TELFORD & WREKIN COUNCIL

COUNCIL 5th MARCH 2009

TREASURY MANAGEMENT STRATEGY AND UPDATE

REPORT OF THE CORPORATE DIRECTOR : RESOURCES AND THE HEAD OF FINANCE

1.0 PURPOSE

- To update Members on Treasury Management activities,
- To recommend the Treasury Management, Minimum Revenue Provision and Annual Investment Strategies for 2009/10

2.0 RECOMMENDATIONS

Members are asked to approve the following recommendations from 23rd February Cabinet:

2.1 Approval of the Treasury Management, Minimum Revenue Provision and Investment Strategies for 2009/10 as outlined in the report;

2.2 Approval for West Mercia Supplies to be able to use a US Dollar Account.

3.0 SUMMARY

The report updates members on the recent Treasury Management activities undertaken and outlines the proposed Treasury Management Strategy and Borrowing Limits for 2009/10. The report is based on the Guidance on Local Authority Investments issued by CLG.

4.0 PREVIOUS MINUTES

Council 26th June 2008
Council 6th March 2008

5.0 2008/09 TREASURY MANAGEMENT UPDATE

5.1 INTEREST RATES

Base rates started the year at 5.25%, and were then reduced to 5.00% on 12th April 2008 with further reductions from October onwards reflecting a response

to the growing lack of liquidity in financial markets and the accelerating move of the global economy into recession. Base rate now stands at 1.0% with further cuts to 0.5% or even 0.0% possible in the next few months. Base rate has never before fallen below 2% in over 300 years of the Bank of England's existence

5.2 BORROWING & RESCHEDULING

The borrowing strategy for the current year has been to take a pragmatic approach to the use of both PWLB borrowing and other loan instruments, spreading interest rate risk and taking advantage of low rates when available. The alternative form of loans used has been in the form of LOBOs-Lender's Option Buyer's Option – where within the total life of the loan there is a period when the rate is fixed and after that the buyer has the option to change the rate, but if they do then the borrower also has the option to repay the loan. A summary of the transactions for the year to date is shown below.

Rescheduling

In order to take advantage of recent borrowing rate structures and offset potential shortfalls in investment income over the next 1-2 years, some of the Council's borrowing portfolio has been restructured. Any discounts achieved as part of these transactions have to be spread over the remaining life of the loan or 10 years whichever is the shorter.

Date	Action	Amount £m	Annual Impact on the Budget for 10 years
11/11/08	Repaid - 4.30% loan	5.000	Discount £28,054 p.a.
11/11/08	Repaid - 4.20% loan	5.000	Discount £35,217 p.a.
11/11/08	Repaid - 4.35% loan	5.000	Discount £24,606 p.a.
21/11/08	Repaid - 4.40% loan	5.000	Discount £16,229 p.a.
21/11/08	Repaid - 4.45% loan	5.000	Discount £12,180 p.a.
21/11/08	Repaid - 4.45% loan	5.000	Discount £12,201 p.a.
28/01/09	Repaid - 4.25% loan	25.000	Discount £100,409 p.a.
28/01/09	Repaid - 4.45% loan	8.000	Discount £0 p.a.
28/01/09	Repaid - 4.45% loan	7.000	Discount £0 p.a.

New Borrowing

The following new loans have been arranged so far this year

Date	Action	Amount £m	Impact on budget
11/11/08	New PWLB - 1.5 yrs	5.000	2.69%
11/11/08	New PWLB - 2.0 yrs	5.000	2.87%
11/11/08	New PWLB - 2.5 yrs	5.000	3.05%
11/11/08	New PWLB – 3.5 yrs	5.000	3.38%
21/11/08	New PWLB – 3.0 yrs	10.000	2.88%

We have taken advantage of increases in PWLB rates and a negative yield curve to restructure a number of loans. In total discounts of £2.290m were generated which will be credited to revenue over a 10 year period under the new accounting regulations when previously full benefit could have been taken in the current year.

Additionally between the period 1 June 2008 (previous Member update) and 31 December 2008 ,£65.2M of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 2.25% to 5.50%-interest rates were higher at the beginning of the year but have fallen in line with the cuts in base rates. £9.7m of this temporary borrowing was outstanding at 31st December, but has since been replaced by cheaper borrowing as rates have continued to ease.

The latest restructuring offers greater flexibility in next year's strategy to consider reducing investment exposure and/or consider taking advantage of low short term borrowing rates, both of which will mitigate the impact of declining investment returns.

5.3 INVESTMENT

The strategy for the current year is: To gain maximum benefit, subject to risk control parameters, whilst achieving as a minimum target the 7 day deposit rate.

5.3.1 Fund Managers

The average value of the portfolios held by the three fund managers in the nine months to 31st December are as follows:

	Average Capital Value	Interest Year to date (annualised %)	
	£m	£m	%
Aviva	18.697	0.764	5.05
Invesco	18.981	0.870	5.60
Investec	18.792	1.117	6.95
	56.470	2.751	5.87

Fund Managers have performed extremely well in 2008/09. Unfortunately the outlook for 2009/10 is much less promising.

5.3.2 In-House Investments

Not all of the Council's investments are externally managed- a mix of both temporary investments for cash flow purposes and longer term investments are undertaken internally:

Temporary Investments

A proportion of funds are invested by the Council's own officers in order to maximise returns from day to day cash flows. The target return is to achieve at least the seven day deposit rate. The target return to 31st December was 4.38% and the actual rate achieved was 5.72%.

In total £300.6m of investments were placed between 1st June and 31st December. Interest rates have ranged from 1.20% to 6.00% and periods ranged from overnight deposits to 364 days. £1.95m in house temporary investments were held at 31st December 2008.

Longer Term Investments

A number of internally managed deposits have been made as an alternative to fund managers. These are as follows.

		£m	%
Fixed Deposit	01/11/06 – 09/11/09	5.0	5.22
Fixed Deposit	22/01/07 – 24/01/11	5.0	5.52
Fixed Deposit	01/10/08 – 01/10/13	5.0	6.62
Fixed Deposit	01/10/08 – 01/10/13	5.0	6.80
Fixed Deposit	13/11/08 – 13/05/09	5.0	4.50
Fixed Deposit	17/11/08 – 18/05/08	5.0	4.50
Callable Deposit (Annual Calls)	10/06/08 – 10/06/13	5.0	5.70
Callable Deposit (Annual Calls)	29/06/07 – 29/06/12	5.0	5.66
Callable Deposit (Annual Calls)	03/07/07 – 03/07/12	5.0	5.66
Callable Deposit (Annual Calls) *	01/08/08 – 03/08/09	5.0	5.70
Callable Deposit (Quarterly Calls)	22/04/08 – 22/04/13	5.0	6.29
Callable Deposit (Annual Calls) *	09/01/07 – 06/03/09	5.0	6.26
Callable Deposit (Annual Calls) *	31/03/08 – 31/03/09	5.0	6.32
Callable Deposit (Annual Calls) *	22/04/08 – 22/04/09	5.0	6.30
Flippable Deposit	30/07/08 – 30/01/09	5.0	7.40

* These deposits were restructured into the following fixed deposits during July and August 2008 in advance of their maturity.

		£m	%
Fixed Deposit	03/08/09 – 01/08/14	5.0	6.32
Fixed Deposit	06/03/09 – 06/03/14	5.0	6.31
Fixed Deposit	31/03/09 – 31/03/14	5.0	6.37
Fixed Deposit	22/04/09 – 22/04/14	5.0	6.35

Supranational Bonds

Another form of investment undertaken internally is in the form of Supranational Bonds .The Council held an average of £4.2m of investments in a Supranational bond which are returning £0.221m at an average rate of 5.28% for 2008/09. This bond matures in December 2009.

5.3.3 Overall Position and Exposure

A full analysis of all Council investments at the end of December is shown in Appendix 1.

Appendix 2 shows the Council's total investment with each counterparty. Potentially, each investment manager may place £5m of the funds managed on the Council's behalf with the same institution that the Council has placed up to £5m with (except for Royal Bank of Scotland, National Australia Bank and Halifax Bank of Scotland which are ring fenced for sole use by the council), giving a current maximum potential exposure to any one counterparty of £20m. At the end of December the greatest exposure with a single counterparty was £20.0m with Royal Bank of Scotland and Barclays (just over 14.4% of the total portfolio).

Supranational bonds have a much higher credit rating than normal investments and we are secure with a potential higher exposure as a consequence. Potentially, each investment manager may place £10m of the funds managed on the Council's behalf with the same institution that the Council has placed up to £15m with, giving a current maximum potential exposure to any one counterparty of £45m. At the end of December the greatest exposure with a single counterparty was £4.2m with EIB (just over 3.0% of the total portfolio).

The Council is guided by its Treasury advisers Sector in assessing investment risks and is likely to move towards a wider range of indicators than the traditional credit ratings following the problems in the banking sector over the last 12 months.

5.4 LEASING

Each year the Council arranges operating and finance leases for assets such as vehicles, computers and equipment. This helps to spread the cost over a number of years.

The first drawdown for 2008/09 was on 24th September. The drawdown from JCB Finance totalled £0.259m and funded the purchase of vehicles, leisure equipment, and ICT equipment over three, five and seven year periods at interest rates between 5.65% and 5.86%.

The next leasing drawdown of the current year is due to take place in March.

6. TREASURY STRATEGY FOR 2009/10 to 2011/12

6.1 BACKGROUND

6.1.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

6.1.2 The Act therefore requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

6.1.3 The suggested strategy for 2009/10 in respect of the following aspects of the treasury management function is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy;
- the MRP Strategy;
- any extraordinary treasury issues

6.1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

6.2 TREASURY LIMITS FOR 2009/10 to 2011/12

6.2.1 It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit" or ''Authorised Limit for External Debt''. In England and Wales the authorised limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

6.2.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

6.2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be

considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

6.3 PRUDENTIAL INDICATORS FOR 2009/10 - 2011/12

6.3.1 The following prudential indicators (in table below) are relevant for the purposes of setting an integrated treasury management strategy.

6.3.2 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted on 7th March 2002 by Full Council.

PRUDENTIAL INDICATOR	2008/09	2009/10	2010/11	2011/12
	Probable Outturn	Estimate	Estimate	Estimate
(1). EXTRACT FROM BUDGET SETTING REPORT				
Incremental impact of capital investment decisions	£	£	£	£p
Increase in council tax (band B, in year)	0.10	4.22	10.97	15.30
	£m	£m	£m	£m
Capital Expenditure	76.678	44.798	38.629	20.127
Ratio of financing costs to net revenue stream	1.50%	1.50%	1.55%	1.65%
Net borrowing requirement				
Brought forward 1 April	37.108	69.436	88.639	105.382
Carried forward 31 March	69.436	88.639	105.382	98.479
In year borrowing requirement	32.328	19.203	16.743	-6.903
In year Capital Financing Requirement	**32.277**	**17.951**	**14.642**	**-9.738**
Capital Financing Requirement (as at 31 March)	133.3	151.2	165.9	156.1

PRUDENTIAL INDICATOR	2008/09	2009/10	2010/11	2011/12
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£m	£m	£m	£m
Authorised limit for external debt				
Borrowing	270	300	320	320
Other long term liabilities	6	6	7	8
TOTAL AUTHORISED LIMIT	276	306	327	328
Operational Boundary				
Borrowing	250	280	300	300
Other long term liabilities	4	4	5	6
TOTAL	254	284	305	306
Upper limit for fixed interest rate exposure				
Expressed as : -				
Net principle re fixed rate borrowing / investments: -	180	190	200	210

Upper limit for variable rate exposure Expressed as - Net principle re variable rate borrowing / investments	0	0	0	0
Upper limit for variable rate exposure expressed as Net principle re gross variable rate borrowing and investments divided gross borrowing plus investments	80%	80%	80%	80%
Upper limit for total principal sums invested for over 364 days(per maturity date)	80%	90%	90%	90%

Maturity structure of fixed rate borrowing	Lower Limit	Upper limit
Under 12 months	0%	20%
12 months and within 24 months	0%	25%
24 months and within 5 years	0%	50%
5 years and within 10 years	0%	75%
10 years and above	25%	100%

6.4 PROJECTED PORTFOLIO POSITION FOR 2009/10

The Council's estimated treasury portfolio position at 01/04/09 is:

		Principal		Ave. rate
		£m		%
Fixed rate funding	PWLB	70		
	Market	55	125	4.12
Variable rate funding	PWLB	0		
	Market	65	65	1.50
Other Long term liabilities			0	
TOTAL DEBT			190	3.22
TOTAL INVESTMENTS			137	3.95

6.5 BORROWING REQUIREMENT

	2009/10	2010/11	2011/12
	£'000 Estimate	£'000 Estimate	£'000 Estimate
New borrowing	23.0	20.5	-3.1
Alternative financing arrangements (Leasing)	1.0	1.0	1.0
Replacement borrowing	0.0	0.0	0.0
TOTAL	24.0	21.5	-2.1

6.6 PROSPECTS FOR INTEREST RATES

6.6.1 The Council appointed Sector Treasury Services as a treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the UBS forecast, which is Sector's

central view and following that is their view of economic prospects and potential borrowing strategies:

6.6.2 Sector View interest rate forecast – January 2009

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011	Q/E2 2011	Q/E3 2011	Q/E4 2011	Q/E1 2012
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%
5yr PWLB rate	2.60%	2.45%	2.30%	2.30%	2.30%	2.50%	2.85%	3.15%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB rate	3.60%	3.35%	3.20%	3.20%	3.25%	3.35%	3.60%	3.95%	4.30%	4.55%	4.80%	4.85%	4.90%
25yr PWLB rate	4.15%	4.05%	4.00%	4.00%	4.10%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.05%	5.10%
50yr PWLB rate	4.10%	3.95%	3.90%	3.90%	3.95%	4.00%	4.05%	4.25%	4.45%	4.70%	4.85%	4.95%	5.05%

6.6.3 Sector's current interest rate view is that Bank Rate: -

- will fall from current levels because of the intensifying global recession
- Starting 2009 at 2.00% the rate has since fallen to 1%, Bank Rate is forecast to fall to 0.5% in Q1 2009
- It is then expected to remain there until starting to rise gently up from Q2 2010 till it reaches 4.0% in Q1 2012.
- There is downside risk to these forecasts if the recession proves to be deeper and more prolonged than currently expected.

6.6.4 Economic background

Introduction

- The sub prime crisis of early 2008 was supplanted by the banking crisis of autumn 2008. The world banking system came near to collapse and governments around the world were forced to recapitalise and rescue their major banks. The resulting dearth of lending from banks anxious to preserve capital led to economic forecasts being sharply reduced and recession priced into markets. This in turn led to sharp falls in oil and other commodity prices with the result that inflation, which in the UK was running at over 5%, became yesterday's story and recession fears drove interest rate sentiment and policy. A co-ordinated global interest rate cut of 50bp took place on 8th October 2008. Forecasts in the UK were for further sharp cuts in interest rates as recession hove into view.

International

- Early in 2008 the US economy was being badly affected by the housing market slump. Interest rates were at 2% and inflation was being dragged higher by the inexorable rise in commodity prices. The ECB was very concerned about rising inflation and less about the state of the economy.

- The second quarter of 2008 was torn between inflation worries on the one hand, with oil rising towards $150 per barrel, and the deteriorating economic outlook on the other.

- In the second and third quarters of the year the financial crisis erupted and escalated as the world became aware of the extent of the sub-prime fiasco and the impact it was having on institutions that had invested in these issues.

- In September Fannie Mae/Freddie Mac (the mortgage banks) and AIG, the insurance giant, had to be bailed out by the US Federal Government.

- Then in mid September, Lehman Bros., the investment bank, was allowed to fail. This triggered a domino effect with other banks and financial institutions having to be rescued or supported by governments around the world.

- After the collapse into receivership of the Icelandic banks in early October, other countries then started to feel the strain and a number had to approach the IMF for support.

- Eventually even the Asian 'Tiger' economies were affected, including India and China, and it became clear that the crisis had become a global one and no country was insulated from it.

- The financial crisis had therefore precipitated an economic crisis and there was a co-ordinated global interest rate cut with the Fed, ECB and MPC all cutting rates by 50bp on 8th October. The Fed subsequently cut rates again by 50bp to 1% on 29th October and again on 16 December to a band of 0.0% to 0.25% in an attempt to stave off the oncoming recession. Inflation was yesterday's problem.

- On 4th November the USA elected Barack Obama as President with little immediate financial impact.

- The ECB reduced rates again on 6th November by 50bp and by its biggest ever cut of 75bp on 4 December to reach 2.5%.

UK

- GDP: growth was already slowing in 2008 from 2007 before the full impact of the credit crunch was felt. Earlier in 2008 GDP was 2.3% whereas in the autumn the figure fell back to -0.3% and was then expected to continue to be negative going into 2009.

- Wage inflation remained relatively subdued as the Government kept a firm lid on public sector pay. Private sector wage growth was kept in check by the slowing economy.

- Growth slowed across the economy and unemployment rose

throughout the year with forecasts of 2 million unemployed by the end of the financial year and continuing to increase thereafter through 2010.

- Notwithstanding the pressures on household finances consumer spending still continued at a reasonable clip although the trend was slowing as the year progressed.

- Bank lending came to a virtual standstill in the autumn as the credit crunch tightened its grip and various banks internationally had to be rescued, or supported, by their governments.

- The Government and Bank of England supplied massive amounts of liquidity to the banking market in an attempt to reignite longer interbank lending.

- The Government took action in September to either supply finance itself to recapitalise some of the major clearing banks or to require the others to strengthen their capital ratios by their own capital raising efforts. This was so that these banks would be seen to have sufficient reserves to last through the coming recession with its inevitable increase in bad loans etc.

- The housing market also came to a virtual standstill as lenders demanded larger deposits and higher fees. House sales and prices both dropped sharply.

- Government finances deteriorated as income from taxation dropped as the economy slowed and the cost of the bailout of the banks was added to the deficit.

- U.K. equity prices declined sharply in the 3rd and 4th quarters as the impending recession was priced into the markets. Prices hit five year lows and volatility was extremely high.

- The story of 2008 has been the credit crunch, the banking crisis and the change in economic outlook from slow growth to outright recession. After the initial concerns about the impact of the credit crunch in the earlier part of 2008 it appeared as though the storm had been weathered. The MPC had been very concerned about CPI inflation, which had been rising sharply on the back of higher commodity and food prices. Bank Rate reached a peak of 5.75% in July 2007 after which cuts of 0.25% occurred in December 2007 and February and April 2008 before the major cuts in the autumn. The economic data had been indicating a slowing economy for some while but it was not sufficiently weak to force the MPC into another cut. It was the strength of the banking crisis, pre-empted by the collapse of Lehmans in New York that eventually drove the MPC to cut interest rates by 50bp on October 8th in concert with the Federal Reserve, the ECB and other central banks. It was then appreciated that the economic downturn would be much more severe than previously

thought and interest rates were subsequently slashed by 150bps on 6 November, 100bps on 4 December and 50 bps on 8 January 2009.

- The LIBOR spread over Bank Rate has also been a feature, and a concern, of 2008/9. Because of the credit fears and the reluctance of lenders to place cash for long periods 3 month LIBOR (this is the London Inter Bank Offer Rate – the rate at which banks will lend to one another) has been substantially higher than Bank Rate. This has meant that the MPC's power over monetary policy has been eroded by the widening of this spread between LIBOR and Bank Rate and it has therefore had a limited ability to bring relief to hard pressed borrowers through lower interest rates. However, the power of the Government over the semi nationalised clearing banks had considerable impact in enforcing pro rata reductions to the 150 bps Bank Rate cut in November on some borrowing rates.

- The Government has abandoned its 'golden rule'. The pre Budget Report on 14 November revealed the Government's plans for a huge increase in Government borrowing over coming years as a result of falling tax revenues and also due to tax cuts and increases in Government expenditure in the short term designed to help stimulate economic growth to counter the recession.

6.7 BORROWING STRATEGY

6.7.1 The Sector forecast for PWLB rates is as follows: -

- The 50 year PWLB rate is expected to fall to 3.90%from current levels of around 4.30 - 4.50% until Q2 2010 when it is forecast to rise to 3.95%. The rate then edges up gradually to reach 5.05% at the end of the forecast period.

- The 25 year PWLB rate is expected to drop to 4.00% over the next few months and stay around there until starting to rise in Q1 2010 and then to eventually reach 5.10% at the end of the forecast period.

- The 10 year PWLB rate is expected to drop to 2.20% in Q3 2009 but then to start rising again in Q2 2010 to eventually reach 4.90% at the end of the forecast period.

- The 5 year PWLB rate is expected to fall to a floor of 2.30% during Q3 2009. The rate then starts rising in Q2 2010 to eventually reach 4.60% at the end of the forecast period.

This forecast indicates, therefore, that there is a range of options available for borrowing strategy for 2009/10. Variable rate borrowing is expected to be cheaper than long term borrowing and will therefore be attractive throughout the financial year compared to simply taking long term fixed rate borrowing. Under 10 year PWLB rates are expected to be substantially lower than longer term PWLB rates so this will open up

a range of choices for new borrowing for authorities that want to spread their debt maturities away from a concentration in long dated debt. Rates are expected to be slightly lower at the middle to end of the year than earlier on so it may be advantageous to borrow later in the year.

For authorities wishing to minimise their debt interest costs, the main strategy is therefore as follows:

- For authorities wanting to focus on the very cheapest PWLB borrowing, the under 10 year rates will provide significantly cheaper rates than longer term borrowing. Under 5 year rates are also expected to be significantly lower than 5-10 year rates. Rates are expected to be slightly lower at the middle to end of the year than earlier on so it may be advantageous to borrow later in the year.

- For authorities wanting to lock into historically low long term rates, there is expected to be little difference between 25 year and 50 year rates. However, despite the minimally more expensive new borrowing rates expected in the 25 – 30 year period later in the year, these could be seen as being much more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates is considerably less. This then maximises the potential for debt rescheduling at a later time by minimising the spread between these two rates.

- This strategy would also mean that after some years of focusing on borrowing at or near the 50 year period, local authorities would be able to undertake borrowing in a markedly different period and so achieve a better spread in their debt maturity profile.

- When long term PWLB rates fall back to the central forecast rate of about 3.95%, borrowing should be made at any time in the financial year. A suitable trigger point for considering new fixed rate long term borrowing, therefore, would be 3.95%. The central forecast rate will be reviewed in the light of movements in the slope of the yield curve, spreads between PWLB new borrowing and early payment rates, and any further changes that the PWLB may introduce to their lending policy and operations.

- Consideration will also be given to borrowing fixed rate market loans at 25 – 50 basis points below the PWLB target rate if they become available again.

External v. internal borrowing

- The next financial year is expected to be a time of historically abnormally low Bank Rate. This opens up an opportunity for authorities to fundamentally review their strategy of undertaking external borrowing.

- For those authorities with investments in excess of their borrowing requirement over the next year and access to the cash from maturing

investments within the financial year, then consideration also needs to be given to the potential merits of internal borrowing.

- As long term borrowing rates are expected to be higher than rates on the loss of investment income and look likely to be so for the next couple of years or so, authorities may prefer to avoid all new external borrowing in the next financial year in order to maximise savings in the short term.
- The running down of investments also has benefits of reducing exposure to interest rate and credit risk.

Against this background caution will be adopted with the 2009/10 treasury operations. The Corporate Directo : Resources will monitor the interest rate market and adopt a pragmatic approach to changing circumstances including use of borrowing other than that offered by the Public Works Loans Board, reporting any decisions to Council at the next available opportunity.

Sensitivity of the forecast - The main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- *if it were felt that there was a significant risk of a sharp rise in long and short term rates,* perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.
- *if it were felt that there was a significant risk of a sharp fall in long and short term rates,* due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

However, after the freezing of some local authority investments by Icelandic banks now in receivership, many local authorities are currently concerned about the safety of investments and the ability of authorities to rely on credit ratings as a basis for ensuring that investments can be undertaken safely, especially for longer periods of time. The approach of this authority is therefore to, where appropriate, utilise investments as they mature to reduce borrowing.

6.8 DEBT RESCHEDULING

6.8.1 Due to short term borrowing rates being expected to be considerably cheaper than longer term rates, there are likely to be significant opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in

the light of their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a rebalancing of an authority's debt maturities towards a flattening of the maturity profile as in recent years there has been a skew towards longer dated PWLB.

Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.

As average PWLB rates in some maturity periods are expected to be minimally higher earlier on in the financial year than later on, there should therefore be greater potential for making marginally higher interest rate savings on debt by doing debt restructuring earlier on in the year. Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 7 above.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- help fulfil the strategy outlined in paragraph 7 above; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

All rescheduling will be reported to the Cabinet.

6.9 OTHER ISSUES

6.9.1 PFI Contract

The Council has a large PFI scheme contract in place which may have an impact on the strategy for later years.

West Mercia Supplies-$ account

The Council has for many years been part of a joint arrangement – West Mercia Supplies-with 3 other local councils, to gain benefits from joint procurement arrangements. West Mercia Supplies carry out a large number of their transactions in dollars and it would benefit their business if they were able to maintain a dollar account. All three other Councils are altering their Treasury Strategies to allow them to do this and we are proposing to do the same.

6.10 ANNUAL INVESTMENT STRATEGY 2009/10

6.10.1 Investment Policy

The Council will have regard to the CLG's Guidance on Local

Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -

(a) the security of capital and
(b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

6.10.2 Specified Investments

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – UK government	--	In-house
Term deposits – other LAs	--	In-house
Term deposits – banks and building societies up to 364 days*	Short-term F1+, Long-term AA-, Support 3, Individual C, Country AA-	In-house and fund managers
Term deposits – banks and building societies up to 6 months*	Short-term F1, Long-term A, Support 3, Individual C, Country AA-	In-house
Callable Deposit	Short-term F1+, Long-term AA-, Support 3, Individual C, Country AA-	In-house and fund managers
Callable Range Accrual	Short-term F1+, Long-term AA-, Support 3, Individual C, Country AA-	In-house and fund managers
Snowball	Short-term F1+, Long-term AA-, Support 3, Individual C, Country AA-	In-house and fund managers
Certificates of deposits issued by banks and building societies	Short-term F1+, Long-term AA-, Support 3, Individual C, Country AA-	Fund Managers
Money Market Funds	AAA	In-house and fund managers
Enhanced Cash Funds	AAA	In-house and fund managers
UK Government Gilts	AAA	Fund Managers
Gilt Funds and Bond Funds	long-term AAA	Fund Managers
Bonds issued by multilateral development banks	AAA	In-house on a 'buy and hold' basis and for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy and hold' basis and for use by fund managers

Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house on a 'buy and hold' basis and for use by fund managers
Treasury Bills		Fund Managers

6.10.3 Non-Specified Investments:

A maximum of 90% will be held in aggregate in non-specified investments

	Minimum Credit Criteria	**Use**
Term deposits – UK government (with maturities in excess of 1 year)		In-house
Term deposits – other LAs (with maturities in excess of 1 year)		In-house
Term deposits – banks and building societies (with maturities in excess of 1 year)	Short-term F1+, Long-term AA-, Support 3, Individual C, Country AA-	In-house
Certificates of deposits issued by banks and building societies	Short-term F1+, Long-term AA-, Support 3, Individual C, Country AA-	Fund managers
Callable Deposit	Short-term F1+, Long-term AA-, Support 3, Individual C, Country AA-	In-house and fund managers
Callable Range Accrual	Short-term F1+, Long-term AA-, Support 3, Individual C, Country AA-	In-house and fund managers
Snowball	Short-term F1+, Long-term AA-, Support 3, Individual C, Country AA-	In-house and fund managers
UK Government Gilts with maturities in excess of 1 year	AAA	Fund Managers
Bonds issued by multilateral development banks with maturities in excess of 1 year	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government with maturities in excess of 1 year	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Sovereign bond issues (i.e. other than the UK govt)	AAA	Fund Managers
Corporate Bonds: ***the use of these investments currently constitute capital expenditure and the Council will not utilise them whilst they do.***	* Long-term AA-,	Fund Managers
Floating Rate Notes: ***the use of these investments would constitute capital expenditure and the Council will not utilise them whilst they do.***	* Long-term AA-,	Fund Managers
Property fund: ***the use of these investments would constitute capital expenditure***		Fund Managers

The Council's external fund managers will comply with the Annual Investment Strategy. The agreements between the Council and the fund managers additionally stipulate guidelines and duration and other limits in order to contain and control risk.

The Council uses Fitch ratings to derive its criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's rating will be used. All credit ratings will be monitored as a minimum monthly. The Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the of the minimum acceptable rating for placing investments with that body, then no further investments will be made with that body.

Along with Sector the Council is considering using a wider range of indicators in risk assessing financial institutions in future as well as reducing its level of investment exposure.

6.10.4 Investment Strategy

In-house funds: Some of the Council's in house investments arise from cashflow but we do also have a holding of supranational bonds and callable deposits. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

The Council holds the following investments that span the end of the financial year

	Amount £m	Maturity	Rate
Allied Irish Bank	2.000	13/05/2009	4.50%
EBS	3.000	18/05/2009	4.50%
Lloyds TSB	5.000	02/11/2009	5.22%
European Investment Bank	4.000	09/12/2009	5.28%
Alliance & Leicester	5.000	24/01/2011	5.52%
Deutsche Bank	5.000	29/06/2012	5.66%
National Australia Bank	5.000	03/07/2012	5.66%
Royal Bank of Scotland	10.000	30/07/2012	7.40%/Var
National Australia Bank	5.000	22/04/2013	6.29%
Royal Bank of Scotland	5.000	10/06/2013	5.70%
Dexia	5.000	01/10/2013	6.62%
Royal Bank of Scotland	5.000	01/10/2013	6.80%
Barclays Bank	5.000	06/03/2014	6.31%
Barclays Bank	5.000	31/03/2014	6.37%
Barclays Bank	5.000	22/04/2014	6.35%
Barclays Bank	5.000	01/08/2014	6.32%

Interest Rate Outlook: Bank Rate started on a downward trend from 5.75% in December 2007 with further cuts of 0.25% in February and April 2008, then 0.5% in October, 1.5% in November, 1% in December and 0.5% in January 2009 and again in February to reach 1.0% currently. Further cuts are expected during Q1 2009 It is then expected to stabilise at 0.50% until starting to rise

gradually with the first increase in Q2 2010 and then to be back up to 4.00% during Q1 2012.

Councils should therefore avoid locking into longer term deals while investment rates are down at historically low levels.

For its cash flow generated balances, the Council will seek to utilise short-dated deposits (1-3 months) in order to benefit from the compounding of interest.

Fund Manager's View on Interest Rates: at the 31st December £58m of the Council's funds were externally managed on a discretionary basis by Investec, Invesco and Aviva. Their view on interest rates and opportunities for gilts/bonds is that base rates will fall further during 2009/10, but with interest rates at such low levels the return on the portfolio will be between 2 and 3%. A pragmatic approach will be made to investments looking to exploit any opportunities in the market.

End of year Investment Report
At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

7.0 MINIMUM REVENUE PROVISION (MRP) STRATEGY

The Council uses a mix of Government supported borrowing (annual capital allocations supported through Revenue Support Grant) and Prudential Borrowing (cost falls entirely on the Council) to fund part of its Capital Programme –covered by one of the other reports on this agenda .When borrowing money for these purposes the accounting rules have required a related annual charge through to the Revenue budget .This has to cover both interest costs incurred on the borrowing plus writing down the original cost of the capital spend by 4% each year (of the residual asset cost)-and known as MRP.

Right at the end of last financial year the government issued new guidelines requiring a changed approach to MRP with an accompanying policy statement to be made annually. Guidelines propose alternative options in future for MRP calculations which are part of a longer term overall move towards private sector accounting standards. The Council is required to approve its proposed MRP Strategy and this Council's proposal together with a commentary on what MRP is and how the new powers will operate are shown in Appendix 3.
The Policy states that for historic debt and new supported borrowing MRP will continue to be assessed as 4% of the reducing balance. For prudential borrowing MRP will now be charged to revenue based on the life of the asset and will only become due after the asset is fully operational. It is also the Council's intention, subject to agreement with its external auditors, to enable MRP breaks to be taken in relation to assets that will only be temporarily funded by prudential borrowing in lieu of the capital receipt. It is important to use these new flexibilities prudently and final application of the revised policy will be agreed with the external auditors.

8.0 IMPLICATIONS

8.1 Equality & Diversity

No implications

8.1 Environmental Impact

No impact

8.2 Legal Comment

The Annual Investment Strategy is required under the Guidance for Local Authority Investments issued by CLG.

8.3 Links with Corporate Priorities

A sound treasury management policy and strategy underpins the overall budget and resources of the Council.

8.4 Financial Implications

Where appropriate these are detailed in the body of the report.

8.5 Opportunities & Risks

The opportunities and risks associated with the report have been identified and assessed. Arrangements will be put in place to manage the risks and maximise the opportunities that have been identified.

8.6 Ward Implications

District Wide Implications

9.0 BACKGROUND PAPERS

CIPFA Code of Practice for Treasury Management in Local Authorities
Fund Manager Valuations
Temporary Borrowing Records
PWLB records
Investment records
Draft Treasury Strategy provided by Sector
Local Government Act 2003
CLG Guidance on Local Authority Investments
The Local Authorities(Capital Finance & Accounting) (England) (Amendment) Regulations 2008

SUMMARY OF INVESTMENTS AS AT 31 DECEMBER 2008

	CREDIT RATE	INVESCO	%	INVESTEC	%	AVIVA	%	IN HOUSE	%	SUPRA-NATIONALS	%	TOTAL	%
		£'000's		£'000's		£'000's		£'000's		£'000's		£'000's	
FIXED TERM DEPOSITS													
Alliance & Leicester	F1+ AA- B/C 1							5,000				5,000	
Allied Irish Bank	F1+ A C 1							2,000				2,000	
Dexia	F1+ AA- C 1							5,000				5,000	
EBS Building Soc	F1+ A- B/C 2							3,000				3,000	
HSBC Bank	F1+ AA A/B 1							1,950				1,950	
Lloyds TSB	F1+ AA+ A 1							5,000				5,000	
Royal bank of Scotland	F1+ AA- B/C 1							5,000				5,000	
TOTAL		**0**	**0.00**	**0**	**0.00**	**0**	**0.00**	**26,950**	**35.02**	**0**	**0.00**	**26,950**	**19.41**
CD'S													
Abbey National	F1+ AA- B 1			2086		611						2,697	
Allied Irish Bank	F1+ A C 1			1950								1,950	
Banco Bilbao	F1+ AA- A/B 1	1,906				1703						3,609	
Bank of Ireland	F1+ A C 1	1,926										1,926	
Bank of Nova Scotia	F1+ AA- B 1					3001						3,001	
Bank of Scotland	F1+ AA B 1	2,829										2,829	
Calyon	F1+ AA- C 1			1781		1679						3,460	
Commonwealth Bank Australia	F1+ AA A/B 1					1006						1,006	
Credit Agric	F1+ AA- B 1	1,821										1,821	
Credit Suisse Boston	F1+ AA- N/R 1	1,883		969								2,852	
Danske Bank	F1+ AA- B 1			1,017								1,017	
HSBC Bank	F1+ AA A/B 1	1,047										1,047	
ING Bank	F1+ AA B 1	2,861		2,838		3,014						8,713	
Lloyds Bank	F1+ AA+ A 1	1,503		2,903		1,864						6,270	
Nationwide	F1+ AA- B 1			2,887								2,887	
Nordea Bank	F1+ AA- B 1	1,778				1,786						3,564	
UBS	F1+ A+ B/C 1			2,902		1,766						4,668	
TOTAL		**17,554**	**90.39**	**19,333**	**99.92**	**16,430**	**86.31**			**0**	**0**	**53,317**	**38.40**
SUPRANATIONAL BONDS													
European Investment Bank	F1+ AAA	129								4,089		4,218	
TOTAL		**129**	**0.66**	**0**	**0.00**	**0**	**0.00**			**4,089**	**100**	**4,218**	**3.04**
GILTS			**0.00**		**0.00**	1,875	**9.85**			0	**0.00**	**1,875**	**1.35**
CASH		1,738	**8.95**	16	**0.08**	730	**3.84**			0	**0.00**	**2,484**	**1.79**
CALLABLE DEPOSITS													
The Royal Bank of Scot	F1+AA- B/C 1							15,000				**15,000**	
Deutsche Bank	F1+AA- B 1							5,000				**5,000**	
National Australia Bank	F1+AA B 1							10,000				**10,000**	
Barclays Bank	F1+AA B 1							20,000				**20,000**	
									64.98				**36.01**
TOTAL		**19,421**	**100**	**19,349**	**100**	**19,035**	**100**	**76,950**	**100**	**4,089**	**100**	**138,844**	**100**

TOTAL RISK PER COUNTERPARTY AS AT 31 DECEMBER 2008

	CREDIT RATING	TOTAL £'000'S
Abbey National	F1+AA- B 1	**2,697**
Alliance & Leicester	F1+AA- B/C 1	**5,000**
Allied Irish Bank	F1+A C 1	**3,950**
Banco Bilbao	F1+AA- A/B 1	**3,609**
Bank of Ireland	F1+A C 1	**1,926**
Bank of Nova Scotia	F1+AA- B 1	**3,001**
Bank of Scotland	F1+AA B 1	**2,829**
Barclays Bank	F1+AA B 1	**20,000**
Calyon	F1+AA- C 1	**3,460**
Commonwealth Bank Australia	F1+AA A/B 1	**1,006**
Credit Agric	F1+AA- B 1	**1,821**
Credit Suisse Boston	F1+AA- N/R 1	**2,852**
Danske Bank	F1+AA- B 1	**1,017**
Dexia	F1+AA- C 1	**5,000**
Deutsche Bank	F1+AA- B 1	**5,000**
EBS Building Soc	F1+A- B/C 2	**3,000**
HSBC Bank	F1+AA A/B 1	**2,997**
ING Bank	F1+AA B 1	**8,713**
Lloyds Bank	F1+AA+ A 1	**11,270**
National Australia Bank	F1+AA B 1	**10,000**
Nationwide	F1+AA- B 1	**2,887**
Nordea Bank	F1+AA- B 1	**3,564**
Royal bank of Scotland	F1+AA- B/C 1	**20,000**
UBS	F1+A+ B/C 1	**4,668**
TOTAL- FIXED TERM AND CASH DEPOSITS		130,267
Gilts		1,875
Cash		2,484
Supranational		4,218
Total		**138,844**

MINIMUM REVENUE PROVISION – an introduction

1. What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

2. New statutory duty

Statutory Instrument 2008 no. 414 s4 lays down that:

> "A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

The above is a substitution for the previous requirement to comply with regulation 28 in S.I. 2003 no. 3146, (as amended)

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year

The share of Housing Revenue Account CFR is not subject to an MRP charge

3. New Government Guidance

Along with the above duty, the Government issued new guidance in February 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council are legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method
Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e. adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the SCE annual allocation..

Option 2: Capital Financing Requirement Method
This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

Option 3: Asset Life Method.
This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments
b. annuity method – annual payments gradually increase during the life of the asset

Option 4: Depreciation Method
Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

4. Date of implementation

The previous statutory MRP requirements cease to have effect after the 2006/07 financial year. However, the same basis of 4% charge may continue to be used without limit until the 2009/10 financial year, relative to expenditure incurred up to 31/3/2009.

In general it is recommended that authorities should adopt the recommendations contained within the guidance. However, in certain cases the guidance may recommend a useful life period/MRP for expenditure which it may not be considered appropriate to adopt. It is suggested that full details of MRP options/principles adopted should be set out and approved as part of the annual MRP Policy Statement.

The following is the Council’s Policy Statement.

MINIMUM REVENUE PROVISION POLICY STATEMENT 2007/08, 2008/09 and 2009/10

The Council will implement the new Minimum Revenue Provision (MRP) guidance in 2007/08, and assess its MRP for 2007/08 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. .

The major proportion of the MRP for 2007/08 and after will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance with option 1 of the guidance. The same approach will be applied to expenditure funded from government borrowing approval which is in line with how that borrowing is supported through RSG. Certain expenditure reflected within the debt liability at 31st March 2007 and 31st March 2008 will under delegated powers be subject to MRP under option 3 as will all future borrowing outside government borrowing approvals .This will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building. Under this method MRP will not be charged until an asset is fully complete and operational. This will also ,where prudent and subject to agreement with the Council's external auditors ,allow an MRP break in relation to schemes that are temporarily funded from prudential borrowing, but will ultimately be funded from capital receipts once realised.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.