Subject:	Annual Report on Treasury Management Activities for 2010/11
Committee:	Audit Committee
Date:	27 June 2011
Cabinet Member:	Councillor Bowyer
CMT Member:	Director for Corporate Support
Author:	Sandra Wilson (Corporate Accountancy and Finance Manager)
Contact:	Tel: (01752) (30)4942 e-mail: sandra.wilson@plymouth.gov.uk
Ref:	Acct/SW
Key Decision	No
Part:	I

Executive Summary:

In order to comply with the Code of Practice for Treasury Management, the Council is required to formally report on its Treasury Management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report covers the treasury management activities for financial year 2010/11 including the final position on the statutory Prudential Indicators.

The report includes a number of benchmarking indicators for investments and using these indicators shows that the City Council's investment performance compares favourably with other Unitary Authorities.

The Council's external loan borrowing at 31March 2011 stood at £286.383m. The borrowing strategy for the year was to reduce the Council's underlying level of borrowing and investments should market conditions allow. Long term borrowing has reduced by £1.511m during the year. This is less than originally anticipated, due mainly to the movement in interest rates and gilts which made early repayment of debt expensive in terms of premature redemption penalties. The Council continued to maximise the use of short term borrowing at favorable rates to meet cash flow requirements, which has led to an overall increase in total borrowing of £19.824m at year end. Short term borrowing is generally taken for periods of less than 1month.

The use of short term borrowing has also led to an increase in investments at year end of £8.918m, leaving total investments of £165.802m. Of this amount £65.600m was invested in instant access call accounts and could be withdrawn without penalty should circumstances require.

In terms of the impact against the revenue budget, an overall favorable variance of (£1.437m) was achieved in the year. This is mainly as a result of savings in interest payable from taking the Devon pre re-organisation debt in house and longer term investments being taken at above target rate.

In line with the recommendations in the Revised Code of Practice, this report is submitted to Audit Committee as the Committee responsible for scrutiny of the Treasury Management function.

This report is required to be submitted to full Council.

Corporate Plan 2011-2014:

Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

Into the medium and longer term the Council is facing significant pressures due to the national economic situation, which has led to a reduction in resources for local authorities over the Government's latest spending period. Effective treasury management will be essential in ensuring the Council's cash flows are used to effectively support the challenges ahead.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.

There is an inherent risk to any Treasury Management activity. The Council continues to manage this risk by ensuring all investments are undertaken in accordance with the approved investment strategy, and keeping the Counter party list under constant review.

Recommendations & Reasons for recommended action:

1. Audit Committee note the Treasury Management report for 2010/11.

2. The report be referred to Full Council as required by the CIPFA Treasury Management Code of Practice (TMP note 6).

3. Audit Committee approve the changes to the Treasury Management Practices as outlined at Appendix 5.

Alternative options considered and reasons for recommended action:

None- requirement to report to Council on the Treasury Management activities for the year.

Background papers:

- Treasury Management Strategy report to Audit Committee 5 February 2010
- 2010/11Budget Papers – presented to Full Council 1 March 2010
- Mid Year Review report to Audit Committee 15 November 2010
- Joint Finance and Performance report for 2010/11 to Cabinet 7 June 2011

Sign off:

Fin	DJN 1112.002	Leg/ Dem& Gov	TH0018	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member: Malcolm Coe											

Annual Report on Treasury Management Activities for 2010/11

1. Introduction

1.1 Treasury Management in Local Government is underpinned by the CIPFA Code of Practice on Treasury Management in the Public Services (The Code) and in this context is the "*the management of the Council's investments and cash flows, its banking, money market and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks*".

1.2 The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy, and as a minimum, formally report on their treasury activities and arrangements to Full Council at least twice a year- mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities and enable those with ultimate responsibility/governance of the treasury management function to scrutinise and assess its effectiveness and compliance with policies and objectives.

1.3 This report outlines the Treasury Management activities in 2010/11, providing information on progress and outcomes against the approved strategy, and builds on the mid year report presented to Audit Committee and Full Council in November 2010.

1.4 The responsibility for implementing and monitoring Treasury Management polices and practices and for the execution and administration of Treasury Management decisions is delegated by the Council to its Section 151 Officer – the Director for Corporate Support, and is overseen by a Treasury Management Board consisting of senior officers within Finance, Assets and Efficiencies and the portfolio Member for Finance, Property and People.

1.5 The day to day operation of the treasury management activity is carried out in accordance with detailed Treasury Management Practices (TMP's). These are required to be updated annually. The TMP's applicable to 2010/11 were approved by Audit Committee at its meeting of 15 November 2010.

1.6 The Council works closely with its treasury management advisors Arlingclose who assist the Council in formulating views on interest rates when determining the Treasury Management Strategy, regular updates on economic conditions and interest rate expectations, and advice on specific borrowing and investment decisions.

1.7 This report:

a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
b) presents details of capital financing, borrowing, debt rescheduling and investment transactions for the year 2010/11;
c) provides an update on the risk inherent in the portfolio and outlines actions taken by the authority during the year to minimise risk;
d) gives details of the outturn position on treasury management transactions in 2010/11;

e) confirms compliance with treasury limits and Prudential Indicators (PI's) and outlines the final position on the PI's for the year.

1.8 In accordance with TMP note 6, the report is required to be presented to Full Council.

1.9 The Treasury Management Practices for 2011/12 have been updated and the changes are outlined at Appendix 5. These now require approval by Audit Committee. The full document is available as follows:

TM Practices update 11-12 at 01-04-11.doc

2. The Economy and Events in 2010/11

2.1 Before reviewing the Council's performance for the year it is appropriate to outline the national and economic background within which Council Officers operated during 2010/11:

- The economy grew by 1.3% in calendar year 2010.
- Higher commodity, energy and food prices and the increase in VAT to 20% pushed the February 2011 annual inflation figure to 4.4%.
- The Bank Rate was held at 0.5%.
- Significant reductions were made to public expenditure, in particular local government funding.
- Credit ratings of European banks were downgraded.
- The sovereign rating of Spain was also downgraded but remained in the 'double-A' category.
- 5-year and 10-year gilt yields fells to lows of 1.44% and 2.83% respectively. However yields rose in the final quarter across all gilt maturities on concern that higher inflation would become embedded and greatly diminish the real rate of return for fixed income investors.
- Following the Chancellor's announcement on the Spending Review on 20 October 2010, HM Treasury instructed PWLB to Increase the average borrowing rate on all new loans to an average of 1% above UK Government Gilts to take effect immediately.

2.2 A more detailed review has been provided by the Council's advisors, Arlingclose, and is attached at Appendix 1.

2.3 Appendix 2 outlines the various Interest rates in force during the year.

3. The Council's Strategy for 2010/11

3.1 The Council's Treasury Management Strategy which incorporates the annual Investment Strategy was approved by Full Council on 1 March 2010. As an overriding principle, the strategies proposed that in the current financial climate the Council should continue to seek to reduce the underlying level of borrowing and investments. The Council should seek to make greater use of short term variable rate borrowing, whilst at the same time seeking to balance its investments across a range of investment instruments.

3.2 The mid year report outlined that in the light of changes made to PWLB borrowing rates as part of the Government's Comprehensive Spending Review the Council's borrowing policy for the remainder of the year would be to maximise short term borrowing and cashflow balances to finance the Capital Programme.

Review of the Council's Performance 2010/11

4. Treasury Portfolio

4.1 Table 1 shows the Council's overall Treasury Portfolio at the end of 2010/11 compared to 2009/10.

Table 1

31/3/2010 £m	Average Interest rate %		31/3/2011 £m	Average Interest rate %
		External Borrowing Long-term:		
28.889	5.8084	PWLB	61.315	5.4001
130.000	4.4202	Market	130.000	4.4202
0.083	3.5574	Bonds	0.083	1.1660
73.650	0.3685	Temporary Borrowing	94.985	0.4800
232.622	**3.3095**	**Total PCC Borrowing**	**286.383**	**3.3222**
33.937	5.2395	Devon Debt	0	0
266.559	**3.5552**	**Total Loan debt**	**286.383**	**3.3222**
		Long-term liabilities		
33.156	8.7300	PFI Schemes	31.753	8.7300
1.954	n/a	Finance leases*	1.441	n/a
35.110		**Total Long term Liabilities**	**33.194**	
301.669		**Total External Debt**	**319.577**	
(153.051)	2.1000	**Total Investments**	**(165.802)**	1.7207
148.618		**Net Borrowing/(Net Investment) Position**	**153.775**	

*subject to change in final statutory accounts

4.2 The total external debt as shown above includes long term liabilities in respect of PFI schemes or finance leases as these liabilities are seen as a credit arrangement thus increasing the Council's total debt and must be taken into account within the statutory borrowing limits. The Council has one PFI scheme, the contract with Pyramid to build and run the schools at Woodview campus and Riverside. The move to producing statutory accounts on an International Financial Reporting Standard (IFRS) basis has resulted in a reclassification of a number of leases from operating to finance leases. These have been added to the Council's Balance Sheet and previous years Balance Sheets restated as appropriate.

5. Borrowing

5.1 The borrowing strategy for the year, should market conditions allow, was:

- To manage out the risks inherent in the existing portfolio in terms of the proportion of market loans to PWLB
- To reduce the underlying level of debt

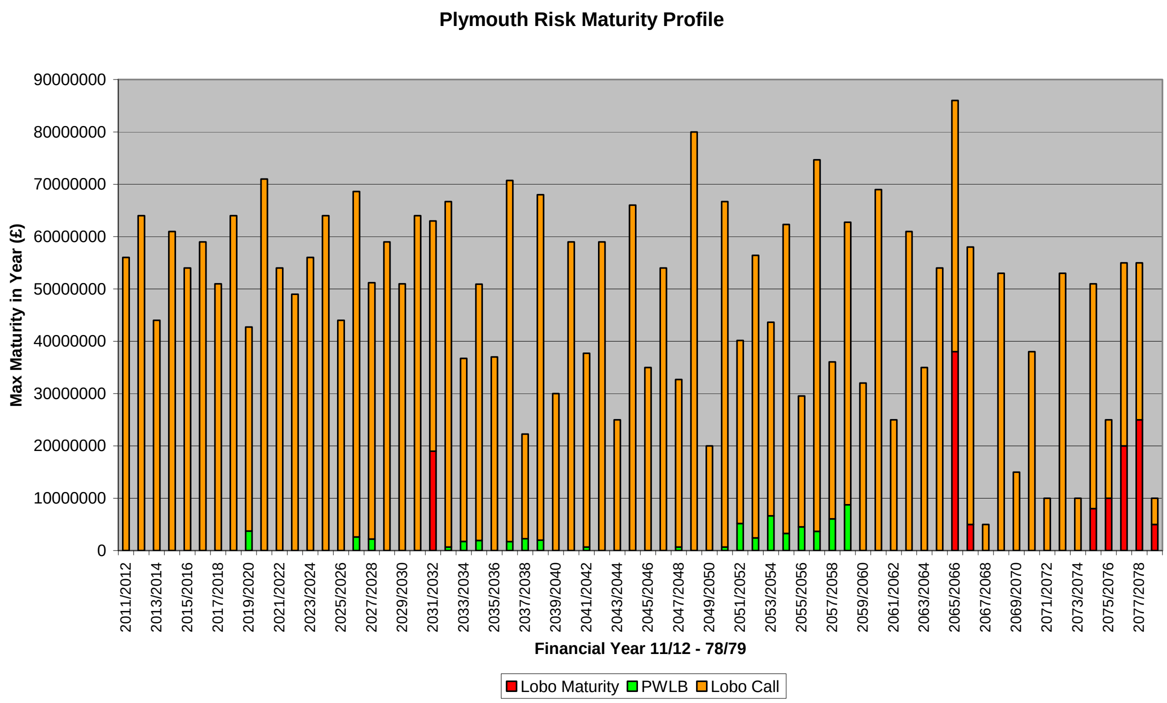
5.2 After considering the risks inherent in the existing portfolio and the outlook for interest rates in the short term, the capital financing borrowing requirement for 2010/11 was to be financed from short-term fixed rate borrowing or variable rate borrowing where rates were lower than those available to the Council on it's investments. Where borrowing rates were higher than investment rates internal resources would be used in lieu of borrowing with borrowing only taken to cover short term cash flow requirements. Capital expenditure levels, market conditions and interest rate levels would be monitored during the year in order to minimise borrowing costs over the medium to longer term.

5.3 The strategy report in particular outlined the risks to the Council in terms of its borrowing levels, highlighting the higher weighting of market loans to PWLB debt. This has been addressed in part during the year as a result of taking the Devon debt in-house which required a transfer of an equivalent amount of PWLB loan debt. No new long term borrowing has been taken out during the year.

5.4 Figure 1 below shows the maturity profile of the long term debt for the Council as at 31 March 2011.

5.5 The debt portfolio continues to include £130m of LOBO (market) loans. These loans have various option call dates where the banks have the ability to amend the loan terms and at which point the Council could choose to repay the loan if the terms are changed adversely. This is reflected within the maturity profile shown above (in amber) to enable officers to risk manage the Council's cashflows. During the year £49m of LOBO loans entered the period where they could have been called, but options were not exercised by the relevant banks.

Figure 1



5.6 Under Section 3 of the Local Government Act 2003 and supporting regulations the Council must determine and keep under review how much it can afford to borrow. The Council is required to set two limits:

- The Authorised Limit
- The Operational Boundary

5.7 The borrowing limits for 2010/11, originally approved by Council in March 2010, were as follows:

- Authorised limits £347m
- Operational Boundary £295m

These limits were revised to increase the limits to allow greater flexibility to take short-term borrowing to cover cashflow requirements, and approved by Full Council as part of the Prudential Indicators on 28 February 2011, The approved updated limits were as follows:

- Authorised limits £349m
- Operational Boundary £322m

5.8 The maximum debt outstanding during 2010/11 was £320.817m on 28 March 2011 (including £33.194m for the PFI and finance lease liabilities). This was within both the authorised limit and the operational boundary.

5.9 Table 2 shows the movement in the borrowing portfolio during the year. Although total debt has increased by £19.824m over the year this is due to the greater use of short term temporary borrowing to cover cash flow and financing of the capital programme at year end. The Council's long term debt has reduced by £1.511m which is in line with the approved strategy.

Table 2 Movement in Borrowing Portfolio

	Balance on 01/04/10 £000s	Debt Maturing £000s	Debt Repaid £000s	New Borrowing £000s	Balance on 31/03/11 £000s	Increase/ (Decrease) in Borrowing
Short Term Borrowing	73,650	(1,080,735)		1,102,070	94,985	21,335
Long Term Borrowing	158,972	(1,239)		33,665	191,398	32,426
Devon Debt	33,937		(272)	(33,665)	0	(33,937)
Total Borrowing	**266,559**	**(1,082,246)**	**(272)**	**1,102,070**	**286,383**	**19,824**

5.10 The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31March 2011 was estimated at £257.493m .

5.11 Devon Debt

During the year, Officers successfully negotiated the transfer of pre LGR debt of £33.665m, administered by Devon County Council, to the City Council. As a result of the transfer, Plymouth achieved net savings of (£1.122m) in terms of interest and loan repayments in 2010/11 and will gain greater flexibility over the management of the debt with the option to repay/reschedule the debt at a later date when terms become more favourable.

5.12 New borrowing in year

The use of short-term borrowing has been the most cost effective means of financing of capital expenditure and cashflow requirements. Matching short-term borrowing with the availability of liquid deposits held in bank call accounts has lowered overall treasury risk by allowing flexibility to reduce debt and investment levels at short notice should credit conditions deteriorate.

At the start of the year the Council had £73.650m of short term loans. These are generally taken for periods of less than 30 days, repaid and replenished with new loans as subject to availability and favourable rates during the year. At the end of the year the Council had £94.985m of short term loans.

The average period of new loans taken in the year was for 27 days at an average interest rate of 0.347%. This is below the bank base rate. Short term loans are generally taken from other local authorities.

5.13 Debt Repayment

The loan repayments made in the period relate to the Principal on the Devon County Debt loans prior to transfer on 25 June 2010.

5.14 Debt Rescheduling

There has been no debt rescheduling in the period. Officers along with the Council's advisers Arlingclose will continue to monitor PWLB interest rates looking for opportunities to repay any debt maximising the savings achieved whilst maintaining a balanced maturity profile.

5.15 Overall Debt Performance for the year

The average interest rate on the debt as at 31 March 2011 was 3.3222%, an overall reduction over the previous year end position. This is due in part to the lower average rate on loans previously administered by Devon after taking these in house.

Loan transactions were taken at various times throughout the year and at various rates. Taking all the transactions in the year, the overall average borrowing rate for 2010/11 was 3.5476% compared with a rate of 4.3092% for 2009/10.

6. Investments

Managing Investment Risk

6.1 The Guidance on Local Government Investments in England gives priority to Security and Liquidity of investments and the Council's aim is to achieve a Yield commensurate with these principles.

6.2 Security

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2010/11 This restricted new investments to the following, although as indicated not all of the instruments were used during the year:

- The Debt Management Office
- Other Local Authorities
- AAA-rated Stable Net Asset Value Money Market Funds (not used 2010/11)
- Deposits with UK Banks and Building Societies systemically important to the UK banking system and deposits with select non-UK Banks (Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the US).
- Bonds issued by Multilateral Development Banks, such as the European Investment Bank (not used 2010/11).

6.3 Table 3 summaries the counter parties available during the year together with the approved limits. The Counter Party list is kept under constant review and counter parties removed or limits adjusted as appropriate.

Table 3 Approved Counter Party Listing in force 31 March 2011

Financial Asset Category	**Criteria**	**Maximum Investment**	**Maximum Investment Term**
Government Debt Office	Central Government Office	No Limit	12 Months
UK Banks and Building Societies	Minimum credit rating: Fitch – Long-Term A+ Short-Term F1 Moody's – Long-Term A1 Short-Term P-1 S&P – Long-Term A+ Short-Term A-1	£30m	12 Months
Foreign Banks	Minimum credit rating: Fitch – Long-Term A+ Short-Term F1 Moody's – Long-Term A1 Short-Term P-1 S&P – Long-Term A+ Short-Term A-1	£10m	12 Months
Local Authorities	Unitary Councils County Councils Metropolitan Councils London Borough Councils	£5m	12 Months
Money Market Funds	AAA with Constant Net Asset value investing predominantly in Government securities. AAA with a Constant Net Asset investing in instruments issued primarily by financial institutions.	2.5% of overall investment portfolio	Call
Bonds Issued by Multilateral Development banks	AAA or Government Guaranteed Eurosterling Bonds	Total investment £20m or 10% of investment portfolio	10 years

6.4 Figure 2 below shows the actual split of deposits by country/sector as 31 March 2011. Table 4 provides more detail on the actual deposits by counter party group.

Figure 2

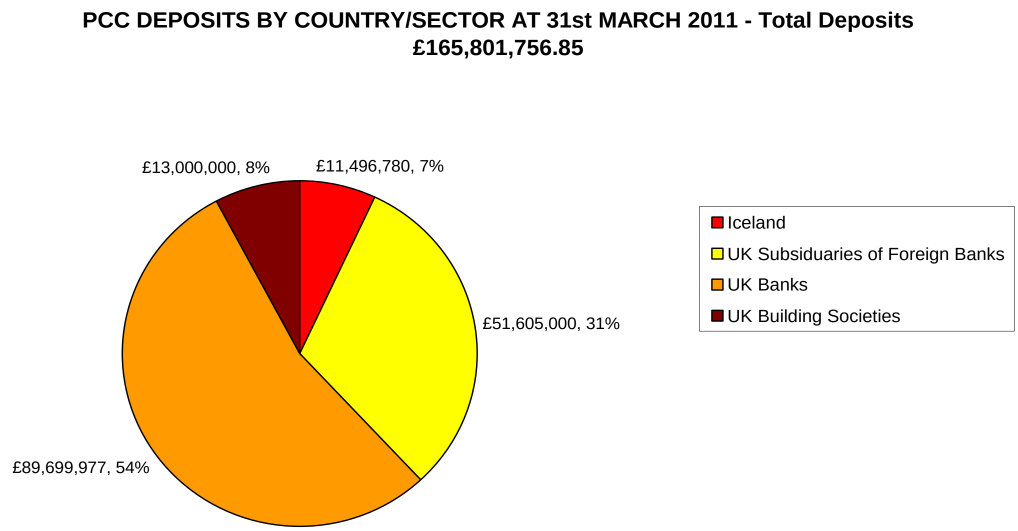


Table 4

Group	Bank/Institution	Total deposits £m
RBS Group	Royal Bank of Scotland	25.000
	Ulster Bank Ireland	5.000
Total RBS Group		**30.000**
Lloyds Banking Group	Bank of Scotland	29.700
Barclays Banking Group	Barclays	30.000
National Australia Bank Group	Clydesdale Bank	21.705
Nationwide Building Society	Nationwide Building Society	13.000
Banco Santander Group	Santander UK	29.900
Iceland deposits	Lansbanki Island	4.000
	Heritable Bank	1.497
	Glitnir	6.000
Total Deposits @ 31st March 2011		**165.802**

6.6 The movement in the investment portfolio during the year was as follows:

Table 5 **Movement in Investment Portfolio**

Investments	Balance on 31/3/10 £000	Investments Made £000	Maturities/ £000	Balance on 31/03/11 £000	Avg Rate % / Avg Life to maturity (days)
Short Term Investments (less than 1 year)	123,051	899,275	(872,524)	149,802	1.3895%/ 87days
Long term Investments (over 1 year)	30,000	0	(14,000)	16,000	6.485%/ 192 days
Total Investments	**153,051**	**899,275**	**(886,524)**	**165,802**	

6.7 The majority of the short term deposits were held in call or short term notice accounts. Appendix 3 provides more detail on the new longer term deposit investment activity for the year. The maximum approved term for new deposits in 2010/11 was 364 days.

6.8 CLG investment guidance which came into effect 1 April 2010 recommended that strategies should show details of assessing credit risk. Counterparty credit quality is assessed and monitored with reference to:

- Credit Ratings (Council's minimum long-term counterparty rating of A+ across all three rating agencies, Fitch, S&P and Moody's);
- Credit Default Swaps;
- GDP of the country in which the institution operates;
- the country's net debt as a Percentage of GDP;
- Sovereign Support Mechanisms /potential support from a well-resourced parent institution;
- Share Price.

6.9 The Council's treasury advisors, Arlingclose, have developed a matrix to score the credit risk of an authority's investment portfolio. The matrix allocates a numerical score based on the credit rating of an institution, with a AAA rated institution scoring 1, and a D rated institution scoring 15. This is then weighted to reflect both the size of the deposit and the maturity term of the deposit. The aim is to achieve an overall score of 5 or lower on both weighted averages to reflect an investment approach based on security. The lower the score the better the security of the deposit.

6.10 Table 6 shows the rating currently attached to the Council's portfolio and its movement during the year using this matrix.

Table 6 **Credit Risk Matrix**

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating
31/03/2010	4.25	AA-	4.65	A+
30/06/2010	4.31	AA-	4.42	A+
30/09/2010	4.22	AA-	4.51	A+
31/12/2010	4.27	AA-	4.59	A+
31/03/2011	4.20	AA-	4.75	A+

Note : These scores exclude any deposits with Icelandic banks.

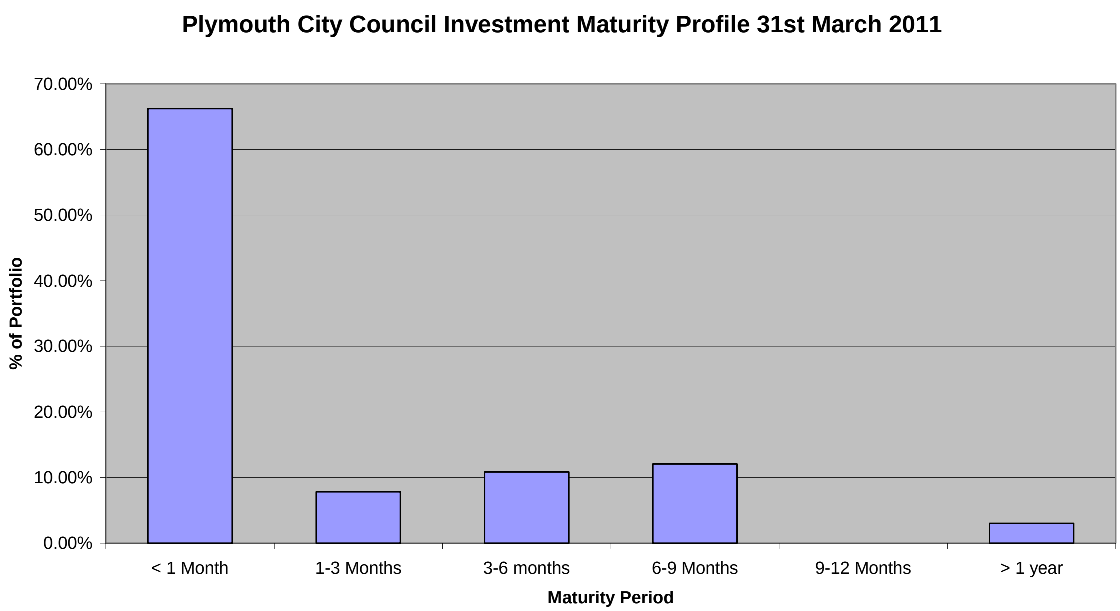
Based on the scoring methodology, the Council's Counterparty credit quality has been maintained through the year. Section 6.15 compares the authorities performance with that of other authorities who are clients of Arlingclose.

6.11 Liquidity

In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of overnight deposits and the use of call accounts.

6.12 The maturity profile of the Councils deposits is represented in figure 3. This shows a large proportion of deposits maturing in less than one month reflecting the deposits in call accounts giving the liquidity requirement to cover any adverse changes in market conditions. The Treasury Management Board has set a requirement that at least £15m should remain within callable deposits at all times.

Figure 3



6.13 Yield- Investment performance for the year

The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year.

6.14 During 2010/11 the Council invested for a range of periods from overnight to 364 days, dependent on the Council's cash flows, Officer's interest rate view and the interest rates on offer, and the economic climate. The Council's treasury management officers work to a benchmark rate of return, the 7 day London Interbank Bid (LIBID) rate – which is the rate which can be achieved on the London interbank market for cash deposits of 7 days and is regarded as the standard benchmark. The 7 day rate is calculated on a daily basis and averaged for the year. Table 7 below compares the average return achieved by the in-house team with the benchmark. An average rate of 1.0708% was achieved for new investments in the year against a budget of 1%.

Table 7

	Average Investment	Benchmark Rate %	Actual Return %
Internally Managed	£161.969m	0.50	1.7207

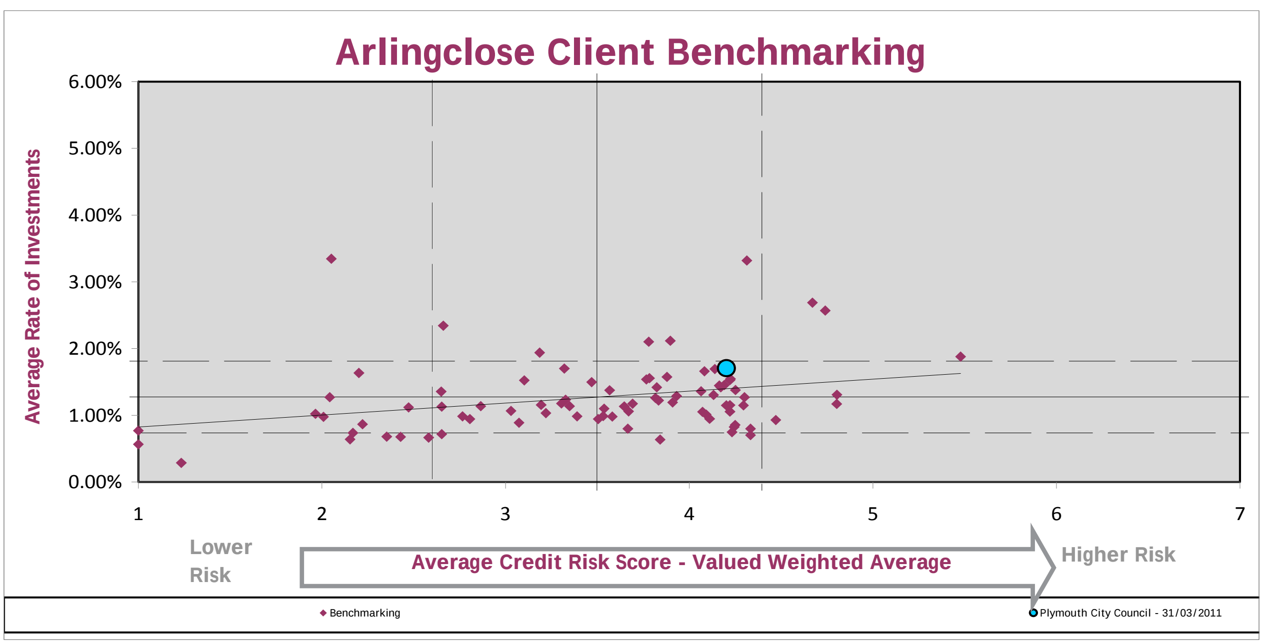
The table shows that the internal performance exceeded the benchmark for the year, despite the restricted investment counterparty list.

6.15 During the year, Arlingclose developed a set of benchmarking criteria to enable comparisons on investment performance to be made on data provided by all their clients. To compare like with like the following graphs compare our investment performance with other authorities. This is based on data provided to 31 March 2011. The results of the benchmarking are discussed at regular strategy meetings with the Advisors. The benchmarking has to be taken in the context of risk appetite and the legacy investments that the Council has in its portfolio.

6.16 The graphs used for comparison are:

1. Value Weighted Average v Return
2. Time Weighted Average v Return
3. Average number of days to Maturity v Return

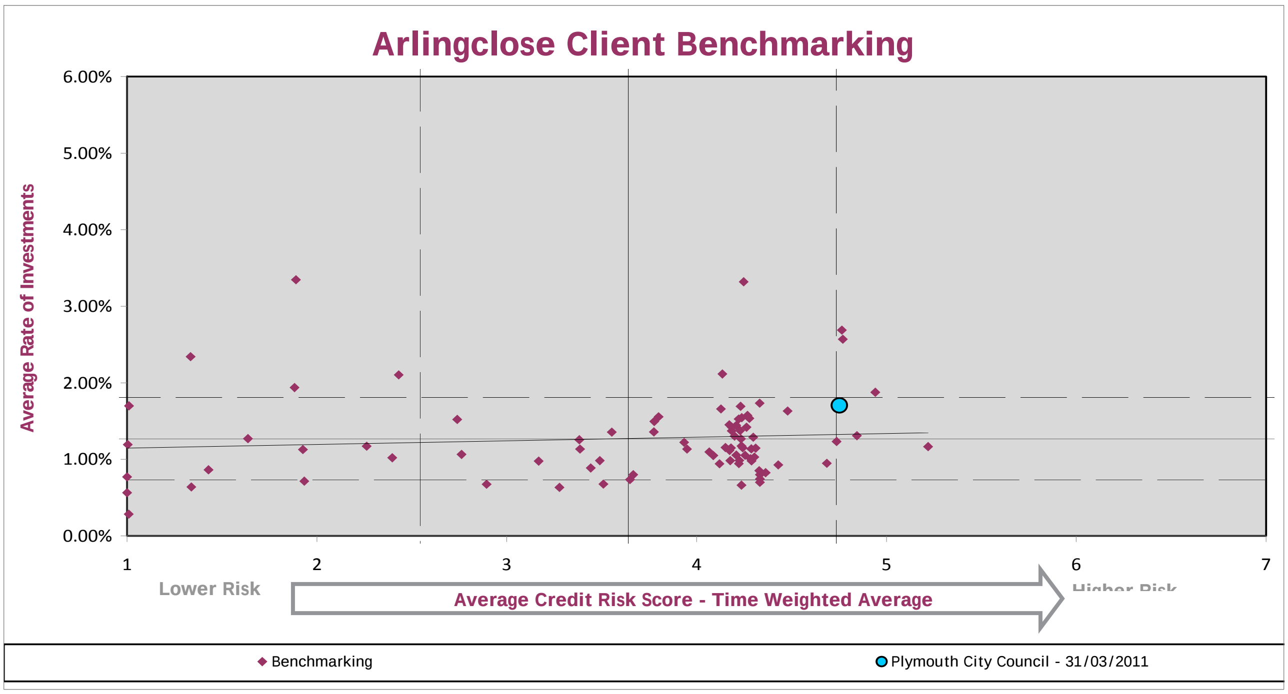
Figure 4 **Value Weighted Average V Return**



As a general rule the aim should be to convert a greater average length of portfolio duration into a greater than average return. There should be a positive correlation between duration and return, therefore a best fit line sloping upward from left to right.

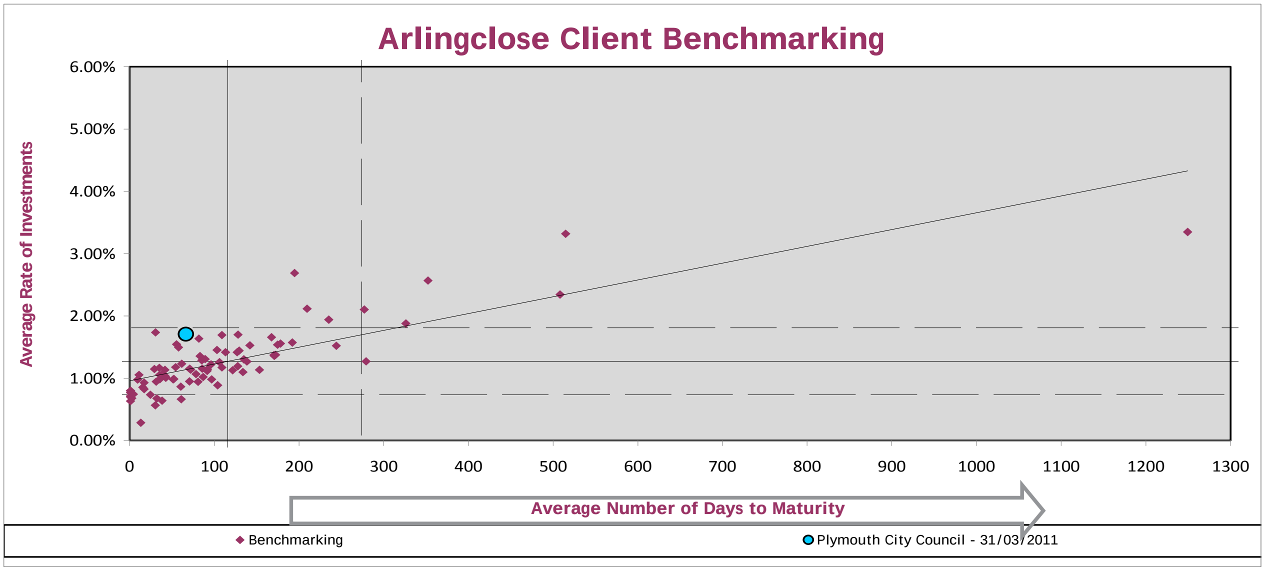
However, this chart should not be viewed in isolation from other measured parameters and it should be noted that a high Average number of days to maturity does not necessarily mean a higher risk, in fact the reverse may be considered to be true in some cases. As can be seen from this graph, Plymouth City Council are converting duration in into a higher return than many of their peer group.

Figure 5 **Time Weighted Average V Return**



Longer term investments are inherently more risky. Ideally authorities should move towards the top left hand corner of the graph. Therefore it is preferable to see risk taken converted into return at a greater than average rate. This should be seen as a longer term goal and in some cases portfolios may be adversely affected by legacy positions within a portfolio which can exert a negative influence for a considerable period.

Figure 6 **Average Number of days to Maturity V Return**



This graph shows the duration of investments against return. Plymouth is doing well compared to other authorities and this reflects the use of call accounts earning above bank base rate, and the legacy investments in Ulster Bank, parent group RBS, which are high rate but due to mature in the next few months.

7. Icelandic Banks Update

7.1 The latest position on the recoveries of monies invested in the Icelandic banks is as follows:

7.2 <u>Heritable Bank £3m</u>

The Council received a further dividends totaling 15.13p in the £ in 2010/11, bringing total dividends paid to date to 50.11%. The actual amount recovered to 31 March 2011 was £1,503,220.15, plus interest of £76,643.38. Based on current projections from the administrators a total recovery of almost 85% is expected with dividends continuing on a quarterly basis until September 2012.

7.3 <u>Glitnir £6m and Landsbanki £4m</u>

Recovery of monies in Glitnir and Landsbanki remain subject to court proceedings. However initial hearings have indicated that local authority deposits will be granted priority status. Should this be upheld by the Supreme Courts the Council could expect to recover the following amounts:

• Glitnir	100%
• Landsbanki	94%

The Council took advantage of a Capitalisation Direction and accounted for potential Icelandic bank losses in its accounts for 2009/10. This was a year in advance of the requirements under Regulations and has enabled the potential losses to be written off over a 20 year period.

The situation with regard to the recovery of monies invested in Glitnir and Landsbanki continues to be subject to court hearings as outlined above and the Council has therefore decided not to adjust the impairment charge in its accounts for 2010/11. The Council, working with the LGA and Bevan Brittan remains committed to maximising the recovery of its investments. The cost of the continuing external legal advice has been met from the Icelandic bank reserve. A sum of £0.052m has been incurred in 2010/11.

8. Revenue Implications of Treasury Management

8.1 The expenditure arising from the Council's borrowing and lending accrues to the revenue accounts. This includes interest payable and receivable, the minimum revenue provision (for debt repayment), and premiums and discounts written out to revenue from previous debt rescheduling. Some of the interest receivable is passed onto specific accounts where this interest has accrued from the investment of surplus balances for these services. The balance (net cost) is met by the General Fund. Table 8 below shows the income and expenditure arising from these transactions in 2010/11. The revenue implications are reported to Cabinet as part of the quarterly performance and finance monitoring reports. Overall Council Officers achieved a favourable variance against budget of (£1.437m).

Table 8 Summary of Capital Financing Costs 2010/11

	2010/11 Budget £000	2010/11 Outturn £000	Variance £000
External Interest payments	7,556	8,945	1,389
Interest payable (PFI)	0	2,835	2,835
External Interest received	(2,821)	(2,802)	19
Recharged to HRA	0	(159)	(159)
Interest transferred to other accounts	200	215	15
Premiums / Discounts written out to Revenue	(189)	(186)	3
Debt Management Expenses	130	147	17
Treasury Management Cost	**4,876**	**8,995**	**4,119**
Minimum Revenue Provision	7,150	6.968	(182)
Minimum Revenue Provision (PFI)	0	703	703
Devon County Council Residual Debt Charges	3,153	709	(2,444)
Recharges for unsupported borrowing	(1,822)	(1,762)	60
Recovered from trading Accounts	(2,758	(2,913)	(155)
PFI Grant	0	(3,538)	(3,538)
Net Cost to General Fund	**10,599**	**9,162**	**(1,437)**

9. Compliance with Prudential Indicators

Under the arrangements set out in the Prudential Code for Capital Finance in Local Authorities, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the Code, and for establishing a range of Prudential Indicators covering borrowing limits and other treasury management measures. The Prudential Indicators for 2010/11 were approved by Council on 1 March 2010 (borrowing limits updated 28 February 2011). The latest position on the indicators is set out in Appendix 4.

10. The MRP Policy 2010/11

10.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. The Regulations outline MRP options as follows:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

10.2 The MRP policy for the year is required to be approved by Full Council at the start of the year. The MRP policy for 2010/11 was included within the Treasury Management Strategy report that was approved at the Council meeting on 1 March 2010.

10.3 Revisions to the policy are permitted during the year providing these are also approved by Full Council. Full Council at its meeting of 28 February 2011 approved that the policy for 2010/11 be amended to reflect more accurately the calculation for supported borrowing.

10.3 The final policy for the year 2010/11 is therefore:

Supported Borrowing
For borrowing supported by Revenue Support Grant the Council will use the Regulatory Method (option 1) to calculate MRP. For the purposes of the calculation, an adjustment, referred to as adjustment A, will continue to be made to the CFR at the value attributed to it in financial year 2004-05.

Unsupported Borrowing
For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, MRP will be made in equal annual instalments over the life of the asset.

Capitalisation Directions
For capitalisation directions on expenditure incurred since 1 April 2008 MRP will be made in equal annual instalments over 20 years in line with DCLG guidance.

PFI/Leases
MRP in respect of PFI and leases brought on Balance Sheet under the 2009 SORP and IFRS will be based on a charge equal to the amount that has been taken to the Balance Sheet to reduce the liability.

10.4 In all cases MRP commences in the financial year following the one in which the expenditure is incurred or when the asset becomes operational if this is later.

11. Balanced Budget

11.1 The Council complied with the Balanced Budget requirement.

12. External Service Providers

12.1 Arlingclose is appointed as the Council's treasury management advisor. The Council is clear as to the services it expects and is provided under the contract. The service provision is comprehensively documented. The Council paid a sum of £20,000 in 2010/11 for this service.

12.2 The Council is also clear that overall responsibility for treasury management remains with the Council.

13. Training

13.1 CIPFA's revised Code requires the Director for Corporate Support to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

13.2 The CLG's revised Investment Guidance also recommends that a process is adopted for reviewing and addressing the needs of the authority's treasury management staff for training in investment management.

13.3 The Council commissioned a Treasury Management awareness and training session from external consultants Griffiths Morley and this was delivered on 22 January 2010. The Council subsequently provided an updated session for members on 10 January 2011.

13.4 During the year, the Council's treasury management officer has successfully completed and been awarded a Certificate in International Treasury Management- Public Finance (CERT TM- PF). This is an accredited course for treasury management specialists in the Public Sector, supported by CIPFA. Officers also attend regular workshops and seminars on treasury management.

13.5 The Council continues to keep its training requirement under review.

14. Recommendations

14.1 Audit Committee note the Treasury Management report for 2010/11.

14.2 The report be referred to Full Council as required under the CIPFA Treasury Management Code of Practice (TMP note 6).

14.3 Audit Committee approve the changes to the Treasury Management Practices as outlined at Appendix 5.

Arlingclose Review of the Economy for 2010/11

Economic Outlook for 2010/11

At the time of determining the strategy for 2010/11, interest rates were expected to remain low in response to the fragile state of the UK economy. Spending cuts and tax increases seemed inevitable post the General Election if the government had a clear majority. The markets had, at the time, viewed a hung parliament as potentially disruptive particularly if combined with a failure to articulate a credible plan to bring down government borrowing. The outlook for growth was uncertain due to consumers and corporates trimming their spending and financial institutions exercising restraint in new lending.

The economy's two headline indicators moved in opposite directions – growth was lacklustre whilst inflation spiked sharply higher. The economy grew by just 1.3% in calendar year 2010; the forecast for 2011 was revised down to 1.7% by the Office of Budget Responsibility in March. Higher commodity, energy and food prices and the increase in VAT to 20% pushed the February 2011 annual inflation figure to 4.4%. The Bank Rate was held at 0.5% as the economy grappled with uneven growth and the austerity measures set out in the coalition government's Comprehensive Spending Review. Significant reductions were made to public expenditure, in particular local government funding.

The US Federal Reserve (the Fed) kept rates on hold at 0.25% following a slowdown in American growth. The European Central Bank maintained rates at 1%, with the markets expecting a rate rise in early spring.

The credit crisis migrated from banks to European sovereigns. The ratings of Ireland and Portugal were downgraded to the 'triple-B' category whilst the rating of Greece was downgraded to sub-investment grade. The sovereign rating of Spain was also downgraded but remained in the 'double-A' category. The results from the EU Bank Stress Tests, co-ordinated by the Committee of European Banking Supervisors, highlighted that only 7 out of the 91 institutions failed the 'adverse scenario' tests. The tests were a helpful step forward, but there were doubts if they were far-reaching or demanding enough. The main UK banks' (Barclays, HSBC, Lloyds and RBS) Tier 1 ratios all remained above 9% under both the 'benchmark scenario' and the 'adverse scenario' stress tests. The tests will be repeated in the Spring of 2011.

Gilts benefitted from the decisive Comprehensive Spending Review (CSR) plans as well as from their relative 'safe haven' status in the face of European sovereign weakness. 5-year and 10-year gilt yields fells to lows of 1.44% and 2.83% respectively. However yields rose in the final quarter across all gilt maturities on concern that higher inflation would become embedded and greatly diminish the real rate of return for fixed income investors.

During the year money market rates increased marginally at the shorter end (overnight to 3 months). 6 - 12 month rates increased between 0.25% to 0.30% over the 12 month period reflecting the expectation that the Bank Rate would be raised later in 2011.

Appendix 2

Interest rates applicable 2010/11

The average, low and high rates correspond to the rates during the financial year and rather than those in the tables below

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2010	0.50	0.35	0.35	0.42	0.51	0.81	1.26	1.54	2.07	2.82
30/04/2010	0.50	0.30	0.30	0.43	0.53	0.83	1.29	1.70	2.23	2.95
31/05/2010	0.50	0.45	0.50	0.61	0.60	0.85	1.35	1.46	1.89	2.58
30/06/2010	0.50	0.35	0.35	0.45	0.61	0.94	1.38	1.40	1.79	2.42
31/07/2010	0.50	0.40	0.40	0.50	0.71	1.01	1.46	1.36	1.75	2.39
31/08/2010	0.50	0.40	0.55	0.50	0.71	1.00	1.45	1.20	1.47	2.02
30/09/2010	0.50	0.30	0.25	0.51	0.72	1.01	1.46	1.24	1.51	2.05
31/10/2010	0.50	0.48	0.40	0.51	0.72	1.01	1.46	1.26	1.53	2.08
30/11/2010	0.50	0.40	0.51	0.51	0.72	0.88	1.46	1.32	1.66	2.30
31/12/2010	0.50	0.40	0.40	0.51	0.72	1.01	1.47	1.49	1.94	2.61
31/01/2011	0.50	0.40	0.55	0.52	0.64	1.04	1.52	1.74	2.21	2.90
28/02/2011	0.50	0.40	0.54	0.53	0.68	1.09	1.56	1.85	2.29	2.95
31/03/2011	0.50	0.30	0.50	0.54	0.80	1.11	1.58	1.85	2.31	2.96
Minimum	0.50	0.30	0.25	0.42	0.51	0.75	1.00	1.13	1.37	1.92
Average	**0.50**	**0.39**	**0.43**	**0.50**	**0.67**	**0.98**	**1.44**	**1.50**	**1.90**	**2.54**
Maximum	0.50	0.55	0.55	0.80	0.80	1.11	1.58	1.97	2.49	3.19
Spread		0.25	0.30	0.38	0.29	0.36	0.58	0.84	1.12	1.26

Table 2 : PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	0.81	2.84	4.14	4.21	4.60	4.61	4.63
30/04/2010	089/10	0.85	2.86	4.13	4.20	4.61	4.61	4.60
28/05/2010	127/10	0.73	2.46	3.76	3.83	4.36	4.38	4.38
30/06/2010	171/10	0.67	2.27	3.54	3.62	4.22	4.28	4.27
30/07/2010	217/10	0.70	2.29	3.55	3.62	4.32	4.41	4.40
31/08/2010	259/10	0.63	1.84	3.05	3.13	3.82	3.93	3.93
30/09/2010	303/10	0.64	1.88	3.14	3.86	4.00	4.03	4.02
29/10/2010	346/10	1.58	2.90	4.23	5.06	5.2	5.22	5.2
30/11/2010	390/10	1.56	3.05	4.40	5.18	5.26	5.25	5.23
31/12/2010	430/10	1.65	3.33	4.58	5.18	5.23	5.20	5.16
31/01/2011	040/11	1.79	3.57	4.80	5.40	5.46	5.44	5.40
28/02/2011	080/11	1.87	3.61	4.75	5.33	5.38	5.35	5.31
31/03/2011	126/11	1.89	3.57	4.71	5.27	5.30	5.27	5.24
	Low	0.60	1.81	3.05	3.82	3.93	3.93	3.92
	Average	**1.19**	**2.79**	**4.05**	**4.72**	**4.79**	**4.78**	**4.76**
	High	1.99	3.84	5.00	5.50	5.55	5.53	5.48

Table 3: PWLB Repayment Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	0.56	2.38	3.82	4.35	4.36	4.26	4.19
30/04/2010	089/10	0.62	2.43	3.83	4.37	4.38	4.33	4.30
28/05/2010	127/10	0.50	2.04	3.44	4.12	4.15	4.11	4.10
30/06/2010	171/10	0.44	1.86	3.23	3.98	4.05	4.00	3.97
30/07/2010	217/10	0.47	1.88	3.23	4.08	4.18	4.13	4.10
31/08/2010	259/10	0.40	1.45	2.73	3.57	3.70	3.66	3.62
30/09/2010	303/10	0.41	1.48	2.82	3.62	3.77	3.76	3.73
29/10/2010	346/10	0.47	1.61	3.03	3.93	4.09	4.07	4.03
30/11/2010	390/10	0.45	1.75	3.20	4.06	4.15	4.10	4.06
31/12/2010	430/10	0.54	2.04	3.39	4.07	4.12	4.05	3.99
31/01/2011	040/11	0.68	2.27	3.62	4.28	4.35	4.29	4.22
28/02/2011	080/11	0.76	2.32	3.57	4.21	4.26	4.20	4.13
31/03/2011	126/11	0.78	2.29	3.53	4.15	4.19	4.12	4.07
	Low	0.37	1.40	2.73	3.57	3.70	3.66	3.62
	Average	**0.55**	**1.97**	**3.33**	**4.07**	**4.15**	**4.10**	**4.06**
	High	0.88	2.54	3.94	4.47	4.46	4.38	4.35

Table 4: PWLB Borrowing Rates – Fixed Rate, EIP Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	--	1.78	2.94	4.18	4.53	4.60	4.62
30/04/2010	089/10	--	1.82	2.96	4.16	4.53	4.61	4.62
28/05/2010	127/10	--	1.52	2.55	3.79	4.24	4.36	4.39
30/06/2010	171/10	--	1.38	2.36	3.58	4.06	4.23	4.27
30/07/2010	217/10	--	1.42	2.38	3.58	4.11	4.33	4.40
31/08/2010	259/10	--	1.12	1.92	3.09	3.61	3.82	3.91
30/09/2010	303/10	--	1.14	1.96	3.18	3.67	3.87	3.96
29/10/2010	346/10	--	2.11	2.98	4.27	4.84	5.07	5.16
30/11/2010	390/10	--	2.19	3.14	4.44	4.99	5.19	5.25
31/12/2010	430/10	--	2.43	3.42	4.62	5.05	5.19	5.23
31/01/2011	040/11	--	2.62	3.66	4.84	5.25	5.40	5.45
28/02/2011	080/11	--	2.71	3.69	4.79	5.18	5.33	5.38
31/03/2011	126/11	--	2.69	3.65	4.74	5.14	5.28	5.31
	Low		1.10	1.89	3.09	3.61	3.82	3.91
	Average		**1.91**	**2.87**	**4.08**	**4.55**	**4.72**	**4.77**
	High		2.88	3.93	5.03	5.38	5.51	5.55

Appendix 2

Table 5: PWLB Repayment Rates - Fixed Rate, EIP Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2010	064/10	--	1.40	2.59	3.89	4.27	4.35	4.37
30/04/2010	089/10	--	1.46	2.63	3.90	4.29	4.38	4.39
28/05/2010	127/10	--	1.18	2.23	3.53	4.00	4.13	4.16
30/06/2010	171/10	--	1.05	2.04	3.31	3.82	3.99	4.04
30/07/2010	217/10	--	1.08	2.06	3.32	3.87	4.09	4.17
31/08/2010	259/10	--	0.82	1.61	2.82	3.36	3.59	3.68
30/09/2010	303/10	--	0.83	1.65	2.91	3.43	3.63	3.73
29/10/2010	346/10	--	0.92	1.79	3.12	3.71	3.95	4.05
30/11/2010	390/10	--	0.99	1.94	3.29	3.86	4.07	4.14
31/12/2010	430/10	--	1.21	2.22	3.47	3.93	4.07	4.12
31/01/2011	040/11	--	1.40	2.46	3.69	4.13	4.29	4.34
28/02/2011	080/11	--	1.49	2.50	3.64	4.06	4.22	4.27
31/03/2011	126/11	--	1.47	2.46	3.60	4.02	4.16	4.20
	Low		0.75	1.57	2.82	3.36	3.59	3.68
	Average		**1.17**	**2.15**	**3.41**	**3.90**	**4.08**	**4.14**
	High		1.65	2.74	4.02	4.40	4.47	4.47

Table 6: PWLB Variable Rates

	1-M Rate	**3-M Rate**	**6-M Rate**	**1-M Rate**	**3-M Rate**	**6-M Rate**
	Pre-CSR	**Pre-CSR**	**Pre-CSR**	**Post-CSR**	**Post-CSR**	**Post-CSR**
01/04/2010	0.65	0.65	0.70			
30/06/2010	0.65	0.70	0.70			
30/09/2010	0.65	0.70	0.70			
31/12/2010	0.70	0.70	0.75	1.60	1.60	1.65
31/03/2011	0.67	0.76	0.88	1.57	1.66	1.78
Low	0.65	0.65	0.68	1.55	1.56	1.58
Average	**0.66**	**0.68**	**0.73**	**1.57**	**1.61**	**1.68**
High	0.70	0.79	0.90	1.60	1.69	1.80

Appendix 3

Term Deposit Investments made during the year

Investments are made short term in call/notice accounts to cover cash flow and longer term to maximise and guarantee future income. The longer-term deposits made in 2010-11 are detailed in the following table.

Counterparty	Amount	Start Date	End Date	Term (Days)	Rate %
Barclays	£5M	08/04/10	07/04/11	364	1.55
Santander UK	£1M	09/04/10	10/05/10	31	0.84
Santander UK	£1M	09/04/10	09/06/10	61	0.87
Santander UK	£1M	09/04/10	09/07/10	91	0.94
Santander UK	£1M	09/04/10	09/08/10	122	1.02
Santander UK	£1M	09/04/10	09/09/10	153	1.09
Santander UK	£1M	09/04/10	11/10/10	185	1.18
Santander UK	£1M	09/04/10	09/11/10	214	1.26
Santander UK	£1M	09/04/10	09/12/10	244	1.34
Santander UK	£1M	09/04/10	10/01/11	276	1.41
Santander UK	£1M	09/04/10	09/02/11	306	1.48
Santander UK	£1M	09/04/10	09/03/11	334	1.55
Santander UK	£1M	09/04/10	08/04/11	364	1.62
Nationwide	£5M	04/06/10	03/06/11	364	1.37
Nationwide	£5M	22/07/10	21/07/11	364	1.37
Santander UK	£1M	06/09/10	07/03/11	182	1.33
Bank of Scotland	£5M	06/09/10	05/09/11	364	2.00
Bank of Scotland	£5M	12/10/10	11/10/11	364	1.90
Bank of Scotland	£5M	16/11/10	15/11/11	364	1.90
Bank of Scotland	£5M	14/12/10	13/12/11	364	2.00
Santander UK	£1M	08/02/11	09/05/11	90	1.10
Santander UK	£1M	08/02/11	08/06/11	120	1.18
Santander UK	£1M	08/02/11	08/07/11	150	1.29
Santander UK	£1M	08/02/11	08/08/11	181	1.70
Santander UK	£1M	10/03/11	09/09/11	183	1.41

Prudential Indicators 2010/11

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. The Code requires a report to Full Council on compliance with the Prudential Indicators set.

The Council's Prudential Indicators are outlined in Annex 1. The following comments explain in more detail the purpose of each indicator.

Estimates of Capital Expenditure:

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.

The final spend on the capital programme for 2010/11 was £69.718m.

Capital Financing Requirement

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 Non Current Tangible Assets, the Revaluation Reserve and the Capital Adjustment Account, and any other balances treated as capital expenditure.

The Prudential Code provides the following statement as a key indicator of prudence: "in order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

Authorised Limit and Operational Boundary for External Debt:

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. There are two borrowing limits specified within the Code.

<u>The Authorised Limit</u>
This is the absolute borrowing limit beyond which any borrowing is prohibited until revised by the authority. 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.

The Authorised Limit is 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.

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).

<u>The Operational Boundary</u>
This limit is intended to cover the probable borrowing needs of the authority during the year. It is a focus for day to day Treasury Management and a means by which the authority manages its external debt within the self imposed Authorised limit. It is lower than the Authorised limit because cash flow variations may lead to the occasional breach of this indicator.

Upper Limits for Fixed and Variable Interest Rates

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits as:

- Fixed rate interest rate exposure: net fixed rate debt (fixed rate debt less fixed rate investments) as a % of total net debt (total debt less total investments)
- Variable interest rate exposure: net variable rate debt (variable rate debt less variable rate investments) as a % of total net debt (total debt less total investments

The fixed rate indicator generally remains high reflecting historical policy to take long term fixed rate debt and short term investments (investments for less than 1 year are classified as variable rate).

Borrowing at fixed rates for long periods can give the opportunity to lock into low interest rates and provide stability but risks missing possible opportunities to borrow at low rates in the medium term, or to convert short term loans into long term if long term rates were to fall.

The upper limit for variable rate exposure was 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. The updated upper limit of 200% on fixed interest rate exposure allowed for periods when short term deposits would exceed variable rate debt due to balances/cashflow.

Upper Limit for sums invested over 364 days:

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.

Ratio of Financing Costs as a % of Net Revenue Stream:

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 ratio is based on the cost of interest on borrowing and the minimum revenue provision, less Interest and Investment income.

Incremental Effect of Additional Programme on Council Tax

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax.

During 2010/11 the strategy was to minimise new long term borrowing, with the borrowing requirement being met as far as possible from short term loans. Actual borrowing undertaken was therefore less than the borrowing assumed in the Formula Grant assumptions and has resulted in a negative impact on the Council Tax in 2010/11.

Maturity Structure of Fixed Rate borrowing:

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.

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. The Council continues to have a high number of Lobo (lenders Option, Borrowers Option) loans which may be subject to rate change or repayment at specified intervals. On specified dates the Lender has the option to vary the rate. If the option is taken the Council (Borrower) has the option to repay the loan. Therefore the loan may be subject to repayment on a number of occasions throughout the life of the loan. These repayment possibilities are included in the limits set for the maturity of fixed rate borrowing.

Appendix 4

Annex 1

PRUDENTIAL INDICATORS	2010/11		
<u>**Affordable Borrowing Limits**</u>	**Originally Approved £m**	**Approved Update £m**	**Outturn/ Upper limit £m**
Capital Expenditure	**93.317**	**77.457**	**69.718**
Capital Financing Requirement As at 31st March	**265.704**	**261.149**	**257.493**
Authorised limit for External Debt			
Borrowing	312	317	288
Other Long Term Liabilities	35	32	33
Total	**347**	**349**	**321**
Operational Boundary			
Borrowing	260	290	289
Other Long Term Liabilities	35	32	33
Total	**295**	**322**	**321**
Limit for Fixed Rate Exposure Net Fixed Rate (borrowing less investments)	**200%**	**200%**	**161.34%**
Limit for Variable Rate Exposure Net variable Rate (borrowing less investments)	**85%**	**85%**	**30.88%**
Upper limit for sums invested over 364 days	**£25m**	**£25m**	**£21m**
Capital Financing Cost as a % of Revenue Stream	%	%	%
- Plymouth Debt	6.11	6.12	6.68
- Devon Managed Debt	1.56	0.36	0.36
Total	**7.67**	**6.48**	**7.04**
Incremental Effect of Additional Programme on Council Tax (Band D p.a.)	**£0.34**	**-£2.52**	**-£2.61**

Maturity Structure of Fixed Rate Borrowing				
Debt Maturity Limits 2010/11	Upper Limit		Lower Limit	
	Original Limit Set	In year upper limit reached	Original Limit Set	In year lower limit reached
Under 12 months	65%	52.60%	0.00%	29.30%
12 Months and within 24 months	65%	33.44%	0.00%	5.19%
24 months and within 5 years	55%	16.09%	0.00%	5.19%
5 years and within 10 years	50%	5.48%	0.00%	1.93%
10 years and within 20 years	45%	2.50%	0.00%	1.09%
20 years and within 30 years	45%	5.37%	0.00%	1.25%
30 years and within 40 years	45%	0.72%	0.00%	0.00%
40 years and within 50 years	55%	21.50%	0.00%	12.71%
50 years and above	50%	0.00%	0.00%	0.00%

Appendix 5

Summary of Changes to TM practice 11-12 approved by Director for Corporate Support on 1st April 2011.

- **Schedule 1.1.1. Criteria to be used for creating/ managing approved counterparty list/limits**

  Pages 4 and 5. - Updated in line with 11-12 approved Treasury Management strategy to allow deposits up to 2 years – Up to £10m with approved UK banks and building societies and up to £5m with approved foreign banks.

- **TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements**

  Page 36 **5.4.6 Senior Accountant (Corporate Accountancy – Technical)** The responsibilities of this post include: -

  Updated to make recommendations for deposits up to 2 years – previously 1 year.

  Page 38 **5.6 Dealing Limits**

  Limit for the Senior Accountant (Corporate Accountancy - Technical) and Accountants (Corporate Accountancy -Technical) together with approved cover updated to:

  Deposit limits up to 2 years subject to the approval of the Treasury Management Board and/or the Director for Corporate Support, Assistant Director of Finance, Assets & Efficiencies or Head of Finance.

Schedule:

1.1.1. CRITERIA TO BE USED FOR CREATING/ MANAGING APPROVED COUNTERPARTY LISTS/LIMITS

4. The approved investment counterparty list is determined by the following criteria: Changes are highlighted.

ORGANISATION	INVESTMENT CRITERIA	MAX AMOUNT	MAX PERIOD
Government Debt Office	Central Government Office	No Limit £10m	12 Months 2 Years
UK Banks	Minimum credit rating: Fitch – Long-Term A+ Short-Term F1 Moody's – Long-Term A1 Short-Term P-1 S&P – Long-Term A+ Short-Term A-1	£30m £10m	12 Months 2 years
UK Building Societies	Minimum credit rating: Fitch – Long-Term A+ Short-Term F1 Moody's – Long-Term A1 Short-Term P-1 S&P – Long-Term A+ Short-Term A-1	£30m £10m	12 Months 2 Years
Foreign Banks	Minimum credit rating: Fitch – Long-Term A+ Short-Term F1 Moody's – Long-Term A1 Short-Term P-1 S&P – Long-Term A+ Short-Term A-1	£10m £5m	12 Months 2 Years
Local Authorities	Unitary Councils County Councils Metropolitan Councils London Borough Councils	£5m	12 Months
Money Market Funds	AAA with Constant Net Asset value investing predominantly in Government securities. AAA with a Constant Net Asset investing in instruments issued primarily by financial institutions.	2.5% of overall investment portfolio	Call

Bonds Issued by Multilateral Development banks	AAA or Government Guaranteed Eurosterling Bonds	Total investment £20m or 10% of investment portfolio	10 years

1. The maximum period of lending is 2 (Two) years for deposits other than in EIB/Government bonds where the limit will be 10 years.

TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS

5.4.6 Senior Accountant (Corporate Accountancy – Technical)

The responsibilities of this post include (changes highlighted): -

- Carrying out or delegating the execution of transactions to the treasury management team
- Adherence to agreed policies and practices on a day-to-day basis.
- Maintaining relationships with third parties and external service providers and reviewing their performance.
- Supervising treasury management staff.
- Monitoring performance on a day-to-day basis.
- Submitting management information reports to the Treasury Management Board, Director for Corporate Support, Assistant Director of Finance, Assets & Efficiencies, Head of Finance and Corporate Finance & Accountancy Manager.
- Identifying and recommending opportunities for improved practices.
- Prepare and update, making recommendations for including counterparties on the Council's lending list following the advice of the Council's Treasury Management advisors..
- Authority to borrow for periods up to 1 year and lending up to 1 month.. Lending in excess of 1 month subject to the agreement of the Treasury Management Board and/or the approval of the Director for Corporate Support or Assistant Director of Finance, Assets & Efficiencies.
- Make recommendations on all lending up to 2 years and borrowing over 1 year maturity.

5.6 DEALING LIMITS

The following posts are authorsed to deal:-

Senior Accountant (Corporate Accountancy – Technical) (changes highlighted)
No dealing limits for loans up to 1 year.

Deposits up to 1 month with unlimited value with the Debt Management Office or £5M with an approved Local Authority or £30m with an approved bank or building society subject to the limits detailed in the Council's Annual Investment strategy and the approved lending list.
Deposit limits up to 2 years subject to the approval of the Treasury Management Board and/or the Director for Corporate Support, Assistant Director of Finance, Assets & Efficiencies or Head of Finance.

Accountant (Corporate Accountancy – Technical)
Deposits up to 15 Days with unlimited value with the Debt Management Office or £5M with an approved Local Authority or £30m with an approved bank or building society subject to the limits detailed in the Council's Annual Investment strategy and the approved lending list.
Deposit limits up to 2 years subject to the approval of the Treasury Management Board and/or the Director for Corporate Support, Assistant Director of Finance, Assets & Efficiencies or Head of Finance.
Loans overnight only (includes weekend) with maximum value of £15m.