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Mr P Clifford
Chief Financial Officer
Telford & Wrekin Council
Civic Centre
Telford
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7 May 2010

Dear Paul

Annual audit fee 2010/11

I am writing to confirm the audit work and fee that we propose for the 2010/11 financial year at Telford and Wrekin Council ('the Council'). Our proposals:

- are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11; and

- reflect only the audit element of our work, and exclude any inspection and assessment fees which will be charged separately by the Audit Commission. Your Comprehensive Area Assessment Lead (CAAL) will be writing to you separately on these fees on behalf of the other inspectorates.

As I have not yet completed my audit for 2009/10 the audit planning process for 2010/11, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

As per our 2009/10 fee letter and our discussions with you and the Audit Committee we agreed that the 2010/11 fee would be "scale fee" (i.e. the fee as determined by the formula prescribed within the Audit Commission's publication) for an authority of your size and complexity. This approach is consistent with the Audit Commission's guidance with regards to setting fees as per its publication: "*Work programme and scales of fees 2009/10 indicative fee proposals for 2010/11 and 2011/12 (Local government, housing and community safety)*".

Therefore our proposed indicative fee for the audit for 2010/11 is £287,200 (plus VAT). This fee is in line with the Audit Commission's scale of fees for a council of Telford & Wrekin's size and includes one-off costs of £17,200 for the implementation of IFRS for which the Council will receive a full rebate from the Audit Commission. The comparable element of the fee with the prior year is therefore **£270,000**. The fee for 2009/10 is £255,000, which was 6% below the scale point.

From 2010/11, local authorities are required to prepare their accounts in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS will increase auditors' work, particularly in the first year when the Council will need to restate the 2009/10 accounts on the new basis. Our fee for the audit of the financial statements has therefore increased in line with fee guidance issued by the Audit Commission. The Audit Commission will subsidise the cost of transition to IFRS for local authorities. The proposed subsidy for the Council is £17,200 which reimburses you our fees for this work.

A summary of this is shown in the table below:

Audit area	Planned fee 2010/11	Planned fee 2009/10
Financial statements	£174,500	£161,300
Use of Resources	£88,500	£86,800
Whole of Government Accounts	£4,300	£4,200
National Fraud Initiative	£2,700	£2,700
Subtotal	**£270,000**	**£255,000**
IFRS implementation	£17,200	-
Total audit fee billed	**£287,200**	**-**
Less: Audit Commission rebate for IFRS implementation costs	(£17,200)	**-**
Actual audit fee net of rebate	**£270,000**	**£255,000**

Our indicative audit fee is based on a number of assumptions, which I have summarised in Appendix 1 to this letter. We have increased our fee to that in line with the Audit Commission's published scale of fees for 2010/11 as I do not consider that the general level of risk in relation to the audit of the financial statements and the use of resources assessment is not materially different from that at an authority of similar size and complexity. A separate plan for the audit of the financial statements will be issued in February 2011. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Chief Financial Officer and then prepare a report for the Audit Committee, outlining the reasons why the fee needs to change.

The 2009/10 fee included provision for 15 days support for IFRS implementation over the two years 2009/10-2010/11. The balance of these will be provided in 2010/11.

Our use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the use of resources assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. Our work on use of resources informs our 2010/11 value for money conclusion. However, I have identified a number of risks which could impact on my value for money conclusion. For each risk, I will consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for value for money audit work is shown in the table below:

Risk	Planned work	Timing of work
Council Reorganisation The Council underwent a major reorganisation in January 2010, replacing the previous Portfolio structure with Service Delivery Units and with Chief Officers responsible for the Council's revised priorities rather than portfolios. The Council will need to ensure that its revised structure generates the envisaged benefits with respect to cost reduction, improved performance and better customer service and outcomes.. It will also need to ensure that Governance arrangements are reviewed and revised to fit the new structure.	As part of our work on use of resources, we will take into consideration how the Council's new structure contributes to the Council's aim of procuring quality services tailored to local needs, to deliver sustainable outcomes and value for money. We will report our findings in our report to those charged with governance in September 2010.	April 2010-March 2011

Single Status The Council is progressing the implementation of Single Status and the resultant new pay structure and terms and conditions of employment. Inevitably there will be winners and losers and there is a risk that this will lead to high staff turnover and low staff morale.	We will monitor, review and comment upon the Council's plans for implementation of Single Status, and the results of its latest pay modelling exercise and estimates of the resulting financial costs. We will also consider how the Council is engaging and supporting its staff during the implementation of Single Status.	April 2010-March 2011.
Capital programme The Council's capital programme over the medium term includes ambitious plans including a radical overhaul of the new town centre, regeneration of the traditional centres of the Borough, large scale house building and relocation from its current Civic Office headquarters. These plans are to a significant degree dependent on capital receipts from sale of assets such as the Civic Offices. The recent recession has had a significant negative impact on the sale of such assets and the market currently remains depressed. The Council will need to monitor its capital receipts and adapt its proposals should receipts not be realised in the timescale envisaged.	We will monitor the Council's capital receipts and review how it responds should these not arise as planned.	April 2010-March 2011.
Railfreight terminal The Council's newly constructed Railfreight terminal became operational during 2009/10 supported by a 3 year business plan. We understand the Council is in negotiation with a private company who are interested in using the terminal and acting as a major customer. The Council will need to secure major customers to meet the targets in this business plan.	We will review the Council's processes for monitoring the terminal and how it ensures that it is being operated in line with its objectives to ensure that these are fully delivered as expected and desired.	April 2010-March 2011

I expect to issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 2.

The above fee excludes any additional work we may agree to undertake at the request of the Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

In addition to myself, the key members of our audit team for the 2010/11 audit are:

Name	**Role**	**Contact details**
Andrew Cardoza	Senior Manager	email: andrew.cardoza@kpmg.co.uk Tel: 0121 232 3304; Mobile: 07711 869957
Peter Evans	Assistant Manager	email: peter.evans@kpmg.co.uk Tel: 0121 232 3320

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *'Something to Complain About'*, which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely

Michael McDonagh
Partner, KPMG LLP

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- apart from the introduction of IFRS, the general level of risk in relation to the audit of the Council's financial statements is not significantly different from that identified for 2009/10;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA SORP within your 2010/11 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the Council's financial statements by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports; and
- additional work will not be required to address questions or objections raised by local government electors.

Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the Council's financial statements will be re-visited when we issue the opinion audit plan.

Changes to the plan will be agreed with you. These may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Council’s Audit Committee.

Planned output	**Indicative date**
Financial Statements Audit plan	February 2011
Interim audit report	June 2011
Report to those charged with governance (ISA260 report) including use of resources report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	January 2012

PUBLIC SECTOR

Certification of claims and returns 2008/09

Telford and Wrekin Council

March 2010

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, who is the engagement director to the Authority, telephone 0121 335 2440 , email micahel.a.mcdonagh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

Headlines

Introduction & background	**This report summarises the results of work on the certification of the Authority's 2008/09 claims and returns which we certified in our capacity as auditors appointed by the Audit Commission** For 2008/09 we certified: ● Seven claims with a total value of £72.6m ● Two returns with a total value of £69.9m We received two claims with a value of £0.4m in December which we expect to certify by the end of February.	-
Certification results	**We issued unqualified certificates for eight claims and returns but qualification was necessary for one claim, the Disabled Facilities Grant.** We issued a qualification in October 2008 on the Authority's 2007/08 claim on the basis that the Authority retained insufficient evidence to support recipients' entitlement to grant where assessments were made at the recipient's home. The Authority changed its procedures following this qualification; however the 2008/09 claim included assessments up to this point where evidence was not retained. In 2007/08 we issued two qualified certificate, for the Disabled Facilities Grant and the Teachers' Pension Return.	**Pages 3-5**
Audit adjustments	**Adjustments were necessary to three of the Authority's grants and returns as a result of our certification work this year** ● Adjustments were required to the Housing and Council Tax Benefit subsidy claim which resulted in a reduction of subsidy of £1,653. We identified a system error which resulted in the misclassification of overpayments in unusual circumstances, an isolated error in relation to uncashed cheques and errors due to the claim being compiled with a system report which was not the most up to date available. ● Our work on the Teachers' Pension Return identified that certain contributions were recorded in the wrong section of the return. This did not affect the total value of the return however. ● Adjustments were made to the Regeneration Through Heritage and Donnington Business Units ERDF claims. The adjustment to the Donnington Business Units claim reduced the amount claimed by £698.	**Pages 3-5**
Fees	**Our estimated overall fee for the certification of grants and returns has exceeded our original estimate of £45k** ● The 2008/09 fee for the certification of grants and returns to the end of December 2009 is £45,815 (compared to £27,575 for 2007/08). Our estimated fee for the remaining two claims is £2,300. ● The fee for 2008/09 higher than that in 2007/08 mainly due to certification work carried out on ERDF grant claims which we did not undertake in 2007/08.	**Page 6**

Summary of certification work outcomes

Overall, we have certified nine grants and returns

- **Four were unqualified with no amendments**
- **Four were unqualified but required some amendment to the final figures**
- **One certificate was issued with a qualification**

Two claims received by us in December are outstanding and we anticipate certification by the end of February.

Detailed comments are provided overleaf

Detailed below is a summary of the key outcomes from our certification work on the Authority's 2008/09 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

A qualification means that issues were identified concerning the Authority's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Authority to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
ERDF - Hadley Industrial Units					●
ERDF - Donnington Industrial Units	1			●	
ERDF - Regeneration Through Heritage	1			●	
ERDF - Tourism for Telfords Future					●
National Non-Domestic Rates Return					●
Sure Start, Early Years and Childcare Grant					●
Teachers' Pension Contributions	2			●	
Disabled Facilities Grant	3	●			
Housing and Council Tax Benefits Scheme	4			●	
	Total	**1**	**0**	**4**	**4**

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page

Ref	Summary observations	Amendment
❶	**ERDF claims – Regeneration Through Heritage and Donnington Business Units** • The Regeneration Through Heritage ERDF claim contained two errors. The Authority had recorded the project's total capital expenditure of £7,830,980; expenditure recorded in the form should have been capped at the amount as notified in the offer letter, £7,765,391. This did not affect entitlement. • We also identified that the Authority's contributions to revenue expenditure had been incorrectly recorded. The Authority's contribution had been understated by £59,610. These adjustments did not affect the amount of grant claimed however. • Our work on the Donnington Business Units claim identified that the balance owed to the Authority was overstated by £698.	-£698
❷	**Teachers' Pension Contributions** • Our work on the Teachers Pensions Contributions return identified that £1,053 of overpayments were included in the incorrect row of the return. • We also identified that additional contributions of £22,472 had been incorrectly recorded as additional pension payments. • Neither of these adjustments affected the total value of the return.	Nil affect on entitlement
❸	**Disabled Facilities Grant** • We issued a qualification in October 2008 on the Authority's 2007/08 claim on the basis that the Authority retained insufficient evidence to support recipients' entitlement to grant where assessments were made at the recipient's home. The Authority changed its procedures following this qualification; however as part of our testing of cases in this year's claim we identified two cases where insufficient evidence was retained to support exemption to means testing. For both of these cases assessment was made prior to our October 2008 qualification. We therefore issued a qualification on this basis.	Nil affect on entitlement

Summary of certification work outcomes

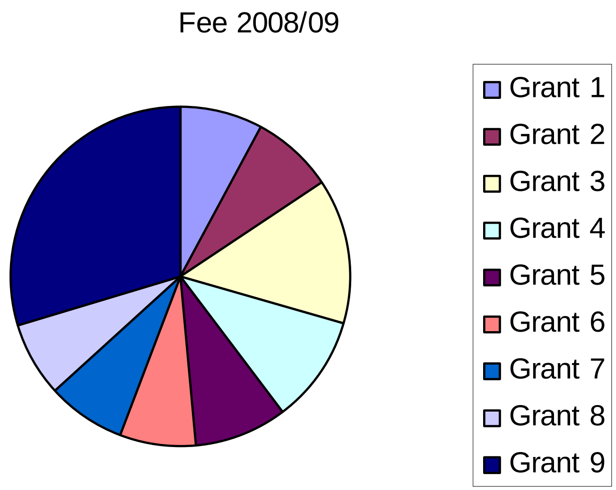
This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page

Ref	Summary observations	Amendment
4	**Housing and Council Tax Benefit subsidy claim** ● Our testing identified that some overpayments were being misclassified in the subsidy claim under unusual circumstances. Where overpayments were transferred from the benefits system (Northgate) to sundry debtors and subsequently found to be incorrectly classified, the overpayments were transferred back to Northgate and reclassified. However the report used to compile the subsidy claim did not show the reclassification and so the subsidy claim included such overpayments as they were originally classified. The software supplier was able to produce a report showing which cases were affected. ● We identified a clerical error in the recording of one uncashed cheque. ● We also identified that the system report used to compile the claim was not the most up to date report.	- £1,653

Fees

Our overall fee for the certification of grants and returns has been contained within the original estimate

Breakdown of certification fees 2008/09



Breakdown of fee by grant / return	2008/09 (£)	2007/08 (£)
1. ERDF – Hadley Park Industrial Units	**3,570**	-
2. ERDF – Donnington Business Units	**3,570**	-
3. ERDF – Regeneration Through Heritage	**6,400**	-
4. ERDF – Tourism for Telford's Future	**4,610**	-
5. NNDR return	**4,110**	4,255
6. Disabled Facilities Grant	**3,355**	2,560
7. Sure Start, Early Years and Childcare	**3,405**	4,425
8. Teachers' Pension Return	**3,165**	4,590
9. Housing & Council Tax Benefits Scheme	**13,630**	11,745
Total fee	**45,815**	**27,575**

Our initial estimated fees for certifying 2008/09 grants and returns was £45k. The actual fee charged was close to this estimate.

BOROUGH OF TELFORD & WREKIN

AUDIT COMMITTEE – 28 JUNE 2010

TREASURY MANAGEMENT - REPORT ON 2009/10 OUTTURN AND 2010/11 TO DATE

REPORT OF THE HEAD OF FINANCE

1. PURPOSE

To update members on the 2009/10 Treasury outturn and activities this year to date.

2. RECOMMENDATIONS

Audit Committee – For Information Only
Council Members were asked to:-

2.1 note the contents of the report,
2.2 note the Council's response to the Economic Climate,
2.3 note the performance against Prudential Indicators.

3. SUMMARY

The report updates members on the outcome of Treasury Management activities for 2009/10 and details the position for 2010/11 to date.

4. PREVIOUS MINUTES

Council 5th March 2009
Council 25th June 2009
Council 4th March 2010

5. BACKGROUND

Treasury Management in local government is regulated by the 2001 revision of the CIPFA Treasury Management in Public Services : Code of Practice (the Code). This Council has adopted the Code and fully complies with its requirements. The primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement, which states the policies and objectives of its treasury management activities.

A requirement of the Council's Treasury Management Practices is the reporting to the Council of both the expected treasury activity for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report).

6. **2009/10**

The annual report is covered in paragraphs 7-16 and deals with: -

- 2009/10 Portfolio position;
- the borrowing strategy for 2009/10;
- the borrowing outturn for 2009/10;
- compliance with treasury limits;
- investments strategy for 2009/10;
- investments outturn for 2009/10;
- debt rescheduling;
- Shropshire County Council debt
- overall outturn position
- leasing

7. **2009/10 PORTFOLIO POSITION**

The Council's treasury management position at the beginning and the end of the year was as follows: -

	31 March 2010		31 March 2009	
	Principal £m	Rate %	Principal £m	Rate %
Borrowing	123.076	3.86	189.123	4.03
Total Debt	**123.076**	**3.86**	**189.123**	**4.03**
Investments - in-house	54.000	4.51	84.507	6.02
- with external managers	19.811	1.27	58.397	6.24
Total Investments	**73.811**	**3.64**	**142.904**	**6.11**
Net Indebtedness	**(49.265)**		**(46.219)**	

The main reasons for the changes over the year include;

- Investment opportunities were taken in previous years to lock in at favourable interest rates.
- Investments were reduced through not reinvesting investments as they matured and reducing fund manager investments in order to lessen the need to borrow and reduce investment risk and volatility.
- Some PWLB was taken during 2009/10, but only in shorter maturities. Two PWLB loans were repaid during the year, one with a small premium and the other with a small discount.

The Adopted Treasury Strategy was to:-

- Monitor potential rescheduling opportunities for borrowing.
- Reduce the volatility of investment returns while maintaining adequate flexibility in arrangements.
- As in previous years the overall Investment Strategy for 2009/10 was to gain maximum benefit at minimum risk whilst achieving as a minimum target the 7 day deposit rate.

8. COUNCILS RESPONSE TO ECONOMIC CLIMATE

8.1 2009/10 saw the aftermath of the financial crisis that impacted during 2008/09. Base rate fell to 0.5% in late 2008/09 and remained there throughout the whole of 2009/10. The UK economy entered recession in first quarter 2009 and remained there until quarter 4 2009. The recovery to date has only been relatively slight.

8.2 The Council has allowed investments to mature and not reinvested them and has withdrawn money from fund managers, reducing the number of fund managers from 3 to 1. These funds were used to reduce the need to borrow, reduce investment risk and volatility.

8.3 There has also been a move to look to achieve more security and liquidity with any new investments undertaken.

9. BORROWING 2009/10

9.1 Original Economic Projections

The Expectation for Interest Rates – When the budget was set for 2009/10 the “average” City view anticipated that Bank Rate would fall to 0.5% and remain there until the end of 2009 due to the scale of the recession before starting to rise back towards more normal levels in 2010, though it would be 2012 before Bank Rate returned to around 4.5%.

9.2 Outturn 2009/10

During 2009/10 the Monetary Policy Committee (MPC) was focused on helping the economy to turn around from plunging into the deepest and longest recession the UK economy had experienced for many years.

Despite keeping Bank Rate at an unprecedented historical low of 0.5% all year, the MPC also had to resort to extreme measures in terms of pumping liquidity into the economy through quantitative easing by purchasing £200bn of gilts and corporate bonds. This had the effect of boosting prices for gilts and corporate bonds and therefore bringing down yields, so also reducing borrowing costs for both the corporate and public sector.

It was notable that the increase in money supply in the economy generated by this programme brought the credit crunch induced spread between Bank Rate and 3 month LIBID (investment rate that depositors could earn) down from 0.95% at the beginning of the financial year to zero during August 2009.

The dominant focus in 2009/10 was on quarterly GDP growth figures. The recession bottomed out in quarter 1 of 2009. There was then major disappointment that the end of the recession failed to materialise in quarter 3 2009 but the fourth quarter of 2009 did then see economic growth return at +0.4%.

Inflation has not been a major concern of the MPC as it fell back below the 2% target level for CPI from June to November. However, it did spike upwards to reach 3.5% on the back of the unwinding of the temporary cut in VAT to 15% on 1 January 2010. This was not seen as a cause for alarm as this spike was expected to fall out of the inflation index and inflation was forecast by the Bank of England to fall back under target by the end of 2010.

Borrowing and Investment Rates in 2009/10

The overnight investment rate has varied little during the year, within a range of 0.38 to 0.49%. The 3 month investment rate fell gradually from a high point for the year of 1.5% on 1/4/09 to reach a low of 0.42% in September before finishing the year at 0.52%. The 12 month investment rate started the year at a credit crunch enhanced rate of 1.85% and fell steadily until reaching 0.85% in September. Since then it has risen to finish the year at 1.15% as the market looked ahead to when the MPC would have to start raising Bank Rate from its then current rate of 0.50%.

5 year PWLB started the year at 2.54% and then fell to a low for the year of 2.47% on the following day before then rising sharply to hit a peak of 3.29% in July. From there it fell until reaching 2.54% in October and then rose back up to a peak of 3.13% in January. It finished the year at 2.89%.

10 year PWLB rate started the year at 3.36% and then fell to a low for the year of 3.30% on the following day before then rising sharply and rose to hit a peak of 4.15% in July. From there it fell until reaching 3.55% in October and then rose back up to a peak of 4.42% in February. It finished the year at 4.19%.

Longer-term interest rates – The PWLB 45-50 year rate started the year at 4.57% (25 year at 4.28%) and then peaked at 4.85% (25 year at 4.74%) in June before falling back to a low of 4.18% (25 year 4.07%) in October. From there it rose again towards the end of the year and peaked at 4.79% (25 year 4.83%) in March. It finished the year at 4.70% (25 year 4.67%).

Treasury Borrowing and Rescheduling –

The borrowing strategy for the current year has been to take a pragmatic approach to the use of PWLB borrowing, spreading interest rate risk and taking advantage of rate movements when appropriate.

A summary of the transactions for the year is shown below. We took 2 short term PWLB loans to replace loans maturing during 2010/11 to take advantage of the current low rates and took one LOBO loan that is variable at 3 month LIBOR for the first 2 years and then converts to a fixed loan of 4.24% until maturity. This takes advantage of the current low interest rates whilst securing a good long term interest rate.

New Borrowing

The following new loans have been arranged during the year

Date	Action	Amount £m	Interest Rate
07/01/10	PWLB – 2.5 yrs	5.000	2.63%
15/01/10	PWLB – 2.5 yrs	5.000	2.58%
08/02/10	LOBO – 50 yrs	5.000	0.69%

PWLB Repayments & Discounts

The following loans were repaid.

Date	Action	Amount £m	Impact on budget
22/04/09	Repaid - 4.25% loan	10.000	Discount £213,378
22/04/09	Repaid - 4.50% loan	7.000	Premium £190,691

We have generated a discount of £0.213m. Under accounting rules these discounts have to be spread over 10 years, benefiting the revenue account by £0.021m in 2009/10 and ongoing. We also incurred an premium of £0.191m which under accounting rules is spread over 25 years costing the revenue account £0.008 in 2009/10 and ongoing. In total a net benefit of £0.013m for the first 10 years.

Temporary money market loans were used as usual to fund short term cash flow movements, in total £265m was raised over the year and rates ranged between 0.25% and 0.90%.

Interest rates were higher in the early part of the year, but fell later in the year. An analysis of the maturity structure of our debt is shown below.

Analysis of Debt Maturity as at 31st March

	2010 £'000	%	**2009 £'000**	%
Maturing in less than 1 year	10,052	8.2	64,099	33.9
Maturing in 1-2 years	15,001	12.2	10,001	5.3
Maturing in 2-5 years	15,002	12.2	20,002	10.6
Maturing in 5-10 years	5	0.0	4	0.0
Maturing in more than 10 years	83,016	67.4	95,017	50.2
	123,076	100.0	**189,123**	100.0

Debt Performance - As highlighted in section 7 the average debt portfolio rate has fallen over the course of the year from 4.03% to 3.86%. This is due to the low interest rates that have prevailed throughout the year and the opportunities taken by officers to restructure debt where possible.

10. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the Treasury Limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement at all times. The outturn for the Prudential Indicators is shown in Appendix 1.

11. INVESTMENTS :2009/10

11.1 Strategy

Internally Managed Investments - The authority manages an element of its investments in-house and invests within the institutions complying with its counterparty limits and credit ratings. Some investments are short term related to cash flows and others include longer term investment instruments that benefited returns in 2009/10.

Externally Managed Investments - The authority employed Investec, Invesco and Morley during the early part of the year to manage the remainder of its investments. Before reducing the number of fund managers firstly from 3 to 2 and then down to 1 by the end of the year. Restrictions set out in the managers' contracts limit the institutions in which investments can be made and market risk is controlled by limiting the Fund's exposure to the gilts market and to any individual counterparty. Fund Managers were given a benchmark of 3 month LIBID, although Invesco also have an element of Gilts in their benchmark. The only fund manager we now have is Investec.

Supranational Bonds – The final supranational bond of £4.0m matured during the year. These bonds are 'AAA' rated by Fitch IBCA but they are less attractive now as their margins have narrowed considerably when compared to other investments.

Investment Strategy - The agreed short term investment strategy for 2009/10 was to gain maximum benefit at minimum risk whilst achieving as a target the 7 day deposit rate.

11.2 **Outturn 2009/10**

Detailed below are the results of the investment strategy undertaken by the Council, based on the average investment during the year.

	Average Investment	Rate of Return (gross of fees)	Rate of Return (net of fees)	Benchmark Return *
Internally Managed				
Investments	£62.037m	4.79%	4.79%	0.42%
Externally Managed				
Investec	£19.625m	1.27%	1.10%	0.73%
Invesco	£19.641m	0.59%	0.44%	0.85%
Aviva	£9.059m	1.31%	1.16%	0.73%
Total Externally Managed	£48.325m	1.00%	0.84%	0.77%
* The benchmark for Investec and Aviva is 3 month LIBID. Invesco's benchmark is a composite one based on a combination of 3 month LIBID and gilts.				

No institutions in which investments were made showed any difficulty in repaying investments and interest in full during the year.

12. SHROPSHIRE COUNTY COUNCIL DEBT

The Council makes an annual contribution (£2.352m in 2009/10) towards County Council costs on pre disaggregation debt (i.e. pre unitary inception) - interest paid averaged 5.70% last year.

13. OVERALL OUTTURN FOR 2009/10

The net overall position is summarised in the table below. The sound overall position has resulted from a mix of cash flow benefits plus pro-active treasury management activities. The budget reflected the position when the budget was set, the decision to reduce investments and debt was taken after that date. Overall a net saving of just under £1.4m was made against budget for the year.

Summary of Outturn Position

	Estimate £m	Outturn £m	Variance £m
Interest Received	(5.294)	(3.388)	1.906
Discounts/Premia	0.000	(0.013)	(0.013)
Principal Repayments & Debt Management Costs	5.624	4.917	(0.707)
Interest Paid	8.225	5.672	(2.553)
Net Position	8.555	7.188	(1.367)

14 LEASING

Each year the Council arranges operating leases for assets such as vehicles, computers and equipment. This helps spread the cost over a number of years in line with the anticipated life of the equipment.

The final drawdown for 2009/10 was completed in March. The drawdown from JCB Finance and CHG Meridian totalled £0.309m and funded the purchase of mini buses and other equipment over three, five and seven year periods at interest rates of 2.04% and 3.11%.

15. 2010/11 UPDATE

The remainder of this report deals with the current financial year based largely on information to 31 May 2010.

15.1 Strategy

In the current economic climate, the strategy for the next few months is to keep investments relatively short and use solely for cashflow purposes. We will review borrowing as we progress through the year and look to take advantage of the current low interest rates if possible.

We have retendered our Treasury Advisory Service and have appointed Arlingclose Ltd as our Treasury Advisors.

15.2 Interest Rates

Base rate began the year at 0.5% and has remained there. The expectation is that at some stage in the future interest rates will begin to rise again, but this is dependent on how the economy progresses. Any increase is unlikely in the short term and most city forecasters do not expect an increase until the second half of 2011.

15.3 Prudential Regime

This Council agreed its required indicators at Council on 4th March 2010. There have been no breaches of the indicators and none have been amended. The Council set itself an Operational limit for external debt of £280m for 2010/11 and an Authorised limit of £300m. To date our total borrowing outstanding is £118m which is well within both limits.

15.4. Borrowing

The loan in the table below matured during 2010/11 .No new long term or temporary borrowing has been undertaken yet this year. As at 31 May 2010 temporary borrowing stood at £0.0m.

Date	Action	Amount £m	Impact on budget
01/05/10	Matured - 2.69% loan	5.000	None

15.5. Internally Managed Investments

The strategy for the year is to gain maximum benefit at minimum risk whilst achieving as a minimum, the 7 day deposit rate. For the period to 31 May 2009 some £188.1m worth of investments have been made from overnight deposits up to 21 days. Rates have ranged from 0.25% to 0.75%. As at 31 May 2010 internal investments stood at £57.3m.

15.6. Fund Managers

At the 31 May 2010 the investments managed on the Council's behalf by Investec, our fund manager (including accrued interest) was valued at £19.8m

15.7 Overall Investment Position

Total investments, including those managed internally, therefore, amount to £77.1m.

Potentially investment manager may place 15% of the funds managed on the Council's behalf with the same institution that the Council has placed up to £5m (£15m in respect of supranational bonds) with. The Council has excluded 3 institutions from Fund Managers' use in order to give itself flexibility in its own direct investments .At the end of May the greatest exposure with a single counterparty was £20.0m with Barclays (just over 25.9% of the portfolio). The highest sovereign exposure to non UK sovereigns was 6.5% with Belgium. Total exposure is shown in Appendix 2, with a detailed breakdown in Appendix 3.

16. **EQUAL OPPORTUNITIES**

There are no direct implications.

ENVIRONMENTAL IMPACT

There are no environmental impacts directly arising from this report.

LEGAL COMMENT

Treasury management is regulated by the 2001 revision of the CIPFA Treasury Management in Public Services: Code of Practice (the Code). The Council has adopted the code and fully complies with its requirements. The Prudential Indicators were set by Council on 1st March 2009, in line with the Prudential Code.

LINKS WITH CORPORATE PRIORITIES

Active treasury management links to creating a Modern, Effective Council.

OPPORTUNITIES & RISKS

It is important that the Council meets the statutory requirements of the Treasury Management Code of Practice and the Prudential Code as this contributes to good governance for the authority. The report provides information to the general public on the Council's financial performance in relation to Treasury Management and contributes to public accountability. Any other opportunities and risks associated with the treasury management process have been identified and reviewed as part of the process.

FINANCIAL IMPLICATIONS

The body of the report covers the financial implications in detail.

WARD IMPLICATIONS

District Wide.

Background Papers

CIPFA Code of Practice for Treasury Management in Local Authorities
Fund Manager Valuations
Temporary Borrowing records
PWLB records
Investment records

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PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2008/09	2009/10	2009/10
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT	**£m**	**£m**	**£m**
	Actual Outturn	**Original Estimate**	**Actual Outturn**
Capital Expenditure			
TOTAL	62.6	69.2	45.2
Ratio of financing costs to net revenue stream			
General fund	0.11%	2.19%	1.81%
Net borrowing requirement			
brought forward 1 April	170.622	189.123	189.123
carried forward 31 March	189.123	135.000	123.076
in year borrowing requirement	18.501	(54.123)	(66.047)
Capital Financing Requirement as at 31 March (excluding PFI)			
TOTAL	186.718	135.945	140.732
Annual change in Cap. Financing Requirement			
TOTAL	19.022	15.851	18.904
Incremental impact of capital investment decisions	**£ p**	**£ p**	**£ p**
Increase in council tax (band D) per annum (not cumulative)	11.48	4.22	4.22

PRUDENTIAL INDICATOR	2008/09	2009/10	2009/10
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£m**	**£m**	**£m**
	final	**original**	**final**
Authorised limit for external debt -			
borrowing	270	300	300
other long term liabilities	6	6	6
TOTAL	276	306	306
Operational boundary for external debt -			
borrowing	250	280	280
other long term liabilities	4	4	4
TOTAL	254	284	284
Upper limit for fixed interest rate exposure			
Net principal re fixed rate borrowing / investments	180	190	190
Upper limit for variable rate exposure			
Net principal re variable rate borrowing / investments:-	80%	80%	80%
Upper limit for total principal sums invested for over 364 days (per maturity date)	80%	80%	80%

Maturity structure of fixed rate borrowing during 2009/10	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%