CANNOCK CHASE COUNCIL

COUNCIL

2 NOVEMBER 2011

REPORT OF HEAD OF FINANCIAL MANAGEMENT

QUARTERLY TREASURY REPORT MID YEAR REVIEW REPORT OF 2011-12

KEY DECISION - NO

1. Purpose of Report

1.1 To advise Members of the Council's Treasury activities during the first half of 2011-12.

2. Recommendations

2.1 That the contents of this report be noted.

2.2 That Council approve the changes to the prudential indicators.

3. Summary

3.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management in the Public Services 2009 was adopted by this Council on 24 February 2010 and this Council fully complies with its requirements. The primary requirements of the Code are the:-

a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

c. Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a mid year review report (as a minimum) and an annual review report of the previous year.

d. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit and Governance Committee.

3.3 Treasury management in this context is defined as:-

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

3.4 This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers:-

- An economic update for the first six months of 2011-12;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- the Council's capital expenditure (prudential indicators);
- a review of the Council's investment portfolio for 2011-12;
- a review of the Council's borrowing strategy for 2011-12;
- a review of any debt rescheduling undertaken during 2011-12;
- a review of compliance with Treasury and Prudential limits for 2011-12;

4. <u>Key Issues and Implications</u>

4.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management in the Public Services 2009 was adopted by this Council on 24 February 2010 and this Council fully complies with its requirements. The primary requirements of the Code are the:-

(a) creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

(b) creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

(c) receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a mid year review report (as a minimum) and an annual review report of the previous year;

(d) delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

(e) delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit and Governance Committee.

4.2 During the first half of 2011-12 the Council did not increase its Borrowing Portfolio.

4.4 Although the investment return again exceeded the accepted benchmark of the uncompounded LIBID 7 day rate, investments were of necessity kept in small amounts and on the whole, short term (i.e. 3 months or less). This inevitably decreases the return available, but based upon market conditions in the year actually increases the amount of interest earned by the Council.

4.5 None of the prudential indicators set at the beginning of the year were exceeded and all investments were carried out with institutions listed in the Council's approved lending list.

4.6 The detail of the Council's Treasury Management activities for the first half of 2011-12 is shown in Annex 2

5. Conclusions and Reasons for the Recommendations

5.1 The CIPFA Code of Practice on Treasury Management in the Public Services 2009, requires that reports be submitted as follows:-

(a) Annual Strategy and Plan in advance of the year.

(b) Annual Report after the year end close.

(c) Mid-year review report (as a minimum)

3.2 This report therefore ensures this Council is embracing Best Practice in accordance with CIPFA's recommendations

6. Other Options Considered

6.1 There are no other options to be considered.

7. Report Author Details

7.1 Bob Kean, Head of Financial Management, Ext 4334

REPORT INDEX

Section 1

Contribution to Council Priorities

Treasury Management is an important function of the authority and provides part of the setting of an approved budget for 2011-12 and future years. The approved budget represent the agreed priorities of the council as determined by the Delivering Change process and hence have directly contributed to the four Corporate priorities of People, Place, Prosperity and Transformation as part of a medium term financial strategy.

Section 2

Contribution to Promoting Community Engagement

There is no contribution to Promoting Community Engagement.

Section 3

Financial Implications

There are no direct financial implications arising from this report with the changes in Prudential Indicators arising from previous reports covering the HRA Business Plan (Self Financing Regime) and the second quarters review of the 2012 HRA Capital Programme..

In relation to the self financing regime and subject to statutory powers, the Council will be required to make a one off payment to the Department for Communities and Local Government (DCLG) to remove the HRA from the current housing subsidy system. The payment is expected to be £60m. This one off payment is compensation, ensuring the HRA will no longer make future annual payments to the DCLG. It is expected that the overall impact will be beneficial to the Council. Whilst the legislative framework is not yet in place, by agreeing to these revised prudential indicators the Council is ensuring the necessary local requirements are in place well before the payment is required on the 28th March 2012.

A further review of the funding strategy for the HRA has been undertaken to ensure the balance between HRA and General Fund Capital Financing Requirement is maintained.

The Audit Commission report to Audit and Governance Committee (27 September 2011) on the 2010-11 Statement of Accounts referred to the ongoing anomaly whereby the Council makes an internal transfer between the HRA and General fund to ensure the true cost of borrowing is reflected in the respective accounts.

In accordance with the General Fund Revenue Budget 2010-11 to 2012-13 and Treasury Management Report submitted to Cabinet in February 2010 it was envisaged that the replacement of internal borrowing with external borrowing would be addressed by 31 March 2012. Prudential borrowing of £3,000,000 is therefore being carried out this financial year, in order to provide adequate resources to maintain the decent homes standard of the Council stock, and finally address the issues as raised in paragraph 3.9 of the General Fund Revenue Budget report dated February 2010.

Section 4

Legal Implications

The legal implications are set out throughout the report.

Section 5

Human Resource Implications

There are no Human Resource Implications arising from this report.

Section 6

Section 17 (Crime Prevention) Implications

There are no Section 17 implications arising from this report.

Section 7

Human Rights Act Implications

There are no identified implications in respect of the Human Rights Act 1998 arising from this report.

Section 8

Data Protection Act Implications

There are no implications arising from this report.

Section 9

Risk Management Implications

Treasury Management is a high risk area due to the large amounts of money dealt with on a daily basis. However, the Council has a Treasury Policy and Strategy in place which is approved each year for the following 12 months. The Council also has advice on investment and lending from the leading company in the field and has instituted a strict control and delegation of duties regime which reduces all risks to a minimum.

There are no implications arising from this report.

Section 10

Equality and Diversity Implications

There are no identified implications arising from this report.

Section 11

List of Background Papers

Statement by the Leader of the Council 2011-12.

Section 12

Report History

Treasury Management update – first half year – 2011-12

The Council operates a balanced budget, which broadly means cash raised during the year will meets its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this Council is implementing best practice in accordance with the Code.

Economic Update

- Indicators suggest that the economy has at best stagnated;
- Conditions on the high street have deteriorated further;
- Employment has fallen again;
- The public finances are expected to miss this year's fiscal forecasts;
- CPI inflation rising, heading for a peak of around 5% in Q4;
- The Monetary Policy Committee signals a move towards increasing QE;
- Equities prices plummet and gilt yields fall to historic lows;
- The economic recoveries falter in the US and Europe.

Activity indicators suggest that the economic recovery has ground to a halt. Indeed, the weighted output balance of the CIPS/Markit surveys fell in August to a level that has been consistent with contraction in the past. The surveys also exclude retail activity – and the latest news from the high street suggests that the sector is in a similar position. While sales volumes rose by 0.2% m/m in July, they fell by the same amount in August.

However, output for the first quarter was depressed by a variety of factors (including the one-off Bank Holiday for the Royal Wedding in April and the after-effects of the Japanese earthquake), so the economy might still register growth in the next quarter.

Meanwhile, the fading of the economic recovery has impacted on the job market. The Labour Force Survey measure of employment fell by 70,000 in the three months to July, the first fall this year. And the ILO measure of unemployment rose by 80,000 over the same period – the largest rise in two years. The timelier (but narrower) claimant count measure also rose by a monthly 33,700 in July and 20,300 in August. The pace of job losses across the whole economy looks unlikely to ease off in the coming months. Job vacancies in the three months to August were 1.3% lower than a quarter ago, while the employment balances of all three of the CIPS surveys were below the 50-mark in July and August (below 50 marks a contraction in expectations).

Meanwhile, the public finances are on track to miss this year's fiscal forecasts. If the trend in borrowing seen over the first five months of the fiscal year continues, it will be around £5bn higher than the OBR expects. Admittedly, the full impact of some tax changes have yet to be felt, but the lags between developments in the economy and the public finances suggest that the recent slowdown is unlikely to have had its full effect on receipts.

Conditions in the housing market have also continued to deteriorate. Whilst the number of mortgage approvals for new house purchase rose from 48,800 in June to 54,200 in August, this has not prevented renewed falls in house prices. The Nationwide index ended the second quarter 0.2% lower than at the end of the first.

The trade in goods and services deficit was £4.5bn in July, compared to an average monthly deficit of £3.8bn in Q1. The survey measures of export orders also point to falls in exports ahead – the new export orders balance of the CIPS Manufacturing survey, for example, fell to its lowest level since May 2009 in September. At that level, it points to a quarterly drop in the volume of manufactured goods exports of around 5%.

Inflation continued to climb in the second quarter. CPI inflation rose from 4.2% in June to 4.4% in July and 4.5% in August. A series of rises in electricity and gas prices also took effect in late August and September which, together with a rise in food inflation reflecting past rises in agricultural commodity prices, could push inflation close to 5% in September.

Inflation may creep a little higher in the third quarter – but recent developments suggest that it should fall quite sharply next year. Oil prices fell from $113 per barrel at the end of Q1 to $106 at the end of Q2. Agricultural prices also fell over the past quarter. Surveys of manufacturers pricing intentions in Q2 also pointed to a fall in producer output price inflation ahead. Meanwhile, the continued weakness of the broad money supply and lending data in Q2 and the persistence of a large degree of spare capacity in the economy also suggest that inflation will fall sharply in 2012.

Measures of inflation expectations have drifted up – the Bank of England's measure of households' inflation expectations in the year ahead rose from 3.9% to 4.2% in Q2. However with conditions in the labour market continuing to deteriorate, these expectations seem unlikely to become ingrained. The annual rate of average earnings growth including bonuses fell from 3.1% to 2.9% in July (the rate excluding bonuses fell from 2.2% to 1.7%). Real pay growth has thus remained negative.

Meanwhile, the MPC became distinctly more dovish during Q2. Spencer Dale and Martin Weale both abandoned their votes for a rate hike at the meeting in August. The minutes of September's meeting also suggested that QE2 will be launched soon, although, no other members have yet joined Adam Posen in voting for more QE. Most have however accepted that the case for policy stimulus has significantly strengthened and that "a continuation of the conditions seen over the past month would probably be sufficient to justify an expansion of the asset purchase programme at a subsequent meeting."

Financial market sentiment deteriorated sharply in the second quarter, reflecting declining prospects fro economic growth and renewed risk aversion as a result of the intensification of the euro-zone sovereign debt crisis. The FTSE 100 finished the quarter at 5,128 – about 14% lower than its level at the end of the first quarter. Ten year gilt yields plummeted from 3.38% to 2.43% reflecting falling interest rate expectations, safe-haven flows as a result of a perceived rise in default risk on sovereign debt in the euro-zone and perhaps expectations that further QE might soon be on the way. Meanwhile, a global shift away from risk saw the dollar strengthen. As a result, sterling weakened against the dollar from about $1.60 to $1.56, but strengthened slightly against the euro from €1.16 to €1.10.

In the US, economic data was weak, but a little stronger than in the UK. The US ISM indices pointed to an annualised quarterly GDP growth of around 1.5% in July and August. Growth in payrolls also stagnated in August. And while President Obama proposed a $450bn job creation bill, equivalent to nearly 3% of GDP, it seems unlikely to be passed by Congress in full.

Growth has also slowed sharply in the euro-zone. In particular, the ECB composite PMI now pointed to outright falls in GDP in August. A steep drop in the EC Economic Sentiment Indicator in August also left the index consistent with a sharp slowdown in annual GDP growth in the region.

Interest Rate Forecast

The Council's treasury adviser, Sector, provides the following forecast:

Sector's Interest Rate View															
	Now	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's Bank Rate View	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
5yr PWLB Rate	**2.41%**	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
10yr PWLB Rate	**3.46%**	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
25yr PWLB Rate	**4.31%**	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
50yr PWLB Rate	**4.42%**	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%

The Sector central forecast is for the first increase in bank rate to be in September 2013. We would remind clients of the view we expressed in our two previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are as we are experiencing exceptional levels of volatility which are highly correlated to political developments (or lack of them) in the sovereign debt crisis.

Summary Outlook

Sector has undertaken a review of our interest rate forecasts as a result of two major events:-

1. The decision by the MPC to expand quantitative easing over the next four months by a further £75bn which had an immediate effect of depressing gilt yields at the long end of the curve. It also underlines how concerned the MPC now is about the prospects for growth of the UK economy and that recession is now decisively a much greater concern than inflation.

2. The marked deterioration of growth prospects in the US, EU and UK, especially as concerns have further increased over Greece and the potential fall out from their debt situation. This has led in turn to a further increase in safe haven flows into UK gilts since our last interest rate forecast (16.8.11) which have depressed gilt yields and PWLB rates to even lower levels.

These developments had left their short term forecasts for PWLB rates markedly out of line with actual rates. They have also substantially pushed back our expectations of the timing of the expected eventual rise in gilt yields and PWLB rates.

In summary, concerns around a slow down in prospects for GDP growth in the western world are as follows:-

US

- Current weak GDP growth; jobless recovery
- Fed unlikely to increase central rate until mid 2013
- Latest Fed Twist operation unlikely to save US economy from weak growth in the shorter term
- Near exhaustion of major fiscal and monetary remedies
- Political gridlock ahead of Nov 2012 Presidential elections for major fiscal action
- New president unlikely to make significant impact on the US economy in 2013
- Housing market still fraught and banks face rising losses on mortgages which will lead in turn to restricted supply of credit to the economy; little hope of the housing market turning around in the near future.

EU

- Sovereign debt crisis is morphing into an EU banking crisis where some weaker banks will need semi-nationalisation to cope with a major write down of Greek debt, resulting in an increase in government debt levels. This in turn could threaten (e.g.) the French AAA rating and lead to an increase in concerns for the size of the French Debt to GDP ratio.
- EU economy now heading into recession in 2012; increasing lack of supply of bank credit plus major fall in consumer and business confidence will inhibit economic growth.
- High risk that 17 Euro zone nations will not agree on what to do about Greece ahead of financial markets losing patience and precipitating a crisis.
- German elections in 2013 getting even closer; German voters hostile to bailing out Greece and other weak peripherals.

UK

- 40% of UK GDP dependent on overseas trade, high correlation of UK growth to US and EU GDP growth means that the UK economy may only barely escape recession in the next two years.
- Consumers have paid down total debt to income ratio from 180% in 2008 to 160%. OBR forecasts March 2011 for GDP growth of 2.5% in 2012 and 3.0% in the following three years are predicted on an increase in consumer spending and borrowing taking that ratio back to

175% by 2015 i.e. an increase of £570bn in debt. This is highly unlikely given current consumer sentiment, job fears, high inflation eroding disposable incomes, small or no pay increases, mortgagors coming off initial cheap fixed rate deals onto higher SVR rates etc.

- Little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth

- Little sign of a major increase in exports to boost UK growth

- QE2 likely to be too little too late to boost UK growth significantly in the near term

CHINA

- Increasing concerns that efforts to gently slowdown the economy to cool inflation could lead into a hard landing.

Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2011-12 was approved by this Council on 3rd February 2011.

The underlying TMSS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out below:

- The Capital financing requirement for the Housing Revenue Accounts has been increased by £3 million in the year to allow prudential borrowing to take place. The authorised limit has also been increased by this amount.

- Subject to statutory powers, the Council will be required to make a one off payment to the CLG to remove the HRA from the current housing subsidy system. The payment is expected to be £60m. This one off payment is compensation, ensuring the HRA will no longer make future annual payments to the CLG. It is expected that the overall impact will be beneficial to the Council. Whilst the legislative framework is not yet in place, by agreeing to these revised prudential indicators the Council is ensuring the necessary local requirements are in place well before the payment is required on the 28th March 2012. Members are therefore requested to approve the following key changes to 2011-12 prudential indicators:

Prudential Indicator 2011-12	**Original** **£,000**	**Impact of HRA reform** **£,000**	**Revised Prudential Indicator** **£,000**
Authorised Limit	32,928	63,000	95,928
Operational Boundary	30,202	63,000	93,202
Capital Financing Requirement	32,928	63,000	95,928

The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

HRA Reform

The proposed reform of the HRA subsidy arrangements are expected to take place on 28 March 2012. This will involve the Council paying funds to the CLG which will remove the Council from the HRA subsidy system. The expected payment is £60m. This will impact on both the capital structure of the Council (as the HRA Capital Financing Requirement will rise by the size of the CLG payment), and the treasury management service will need to consider the funding implications for the borrowing. The Council's prudential indicators shown below highlight the position in relation to the original position, and the expected impact of the HRA reform payment is incorporated in the recommended prudential indicator changes in section 4. The new HRA Capital Financing Requirement will form a cap on any future HRA capital expenditure.

Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Fund	**2011-12 Original Estimate**	**2011-12 Revised Estimate**
	£,000	**£,000**
General Fund	8,740	8,689
HRA	5,488	6,028
S106	1,307	1,152
Self Financing Payment		60,000
Total	15,535	75,869

Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Borrowing	**2011-12 Original Estimate £,000**	**2011-12 Revised Estimate £,000**
Supported		
Unsupported	6,346	9,346
Self Financing Payment		60,000

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the operational boundary.

Prudential Indicator - Capital Financing Requirement

The Capital financing requirement for the Housing Revenue Accounts has been increased by £3 million in the year to allow prudential borrowing to take place. The authorised limit has also been increased by this amount.

Prudential Indicator - External Debt / the Operational Boundary

	2011-12 Original Estimate £,000	**2011-12 Revised Estimate £,000**
Capital Financing Requirement		
Non Housing	13,317	13,317
Housing	19,611	82,611
Total CFR	32,928	95,928
Net Movement in CFR		63,000

	2011-12 Original Estimate £,000	2011-12 Revised Estimate £,000
External Debt / the Operational Boundary		
Borrowing	24,600	87,600
Total debt 31 March	**24,600**	**87,600**

Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowing less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2011-12 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2011-12 Original Estimate £,000	2011-12 Revised Estimate £,000
Gross Borrowing	24,600	87,600
Less Investments	0	0
Net Borrowing	**24,600**	**87,600**
CFR	**32,928**	**95,928**

The Head of Financial Management reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit for external debt	2011-12 Original Estimate	2011-12 Revised Estimate
	£,000	£,000
Borrowing	32,928	95,928
Total	**32,928**	**95,928**

Investment Portfolio 2011-12

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

The Council held £11.5m of investments as at 30 September 2011 (£6m at 31 March 2011) and the investment yield for the first six months of the year is 0.81% against a benchmark of the 7 day LIBID rate of 0.48%. A full list of investment held as at 30th September 2011 is in Annex 2.

The Head of Financial Management confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2011-12.

The Council's budgeted investment return for 2011-12 is £91,670 and performance for the year to date is in line with the budget.

Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Borrowing

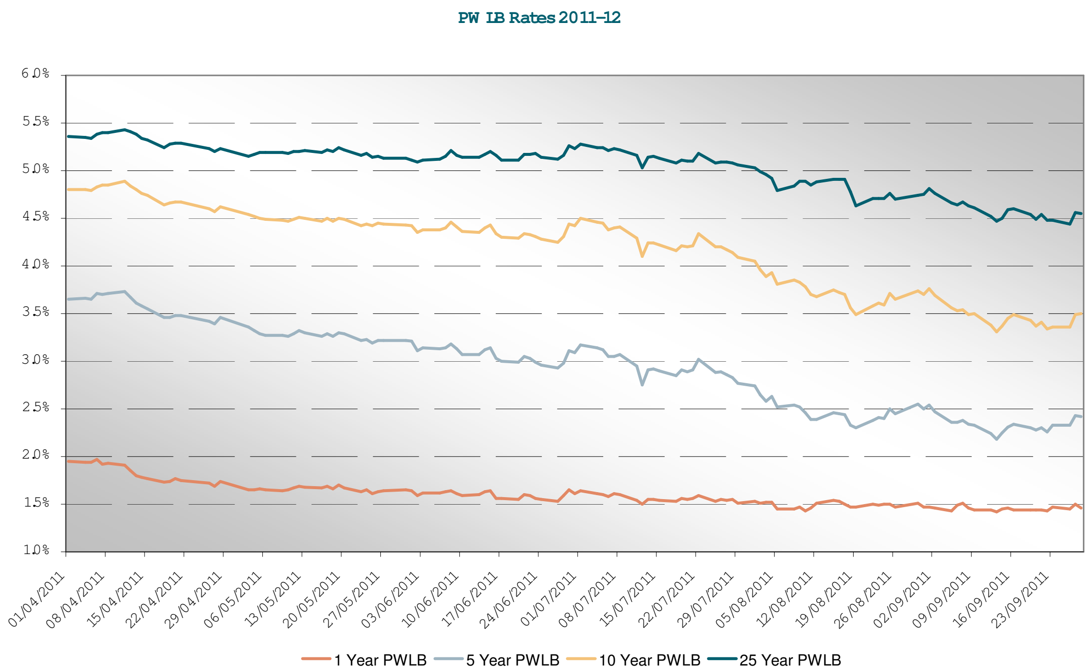
The Council's capital financing requirement (CFR) – excluding HRA Reform for 2011-12 is £33m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The previous tables shows the Council has borrowings of £25m.

As outlined above, the general trend has been a reduction in interest rates during the six months, across all maturity bands.

It is anticipated that further borrowing will be undertaken during this financial year.

The treasury service is currently analysing the options for the implications of the HRA reform impact. As the CLG will require payment on the 28 March 2012 of £60m loans, a new loan will be used to pay this amount to ensure the overall position of the Council is safeguarded and the HRA and non-HRA are not disadvantaged. The overall structure and appropriateness of the resulting portfolio is being considered.

The graph and table below shows the movement in PWLB rates for the first six months of the year and providing benchmarking data showing high and low points etc:



Debt Rescheduling:

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates following increases in PWLB new borrowing rates in October 2010. During the first six months of the year no debt rescheduling was undertaken.

Compliance with Treasury and Prudential Limits:

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved the TMSS.

During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 1.

Appendix 1

Prudential and Treasury Indicators as at 30th September 2011

Prudential Indicator	**2011-12 Original £,000**	**2011-12 Revised £,000**	**Quarter 2 – Actual £,000**
Capital expenditure	15,535	75,869	5,238
In year borrowing requirement	1,243	64,243	1,243
Authorised limit for external debt	32,928	95,928	32,928
Operational boundary for external debt	30,202	93,202	30,302
Gross borrowing	24,600	87,600	21,486
Investments	0	0	11,520
Net borrowing	24,600	87,600	9,966
Capital Financing Requirement (CFR)	32,928	95,928	32,928
Ratio of financing costs to net revenue stream	1.58%	4.74%	1.58%
Incremental impact of capital investment decisions	0	0	0
Increase in council tax (band change) per annum	0	0	0
Increase in precept for police, fire or other precepting authorities	0	0	0
Increase in average housing rent per week	0	0	0
Limit of fixed interest rates based on net debt	100%	100%	100%
Limit of variable interest rates based on net debt	10%	10%	10%
Principal sums invested > 364 days	100%	100%	100%

Maturity structure of borrowing limits			
Under 12 months	14%	4%	14%
12 months to 2 years	2%	0%	2%
2 years to 5 years	4%	1%	4%
5 years to 10 years	12%	0%	12%
10 years and above	68%	95%	68%

Investments held as at 30th September 2011 compared to Sector's Creditworthiness matrices:

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
	Clydesdale Bank	1,000,000	0.85%		Call
	Nat West Bank	4,144,000	0.80%		Call
	Deutsche Global Liquidity	2,973,000	0.82%		MMF
	Ignis Liquidity	2,903,000	0.78%		MMF
	Bank of Scotland	500,000	1.25%	03/08/11	03/11/11
	Total Investments	11,520,000	0.81%		

	Maximum Duration	% of portfolio
	Up to 1 month	8.69
	Up to 1 year (part-nationalised UK)	40.31
	Up to 1 year	51.00
		100.0