Epping Forest District Council: Annual Treasury Report 2009/10

Background

1. The CIPFA definition of Treasury Management is *"the management of the Council's investments and cash flows, its banking 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"*.

2. The Treasury Management Code requires public sector authorities to determine an annual Treasury Management Strategy and now, as a minimum, formally report on their treasury activities and arrangements to full Council 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.

Scope

3. 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, and investment transactions;
   c) reports on the risk implications of treasury decisions and transactions;
   d) gives details of the outturn position on treasury management transactions in 2009/10;
   e) confirms compliance with treasury limits and Prudential Indicators.

4. The report is to the Finance & Performance Management Cabinet Committee and is in addition being submitted to the Audit and Governance Committee for scrutiny.

Revisions to the CIPFA Treasury Management and Prudential Codes, CLG Guidance on Investments

5. In November 2009 CIPFA released the revised Code of Practice for Treasury Management in the Public Services and accompanying Guidance Notes and the revised Prudential Code for Capital Finance in Local Authorities. The Department for Communities & Local Government (CLG) also issued revised Guidance on Local Authority Investments for English authorities. The revised Codes/Guidance re-emphasise an appropriate approach to risk management, particularly in relation to the security and liquidity of invested funds. Authorities were also henceforth required to demonstrate value for money when borrowing in advance of need and ensure the security of such funds. Authorities are now also required to have a separate body or committee responsible for the scrutiny of the treasury function.

6. The Council is revising its treasury policy and practices documentation to take account of the requirements and changes in the revised Codes and Guidance.

Economic Outlook for 2009/10

7. At the time of determining the Treasury Strategy Statement for 2009/10 in February 2009, the outlook for the economy and interest rates was as follows:

8. The UK, Eurozone and US economies were contracting, globally economies faced a prolonged recession or period of weakness following the financial market meltdown in the autumn of 2008. Availability of credit was restricted as banks undertook to repair their balance sheets. This exacerbated the slowdown as finance for small businesses effectively came to a standstill.

9. Asset values were falling and were forecast to drop further, particularly those which related to commodities and housing. The increase in food and energy inflation which had exerted a powerful squeeze on real incomes in 2008 was, however, expected to fade in 2009. Wage inflation was forecast to remain low and the labour market to remain weak; the threat of unemployment was likely to influence consumers to scale back spending and save instead.

10. The UK Bank Rate had been cut to 0.5% and in March 2009 the Bank of England announced its initial £75bn of Quantitative Easing (QE). There remained a sizeable gap between short-dated LIBOR rates (i.e. the rates at which a banks are willing to borrow from other banks) and the Bank Rate; this gap was forecast to narrow. Gilts were expected to benefit from QE, resulting in lower yields.

The Economy and Events in 2009-10

11. After the particularly torrid economic recession and a severe downturn in growth that extended into early 2009, there were reports of nascent recovery. The Bank of England forecast UK growth to fall by 3.9% in 2009, whilst inflation was forecast to be heading lower and staying lower for longer. The depth of the recession was borne out by the 5.9% year-on-year fall in GDP recorded at the end of the second quarter of 2009. The service sector - the dominant element of UK economy - also stalled for much of early 2009 despite a number of optimistic surveys to the contrary. Green shoots of recovery were finally evident in the final quarter of 2009 with growth registering 0.4% for the quarter.

12. In order to stimulate growth, the Bank of England maintained the Bank Rate at 0.5% throughout the year. The Bank also took extreme measures on an extraordinary scale to revive the economy through its **Quantitative Easing** (QE) programme. Financed by the issuance of central bank reserves QE was initially announced at £75bn, and then extended in stages to £200bn.

13. The Bank appears to have successfully staved off the very real risk of deflation. The increased supply of money in the system due to QE did not however translate into an increase in the movement of money in the system as banks are still unwilling to lend, and consumers are unwilling to borrow at pre-crisis levels.

14. The housing market showed some signs of stability but increases in house prices were modest. Nationwide House prices registered a year on year growth of 9% at the end of March 2010.

15. Consumer Price Inflation, having hit a high of 5.2% in September 2008, began the year at 3.2% (Feb 2009 data), fell to a low of 1.1% in September 2009 as the oil, commodity, utility and food prices (the main drivers of high inflation in 2008) fell out of the year-on-year statistical calculations. Thereafter, inflation pushed higher with rising oil and transport costs and VAT reverting to 17.5%. CPI at year end was 3.4%.

16. Companies and households on the whole reduced rather than increased their levels of debt. Credit remained scarce and at a premium, and certainly as compared to that available two years earlier. Businesses retrenched rather than hired workers and unemployment rose rapidly to just under 2.5 million. Against this background, wage growth was limited.

17. The November 2009 Budget was primarily about public debt. The Chancellor's forecast for net public sector borrowing in 2009/10 was £175bn or 12.4% of GDP. Gross gilt issuance was expected to hit a quite staggering £220bn in 2009/10. Standard & Poor's responded to the debt that the UK government was building up and a lack of a credible plan to reduce the debt burden by changing the UK's rating outlook from stable to negative.

18. The outlook for 2010 was therefore for a period of slow and patchy growth in the economy accompanied by stubbornly high unemployment. The UK fiscal deficit remained acute. Cuts in public spending and tax increases were becoming inevitable and a credible plan to reduce the deficit was urgently required after the May General Election, the absence of which increased the potential of a sovereign downgrade. The likelihood of a hung parliament had grown and had the potential of being disruptive to financial markets.

Gilts and Money Market Rates

19. LIBOR and LIBID rates (i.e. the rates at which a banks are willing to borrow from and lend to other banks) which had been stubbornly high in early 2009, slowly moved lower towards the Bank Rate of 0.5%.

20. UK Government Gilts were the main beneficiary of the economic downturn (it is an asset class that responds positively to poor economic news); they also formed the significant bulk of the QE purchases and are thought to have pushed gilt yields, and consequently the cost of borrowing, lower by 0.5%.

21. Tables for UK money market rates are in **Appendix A**.

Treasury Portfolio 2009-10

31/3/2009 £m	%		**31/3/2010 £m**	**%**
0.00		**Total External Debt**	0.00	
		Investments:		
56.500	97	Fixed Interest Investments	33.622	76
1.186	2	Variable Interest Investments	10.396	23
0.534	1	Debt due from other Authorities	0.508	1
58.220	100	**Total Investments**	44.526	100
58.220		**(Net Borrowing)/Net Investment Position**	44.526	

22. Although the Council is debt-free and expects to remain so for the foreseeable future, there is a reducing element of debt taken out on behalf of other local authorities. This Council has repaid the underlying external debt in full from its resources; the authorities concerned are paying the Council their share of the debt plus interest in instalments. This is shown above as debt due from other Authorities.

Long-term Borrowing/Other Long-term Liabilities: Strategy and Outturn

23. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. This Council currently does not have an overall positive CFR (HRA and Non-HRA), and so has no underlying need to borrow for a capital purpose.

24. The Council's decision was not to borrow long-term monies to finance its capital spending in 2009/10, relying instead on government grants / usable capital resources / revenue contributions, as follows:

Source	**Amount £'000**
Grants	1,436
Usable Capital Resources	3,674
Revenue contributions	8,112
Total	**13,222**

25. The Prudential Code permits the Council flexibility to bring forward or defer borrowing in relation to its Capital Financing Requirement. During the year the differential between debt costs and investment earnings was significant. In order to eliminate the high "cost of carry" associated with the higher cost of long term borrowing compared to temporary investment returns (between 0.5% and 1.5%), the Council used internal resources in lieu of borrowing. By doing so, the Council lowered overall treasury risk during the year. The Council recognises that utilising investments in lieu of borrowing clearly has a finite duration and that future borrowing may be required to support capital expenditure; this will be kept under review in 2010/11.

Annual Investment Strategy and Outturn

26. The Council held average cash balances of £56.437m during the year. These represented working cash balances / capital receipts and the Council's reserves.

27. The CLG's Guidance on Investments, revised during 2009/10, reiterated security and liquidity as the primary objectives of a prudent investment policy. Although the Guidance becomes operative on 1st April 2010, its principal recommendations run parallel to the credit risk management requirements in the revised Treasury Management Code. In the revised Guidance, Specified Investments are those made with a body or scheme of "high credit quality". Both the Guidance and the revised Treasury Management Code emphasise that counterparty credit criteria should not rely on credit ratings alone but should include a wider range of indicators. The revised Code nonetheless requires that ratings assigned by all three rating agencies – Fitch, Moody's and Standard & Poor's – be taken into account and the lowest rating be used.

28. *Credit criteria, counterparty risk and selection*: In determining suitable investment counterparties, the Council was, in any event, already taking into consideration economic and financial information as well as evaluating alternative assessments of credit strength (for example, potential sovereign support, sovereign strength as evidenced by the ratings and GDP, sovereign and counterparty credit default swaps).

29. Managing counterparty risk continued to be the Council's overwhelming investment priority. Financial markets remained in a febrile state particularly at the beginning of 2009/10. Against this backdrop, the Council continued to place investments with a small, select list of counterparties.

30. 'Specified' and 'non-specified' investments were determined for use having assessed their risks and benefits in relation to the Council's particular circumstance, risk threshold and investment objectives. New investments were restricted to the Debt Management Office (DMO), AAA-rated Money Market Funds, Gilts, AAA-rated supranational bonds, investments with banks and building societies which are Eligible Institutions under the UK Government's 2008 Credit Guarantee Scheme and with a minimum long-term A rating for total investments up to £5m, or AA- rating for total investments up to £10m. The Council accepted the diminution in investment return from investing with highly rated counterparties as an acceptable risk-reward trade-off. List of the 'specified' and 'non-specified' investments agreed by Council that can be used are in **Appendix B**.

31. The UK Bank Rate was maintained at 0.5% March 2009 onwards. Money market rates soon fell to and remained at historic lows. Whilst existing investments provided some insulation against falling rates, new investments could only be made at the prevailing lower rates of interest. This has had a significant impact on investment income.

32. The Council's investment income for the year was £1.087m compared to an original budget of £2.146m and the variance is principally due to a combination of the following:

    - The prevailing money market rates of interest were lower than forecast. The table below identify the actual rates against the predicted rates supplied by our previous treasury advisors.
    - The Council had a number of long term investments that were called back earlier than estimated.

	Predicted Rate	**Actual Rate**
Quarter 1 (June 2009)	0.75%	0.50%
Quarter 2 (September 2009)	0.50%	0.50%
Quarter 3 (December 2009)	1.00%	0.50%
Quarter 4 (March 2010)	1.25%	0.50%

33. The opening and closing investment portfolio is summarised below.

	Balance at 01/4/2009 £m	**%**	**Investments Sold £m**	**New Investments £m**	**Maturities £m**	**Balance at 31/3/2010 £m**	**%**
INVESTMENTS							
Internally managed investments (short-term)	47.686	83	0.0	141.500	145.168	44.018	100
Longer-term investments							
Deposits with maturities greater than 1 year	10.000	17	0.0	0.000	10.000	0.000	0
TOTAL INVESTMENTS	57.686	100	0.0	141.500	155.168	44.018	100

34. The internal audit of investment transactions conducted during the year, did not identify any breaches of the strategy and provided a substantial assurance.

Icelandic Investments

35. In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £2.5m invested in Heritable bank at that time. The latest report issued by the administrators Ernst and Young, dated 28 January 2010 outlined that the return to creditors was projected to be 85p in the £ by end of 2012 (was projected to be 80p in the £ as at 31 March 2009). During the year the Council have received the following dividends totalling £878,091 (34.98%) against a projected 15%.

- July 2009 - £404,823.73 (16.13%)
- December 2009 - £317,798.62 (12.66%)
- March 2010 - £155,469.12 (6.19%)

Minimum Revenue Provision (MRP)

36. 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 Council's MRP policy for 2009/10 (see below) was approved by Council on 17 February 2009.

"As the Council is currently debt-free and intends to remain so for the foreseeable future, there is no requirement to make a provision for external debt repayment. If the Council identifies a need to borrow externally, the Council will draw up a minimum revenue provision policy in accordance with proper accounting practice, and will present this to members for approval."

Compliance with Treasury Limits and Treasury-related Prudential Code Indicators

37. The Council implemented its strategy within the limits and parameters set in its treasury policy, strategy statement and Prudential Indicators against the prevailing market conditions and opportunities as follows:

(a) Financing its capital spending from government grants / usable capital resources / revenue contributions, etc. rather than from external borrowing.

(c) Adhering to the paramount requirement of safeguarding the council's invested balances during a period of unprecedented money market dislocation; maintaining adequate diversification between institutions; optimising investment returns subject to the overriding requirement of security and liquidity.

(d) Forecasting and managing cash flow and undertaking short-term lending to preserve the necessary degree of liquidity.

Treasury-related Prudential Indicators

38. The Council confirms its adoption of the CIPFA Code of Treasury Management at its Council meeting on 17 February 2009. At that meeting the Council also approved the Prudential Indicators for 2009/10.

(a) **Authorised Limit**: This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set at £5m for 2009/10.

(b) **Operational Boundary**: This is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and is based on the Authorised Limit excluding the headroom for unusual cash movements. For 2009/10 the limit was set at £0.5m.

No borrowing was required by the Council during 2009/10.

(c) **Upper Limits for Interest Rate Exposure**
These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Estimated	Actual
Upper Limit for Fixed Rate exposure	100%	82.7%
Upper Limit for Variable Rate exposure	50%	17.3%

(d) **Maturity Structure of Fixed Rate borrowing**
This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. 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.

	Upper limit %	Lower limit %	Actual Borrowing as at 31/3/2010 £	Percentage of total as at 31/3/2010
under 12 months	100	0	0	0
12 months and within 24 months	0	0	0	0
24 months and within 5 years	0	0	0	0
5 years and within 10 years	0	0	0	0
10 years and above	0	0	0	0

(e) **Total principal sums invested for periods longer than 364 days**
This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days. For 2009-10 this limit was set at £30m. At their peak, these investments totalled £15m.

Balanced Budget

39. The Council complied with the Balanced Budget requirement.

External Service Providers

38. The Council used Butlers as its treasury management consultants. They provided technical support on treasury matters, capital finance issues, economic and interest rate analysis and credit ratings / market information service comprising the three main credit rating agencies. The contract with Butlers expired on 30 April 2010.

39. Following a tendering and presentation process involving senior Members and Officers Arrlingclose were appointed as the Council's treasury management consultants. The new contract had a commencement date of 1 May 2010 and expires on 30 April 2013.

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

Housing Finance Reform

41. In March 2010 the CLG published proposals for the reform of the Housing Revenue Account (HRA) and abolition of the current subsidy system. Under the self-financing system it is intended for authorities with housing to keep all of the rent they collect and all the receipts from sales of housing or land. The self-financing model indicates a level of opening HRA debt for each local authority and the modelled figures give an estimate as to whether the Authority would receive a capital sum from or pay a capital sum to the Government under the HRA reform.

42. The Council will need to evaluate to what extent the modelled figures in the consultation documents resemble the reality of the Council's HRA position and business plans and also needs to consider the direct impact of the proposals and also any indirect impacts, for example on the General Fund or on Treasury Management costs.

43. On 29 June 2010 Council agreed a response rejecting the current offer and asking the Government to reconsider the terms of the offer and the effect on the General Fund. Government had proposed to work towards voluntary implementation from 2011/12, subject to confirmation at the next Spending Review. If there isn't agreement, Government may seek to implement self-financing through new primary legislation possibly as early as 2012/13.

Training

43. CIPFA's revised Code requires the Director of Finance & ICT 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.

44. 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.

45. No Member training took placed during 2009/10. This was planned to take place after the local election in May 2010 so that the relevant members would be known.

Appendix A

Economic and Money Market Data

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

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
01/04/2009		0.50		0.400	0.500	0.800	1.400	1.800	1.820	1.973	2.361	2.954
30/04/2009		0.50		0.350	0.350	0.600	1.200	1.600	1.700	2.010	2.440	2.998
31/05/2009		0.50		0.400	0.350	0.450	1.050	1.250	1.600	1.890	2.498	3.243
30/06/2009		0.50		0.300	0.400	0.600	0.950	1.200	1.600	2.277	2.959	3.650
31/07/2009		0.50		0.400	0.400	0.500	0.900	1.200	1.300	2.133	2.873	3.603
31/08/2009		0.50		0.350	0.350	0.400	0.450	0.700	1.000	1.915	2.595	3.310
30/09/2009		0.50		0.480	0.460	0.350	0.520	0.500	0.850	1.805	2.485	3.210
31/10/2009		0.50		0.500	0.460	0.370	0.550	0.840	1.000	1.878	2.520	3.208
30/11/2009		0.50		0.350	0.350	0.370	0.450	0.650	1.050	1.727	2.315	3.009
31/12/2009		0.50		0.300	0.350	0.370	0.450	0.650	1.200	1.986	2.630	3.363
31/01/2010		0.50		0.350	0.350	0.370	0.450	0.700	1.100	1.693	2.298	3.063
28/02/2010		0.50		0.350	0.350	0.420	0.500	0.800	1.240	1.525	2.078	2.878
31/03/2010		0.50		0.250	0.250	0.420	0.510	0.810	1.260	1.520	2.050	2.808
Minimum		0.50		0.200	0.250	0.250	0.350	0.490	0.830	1.517	2.050	2.808
Average		**0.50**		**0.368**	**0.390**	**0.470**	**0.695**	**0.928**	**1.283**	**1.914**	**2.540**	**3.254**
Maximum		0.50		0.750	0.520	1.050	1.500	1.800	2.150	2.447	3.117	3.770
Spread				0.550	0.270	0.800	1.150	1.310	1.320	0.930	1.068	0.963

Economic Data

Inflation	CPI	RPI
Feb-09	3.2	0.0
Mar-09	2.9	-0.4
Apr-09	2.3	-1.2
May-09	2.2	-1.1
Jun-09	1.8	-1.6
Jul-09	1.8	-1.4
Aug-09	1.6	-1.3
Sep-09	1.1	-1.4
Oct-09	1.5	-0.8
Nov-09	1.9	0.3
Dec-09	2.9	2.4
Jan-10	3.5	3.7
Feb-10	3.0	3.7
Mar-10	3.4	4.4

Growth	Q-o-Q	Y-o-Y
Q1 2009	-2.6	-5.4
Q2 2009	-0.6	-5.9
Q3 2009	-0.3	-5.3
Q4 2009	0.4	-3.1

Appendix B

Specified and Non-Specified Investments determined for use by the Council

1. Specified Investments: (these will have a maximum maturity of 1 year)

   a) The UK Government (such as the DMADF, UK Treasury Bills or a Gilt with less than one year to maturity).
   b) A local authority, parish council or community council.
   c) Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
   d) A financial body such as a bank or building society that has been awarded a high credit rating by a credit rating agency.
   e) A financial body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes.

2. Non-Specified Investments determined for use by the Council: (these will have a maximum of £30,000,000 invested for terms of one year or more, up to a maximum term of five years).

   a) Securities which are guaranteed by the UK Government (such as supranational bonds). These are fixed income bonds although the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
   b) Gilt edged securities with a maturity of greater than one year.
   c) A government issued guarantee for wholesale deposits within specific timeframes and the government has an AAA sovereign long term rating from the three major credit agencies.
   d) An institution on the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008.
   e) The Council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.
   f) A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society), for deposits with a maturity of greater than one year.

Appendix C

Compliance with Prudential Indicators 2009/10

1 **Estimated and Actual Capital Expenditure**

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

No.	Prudential Indicator	2009/10 Estimated £m	2009/10 *Revised £m*	**2009/10 Outturn £m**
	Capital Expenditure			
	Non-HRA	9.857	6.063	**4.945**
	HRA	6.840	8.143	**8.277**
	Total	**16.697**	**14.206**	**13.222**

2 **Estimated and Actual Ratio of Financing Costs to Net Revenue Stream**

This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments.

No.	Prudential Indicator	2009/10 Estimated %	2009/10 *Revised %*	**2009/10 Outturn %**
	Ratio of Financing Costs to Net Revenue Stream			
	Non-HRA	-6.04	-3.18	**-3.36**
	HRA	-6.26	-3.29	**-3.48**
	Total	**-12.30**	**-6.47**	**-6.84**

3 **Capital Financing Requirement**

3.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

3.2 The Director of Finance & ICT reports that the authority had no difficulty meeting this requirement in 2009/10, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

No.	Prudential Indicator	2009/10 Estimated £m	2009/10 *Revised* *£m*	**2009/10** **Outturn** **£m**
	CFR			
	Non-HRA	22.019	22.019	**22.019**
	HRA	-22.803	-22.803	**-22.803**
	Closing balance	**-0.784**	**-0.784**	**-0.784**

4. **Affordable Borrowing Limit, 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.

4.1 **Authorised Limit**: This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and also provides headroom over and above for unusual cash movements. This limit was set at £5m for 2009/10.

4.2 **Operational Boundary**: This is limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was set at £0.5m for the financial year.

4.3 The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits; at its peak this figure was £0m.

5 **Incremental Impact of Capital Investment Decisions**

5.1 This is an indicator of affordability that shows the impact of approved capital investment decisions on Council Tax and Housing Rent levels when the budget for the year was set.

No.	Prudential Indicator	2009/10 £
	Incremental Impact of Capital Investment Decisions	
	Increase in Band D Council tax	-0.85
	Increase in average weekly housing rents	1.85

Capital investment decisions do not impact on the weekly housing rents as the Council sets its housing rents in line with the policy laid down by CLG. There is no variation to council tax once it has been set prior to the commencement of the financial year.

6 **Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

6.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

No.	Prudential Indicator	2009/10	2009/10
		Estimated %	**Actual %**
	Upper Limit for Fixed Rate Exposure	100	82.7
	Upper Limit for Variable Rate Exposure	50	17.3

7 **Maturity Structure of Fixed Rate borrowing**

7.1 This indicator is to limit 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.

7.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Maturity structure of fixed rate borrowing	Upper limit %	Lower limit %	Actual Borrowing as at 31/3/2010 £	Percentage of total as at 31/3/2010
under 12 months	100	0	0	0
12 months and within 24 months	0	0	0	0
24 months and within 5 years	0	0	0	0
5 years and within 10 years	0	0	0	0
10 years and above	0	0	0	0

8 **Total principal sums invested for periods longer than 364 days**

This indicator is set in order to allow the Council to manage the risk inherent in investments longer than 364 days. For 2009/10 this limit was set at £30m. At their peak, these investments totalled £15m.

9 **Adoption of the CIPFA Treasury Management Code**

The Council confirms its adoption of the CIPFA Code of Treasury Management at its Council meeting on 17 February 2009.

The Council is incorporating the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.