DERBY CITY COUNCIL

COUNCIL CABINET
27 July 2010

ITEM 16

Report of the Strategic Director - Resources

Treasury Management – Annual Report 2009/10

SUMMARY

1.1 This report covers the Council's treasury management borrowing and investment activity for 2009/10 and it details the outturn prudential indicators, which are set out in Appendix 2.

1.2 2009/10 was marked by a steep decline in the Council's investment returns, due to three factors:

- general conditions in the financial markets
- the Council's tightening of its investment criteria because of financial market instability
- the Council's reduction of its cash balances due to very low rates of return on investments and better value for money being achieved through using cash balances to repay outstanding loans.

As a result, investment income fell by 82%, from £9.8m in 2008/09 to £1.7m in 2009/10.

1.3 During the year, the Council's cash balances were used to redeem a net £77.9m of external debt. This resulted in a saving that partly offset the loss of investment income. Interest payable on debt fell by 22% from £16.4m in 2008/09 to £12.7m in 2009/10, although £1.3m of this £3.7m saving was required to be passed to the Housing Revenue Account - HRA.

1.4 In net terms the Council's treasury management costs rose by 40% from £10.5m in 2008/09 to £14.7m in 2009/10 but still delivered a saving of £800k compared to budget.

1.5 Investment losses are a key risk to be avoided, and the possibility of increased borrowing rates in future also remains a key risk to be minimised in the ongoing management of the Council's treasury function. As part of this risk management a further review of the financial markets has been undertaken, with additional criteria for money market fund investments proposed in section 11 below.

RECOMMENDATIONS

2.1 To note the prudential indicators in respect of the 2009/10 outturn as outlined in the supporting information and summarised in Appendix 2.

2.2 To approve this Annual Report in respect of Treasury Management activity for 2009/10.

2.3 To approve the updated forecast prudential indicators for 2010/11, 2011/12 and 2012/13 as listed in Appendix 2, noting the forecast impact on council tax levels.

2.4 To approve the revised investment criteria in relation to money market funds as outlined in section 11, mainly to bring investment limits into alignment with fund size.

SUPPORTING INFORMATION

3. The Prudential Code

3.1 This report sets out the outturn position for the prudential indicators and reports on treasury management activity during 2009/10, consistent with the Council's duties and responsibilities under CIPFA's Prudential Code for Capital Finance in Local Authorities, which was revised in 2009.

3.2 The Prudential Code requires that the Council adopts a set of annual prudential indicators relating to capital expenditure and treasury management, and approves annually a Treasury Management Strategy, incorporating an Annual Investment Strategy.

3.3 The prudential indicators adopted by the Council relate to:

- Affordability, specifically with reference to the impact of the capital programme on council tax.
- Prudence, comparing actual Council borrowing with its need to borrow.
- Capital Expenditure, highlighting the planned expenditure of the Council and its impact on the need to borrow.
- External Debt, specifying the limit determined by Council above which further borrowing is not permitted.
- Treasury management, outlining the limits relating to interest rate exposure and principal exposure on both investments and borrowing.

3.4 This report sets out the approved prudential indicators, together with the 2009/10 outturn position for each. Appendix 2 to the report provides a summary of all the prudential indicators.

3.5 The prudential indicators for 2010/11, 2011/12 and 2012/13 have also been updated insofar as they reflect consequential changes from the outturn position for 2009/10, and also to reflect any approved changes to the capital programme since the report in February 2010.

3.6 It is also a requirement of the Revised Prudential Code for the Council to have adopted the CIPFA Treasury Management Code of Practice and Cross-Sectoral Guidance Notes. The Council in effect adopted this Code of Practice in March 2010 when it approved a revision to its Financial Procedure Rules. The Code of Practice requires that a report on the whole of the financial year's activities of the treasury operation be presented to members with a responsibility for Treasury Management and sections 10 and 11 below cover this.

4. The financial markets during 2009/10

4.1 Financial markets entered ‘calmer waters’ in the early stages of the 2009/10 financial year as the worst fears of global depression and bank meltdown subsided. Nevertheless, while economies showed tentative signs of stabilising, a return to a positive growth path was still considered to be a long way off. Indeed, United Kingdom gross domestic product -GDP- data for the first half of 2009 registered its sharpest fall for over 20 years.

4.2 It was not until the summer months that economic performances began to stage a welcome improvement. Fears of a collapse of another leading financial institution lessened markedly and this was reflected in the more ‘normal’ behaviour of money market rates. That said, banking sectors in most countries were far from trouble free; asset write-downs persisted, minor US banks continued to fail and the troubles of a number of building societies continued to make the headlines.

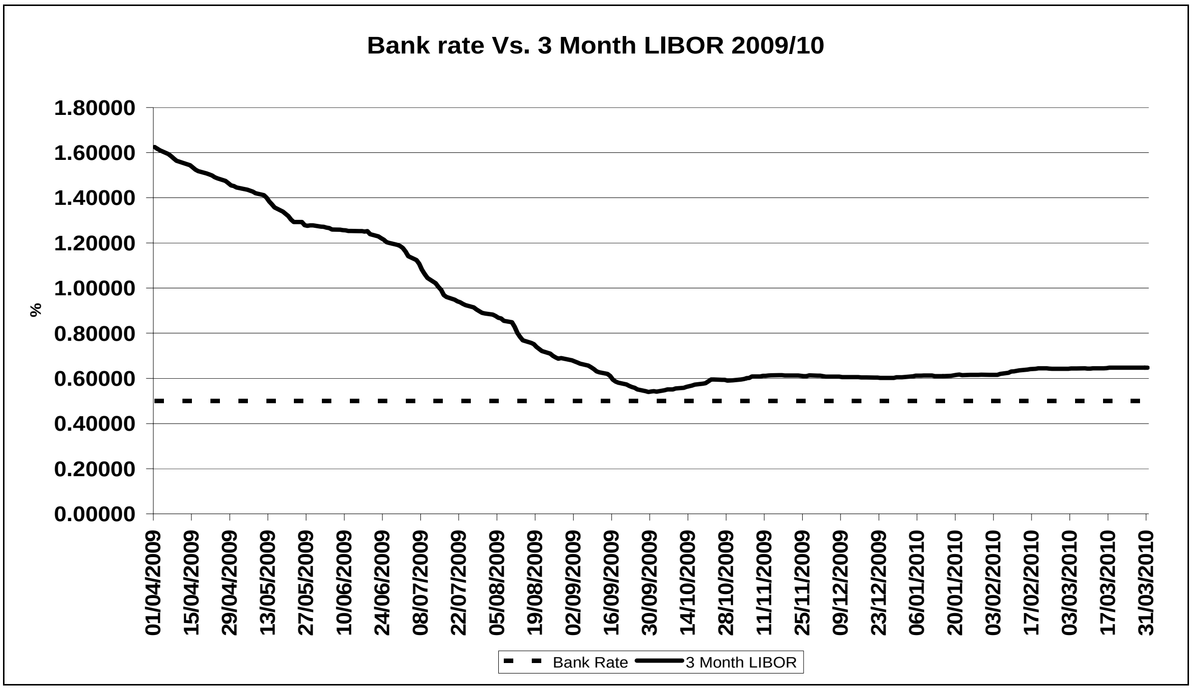
4.3 The UK economy continued to post a mixed performance and it was far from clear how far down the road to recovery it had travelled. The low point of the business cycle was passed during the third quarter of the year but the return to positive growth proved stubborn; for the UK this would not materialise until the fourth quarter of 2009.

4.4 Industrial production was one of the buoyant areas of the economy, although it was far from consistent. The main area of uncertainty remained consumer spending. This key driver of economic activity was hampered by the household sector’s striving to reduce its heavily indebted position. This, along with the continued deterioration in the employment situation and the weakness of earnings growth, served as further deterrents to spending.

4.5 The bias of the Bank of England’s Monetary Policy Committee’s decisions remained directed towards policy ease throughout the year. As official interest rates had been reduced to near-zero (0.5% Bank Rate) in March 2009, monetary relaxation took the form of the extension of the so-called Quantitative Easing (QE) programme. The £125bn tranche sanctioned in March was followed by two further boosts, £50bn in August and £25bn in November 2009.

4.6 The accommodative policy approach, coupled with dwindling fears of financial collapse, created an environment in which money market rates eased to yet lower levels. In addition to this, the margin between the London Interbank Offered and Bid Rates - LIBOR and LIBID rates - returned to a more normal position. This was a sign that banks were more comfortable about transacting business between each other but the availability of credit to a wider cross-section of the economy remained problematic through to year-end.

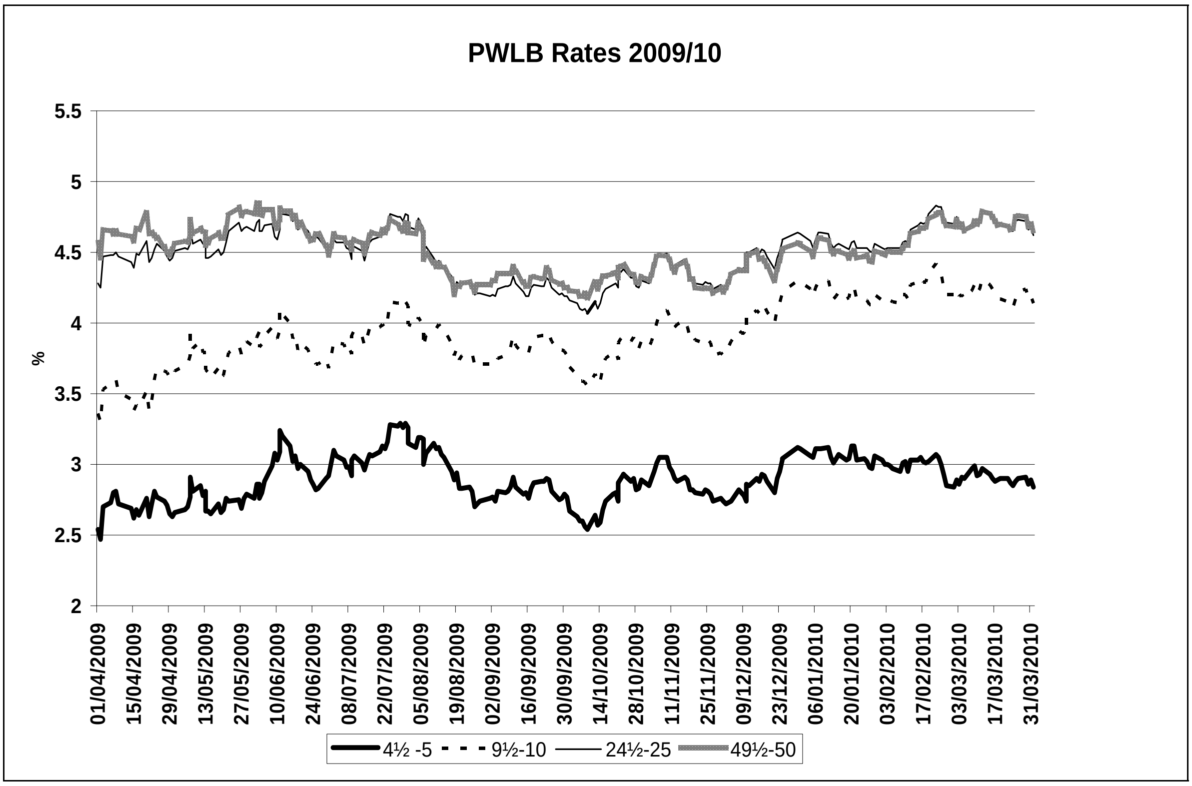
4.7 This level of comfort between banks resulted in a further reduction in short-term interest rates, and this is the external factor that impacted most on the Council's level of investment income. 3-month interest rates compared to the quite static Bank Rate are shown in the table below:



4.8 Long-term interest rates did not suffer from the massive gilt funding requirement created by the surge in the public sector deficit. The Quantitative Easing programme was the principal source of market support. The large-scale purchasing of stock that this element of monetary policy required meant the Bank of England was to absorb virtually all of the year's supply.

4.9 Nevertheless, the programme was not sufficient to drive yields below the low point seen immediately after the inauguration of the QE programme in March 2009. Long-term rates remained generally erratic, (frequently registering large intra-day movements), but fluctuated within a comparatively narrow range. Investors were happy to take advantage of the support they were receiving from official activity but behaved in a manner that suggested most believed it is only a matter of time before the good fortunes of the market would come to an end. Indeed, yields returned to a rising trend once QE drew to a close in January 2010.

4.10 The table below shows how Public Works Loan Board – PWLB - rates have varied over the course of the financial year. Rates at the short end (between 4.5 and 5 years) remain relatively low, but borrowing too much for this short period would expose the Council to excessive interest rate risk within a short period of time. For stability, longer-term debt (ie. 10+ years) is preferable, despite the higher rates. These rates are routinely monitored by the Council.



5 Affordability

5.1 Almost all capital spending decisions impact on revenue funding implications and on the council tax set by the Council. It is not only the schemes financed from prudential borrowing or direct from revenue, but also schemes financed from non-ringfenced grant and from capital receipts that affect the bottom line. The ‘affordability’ indicators within the Prudential Code aim to capture the revenue impact of the Council’s decisions.

5.2 The Prudential Code requires that a ratio of net financing costs to the net revenue stream be produced to measure the relative cost of maintaining debt year-on-year. This is a key affordability indicator and shows the long-term trend of financing costs – basically, the cost of maintaining debt less any investment income from cash balances – as a proportion of the Council’s ongoing funding, namely Formula Grant, Council Tax and charges. The importance of this indicator is reflected in its being reported monthly to the Council’s Chief Officers Group.

5.3 Based on the capital outturn position for 2009/10, the indicators for Derby's General Fund and Housing Revenue Account (with the previous year's figures shown for information) are as follows:

	GF	**HRA**
Actual 2009/10	7.45%	16.99%
Actual 2008/09	5.96%	20.28% (NB. restated post-audit)

5.4 The increase in the General Fund ratio is due mainly to the sharp reduction in investment income stemming from conditions in the financial markets, as well as from the decrease in the Council's cash balances in 2009/10 and its policy of tightening its investment criteria. The HRA ratio has declined due to the Council's decision to redeem a large amount of its external debt. Some of the savings from this have been passed on to the HRA, resulting in lower financing costs.

5.5 In the longer-term the ratio of financing costs to the net revenue stream is driven less by market fluctuations in interest rates and more by the Council's capital programme. The capital programme relies heavily on borrowing, and each tranche of borrowing commits the Council to interest and Minimum Revenue Provision repayments for several years (over the life of the asset to be financed). Costs therefore mount up if further borrowing is undertaken before already-acquired assets have been fully financed, and such costs cannot be reduced in times of reduced funding.

5.6 The Prudential Code does not recommend that any upper limit be placed on this ratio (such as the operational boundary and authorised limit placed on external borrowing). However, it does state that the objective of the indicator is to ensure that "the total capital investment of the authority remains within sustainable limits".

6 Prudence

6.1 The Capital Financing Requirement - CFR - is the key indicator against which the Council's external borrowing is measured. The actual CFR is calculated for the current year by adding together figures extracted from the Council's Balance Sheet for the following items:

- Fixed and Intangible Assets
- Mortgages
- Capital Adjustment Account
- Revaluation Reserve
- Government Grants Deferred
- Deferred Capital Receipts.

6.2 The sum of these balances represents the value of the Council's long-term assets that have yet to be financed from revenue and, as such, is the maximum amount that the Council might expect to have borrowed to finance all capital investments to date. Future year's CFRs are derived by adding planned increases in borrowing to the latest actual CFR, and deducting any monies set aside for the repayment of principle.

6.3 The Prudential Code requires a comparison between total net external borrowing and the Council's CFR. This is to ensure that overall external borrowing exposure is not excessive. The requirement of the code is that external borrowing, net of any investments, should not exceed the CFR at the end of the final year of a three year programme.

6.4 Until November 2008 the Council tended to borrow up to the CFR at points in time when interest rates for borrowing looked low enough to represent good value. However, since then the risks associated with holding on to high cash balances have increased as has the differential between investment and borrowing interest rates. It has therefore been deemed sensible by treasury management officers to use a large proportion of the Council's cash balances to redeem some of the external debt held by the Council, reducing risk and making revenue savings.

6.5 For information, the Council's treasury management budget is now routinely based on the assumption that the Council will on a rolling basis borrow £50m less than required by the capital programme – the assumption being that the Council's cash balances will provide temporary funding of £50m until the borrowing is actually undertaken at a later date.

6.6 The actual CFRs for 2008/09 and 2009/10 are as follows:

CFR	**General Fund**	**HRA**	**Total**
	£m	£m	£m
2008/09 Actual	208.0	188.7	396.7
2009/10 Actual	251.6	188.7	440.2
Increase	42.8	0.0	42.8

Generally, an increase in the General Fund CFR shows the extent to which borrowing to finance new capital expenditure has exceeded the amount required to be set aside for the future repayment of debt. However, the increase in 09/10 is significantly larger than in previous years because of a change in the way in which PFI schemes are accounted for. International Financial Reporting Standards now require PFI assets to be shown on the Council's balance sheet, and the increase in CFR largely represents the unfinanced value of these assets. The future financing costs of these assets will be met from PFI grant provided by central government so there should be no impact on council tax.

6.7 The following sets out the prudential indicator which compares the Council's overall debt with its Capital Financing Requirement. However, the local indicator alongside it is the more prudent as it (a) includes debt that was transferred to the Council from Derbyshire County Council on local government reorganisation in 1997, and (b) excludes the netting-off effect of the Council's investment balances:

	Actual 2009/10 £m	**Estimated 2010/11 £m**	**Estimated 2011/12 £m**	**Estimated 2012/13 £m**
Prudential Indicator				
- Gross External Debt	308.4	375.5	413.4	478.9
- Investment Balances	-55.1	-55.1	-20.0	-20.0
- CFR	440.2	463.0	499.3	563.2
- Variance	-186.9	-142.5	-105.9	-104.3
Local Indicator				
- Gross External Debt	308.4	375.5	413.4	478.9
- Transferred Debt	39.6	38.0	36.5	35.0
- CFR	440.2	463.0	499.3	563.2
- Variance	-92.2	-49.4	-49.4	-49.3

6.8 The prudential indicator at 31 March 2010 showed net external debt as £186.9m well below the current CFR. The more 'prudent' local indicator shows the gap to be £92.2m. This demonstrates that the Council is not borrowing in advance of immediate need. In future years the gap closes to just below £50m, in line with the budget assumption outlined above.

7. Plans for Capital Expenditure

7.1 The actual capital expenditure outturn for 2009/10 is reported to Cabinet in the 2009/10 Capital Outturn Report, elsewhere on this agenda. The actual indicators, consistent with this outturn are as follows, split between General Fund - GF- including unsupported borrowing, and Housing Revenue Account, HRA:

	GF	HRA	Total
	£m	£m	£m
Actual 08/09	81.7	11.0	92.7
Approval 09/10	83.9	12.0	95.9
Actual 09/10	56.2	12.1	68.3
Variance 09/10	-27.7	0.1	-27.6

7.2 The variance in capital expenditure for 2009/10 mainly relates to slippage. Slippage actually has a beneficial effect on the treasury management budget as it postpones the amount of 'minimum revenue provision' - MRP - that is charged to revenue. This benefit will be felt in 2010/11.

7.3 On the other hand, slippage does represent the extent to which the Council has not delivered its plans. It can also result in the Council borrowing the funds to deliver its capital programme but then not being able to dispose of those funds efficiently. This means that the Council incurs borrowing costs earlier than necessary and must also manage the increased risk relating to higher cash balances. It is partly for this reason that the Council now routinely plans to borrow £50m less than the amount required by the capital programme (see paragraph 6.5).

8. External Debt and Borrowing Limits

8.1 Section 3 of the 2003 Local Government Act imposes a duty on the Council to set a limit on how much money it can afford to borrow and to keep this under review. The 'authorised limit' is an absolute limit on borrowing, and may not be exceeded. Additionally, the Council must set an 'operational boundary' for borrowing. This is a level of borrowing that, if exceeded frequently, indicates a potential problem with the borrowing strategy. These targets are required to be set on a 'rolling' three-year basis.

8.2 For 2009/10 the operational boundary was set at the forecast Capital Financing Requirement and the authorised limit as £70m above this (to allow for times when the Council reschedules debt and needs to borrow prior to repaying).

8.3 In line with this, in February 2009 the Council's operational boundary and authorised limit for 2008/09 were set at £405m and £475m respectively. The Council's gross external borrowing plus transferred debt at the end of the year was £348m. This is within the operational boundary and well within the authorised limit.

9. Interest Rate Exposure

9.1 The other locally-set prudential indicators required for Treasury Management relate to the split of borrowing and investments between fixed and variable rates, and the maturity profile of long term loans and long-term investments. The split in respect of net borrowing (borrowing less investments) as at 31 March 2010, and the comparative figures for the previous year, are as follows:

2009/10	**Upper Limit**	**Lower Limit**	**Actual 31/03/10**
	%	%	%
Interest Rate Exposure – Fixed	120	80	108.40
Interest Rate Exposure – Variable	20	-20	-8.40

2008/09	**Upper Limit**	**Lower Limit**	**Actual 31/03/09**
	%	%	%
Interest Rate Exposure – Fixed	120	80	113.57
Interest Rate Exposure – Variable	20	-20	-13.57

9.2 The actual figures above show that the limits have been adhered to. It should be noted, however, that because this indicator combines both investments and borrowing into one net figure, the limits for fixed rate and variable rate exposure need to be set at seemingly odd numbers. For instance, the lower limit on variable interest rate exposure is negative. This is because the calculation deducts variable-rate investments from variable-rate debt and compares this to the Council's overall net indebtedness. As the Council has no variable rate debt, this indicator is negative.

9.3 Although not required by the Code, the Council has set local indicators in respect of long-term borrowing and investments. The split as at 31 March 2010 and comparable figures for the previous year are as follows:

2009/10	**Upper Limit**	**Lower Limit**	**Actual 31/03/10**
	%	%	%
Fixed Rates – Debt	100	80	100.00
Variable Rates – Debt	20	0	0.00
Fixed Rates – Investments	100	30	61.75
Variable Rates – Investments	70	0	38.25

2008/09	**Upper Limit**	**Lower Limit**	**Actual 31/03/09**
	%	%	%
Fixed Rates – Debt	100	80	100.00
Variable Rates – Debt	20	0	0.00
Fixed Rates – Investments	100	30	72.52
Variable Rates – Investments	70	0	27.48

The limits were adhered to throughout 2009/10. The change from 2008/2009 to 2009/2010 in the balance of fixed and variable rate investments is due to an increase in balances in the Money Market Funds, as a number of counterparties offering fixed rate investments were removed from the Council's lending list, and Money Market Funds are assumed to be safer than investing in a single institution.

9.4 The current loan maturity limit profile, approved by Cabinet in February 2010, along with the actual structure as at 31 March 2010, is as follows:

	Limit	Actual
Up to 1 year	5%	2.66%
Up to 2 years	10%	2.67%
Up to 5 years	20%	2.68%
Up to 10 years	50%	6.45%
Up to 20 years	70%	13.54%
Up to 30 years	80%	28.80%
Up to 40 years	90%	47.82%
Up to 50 years	100%	100.00%

All actual profiles during the course of the year were comfortably within the boundaries set.

9.5 The final treasury management indicator required is the limit at any one time on investments with a period to maturity of greater than 365 days. The limit, as agreed at Cabinet in February 2010, is £10m. The actual balance at the end of the financial year was £3m, relating to an investment with Barclays Bank made in July 2008 which matures on 1 July 2011. In practice, however, current investments are made in agreement with the criteria outlined in paragraph 11.3 below.

10. Borrowing 2009/10

10.1 The borrowing strategy for 2009/10 was approved in February 2009. It identified a borrowing requirement of £27m, consisting mainly of £17.2m of new capital expenditure, £7m carried forward from the previous year, and replacement debt (net of MRP) of £3.2m. This is shown in the table below together with the final outturn position:

	Plan £m	**Actual** £m
Borrowing requirement c/f	7.0	12.2
New supported borrowing SCE(R) 2009/10	8.9	3.1
Unsupported Borrowing	8.3	4.0
PFI assets recognised (IFRS requirement)		45.5
Total capital financed by borrowing	**24.2**	**64.8**
Long-term loan repayments 2009/10 (inc. transferred debt)	11.1	89.6
Potential borrowing requirement 2009/10	**35.3**	**154.4**
less: earmarked for repayment of debt	-7.9	-7.4
less: PFI assets financed	-0.3	-2.5
add: other financing adjustments		0.7
Net increase in expected debt	**27.0**	**145.2**
New loans taken out		-10.0
Outstanding liabilities with PFI contractors		-43.0
Amount under-borrowed 2009/10		**92.2**

Columns may not sum due to rounding

10.2 As can be seen, the Council undertook a significant amount of loan redemption during 2009/10 - £89.6m as opposed to the £11.1m of debt that was expected to mature naturally. There have been two advantages to doing this:

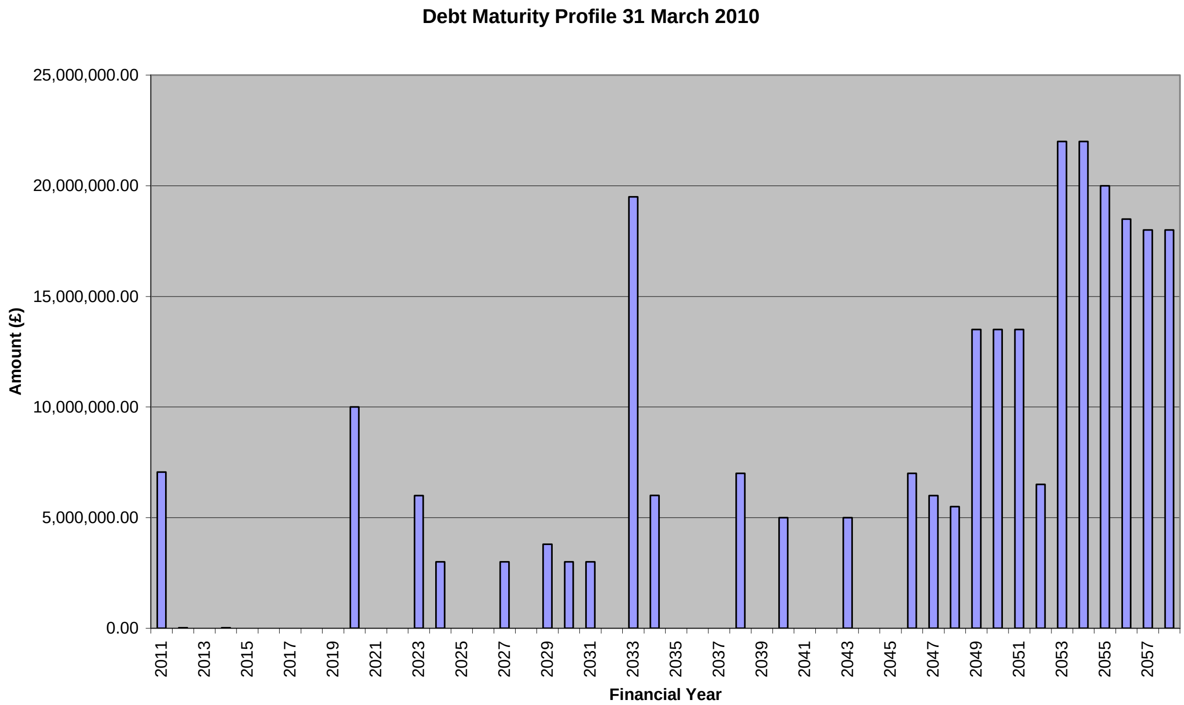
- it has reduced the risk of investment losses stemming from counterparty collapse.
- significant savings have been made by redeeming debt being charged to the Council at around 4.5% when investment rates are much lower than this, although it should be noted that as more debt is redeemed a greater portion of the savings is required to be passed over to the HRA.

10.3 The longer-term risk associated with debt redemption is that upward pressure on interest rates, stemming from Government borrowing, could mean that future borrowing to finance the capital programme becomes more expensive, and interest rates on borrowing could be higher than 4.5% when the cash is eventually required. This risk continues to be closely monitored, although the table below shows that rates have not increased significantly over the last year.

10.4 The following table provides a snapshot of month-end interest rates available on long-term borrowing from the Public Works Loan Board for 2009/10 and part of 2010/11:

Length of loan	**April 09 %**	**June 09 %**	**Nov 09 %**	**Jan 10 %**	**March 10 %**	**May 10 %**	**Jun 10 %**
5 years	2.63	2.92	2.76	3.06	2.89	2.46	2.31
10 years	3.61	3.68	3.79	4.20	4.19	3.76	3.59
20 years	4.40	4.39	4.25	4.57	4.65	4.36	4.29
30 years	4.47	4.48	4.25	4.54	4.67	4.38	4.36
40 years	4.51	4.50	4.25	4.53	4.69	4.38	4.37
50 years	4.52	4.48	4.25	4.51	4.70	4.39	4.37

10.5 As a result of this activity, total external debt outstanding at 1 April 2010 was £265.4m. This was made up entirely of PWLB loans at an average interest rate of 4.55% (the previous year's average rate was 4.53%), with the following maturity profile:



10.6 Future loans will be taken at the shorter end in order to maintain a flatter maturity profile, especially as longer-term loans are more expensive.

10.7 It should also be noted that the figure of £43m representing “outstanding liabilities with PFI contractors” in paragraph 10.1 above is the value of the Council’s PFI assets which is still to be financed. We are required to show this as part of newly introduced International Financial Reporting Standards. The funding to pay for this outstanding liability comes from central Government in the form of an annual PFI grant and so there is no impact on the council tax payer.

11. Investments 2009/10

11.1 The following investment activity took place during 2009/10:

Number of fixed-term deposits made:	109
Number of instant access accounts used:	6
Deposits/withdrawals from instant access accounts:	242

Value of investments held at:	
1 April 2009	£127.550m
31 March 2010	£55.065m
Average size of portfolio 2009/10	£100.109m
Average size of portfolio 2008/09	£176.894m
Total interest earned on investments 2009/10	£1.743m
Total interest earned on investments 2008/09	£9.806m
Average return on portfolio 2009/10	1.741%
Average return on portfolio 2008/09	5.543%

11.2 In accordance with the Revised CIPFA Code of Practice the primary objective of the Council’s investment strategy remains that of obtaining the best rate of return whilst maintaining effective control of associated risks. However, in the light of the various financial crises, the regard which the Council pays to the active control of all security and liquidity risks has increased significantly over the course of 2009/10, such that only the most secure and most liquid investments are considered. This has resulted in a severe narrowing of investment opportunities and a reduction in the Council’s average rate of return.

11.3 The table below shows the Council’s current criteria for investments up to one year:

Short term	**Long term**	**Individual**	**Support**	**Max period**	**Limit**
F1	AA	C	3	1 year	£12m
F1	A	C	3	3 months	£8m
F1	A	“Eligible”	3	3 months	£5m
• Bank of England Debt Management Office				6 months	n/a
• AAA rated Money market Funds				n/a	£15m
• Other Local Authorities				1 year	£15m
• UK Government guaranteed institutions				Period of guarantee	£12m
• Co-operative Bank (see paragraph 11.4)				Overnight	<£1m

11.4 The limit for investment placed with the Co-operative Bank was agreed at Cabinet in June 2010. Previously the bank had a zero limit since it fell beneath the Council's minimum investment criteria. However, an exception was made for instances in which the Debt Management Office proved to be the only place in which the Council could invest, but the Council lacked the funds to meet the £1m minimum investment threshold without withdrawing cash from one of its instant access accounts. In such instances Cabinet agreed on 6 June 2010 that the Council can leave balances in the Co-operative Bank.

11.5 In addition to the general tightening of its investment criteria for fixed-term deposits, there is a need for the Council to review its use of Money Market Funds - MMFs. MMFs are generally assumed to be safer than individual investments since they spread their capital over a wide range of different investments. This means that individuals and organisations placing money in an MMF have only a small proportion of their investment exposed to risk. This is preferable to 'having all one's eggs in one basket' but it does not mean that risk factors can be safely ignored.

11.6 The Council's list of approved funds currently includes only the following:

- Black Rock (previously known as Barclays Global Investors)
- Standard Life
- Invesco AIM
- Henderson Global Investors

The Council's investment limit with each of these funds is £15m but it is proposed to alter these below.

11.7 These funds were originally selected only on the basis of their AAA rating. However, as all MMFs are AAA-rated by at least one of the three main credit rating agencies – Fitch, Moody's, and Standard & Poor's – this selection needs to be tightened up. It is therefore proposed to invest with MMFs only with an AAA rating from at least two of the three main ratings agencies.

11.8 Another key factor to consider when investing in MMFs is the size of the fund. The investment risk is relative to the size of the fund – the larger the fund the better the spread of risk. On the largest funds the Council's £15m limit corresponds to approximately 0.3% of the funds' values (typically in excess of £5bn), and, from a risk perspective, the smaller the fund, the lower the limit should be. Therefore, as part of a more active approach to MMF investment management it is proposed to apply the following limits:

Fund size	**Investment limit**
Greater than £5bn	£15m
Greater than £1bn	£3m
Less than £1bn	£0

As the size of the Invesco AIM and Henderson funds are currently below £5bn this revision could compel the Council to withdraw some of its money from these funds and place it elsewhere. The Black Rock and Standard Life funds are in excess of £5bn, and so the £15m limit with them will remain and, alongside these, other AAA MMFs will also be considered.

11.9 The Council’s existing limit - exposing no more than 70% of the investment portfolio to variable interest rates - is not affected by any of these proposed changes.

11.10 Setting these additional criteria will serve to tighten up the Council’s management of a key segment of its investment portfolio; it will also allow treasury management staff to actively manage individual money market fund investments on a daily basis.

11.11 The revised list of MMFs that satisfy these additional criteria will be monitored on a regular basis by the Strategic Director of Resources, in consultation with treasury management staff. This will focus not on rate of return but on security and liquidity measures, and may result in further amendments to the Council’s investment strategy being proposed at a later date.

For more information contact:	Ciaran Guilfoyle 01332 258464 e-mail ciaran.guilfoyle@derby.gov.uk
Background papers:	• Council Cabinet report 17 February 2009 ‘Treasury Management Strategy and Prudential Code Indicators 2009/10’ • Council Cabinet report 28 July 2009 ‘Treasury Management – Annual Report 2008/09’ • Council Cabinet report 24 November 2009 ‘Treasury Management Progress Report 2009/10’ • Council Cabinet report 19 February 2010 ‘Treasury Management Strategy and Prudential Code Indicators 2009/10’ • Council Cabinet report 8 June 2010 ‘Contract and Financial Procedure Matters Report’
List of appendices:	Appendix 1 - Implications Appendix 2 – Prudential Indicators 2009/10

IMPLICATIONS

Financial

1.1 As detailed in the report.

Legal

2.1 The Council is obliged to set and review prudential indicators in order to comply with the Local Government Act 2003. The Local Government Act 2003 states that the Council must adopt the Prudential Code, which, in turn, requires local authorities to adopt the CIPFA Treasury Management Code of Practice. Unless the government uses its powers under section 4 of that Act, the Council is free to set any reasonable indicators consistent with its other policies.

2.2 The Prudential Code states that the Prudential indicators for treasury management should be considered together with the local authority's treasury management strategy and the annual report on treasury management activities.

Personnel

3.1 None.

Equalities Impact

4.1 None.

Corporate objectives and priorities for change

5.1 The priorities of the Council's Treasury Management Strategy contribute to minimising Council Tax and providing value for money.

Prudential Code Indicators Summary 2008/09 - 2012/13

Appendix 2

Revised Prudential Code Reference	**Indicator**	**Actual 2009/10**	**Estimated 2010/11**	**Estimated 2011/12**	**Estimated 2012/13**
Affordability					
	Financing cost to Net Revenue Stream Ratio				
36-37	- General Fund %	7.45%	7.65%	8.81%	10.30%
77-78	- HRA %	16.99%	17.94%	21.05%	21.56%
Prudence					
	Actual/Forecast Borrowing compared to CFR				
43	- Gross External Debt £m	308.4	375.5	413.4	478.9
	- Investment Balances £m	-55.1	-55.1	-20.0	-20.0
	- CFR £m	440.2	463.0	499.3	563.2
	- Variance £m	-186.9	-142.5	-105.9	-104.3
Local	- Gross External Debt £m	308.4	375.5	413.4	478.9
	- Transferred Debt £m	39.6	38.0	36.5	35.0
	- CFR £m	440.2	463.0	499.3	563.2
	- Variance £m	-92.2	-49.4	-49.4	-49.3
Capital Expenditure					
	Total Capital Expenditure				
46-48	- General Fund £m	56.2	93.8	97.3	157.0
81-82	- HRA £m	12.1	15.0	9.5	8.6
	- Total £m	68.3	108.8	106.8	165.6
	Capital Financing Requirement				
49-52	- General Fund £m	251.6	274.3	310.6	374.5
83-84	- HRA £m	188.7	188.7	188.7	188.7
	- Total £m	440.2	463.0	499.3	563.2
External Debt					
53	Authorised Limit for borrowing £m	475	542	520	584
	Authorised Limit for other long term liabilities £m	100	100	100	100
	Authorised Limit £m	575	642	620	684
54	Operational Boundary for borrowing £m	405	472	450	514
	Operational Boundary for other long term liabilities £m	100	100	100	100
	Operational Boundary £m	505	572	550	614
58	**Actual External Debt £m**	308.4	375.5	413.4	478.9
Treasury Management					
60	**Adopted CIPFA TM Code of Practice and Cross-Sectoral Guidance Notes (2009)**	Yes	Yes	Yes	Yes
Local	**Interest Rate Exposure - Fixed**				
	Upper limit %	120	120	120	120
	Actual %	108.40			
	Lower limit %	80	80	80	80
Local	**Interest Rate Exposure - Variable**				
	Upper limit %	20	20	20	20
	Actual %	-8.40			
	Lower limit %	-20	-20	-20	-20
Local	**Long term Borrowing - Fixed rate**				
	Upper limit %	100	100	100	100
	Actual %	100.00			
	Lower limit %	80	80	80	80
Local	**Long term Borrowing - Variable rate**				
	Upper limit %	20	20	20	20
	Actual %	0.00			
	Lower limit %	0	0	0	0
Local	**Investments - Fixed rate**				
	Upper limit %	100	100	100	100
	Actual %	61.75			
	Lower limit %	30	30	30	30
Local	**Investments - Variable rate**				
	Upper limit %	70	70	70	70
	Actual %	38.25			
	Lower limit %	0	0	0	0
Local	**Maturity Structure of Debt - % of all debt (Limits shown in place of estimates)**				
	Up to 1 year	3%	5%	5%	5%
	Up to 2 years	3%	10%	10%	10%
	Up to 5 years	3%	20%	20%	20%
	Up to 10 years	6%	50%	50%	50%
	Up to 20 years	14%	70%	70%	70%
	Up to 30 years	29%	80%	80%	80%
	Up to 40 years	48%	90%	90%	90%
	Up to 50 years	100%	100%	100%	100%
Local	**Investments over a year - limit £m**	£25m	£10m	£10m	£10m
Local	**Investments over two years - limit £m**	£0m	£0m	£0m	£0m