STRATEGIC OVERVIEW AND SCRUTINY COMMITTEE

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Agenda Item 4

Contact Officer: Jane Kitchen
Anthony Thomas

Telephone: 01543 308770
01543 308012

SUBMISSION BY CLLR MJ WILCOX, THE LEADER OF THE COUNCIL & THE CABINET MEMBER FOR FINANCE, REVENUES & BENEFITS

Half Year Report on Treasury Management Services and Projected Prudential Indicators 2010/11

1. Purpose of Report

2.1 The Treasury Management Strategy for Lichfield has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

2.2 Treasury management 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. "

2.3 The Code also recommends that members be informed of Treasury Management activities at least twice a year. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

2.4 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.

2.5 The report is to full Council and is in addition also being submitted to Cabinet.

2. Background

2.1 The Economy and Events in 2010/11

- The UK continued to emerge from recession but the level of activity remained well below pre-crisis levels. GDP registered 0.3% growth in the first calendar quarter of 2010 and the first estimate for Q2 showed a surprising 1% increase. There are two further estimates due in August and September and this figure is likely to change as the GDP survey becomes broader and more accurate in its content.
- The Bank of England's Monetary Policy Committee maintained the Bank Rate at 0.5% and Quantitative Easing at £200bn.
- Inflation continued to decline although the annual CPI to July 2010 still stood at 3.1%, which has resulted in two open explanatory letters from the Bank of England's Governor to the Chancellor. In the coming months higher food and fuel prices raise the risk that we may not see inflation come down much more until 2011, and then it will rise back again in January with the signalled hike in VAT to 20%.
- The Bank of England's August Quarterly Inflation Report showed inflation remaining above the 2% target for longer than previously projected. Although the recovery in economic activity was expected to continue, the overall outlook was weaker than presented in the May report, reflecting softening in confidence, persistence of tight credit conditions and the tackling of budget deficits by sovereign states by increasing taxes and/or cutting spending.
- The successful formation of a coalition government dispelled uncertainty surrounding a hung parliament result in May's General Election. The new government's Emergency Budget laid out tough action to address the UK's budget deficit, aiming to eliminate the structural deficit by 2014/15. This is to be achieved through austerity measures – £32bn of spending cuts and £8bn of net tax increases. Gilts have benefitted from this decisive plan as well as expected reductions in supply for each year of the forecast. The expected level of spending cuts and tax rises looks to be enough to extinguish the recent concern about inflation expectations.
- Interest rates are difficult to project at the present time because there is a divergence of opinion amongst most forecasters between those that feel interest rates must stay "lower for longer" in order to stimulate the economy and those that feel rates need to rise in order to control the level of inflation. The latest central forecast of interest rate provided by our Treasury Management Advisors are shown in the table below:

(%)	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Official Bank Rate	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75

2.2 Investments and Cash flow

- The investments that the Council had outstanding together with a summary of investment activity throughout the 2010/11 financial year is shown at **APPENDIX A**.
- The summary of investment activity information shows how restrictive our current list of institutions remains in light of the "credit crunch" and problems in the banking sector.
- However, our Treasury Management Strategy approved by Council on 23rd February 2010 also approved the use of AAA rated Money Market Funds subject to a limit of £1.5 million in each fund and an overall limit in all of these funds of £6 million.
- These funds enable us to diversify our investments across short-term money market instruments and further detail in relation to their benefits is provided at **APPENDIX A**.

- Due to the restrictive nature of our current list of banking institutions we may need to consider increasing these limits as part of our new Treasury Management Strategy that will be presented to this Committee for approval in February 2011.
- Our actual cash flow in 2010/11 closely followed the budgeted trend (**APPENDIX A)**.
- We project to receive (**£88k)** in net investment income in 2010/11 and this compares to a Current Budget of (**£88k)**.
- We have undertaken no new external long-term borrowing in 2010/11.

2.3 The Performance of and Training within the Treasury Management Function

- The performance of the Treasury Management function should be measured against our investment objectives of Security (the safe return of our monies), Liquidity (making sure we have sufficient money to pay for our services) and Yield (the return on our investments) and these are shown in detail at **APPENDIX B**.
- Our aim for the risk status of our investments was **A+** and our investments at the 30th September 2010 had a more secure risk status of **AA-** based on the length of the investment and **AA** based on the value of investment**.**
- We have not needed to temporarily borrow during 2010/11.
- We achieved an average yield of **0.95%** and this compares to a 7 day London Interbank Bid rate (LIBID) of **0.42%.** In addition, to compare performance with longer-term benchmarks, the average 1 month LIBID rate is **0.49%,** the average 3 month LIBID rate is **0.63%** and the average 6 month LIBID rate is **0.93%.**
- From the 1st April 2010 to the 30th September 2010, members of the core Treasury Management Team plus officers responsible for authorisation of investments in the wider Finance function have attended a total of 7 courses. These courses addressed skills ranging from the Principles of Treasury Management to Auditing and Accounting for Treasury Management in Local Government.

2.4 Balance Sheet

- The projected balance sheet and balance sheet summary compared to the estimated balance sheet as at 30th September 2010 are shown at **APPENDIX C**.
- The reasons for the major variances between projections and the estimated balance sheet are also shown at **APPENDIX C**.

2.5 Treasury Position

- Our Treasury Position as at 30th September 2010 is set out at **APPENDIX C**. This indicates that although we have a borrowing need we can delay undertaking significant levels of external borrowing because we can reduce the level of our investments. This means we do not have to find counterparties to invest our funds with and we minimise the costs to the Council (this approach has saved the Council circa **£40,000** to date in this financial year).
- However, we need to keep the Treasury Position under review to take account of changes to budgets and changes in the wider economy specifically in relation to interest rates.

2.6 Prudential indicators 2010/11

- Our projected Prudential Indicators are summarised in the financial implications section of this report and we are compliant with all of our approved Prudential Indicators apart from the maturity structure of fixed rate borrowing (upper limit %) in the 24 months and within 5 years banding.
- Our current approved Prudential Indicator assumed we would undertake external borrowing to fund our Capital Programme (see 3.6 above) and at this time we have not had to do this and it is unlikely we will undertake new borrowing in this Financial Year. However, this means that the maturity profile for the Brewery Loan we have outstanding could exceed this Prudential Indicator.
- Therefore, to ensure we have sufficient flexibility within the Indicator it is recommended that it be increased from **30%** to **80%.**

2.7 Treasury Management Assurance

- One of the key questions for Members in relation to Treasury Management is:

  "How can I be assured that agreed Treasury Management Strategies, Policies and Limits are being applied correctly within the Council ?"

- The answer to this question is provided by reviews that are undertaken by both independent internal and external bodies. A review of the Treasury Management function by our Treasury Management Advisors was undertaken during July 2010 and the results were provided in August 2010. This review highlighted several areas of good practice together with some areas where improvements could be made. The full details of the results of the review are shown in **APPENDIX D**.

3. Community Benefits

3.1 Management of the Council's resources is essential in order to ensure economical and efficient delivery of Council services.

4. Financial Implications

4.1 The Prudential Indicators (*** are the indicators updated as a result of the Report to Council on 11th May 2010 regarding Chasewater Dam) are summarised below:

PI	Capital expenditure	2010/11 Approved	2010/11 Projected
1	Capital Expenditure (£m) ***	10.936	10.897
2	Ratio of Financing Costs to Net Revenue Stream (%)***	2	2
3	Capital Financing Requirement (£m)***	4.543	3.766
3	Net external borrowing does not exceed the Capital Financing Requirement in the current year and the next two years.	True	True
4	Actual External Debt (long term 0.039 + short term 0.006) and Finance Leases (0.232) (£m)	0.277	
5	Incremental impact of capital investment decisions on Band D Council Tax (£) ***	7.31	7.31
6	Authorised limit (£m) (Maximum)***	14.850	0.277
7	Operational boundary (£m) (Maximum)***	7.189	0.277
8	Adoption of CIPFA Code of Practice in Treasury Management	True	True
	Interest Rate Exposures (%)		
9	Upper Limit for Investments Fixed Interest Rate Exposure	-100	-92
9	Upper Limit for Investments Variable Interest Rate Exposure	-50	-49
10	Upper Limit for Borrowings Fixed Interest Rate Exposure	100	100
10	Upper Limit for Borrowings Variable Interest Rate Exposure	30	0
	Maturity Structure of Fixed Rate Borrowing (Upper Limit) (%)		
11	Under 12 months	20	13
11	12 months and within 24 months	20	13
11	24 months and within 5 years	30	74
11	5 years and within 10 years	40	0
11	10 years and within 20 years	60	0
11	20 years and within 30 years	40	0
11	30 years and within 40 years	40	0
11	40 years and within 50 years	40	0
11	50 years and above	20	0
12	Principal sums invested > 364 days (£m)	2.30	0

5.	Risk Management Issues

	Risk Description	Likelihood / Impact	Status	Countermeasure
A	Counterparty default	Medium / High	Financial	Investments are restricted to those organisations with the lowest credit risk: a) The Debt Management Account Deposit Facility. b) Stable Net Asset Value Money Market Funds with an AAA rating. c) Deposits with other Local Authorities. d) Deposits with UK Banks and Building Societies systemically important to the UK banking system. As conditions in the Financial Sector improve, we may diversify the counterparty list based on our advisor's recommendations.
B	Adverse Interest Rate fluctuations	Low / Low	Financial	The budget for investment income will be monitored as part of the Council's budget monitoring procedures.
C	Actual cash flows are different to those that are planned	Low / High	Financial	The Council maintains a comprehensive cash flow model that is updated on a daily basis to reflect both actual and planned cash flows. An element of the Council's investment portfolio will be invested in call accounts.

Background Documents:

CIPFA Code of Practice for Treasury Management in the Public Services Treasury Management Strategy Report 2010/11 to 2014/15 – Cabinet 9th February 2010. Annual Report on Treasury Management Services and Actual Prudential indicators 2009/10 – Cabinet 29th June 2010-09 Chasewater Dam – Appointing a Contractor – Cabinet 4th May 2010
The Prudential Code for Capital Finance in Local Authorities

Investments and Cash flow in 2010/11

Investments at 30th September 2010

The table below shows a breakdown of our investments at the 30th September 2010:

Counterparty	Principal	Matures	Days to Maturity	Rate	Credit Rating[1] 30/09/10	Foreign Parent
Money Market Funds						
Standard Life	£1,000,000	01-Oct-10	Instant Access	0.59%	AAA	N/a
Invesco	£1,000,000	01-Oct-10	Instant Access	0.55%	AAA	N/a
Other Counterparties						
Barclays Bank	£1,000,000	20-Jul-11	293	1.41%	AA-	No
Lloyds TSB	£2,000,000	20-Jul-11	293	1.95%	A+	No
Lancashire County Council	£3,170,000	21-Oct-10	21	0.30%	AAA	No
Debt Management Office	£1,170,000	21-Oct-10	21	0.25%	AAA	No
Santander	£2,000,000	17-Jan-11	109	1.12%	AA-	Yes
Yorkshire Bank (Clydesdale)	£400,000	15-Oct-10	15	0.75%	A+	Yes
Clydesdale Bank	£1,600,000	28-Feb-11	151	1.01%	A+	Yes
Nationwide	£2,000,000	08-Mar-11	159	0.98%	A+	No
Barclays Bank	£1,000,000	11-May-11	223	1.22%	AA-	No
Bank of Scotland	£1,000,000	10-Dec-10	71	1.26%	A+	No
Royal Bank of Scotland	£2,000,000	01-Oct-10	Instant Access	0.80%	A+	No
Total	**£19,340,000**					

However, the previous table only shows the investment position on one particular day of the financial year, the table below shows a summary for the financial year to date:

Counterparty	Number of Deals	Total Principal Invested £m	Is the Counterparty on our current list of institutions?
Standard Life	18	£5.13	Yes
Clydesdale (Including Yorkshire)	15	£8.15	Yes
JP Morgan	15	£6.03	Yes
BlackRock	14	£6.04	Yes
Invesco Aim	14	£6.93	Yes
Royal Bank of Scotland	10	£3.52	Yes
Debt Management Office	7	£16.44	Yes
Santander	6	£12.00	Yes
Barclays Bank	3	£3.00	Yes
Nationwide	3	£5.15	Yes
Lancashire County Council	2	£4.91	Yes
Bank of Scotland	1	£1.00	Yes
Eastleigh Borough Council	1	£1.75	Yes
Goldman Sachs	1	£0.19	Yes
Lloyds TSB	1	£2.00	Yes
Total	**111**	**£82.24**	

[1] This is the lowest rating provided by the three credit rating agencies - Moodys, Fitch and Standard and Poors.

The table shows how restrictive our current list of institutions remains in light of the “credit crunch” and problems in the banking sector. This list is reviewed on an ongoing basis and takes account of the following sources of information:

- Advice from our Treasury Management advisors.
- Credit Ratings (A minimum of A+ across all three rating agencies).
- Gross Domestic Product of the Country in which the institution operates.
- The Country’s net debt as a percentage of Gross Domestic Product.
- UK Sovereign support mechanisms or potential support from a well resourced parent institution.
- Credit Default Swaps (CDS) prices.
- Share Prices.
- Information in the general and financial media.

This can be illustrated in relation to deposits with Santander UK Plc (a wholly owned subsidiary of Banco Santander). These were initially restricted to one month during the first quarter however within the second quarter investor nervousness following the ‘Portugal, Ireland, Italy, Greece and Spain’ sovereign crisis abated. There was an improvement in Banco Santander’s creditworthiness indicators (share price and CDS) and therefore a prudent increase in the maturity limit for Santander UK plc to six months was warranted.

What are Money Market Funds ?

Money market funds are mutual funds that invest in short term money market instruments. These funds allow investors to participate in a more diverse and high quality portfolio than if they were to invest individually. Like other mutual funds, each investor in a money market fund is considered a shareholder of the investment pool, or a part owner of the fund.

Money market funds are managed according to rigid and transparent guidelines, in order to offer safety of principal, liquidity and competitive money market returns. These funds must comply with:

- Mutual fund requirements including European and national regulations;
- The constraints of the triple A rating, as determined by the Credit Rating Agencies; and
- Their Code of Practice.

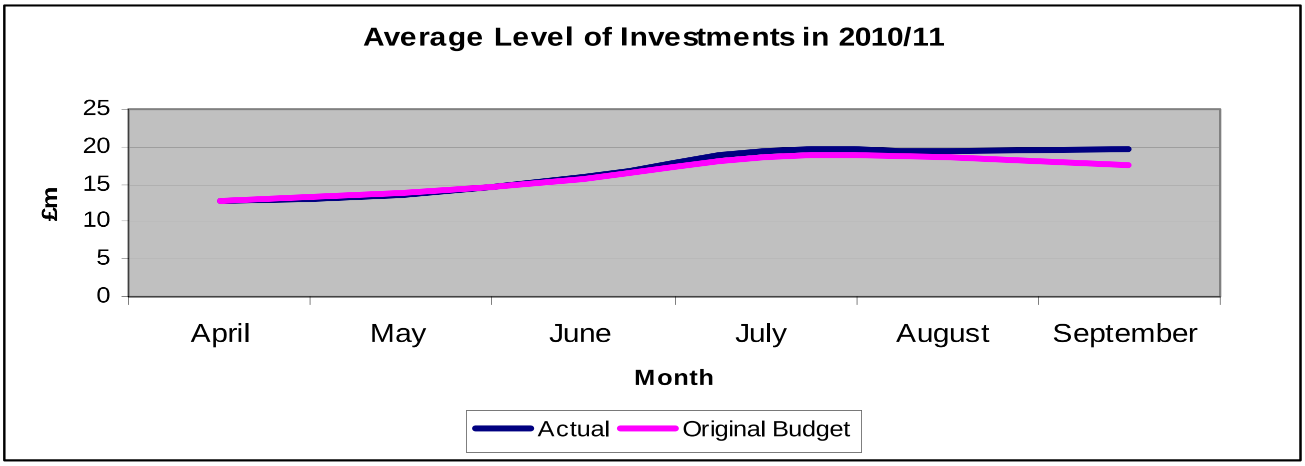
What are the Benefits of Money Market Funds ?

Although money market funds are as simple to use as bank deposits, they offer several additional advantages:

- Diversification of investments across securities and by issuer.
- Outsourcing of credit analysis to a professional cash management team.
- Same day liquidity with no redemption penalties.
- Segregation of assets in a separate, ring fenced account.
- Competitive money market returns.

Cash flow for 2010/11

The graph below compares the budget for average investment levels in 2010/11 with the actual and projected levels.



The graph shows that the actual trend of investments followed the budgeted trend very closely.

Investment Income and Borrowing Cost Budgets for 2010/11

Net Investment Income

In terms of interest receipts, there are two key risks / sensitivities:

a) The interest rate receivable.
b) The amount of money we have available to invest.

The interest rates, amounts of money we had available to invest, interest receipts, interest paid and net investment income are shown in the table below:

Details	**2010/11 Approved**		**2010/11 Projected**		**2010/11 Variance**
Average Amount we had available to Invest (£m)	(16.09)		(15.24)		0.85
Average Interest Rate (%)	0.60		0.95		0.35
Interest Receipts (£)		**(172)**		**(172)**	-
Borrowing Costs (£k) - Minimum Revenue Provision	94		94		-
Borrowing Costs (£k) – External interest	160		160		-
Other Interest	6	**260**	6	**260**	-
Net Investment Income (£)		**88**		**88**	**-**

New Long Term Borrowing Costs

No new long-term borrowing has been undertaken in 2010/11.

Performance of the Treasury Management Function

The performance of the Treasury Management function should be measured against the investment objectives of Security (the safe return of our monies), Liquidity (making sure we have sufficient money to pay for our services) and Yield (the return on our investments).

Security

Our aim for the risk status of our portfolio was **A+** using the lowest rating from the three credit rating agencies as the basis for assessing the risk status**.**

The investments outstanding at the 30th September 2010 had a risk status of **AA-** based on the length of the investment and **AA** based on the value of investment, which has a more secure risk status, and this is both compliant with our aim and the recommendations from our Treasury Management advisors.

In addition, we are currently keeping the length of our investments relatively short term to ensure that we can react to changes in counterparty credit risk very easily. Our Treasury Management advisors have recommended investments are for no longer than **1 year** in duration to manage counterparty credit risk.

To manage the interest rate risk we are spreading investment maturities throughout the 1-year period. The average length of investments we have made in 2010/11 is **94 days**.

Liquidity

Measuring the performance in relation to liquidity is a much more difficult task and the easiest way to assess performance is to see how frequently we needed to borrow on a temporary basis during the financial year. In 2010/11 we have not needed to borrow temporarily. We currently use call accounts and Money Market Funds for short-term liquidity requirements, which gives us same day access to funds if we require them.

Yield

To date in 2010/11, we have achieved an average interest rate of **0.95%** and this compares to our performance indicator of the average 7-day London Inter-bank Bid (LIBID) rate, which was **0.42%.** In addition, to compare performance with longer-term benchmarks, the average 1 month LIBID rate is **0.49%,** the average 3 month LIBID rate is **0.63%** and the average 6 month LIBID rate is **0.93%.**

Training within the Treasury Management Function

Our Treasury Management Practices (TMP 10) states, "This organisation recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Director of Finance, Revenues and Benefits will recommend and implement the necessary arrangements."

We have two points of access for training:

- Our Treasury Management Advisors run regular courses and we are entitled to two free places on each course.
- We are members of the CIPFA Treasury Management Forum and this entitles us to four places on various courses as part of our membership subscription.

From the 1st April 2010 to the 30th September 2010, members of the core Treasury Management Team plus officers responsible for authorisation of investments in the wider Finance function have attended a total of **7** courses. These courses addressed skills ranging from the Principles of Treasury Management to Auditing and Accounting for Treasury Management in Local Government.

APPENDIX C

Balance Sheet Projections

*** Balances likely to be affected by further International Financial Reporting Standard adjustments.

Balance	31 Mar 2010 Actual £m	31 Mar 2011 Estimated £m	31 Mar 2011 Projected £m	Projected Variance To Estimate £m
1. Fixed Assets***	43.111	52.543	49.179	-3.364
3. Long Term Debtors	0.065	0.075	0.063	-0.012
3. Current Assets (including accrued interest)	8.225	5.123	3.653	-1.470
3. Bank	0	0	0	0
2. Investments (excluding accrued interest)	9.545	9.278	4.740	-4.538
3. Current Liabilities	-4.950	-5.473	-4.811	0.662
2. Long Term Creditors – Finance Leases***	-0.232	-0.105	-0.175	-0.070
3. Long Term Creditors – Section 106***	-1.537	-0.149	-0.375	-0.226
2. Long Term Creditors – Borrowing	-0.039	-6.588	-0.033	6.555
3. Provisions	-0.079	-0.077	-0.079	-0.002
3. Trusts / Bequests	0	-0.018	0	0.018
3. Unapplied Grants, Contributions & Section 106***	-2.618	-0.861	-0.919	-0.058
1. Deferred Capital Grants & Contributions (1)	-7.162	-10.277	0	10.277
3. Pension Scheme	-36.373	-17.120	-36.373	-19.253
Total Assets less Liabilities	**7.956**	**26.351**	**14.870**	**-11.481**

1. Revaluation Reserve***	1.900	2.128	1.900	-0.228
1. Capital Adjustment Account*** (1)	33.202	35.596	43.513	7.917
3. Deferred Credits	0.012	0.009	0.010	0.001
3. Pension Scheme	-36.373	-17.120	-36.373	-19.253
4. Usable Capital Receipts	2.446	1.047	1.453	0.406
4. Burntwood Leisure Centre Sinking Fund	0.739	0.537	0.537	0
4. Burntwood Synthetic Pitch Sinking Fund	0.029	0.029	0.029	0
4. City Centre Redevelopment Sinking Fund	0.024	0.025	0.025	0
4. King Edwards Leisure Centre Sinking Fund	0.031	0.031	0.031	0
4. Lombard Street Car Park Sinking Fund	0.017	0.017	0.017	0
4. Elections	0.078	0.078	0.105	0.027
4. Public Open Spaces	0.013	0.013	0.007	-0.006
4. Three Spires Multi Storey Reserve	1.383	1.692	0.992	-0.700
4. Earmarked Reserves	1.099	0.835	1.020	0.185
4. Grant Aid	0.040	0.038	0.035	-0.003
4. Depot Relocation	0.050	0.050	0	-0.050
4. Collection fund	-0.056	0	-0.050	-0.050
4. General Fund Balance	3.322	1.346	1.619	0.273
Total Equity	**7.956**	**26.351**	**14.870**	**-11.481**

Balance Sheet Summary

1. Capital Financing Requirement	0.847	4.543	3.766	-0.777
2. Net Investments Position	9.274	2.585	4.740	2.155
3. Net Creditors	-0.906	-1.390	-2.686	-1.296
4. Balances and Reserves	-9.215	-5.738	-5.820	-0.082

(1) Balances updated to take account of International Financial Reporting standard changes in relation to deferred grants and contributions.

Balance Sheet Commentary

Actual Balance Sheet as at 31st March 2010

There were a number of variances between our estimated and actual Balance Sheets at the 31st March 2010 and the reasons for the major variances were reported to Cabinet on 29th June 2010 as part of the Annual Report on Treasury Management Services and Actual Prudential Indicators 2009-10. These variances also impact on future Balance Sheet projections and the major ones are shown below:

Pensions

Our FRS 17 Balance Sheet this year has deteriorated from last year and FRS 17 deficits are bigger in monetary terms this year and have increased by **£19.253m**.

Fixed Assets

Our Valuer undertook an impairment review on the value of our fixed assets at the 31st March 2010 and identified that our office and commercial property needed to be impaired by a further **£2.124m**.

Debtors

Business Rates and Housing Benefits debtors that were outstanding were paid in the current financial year.

Projected Balance Sheet as at 31st March 2011

Fixed Assets

The performance of our Capital Programme and its funding has a significant impact on our Balance Sheet. The report to Cabinet on 5th October 2010 in relation to the four-month review of performance against the Financial Strategy highlighted that **£0.840m** of spend in relation to the Chasewater Dam will now be re-phased from 2010/11 to the 2011/12 Financial Year.

Deferred Grants and Contributions

Our Balance Sheet as at 31st March 2011 will be prepared for the first time in accordance with International Financial Reporting Standards (IFRS). This means changes will be made to some Balance Sheet figures mainly in relation to Fixed Assets and their financing. These changes are currently being completed however one area of significant change we can reflect in the projections is in relation to Deferred Grants and Contributions.

Under the Statement of Recommended Practice if the Council received a grant or contribution that was used to fund a Fixed Asset this would be credited to this account and written off to the Capital Adjustment Account (via the income and expenditure account) based on the life of the Fixed Asset. This approach is not compliant with IFRS and will mean that the current balance will be written off to the Capital Adjustment Account (CAA). In future, these type of grants and contributions will initially be credited to the Income and Expenditure Account and then transferred to the CAA.

The Level of our Investments and External Borrowing

We currently have a borrowing need (known as the Capital Financing Requirement) although we are delaying undertaking significant levels of external long term borrowing this means that the level of our investments has reduced (although there will not be an exact correlation because of other changes to the Balance Sheet).

Borrowing Requirement and Strategy

The Balance Sheet projections can also be used to assess the underlying need to borrow (known as the Capital Financing Requirement). The table below indicates when the Council would need to borrow to fund its capital programme based on latest projections.

31 Mar 2010 Actual £m	Details	31 Mar 2011 Approved £m	31 Mar 2011 Projected £m	31 Mar 2012 Projected £m	31 Mar 2013 Projected £m
0.847	The amount of our capital spend that is not financed from capital receipts, revenue, grants and contributions (Capital Financing Requirement)	4.543	3.766	6.540	6.456
-0.271	Less: current funding provided through finance leases and long term borrowing	-0.105	-0.208	-0.149	-0.070
0.576	**Projected Borrowing Need**	**4.438**	**3.558**	**6.391**	**6.386**
-9.215	Less: the projected level of our balances and reserves we currently hold as investments	-5.738	-5.820	-4.041	-3.805
-8.639	**Our net projected borrowing need (a positive figure indicates when we need to borrow)**	**-1.300**	**-2.262**	**2.350**	**2.581**

This table shows that because we had sufficient levels of investments we are able in 2010/11 to delay undertaking significant levels of long term external borrowing. This has the following advantages:

- It means we do not need to find counterparties to invest our funds with and;
- We minimise the costs to the Council because we would have paid circa 4% for long term loans however we are only receiving circa 1% on our investments.

In 2010/11 based on approved budgets, this approach has saved the Council circa **£40,000**.

Our current Balance Sheet projections indicate we could continue to follow this strategy until 2011/12. However, we will need to constantly review these projections in line with changes to our budgets. In addition, we will need to take account of changes in the wider economy specifically in relation to interest rates.

External Borrowing and the Public Works Loans Board (PWLB)

The major source of borrowing for Local Government is the Public Loans Board. On 26th April 2010 the PWLB introduced twice daily rate settings at 9:30 and 12:30. This was set out in Circular 143. It was also announced that the Debt Management Office (DMO)/PWLB plans to increase the number of regular intra-daily re-sets to three times a day in the near future. A further announcement on this is expected in the second half of the financial year.

This means that should we decide to undertake external long term borrowing to fund our Capital Programme, that rates will be more responsive to the market including the response of the markets to the Government's Comprehensive Spending Review in October 2010.

Treasury Management Assurance

One of the key questions for Members in relation to Treasury Management is:

How can I be assured that agreed Treasury Management Strategies, Policies and Limits are being applied correctly within the Council ?

The answer to this question is provided by reviews that are undertaken by both independent internal and external bodies. The various bodies and the type of review they undertake are shown below.

Our External Treasury Management Advisors

As reported to Cabinet on 29th June 2010, as part of our contract with Arlingclose Ltd, we required them to undertake a review of our Treasury Management Practices, processes and systems to ensure they are "fit for purpose" and comply with Legal and Regulatory requirements and Best Practice. This review was undertaken during July 2010 and the results were provided to the Council on the 6th August 2010.

The areas of good practice have been identified as:

- "We were very impressed with the level of detail in the documents you provided; in particular the procedure notes for Bank line and the investment record sheets".
- "We were also impressed with the level of audit trail per investment. The folders are very comprehensive, with a checklist to ensure all relevant documents are included".

In addition areas for improvement together with the proposed actions are shown in the table below:

Recommendations	Proposed Action
Maintaining offsite a copy of your cash flow and manual payment form	We have stored a hard copy of our Treasury Management Practices together with the banking cards and readers we need to process investment deals at Burntwood Leisure Centre. In addition we store an electronic copy of the cash flow information as part of the web hosted Covalent system. This means we will be able to access this information from anywhere that has internet access even if the Council's IT systems are not available.
Reviewing Treasury Management Practices on an annual basis to update any specific information e.g. staff structure, job titles, approvers, strategy changes etc.	These will be reviewed on an annual basis as part of the Treasury Management Strategy process.
Adding a sheet to the front of the Treasury Management Practices for all those involved in Treasury to sign up to.	All officers who are involved in Treasury Management will be required to sign that they fully understand their responsibilities with regard to Treasury Management.