Report to:	**EXECUTIVE**		
Date:	**13th February 2009**		
Report of:	**DIRECTOR OF CORPORATE RESOURCES**	**Report No:**	
Contact Officer:	**Allan Gardner – Chief Accountant**	**Tele No:**	**1612**
Report Title:	**PRUDENTIAL INDICATORS, TREASURY & INVESTMENT STRATEGY 2009/10**		

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Purpose:

To make recommendations to the Executive to enable it and full Council to determine:

- the Prudential Indicators (including borrowing limits) for 2009/10
- The Minimum Revenue Provision Policy
- The Treasury Strategy for 2009/10, and
- The Investment Strategy for 2009/10.

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Decision:

The Executive is asked to recommend the Prudential Indicators. Minimum Revenue Provision Policy, Treasury Strategy and Investment Strategy as set out to the Council for Approval.

Background Doc(s):

1. BACKGROUND

Under the Local Government Act 2003 Councils can borrow to finance capital expenditure subject to the affordability of proposals. Under the Act Local Authorities must comply with the "Prudential Code" issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which requires the approval by Council of various "Prudential Indicators".

The indicators are a combination of financial statistics taken from accounts and estimates, a statement that the Council has adopted the CIPFA Treasury Code of Practice and a number of Treasury Management measures. They must be monitored throughout the year and should the limits be breached the fact must be reported to Council and revised limits approved.

The indicators are part of the financial management information of the Council and are calculated to reflect the Council's financial position and strategy. Many indicators provide data over a five year period; trends will reflect changing circumstances and require interpretation. Indicators of one Authority cannot be meaningfully compared with those of others.

2. PRUDENTIAL INDICATORS

Prudential Indicators seek to provide measures of affordability and prudence reflecting Capital Expenditure, Debt and Treasury Management

Affordability

The first group of indicators seek to measure the impact of budget decisions as regards capital financing on Housing Rents and Council Tax.

Prudence

The net borrowing requirement for capital purposes is shown as a trend; these reflect capital expenditure and financing plans. The financing costs are reflected in the Medium Term Financial Strategy.

Capital Expenditure and Debt

The capital expenditure profiles for HRA and General Fund reflect current business plans. They are the aggregate expenditure figures from all sources of finance (borrowing, grants, capital receipts and revenue).

The external debt authorised limit is the maximum amount the Council can borrow at any point. It is comparable to the overall borrowing limit under the previous legislation. Should the external debt authorised limit be expected to be breached at any point a further report would be made to Council seeking an increased limit.

Treasury Management

A statement is required to the effect that the Council has adopted the CIPFA Treasury Code of Practice. Bolton Council did so at its meeting on October 15th 2003. The associated procedure notes are reviewed annually and updated at an officer level but the principles adopted in 2003 remain valid.

The Prudential Code requires that limits are set to govern the day to day treasury management activities to ensure an appropriate mix of fixed and variable rate borrowing and to ensure debt repayment patterns (maturity dates) do not expose the Council to inappropriate risks. The limits proposed reflect current practice and give sufficient flexibility to allow beneficial borrowing opportunities to be taken advantage of on a day to day basis.

3. OBSERVATIONS

Appendix 1 to this report sets out proposed Prudential Indicators reflecting recommendations from the Revenue Budget and Capital Programme reports considered earlier on the agenda

Current Treasury Management Indicators have been found to be satisfactory parameters within which Treasury management activity can operate. The financial limits have been updated to reflect closure of accounts and the profile of the proposed Capital Programme. It will be noted the future years capital expenditure and borrowing reduces to reflect the profile of Almo related HRA borrowing. In measuring the General Fund ratio of capital financing costs to net revenue, the Direct Schools Grant has been included in the revenue stream to preserve comparability.

4. MINIMUM REVENUE PROVISION

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2003/3146) took effect from 31st March 2008. They require the basis on which the Minimum Revenue Provision (MRP) is calculation for future years to be approved by Council. This is the amount Council's are required to set aside for debt repayment each year.

The budget has been prepared on the basis of a MRP calculation at 4% of opening debt for non HRA services and no MRP on HRA debt as required under previous practice. A further debt repayment provision is made for advances taken under the Equal Pay Capitalisation Directive to repay those amounts in equal instalments over 20 years. For non Housing schemes financed from unsupported borrowing in 2008/09, budget provision has been made for repayment equal to the estimated depreciation charge on those assets calculated on an equal instalment basis calculated in accordance with normal accounting practice.

5. TREASURY STRATEGY

The proposed Treasury Strategy is attached at Appendix 2. In view of the current market uncertainties and prevailing low interest rates by historical standards the emphasis is to reduce investments whilst optimising the Council's debt position in the light of opportunities available in the market.

6. INVESTMENT STRATEGY

The proposed Investment Strategy is attached as Appendix 3. The strategy remains to seek the best return consistent with the security and liquidity of funds. However in the light of current market conditions restrictions are proposed on the use of counterparties as explained in the strategy.

It is proposed that the Strategy continues to permit the use of “non-specified” Investments of up to £15M (over 364 days) to keep existing loans within the Prudential Guidelines; however it is not proposed to make further investments under this power. .

7 RECOMMENDATION

The Executive is asked to recommend the Prudential Indicators. Minimum Revenue Provision Policy, Treasury Strategy and Investment Strategy as set out to the Council for Approval.

PRUDENTIAL INDICATORS

	Actual	Revised	Estimates				
Affordability	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Ratio of financing costs to net revenue stream:							
HRA %	20.7	22.35	22.6	28.93	24.16	23.94	23.72
General Fund %	4.1	4.9	4.9	5.2	5.2	5.3	5.4
Impact of capital investment decisions on Council Tax			£7.88	£9.71	£9.71	£9.71	£9.71
Impact of capital investment decisions on housing rents (£ per week based on 48 week collection)			£0.43	£0.97	£0.66	£0.65	£0.63
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Prudence							
Gross Borrowing (£m)	403.3	425.9	446.7	458.5	468.0	477.1	485.8
Capital Expenditure and Debt							
Capital Expenditure							
HRA	45.6	26.1	25.8	12.9	12.4	12.4	12.4
General Fund	54.4	67.7	60.1	74.9	53.1	51.0	41.0
Capital Financing Requirement (£m)	471.2	493.8	514.6	526.3	535.8	544.9	553.7
External debt - authorised limit (£m)			543.0	555.0	565.0	574.0	583.0
External debt - operational boundary (£m)			488.7	499.5	508.5	516.6	524.7

Treasury Management			2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Fixed Interest Rate Exposure - Upper Limit			96%	96%	96%	96%	96%
Variable Interest Rate Exposure - Upper Limit			55%	55%	55%	55%	55%
Principal invested for more than 364 days			£15m	£15m	£15m	£15m	£15m
Adoption of CIPFA Treasury Code of Practice	Yes 15th October 2003						

Maturity Structure of Debt		
	Lower Limit	Upper Limit
up to 12 months	0%	40%
12 months to 24 months	0%	20%
24 months to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years	50%	100%

TREASURY STRATEGY

1 In addition to the Prudential Indicators, the Council is also required to approve the Treasury Strategy. The Strategy deals with the existing borrowings of the Council along with how new borrowings and maturing loans, which are used to finance the Authority's Capital Expenditure, are raised against the background of the movement in long and short term interest rates.

2 Money markets conditions have changed over recent months and are expected to continue to change over the year. Interest rate uncertainty is set to persist in the year ahead. The current expectation in the economy is that short term rates are likely to fall. Longer term rates (i.e. over 12 months) remain volatile. There is likely to be more movement up and down of these latter rates which may give opportunities to reschedule parts of the Authority's debt when it is prudent to do so.

3 In determining the Strategy, it is necessary to review the existing portfolio and to determine the borrowing requirement for the year. At the 31st January 2009 the loan portfolio was as follows:-

Type	**Amount £000's**	**Average Rate %**
Borrowings		
PWLB	296,591	5.1
Bonds	90,250	4.4
Short Term	3,515	1.4
Investments	57,550	5.2

4. The borrowing requirement is basically made up of two main components. The net borrowing for the Capital Programme plus any replacement of maturing loans less the debt the Council has to repay each year. In 2009/10 this is estimated to be £21M.

5. As outlined above it is forecast that there will be further movements in interest rates. With that in mind it is anticipated that the new borrowings will be financed by a combination of short, medium (i.e. 1-5 years) and long term rates which will enable a balanced portfolio to be maintained. Where long term rates dip on any one day/week the opportunity will be taken to borrow at that time if it is deemed prudent to do so. Should long term rates increase further then the majority of the borrowing will be done in the short to medium periods to be refinanced at a later date when longer term rates start to reduce again.

6. As in the past, the Council will look for opportunities to reschedule the debt, whenever this is deemed prudent in the long term to do so.

INVESTMENT STRATEGY

Guidance under the Local Government Act 2003 states there is a requirement for an Annual Investment Strategy to be approved prior to the Financial Year to which it relates.

The general policy is that the Council will invest prudently any surplus funds held. However, due to the uncertainty within the banking sector at the moment the number of organisations that meet our approved credit rating criteria has been significantly reduced. In addition interest rates have fallen sharply, resulting in reduced income available to the authority. It is therefore proposed, in the short term, to reduce the amount of surplus funds thereby reducing investment risk. This will be achieved by the repayment of existing debt and using funds to finance the capital programme where considered prudent to do so. Close monitoring of the cashflow position and the use of short term, low cost, borrowing will ensure the avoidance of funding risk.

Where investments are made, priority will be given to security and liquidity. However the Council will also continue to seek the highest rate of return consistent with the proper levels of security and liquidity. The processes to ensure the security of those to whom short term funds are lent and the maximum period of loan are explained below.

CIPFA guidance distinguishes “Specified” and “non-specified” Investments with the latter requiring more scrutiny because of the greater perceived risk associated with them. Specified Investments are sterling investments for less than a year with banks or building societies with high credit ratings.

The Council has a select list of bodies, including banks or building societies with high credit ratings, that it will invest with which is updated on the advice of our appointed Treasury Advisors. This list is updated regularly as updated credit ratings are received from our advisors and the authority uses the “lowest common denominator” approach in selecting suitable organisations. The proposed list is available for inspection.

To provide additional investment flexibility it is proposed that the Strategy continues to allow the use of non-specified reinvestment of up to £15M by lending for more than 364 days. However, it is not proposed to make further investments under this power.

A fuller report detailing the Authority’s Investment Strategy will be brought to the Executive Member early in the new financial year.