMO). Although these sums are very secure the rate of interest is usually lower than the market rate, however Treasury Bills are a valuable tool in providing security and liquidity whilst the DMO offers a variety of investment terms and is a valuable source of investment should credit ratings of other financial institutions result in a reduction in the number of counterparties that meet the Council's minimum credit rating criteria.

10.4 Country Limits

The Council has determined that it will only use approved counterparties from the UK and those countries with a minimum sovereign credit rating of AA from

Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list will be amended by officers should ratings change in accordance with this policy.

In a similar way that individual counterparties have a maximum investment limit, countries other than the UK will also have a limit.

10.5 Investment Strategy

The Council's funds are managed in-house and are mainly cash flow based but there is a core balance that could be available for investment for longer periods (2-3 years). Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

The bank rate is forecast to commence rising in quarter 4 of 2011 and then rise steadily from thereon (see Section 7). The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile without compromising the Council's priority of security of the investments.

For 2011/12 the Council has budgeted for an investment return of 0.55% on investments placed during the financial year, but this is dependent upon the upward movement of interest rates during 2011/12.

For its cash flow generated balances the Council will seek to utilise its business reserve accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest. At the present time these short dated deposits are paying interest rates at or above base rate and provide a good level of liquidity to help manage the Council's cash flow.

10.6 End of year investment report

At the end of the financial year the Cabinet will receive a report on its investment activity.

Prudential Indicators

Indicator Title	2009/10 Actual	2010/11 Revised	2011/12	2012/13 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast	2010/11 Actual Position to December 2010
Capital Expenditure		**£,000**	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**
Non -HRA	4,731	8,624	3,595	1,043	1,774	1,051	1,242	3,327
HRA	2,302	3,878	3,055	3,055	3,055	3,055	3,055	2,059
TOTAL	**7,033**	**12,502**	**6,650**	**4,098**	**4,829**	**4,106**	**4,297**	**5,386**
Ratio of Financing Costs to Net Revenue Stream								
Non –HRA	2.54%	2.70%	2.52%	2.54%	2.48%	2.51%	2.20%	This indicator is a yearly position and will change if the revenue stream or financing costs are different to that estimated. The revised figures are the latest estimate based on the draft budget proposals
HRA	26.82%	33.84%	25.57%	25.14%	24.76%	24.38%	24.01%	
TOTAL	**29.36%**	**36.54%**	**28.09%**	**27.68%**	**27.23%**	**26.89%**	**26.21%**	
If the Council had funded the proposed capital investment and associated ongoing costs by a direct charge on Council Tax alone the **estimate of the incremental impact of capital investment decisions on the Council Tax** would have been as follows.			**(£1.97)**	**(£1.97)**	**(£1.97)**	**(£1.97)**	N/A as previous Capital programme did not include 2014/15	Not a measurable indicator during year as it is intended to be a measure of the impact of investment proposals when the capital programme is agreed.

Prudential Indicators (cont.)

Indicator Title	2009/10 Actual	2010/11 Revised	2011/12	2012/13 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast	2010/11 Actual Position to December 2010
Estimate of the Incremental Impact of Capital Investment Decisions on Housing Rents			**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	Not a measurable indicator during year as it is intended to be a measure of the impact of investment proposals when the capital programme is agreed
Estimates of Capital Financing Requirement								Not a measurable indicator during the year until the actual financing of the capital programme is determined, but the external debt should not exceed this figure. See indicator 12
Non -HRA	8,195	7,867	7,552	7,250	6,960	6,682	6,415	
HRA	18,236	18,941	19,629	20,317	21,005	21,693	22,381	
TOTAL	**26,431**	**26,808**	**27,181**	**27,567**	**27,965**	**28,375**	**28,796**	
Net Borrowing and the Capital Financing Requirement								
Capital Financing Requirement	26,431	26,808	27,181	27,567	27,965	28,375	28,796	
External Debt	22,331	22,138	21,928	22,722	23,000	24,258	23,996	22,237
Internal borrowing	4,100	4,670	5,253	4,845	4,965	4,117	4,800	

Proposed Prudential Indicators 2010/11 revised, 2011/12 and forecasts for 2012/13 to 2015/16

Treasury indicators

Indicator Title	2009/10 Actual	2010/11 Revised	2011/12	2012/13 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast	2010/11 Actual Position to December 2010
Has the Authority adopted the *'CIPFA Code of practice for Treasury management in the public sector'*	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Authorised Limit (of external debt)								
Borrowing		33,597	35,419	36,312	36,797	35,733	34,178	22,237
Other long Term Liabilities		-	-	-	-	-	-	
		33,597	**35,419**	**36,312**	**36,797**	**35,733**	**34,178**	
Operational Boundary (of External Debt)								
Borrowing		27,885	27,691	28,481	28,776	27,553	25,812	22,237
Other long Term Liabilities		-	-	-	-	-	-	
		27,885	**27,691**	**28,481**	**28,776**	**27,553**	**25,812**	
Interest Rate Exposures								
Upper Limit for Fixed Interest Rates		26,808	27,181	27,567	27,965	28,375	28,796	
Upper Limit for Variable Interest Rates		8,042	8,154	8,270	8,390	8,513	8,639	
Prudential Limits for Principal Sums Invested for Periods Longer than 364 days	Nil	3,500	3,500	3,500	3,500	3,500	3,500	Nil

Proposed Prudential Indicators 2010/11 revised, 2011/12 and forecasts for 2012/13 to 2015/16

Maturity Structure of Fixed rate Borrowing

Indicator Title	2009/10 Actual	2010/11 Revised	2011/12	2012/13 Forecast	2013/14 Forecast	2014/15 Forecast	2015/16 Forecast	2010/11 Actual Position to December 2010
Upper and Lower Limits for the Maturity Structure of Borrowing								
Upper Limit for the Maturity Structure of Borrowing								
Under 12 months	0.87%	25%	25%	25%	25%	25%	25%	0.95%
12 months and within 24 months	0.94%	30%	30%	30%	30%	30%	30%	0.93%
24 months and within 5 years	7.48%	60%	60%	60%	60%	60%	60%	7.80%
5 years and within 10 years	4.97%	75%	75%	75%	75%	75%	75%	4.08%
10 years and above	85.74%	95%	95%	95%	95%	95%	95%	86.24%
Lower Limit for the Maturity Structure of Borrowing								
Under 12 months	0.87%	0%	0%	0%	0%	0%	0%	0.95%
12 months and within 24 months	0.94%	0%	0%	0%	0%	0%	0%	0.93%
24 months and within 5 years	7.48%	0%	0%	0%	0%	0%	0%	7.80%
5 years and within 10 years	4.97%	0%	0%	0%	0%	0%	0%	4.08%
10 years and above	85.74%	25%	25%	25%	25%	25%	25%	86.24%

SPECIFIED AND NON-SPECIFIED INVESTMENTS

This schedule sets out the specified and Non-Specified investments the Council may use in 2011/12.

Investments may be in the form of direct deposits, Certificates of Deposits (CDs), or the purchase of financial instruments such as Treasury Bills, Bonds and Gilts.

SPECIFIED INVESTMENTS:
An investment is a Specified Investment if all of the following apply

1. The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling
2. The investment is not a long term investment which is one that is due to be repaid within 12 months of the date on which the investment is made or one which the local authority may require to be repaid within that period.
3. The investment is not defined as capital expenditure by regulations
4. The investment is made with a body or in an investment scheme of high credit quality or the investment is made with the following public sector bodies.
    a. UK Government
    b. Local authority
    c. Parish council or community council

Where an investment is being made with a UK nationalised or part nationalised bank this will be treated for the purposes of classification as a Specified or Non-specified investment as being invested with the UK Government.

High credit quality
For a counterparty to meet the high credit quality criteria for specified investments, that counterparty must meet as a minimum the ratings of the three credit rating agencies listed below, and not be the subject of any adverse indications from the following sources.

- Credit Default Swap index
- The quality financial press
- Market data
- Information on government support for banks and
- The credit ratings of that government support

Ratings	**Fitch**	**Moodys**	**Standard & Poors**
Short term	F1	P-1	A-1
Long term	A-	A3	A

NON SPECIFIED INVESTMENTS

A maximum of £3.5m may be held, in aggregate, in Non-Specified Investments

The only Non-Specified investments that the Council will use in 2011/12 are investments for periods of longer than 12 months with any institution or investment instrument that would have been classed as a Specified Investment if the investment had been for less than 12 months.