Shrophire Council	Committee and Date Audit Committee 10 November 2011 Cabinet 16 November 2011 Council 24 November 2011	Item **11** Public

TREASURY STRATEGY 2011/12 – MID YEAR REVIEW

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1. Summary

1.1 This mid year Treasury Strategy report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management (revised November 2009) and covers the following:-

- An economic update for the first six months of 2011/12
- A review of the Treasury Strategy 2011/12 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2011/12
- A review of the Council's borrowing strategy for 2011/12
- A review of any debt rescheduling undertaken
- A review of compliance with Treasury and Prudential limits for 2011/12

1.2 The key points to note are:-

- The internal treasury team achieved a return of 0.98% on the Council's cash balances outperforming the benchmark by 0.59%. This amounts to additional income of £272,415 for the first six months of the year which is included within the Council's projected outturn position.

- In the first six months all treasury management activities have been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy.

- The proposed reform of the Housing Revenue Account (HRA) subsidy arrangements are expected to take place on 28 March 2012. This will involve the Council paying funds to the government which will remove the Council from the HRA subsidy system. The overall impact will be beneficial to the Council as it will no longer have to make future annual housing subsidy payments to the government from 1 April 2012.

2. Recommendations

2.1 Cabinet recommend that Council approve the prudential indicators in paragraph 9.2 of this report which require revision due to the HRA reform.

2.2 Members are asked to accept the position as set out in the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

3.3 Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

4. Financial Implications

4.1 There are no direct financial implications arising from this report. The revenue implications of funding the HRA payment will be met from the savings achieved within the HRA from not making future annual housing subsidy payments. These payments are due to be abolished from 1 April 2012.

5. Background

5.1 The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks". The report informs Members of the treasury activities of the Council for the first six months of the financial year.

5.2 The revised CIPFA Code of Practice on Treasury Management was adopted by Council in February 2010. The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full council of an annual Treasury Strategy - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

6. Economic update

6.1 **Global Economy** - The Eurozone sovereign debt crisis continued with Spain, and particularly Italy, being the focus of renewed market concerns that they may soon join with Greece, Ireland and Portugal in needing assistance. This uncertainty and the lack of a co-ordinated or credible Eurozone response, left commentators concerned over the potential impact of sovereign default and resulting effect on the Eurozone banking sector. The approval by various countries of the £440 billion bail out fund in September 2011 has brought temporary relief to financial markets but this does not provide a credible remedy to the scale of the Greek debt problem or the sheer magnitude of the potential needs of other countries for support.

6.2 This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poors, has led to a much more difficult and uncertain outlook for the world economy. Growth prospects in the US, UK and the Eurozone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

6.3 **UK Economy** – Following zero growth in the final half of 2010/11 the UK economy grew by weaker than expected 0.2% in the first quarter of 2011/12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.

6.4 Inflation remains stubbornly high, although the expectation of future falls, the external nature of the price increases (energy, oil, food etc.), and the negative impact a rate rise would have on the UK economy, is likely to stop the Monetary Policy Committee (MPC) from raising the Bank Rate, currently at an historically low level of 0.50%, for some considerable time to come. An indicator of the worsening position arose from the MPC minutes recently signalling a greater willingness to expand the quantitative easing programme which they have now done by increasing it by a further £75 billion, this clearly underlines how concerned the MPC now is about the prospects for growth of the UK economy.

6.5 International investors continue to view UK government gilts as being a safe haven from the EU sovereign debt crisis. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and sent Public Works Loan Board (PWLB) borrowing rates to low levels.

7 Economic Forecast

7.1 The Council receives its treasury advice from Sector Treasury Services. Sector has recently undertaken a review of their interest rate forecasts as a result of two major events. The decision by the MPC to expand quantitative easing over the next four months by a further £75 billion had an immediate effect of reducing long term borrowing rates and the marked deterioration of growth prospects in the US, EU and UK, especially as concerns have further increased over Greece and the potential fall out from their debt situation also depressed PWLB rates to even lower levels. Their latest interest rate forecasts are shown below:

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

7.2 Sector believes the Bank Rate will remain at its current low level of 0.50% before rising to 0.75% in September 2013. This means investment returns will continue to be at historically low levels during this period. The Bank Rate is then expected to gradually increase to reach 1.25% by 31 March 2014 and 2.50% by 31 March 2015.

7.3 Long term PWLB rates are expected to fall slightly to 4.30% in December 2011 before steadily increasing over time to reach 5.30% by 31 March 2015 due to high gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, postponing any increases until 2012.

7.4 There is considerable uncertainty in all forecasts due to the speed of economic recovery in the UK, US and EU, the degree to which government austerity programmes will dampen economic growth, the potential for more quantitative easing and the timing of this in both the UK and US, the potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global and UK economy and the speed of recovery of banks profitability and balance sheet position. There is also still some risk of a "double dip "recession.

8. Housing Revenue Account (HRA) Reform

8.1 The proposed reform of the HRA subsidy arrangements are expected to take place on 28 March 2012 once the necessary legislation has been passed later on this year. This will involve the Council paying funds to the Communities for Local Government (CLG) which will remove the Council from the HRA subsidy system. The expected payment is currently around £87.6 million as previously reported to Members. This will impact on both the capital structure of the Council (as the HRA Capital Financing Requirement will rise by the size of the payment), and the treasury management service will need to consider the funding implications for the borrowing.

8.2 Members will recall being advised previously that following the Chancellor's spending review announcement on 20 October 2010, HM treasury instructed the PWLB to increase the average rate on all new loans to an average of 1% above the Government's cost of borrowing. This led authorities to examine possible financing from the markets at cheaper rates instead of the PWLB to finance the HRA payment. However, in September 2011 the Government announced that it would reduce the borrowing rates offered to local authorities from the PWLB by up to 1% to finance the payment to leave the HRA subsidy system. This means the PWLB will offer the cheapest form of funding to finance this transaction.

8.3 The funding of the payment for the HRA reform will take place between 1 January 2012 and 31 March 2012 once the necessary legislation has been passed. The reduced borrowing rates are for a specific purpose i.e. to finance the payment to leave the HRA subsidy system and will only be available during this period. Borrowing rates offered by the PWLB for other purposes will continue to be an average of 1% above the Government's cost of borrowing. Members will be updated on the latest position in the quarterly treasury update reports.

9. Treasury Strategy update

9.1 The Treasury Management Strategy (TMS) for 2011/12 was approved by Full Council on 24 February 2011. The Treasury Strategy approved previously needs to be amended as revised prudential indicators need to be approved to accommodate the impact of the HRA reform changes outlined above. Whilst this will formally allow the borrowing to take place, no action can take place until the necessary legislation is in place.

9.2 Subject to statutory powers, the Council will be required to make a one off payment to the CLG to remove the HRA from the current housing subsidy system. This one off payment will ensure the Council no longer has to make annual payments to the CLG and it is expected that the overall impact will be beneficial to the Council. Whilst the legislative framework is not yet in place, by agreeing to these revised prudential indicators the Council is ensuring the necessary local requirements are in place well before the payment is required on the 28 March 2012. The Council are therefore requested to approve the changes to the 2011/12 prudential indicators outlined below. All the other prudential indicators previously approved by Council remain the same.

Prudential Indicator 2011/12	**Original Estimate £m**	**Impact of HRA Reform £m**	**Revised Prudential Indicator £m**
Authorised Limit	£453	£88	£541
Operational Boundary	£383	£88	£471
Gross Borrowing	£298	£88	£386
Capital Financing Requirement (HRA only)	£1.2	£88	£89.2

10. Annual Investment Strategy update

10.1 The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital. As outlined in paragraph 6 & 7 above there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context it is considered that the Annual Investment Strategy approved on 24 February 2011 is still fit for purpose in the current economic climate.

10.2 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using the Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap

(CDS) overlay information provided by Sector. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations. This approach has been endorsed by our external advisors, Sector.

10.3 In the first six months of 2011/12 the internal treasury team outperformed its benchmark by 0.59%. The investment return was 0.98% compared to the benchmark of 0.39%. This amounts to additional income of £272,415 during the first six months which is included within the Council's projected outturn position.

10.4 A full list of investments held as at 30 September 2011, compared to Sector's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2011/12 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

10.5 As illustrated in the economic background section above, investment rates available in the market are at an historical low point. The average level of funds available for investment purposes in the first six months of 2011/12 was £94 million.

10.6 The Council's interest receivable/payable budgets are currently projecting a surplus of £163,000 due to no long term borrowing being undertaken to date.

11. Borrowing

11.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Prudential Indicators (affordability limits) are outlined in the TMS. A list of the approved limits is shown in **Appendix B**. The schedule at **Appendix C** details the Prudential Borrowing approved and utilised to date.

11.2 Officers can confirm that the Prudential Indicators were not breached during the first six months of 2011/12 and have not been previously breached.

11.3 Due to the overall financial position and the underlying need to borrow for capital purposes (the Capital Financing Requirement - CFR), new non-HRA external borrowing of £8 million is required in 2011/12. This figure is as at 30 September 2011. No borrowing has currently been undertaken to date. As outlined below, the general trend has been a reduction in interest rates during the six months, across all bands, with the low points occurring in the middle and towards the end of September. The high points were in early to mid April.

PWLB Borrowing rates 1 April - 30 Sept 2011

Date	1yr	5yr	10yr	25yr	50yr
High	1.97%	3.73%	4.89%	5.43%	5.34%
Date	06/04/2011	11/04/2011	11/04/2011	11/04/2011	11/04/2011
Low	1.42%	2.18%	3.31%	4.44%	4.57%
Date	13/09/2011	13/09/2011	13/09/2011	26/09/2011	13/09/2011
Average	1.59%	2.92%	4.15%	5.02%	5.02%
Spread betweeen High and Low	0.55%	1.55%	1.58%	0.99%	0.77%
01-Apr-11	1.95%	3.65%	4.80%	5.36%	5.28%
30-Sep-11	1.49%	2.41%	3.49%	4.53%	4.70%
Spread between 01/04/11 and 30/09/11	0.46%	1.24%	1.31%	0.83%	0.58%

11.4 During the first six months of the financial year there has been a lot of volatility in the financial markets and this has had an impact on the PWLB rates. The coalition government's aim to accelerate the speed of reduction in the public sector deficit, the MPC announcement to increase quantitative easing and the marked deterioration of growth prospects in the US, EU and UK has meant that UK gilts have taken a safe haven status for international investors which have caused a major fall in bond yields which, in turn, have dragged down PWLB rates.

12. Debt Rescheduling

12.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. During the first six months of the year no debt rescheduling was undertaken

13. Landsbanki Deposit Update

13.1 The claim for the £1 million deposit placed by Bridgnorth District Council with the Icelandic Bank, Landsbanki has been accepted as a priority claim by the Landsbanki Winding up Board and the Icelandic District Court. Local Authority claims are currently going through the Icelandic Supreme Court due to a further objection from non priority creditors. Members will be updated once a final decision has been made.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Council, 24 February 2011, Treasury Strategy 2011/12 Cabinet, 03 August 2011, Treasury Management Update Quarter 1 2011/12.
Cabinet Member: Keith Barrow, Leader of the Council
Local Member N/A
Appendices A. Investment Report as at 30th September 2011 B. Prudential Limits C. Prudential Borrowing Schedule

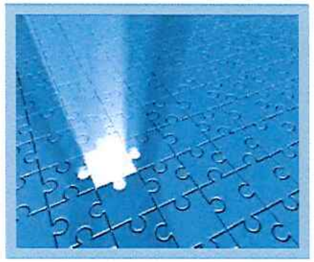
SECTOR

Appendix A

Shropshire Council

Monthly Investment Analysis Review

September 2011



Appendix A

Shropshire Council

Monthly Economic Summary

General Economy

UK manufacturing shrank at its fastest pace in over two years in August. The PMI Manufacturing Index fell from an upwardly revised 49.4 (July) to 49 (August), its weakest level since June 2009. More concerning was the data for the dominant service sector, slowing at its fastest pace for a decade. The PMI Services Index fell from 55.4 (July) to 51.1 (August). The Bank of England unsurprisingly maintained interest rates at 0.5%, which they have continued to do since March 2009. The Monetary Policy Committee decisively voted 9-0 in favour of no rate change and hinted at reintroducing Quantitative Easing, possibly as soon as October, to provide a boost to the stalling economy. Consumer Price Index (CPI) rose by 0.1% in August, with the annual rate at 4.5%. The main drivers behind the increase were record annual increases in clothing, footwear, furniture and the biggest rise in household bills in 2 years. Retail sales remained flat, with a 0.2% fall in August. High inflation and suppressed wage growth continues to force consumers to reduce spending. However, the Office of National Statistics stated the effects of the widespread riots in August, which caused some store closures, were difficult to quantify. Public Sector Net Borrowing (PSNB) hit a high for the month of August, £15.934bn, driven by higher government spending. However, previous month's borrowing was revised down, which meant borrowing for the year to date currently stands at £51.482bn. The International Monetary Fund (IMF) cut the UK growth forecast from 1.5% to 1.1%. The IMF stated the global economy is entering a new dangerous phrase and recovery has considerably weakened, requiring strong polices to improve the outlook and reduce risk. The GfK Consumer Confidence Index increased for the first time in four months, rising to -30 from -31, as Britons become more optimistic about the economic outlook.

Housing Market

According to Halifax, house prices fell by 1.2% in August and were 2.6% lower in the three months to August compared to a year-ago. Halifax housing economist, Martin Ellis, said that low interest rates continue to support the market, but a gloomy economic outlook and pressures on household finances will constrain demand. However, he expects broad stability in both prices and activity over the coming months. Nationwide said that house prices rose just 0.1% in September, with prices down 0.3% compared to a year ago. Nationwide's chief economist, Robert Gardner, stated he expects the market to be relatively flat for the rest of the year, although downside risks have increased. The number of mortgages granted to homebuyers rose to 35,226 in August from the revised 33,734 in July, according to the British Bankers' Association. Figures from the Bank of England also showed that mortgage approvals had risen, hitting their highest level since December 2009 (52,410 in August, up from an upwardly revised 49,664 in July).

Currency

Sterling began the month at $1.6184 against the pound and continued on a downward trend for most of the month until it reached a low of $1.5345 (22/09/11), ending the month at $1.562. The drivers behind the movement in the £/$ was Quantitative Easing expectations intensifying and growing concerns about the European debt crisis leading to increased demand for the dollar (flight to safety). Sterling had a volatile month against the euro, rising from €1.1351 at that start of the month, to end the month at €1.1549, whilst peaking at €1.1628 (09/09/11). The European debt crisis and concerns about the UK's economy were the primary forces behind the fluctuations.

Forecast

Sector maintained its bank rate forecast, expecting a 0.25% increase in Q4 of 2012, followed by a further three consecutive 0.25% increases. Expecting the bank rate to be 1.5% in Q3 of 2013. UBS revised their forecast, expecting the base rate to remain at 0.5% throughout 2012. Capital Economics kept its forecast, believing the bank rate will remain unchanged to at least 2013.

Bank Rate	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Sector	0.50%	0.50%	0.50%	0.50%	0.75%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%

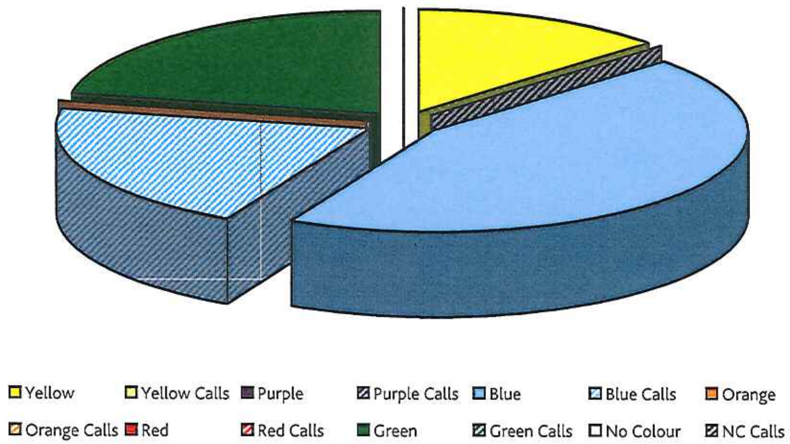
Shropshire Council

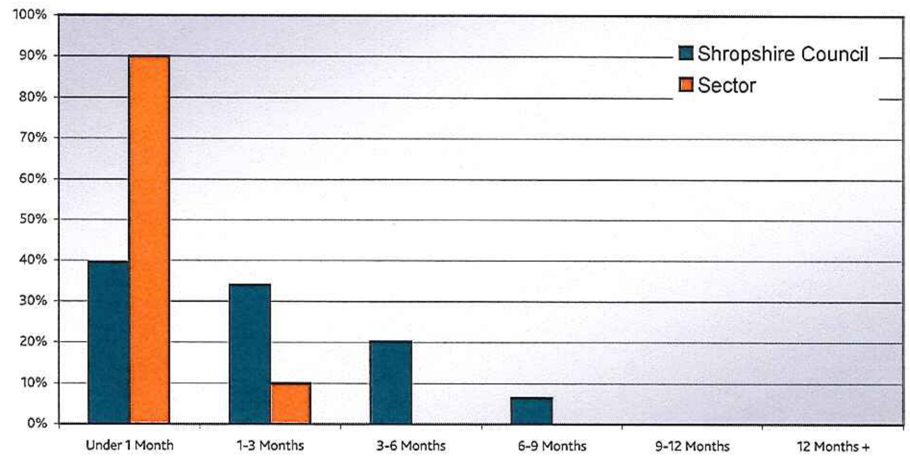
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
NatWest	16,250,000	1.00%		Call
Clydesdale Bank	2,520,000	0.50%	05/09/2011	05/10/2011
Southampton City Council	2,000,000	0.40%	06/09/2011	14/10/2011
Southampton City Council	2,000,000	0.40%	06/09/2011	20/10/2011
Birmingham City Council	5,000,000	0.40%	07/09/2011	20/10/2011
Barclays	2,080,000	0.63%	07/09/2011	31/10/2011
Lloyds TSB	4,320,000	1.25%	03/08/2011	04/11/2011
Clydesdale Bank	4,110,000	0.73%	04/08/2011	04/11/2011
Lloyds TSB	1,520,000	1.25%	08/08/2011	08/11/2011
Nationwide BS	5,960,000	0.76%	10/08/2011	11/11/2011
Lloyds TSB	5,000,000	2.00%	15/12/2010	14/12/2011
Nationwide BS	2,540,000	0.83%	15/09/2011	14/12/2011
Lloyds TSB	3,260,000	1.25%	21/09/2011	20/12/2011
Lloyds TSB	5,900,000	1.46%	14/07/2011	20/01/2012
RBS	5,000,000	1.00%	06/07/2011	31/01/2012
Lloyds TSB	5,000,000	2.00%	04/02/2011	03/02/2012
Lloyds TSB	5,000,000	2.08%	02/06/2011	31/05/2012
Blaenau Gwent BC	1,200,000	0.45%	26/09/2011	03/11/2011
Total Investments	**£78,660,000**	**1.12%**		

Shropshire Council

Portfolio Breakdown by Sector's Suggested Lending Criteria





Y	P	B	O	R	G	N/C
1	2	3	4	5	6	7
Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 3mths	No Colour

Portfolios weighted average risk number = 3.4

WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs WAM	Excluding Calls/MMFs WAM at Execution
Yellow	12.97%	£10,200,000	0.00%	£0	0.00%	0.41%	16	37	16	37
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	65.15%	£51,250,000	31.71%	£16,250,000	20.66%	1.40%	78	165	114	242
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Green	21.88%	£17,210,000	0.00%	£0	0.00%	0.71%	38	78	38	78
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	£78,660,000	20.66%	£16,250,000	20.66%	1.12%	61	130	77	163

Shropshire Council

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
16/09/2011	957	UBS AG	Switzerland	Individual and Viability Ratings placed on 'Negative Watch'
28/09/2011	964	Intesa Sanpaolo	Italy	LT Outlook changed to 'Negative' from 'Stable'
28/09/2011	964	Banca IMI SpA	Italy	LT Outlook changed to 'Negative' from 'Stable'
30/09/2011	966	Clydesdale Bank	U.K	LT Rating downgraded to 'A+' from 'AA-', ST Rating downgraded to 'F1' from 'F1+', Viability Rating downgraded to 'bbb' from 'bbb+'

Shropshire Council

Monthly Credit Rating Changes

MOODY'S

Date	Update Number	Institution	Country	Rating Action
14/09/2011	953	Societe Generale	France	LT Rating downgraded to 'Aa3' from 'Aa2' and removed from 'Under Review for Possible Downgrade' to 'Negative Outlook'
14/09/2011	954	Credit Agricole SA	France	LT Rating downgraded to 'Aa2' from 'Aa1', FSR downgraded to 'C' from 'C+'
15/09/2011	955	Calyon Corporate and Investment Bank	France	LT Rating Remain Under Review but Direction Uncertain
16/09/2011	956	UBS AG	Switzerland	LT placed 'Under Review for Possible Downgrade' from 'Negative Outlook', FSR placed 'Under Review for Possible Downgrade' from 'Negative Outlook'
16/09/2011	956	USB Limited	U.K	LT placed 'Under Review for Possible Downgrade' from 'Negative Outlook'
21/09/2011	960	Fortis Bank	Belgium	LT Rating placed 'Under Review for Possible Downgrade', FSR Outlook changed to 'Positive' from 'Negative'
22/09/2011	961	Bank of America NA	USA	LT Rating downgraded to 'A2' from 'Aa3' and Outlook changed to 'Negative' from 'Under Review for Possible Downgrade'
22/09/2011	961	Wells Fargo Bank NA	USA	LT Rating downgraded to 'Aa3' from 'Aa2' and Outlook changed to 'Negative' from 'Under Review for Possible Downgrade'
22/09/2011	963	Citibank NA	USA	LT Rating removed from 'Under Review for Possible Downgrade' and assigned 'Negative Outlook'
28/09/2011	965	Clydesdale Bank	U.K	LT Rating downgraded to 'A2' from 'A1' and remains 'Under Review for Possible Downgrade', ST Rating placed 'Under Review for Possible Downgrade'

Monthly Credit Rating Changes

S&P

Date	Update Number	Institution	Country	Rating Action
16/09/2011	958	UBS AG	Switzerland	LT Rating placed on Negative Watch
16/09/2011	958	UBS Limited	U.K	LT Rating placed on Negative Watch
20/09/2011	959	Italy Sovereign Rating	Italy	Sovereign Rating downgraded to 'A' from 'A+'
22/09/2011	962	Intesa Sanpaolo	Italy	LT Rating downgraded to 'A' from 'A+'
22/09/2011	962	Banca IMI SpA	Italy	LT Rating downgraded to 'A' from 'A+'

Appendix B

Appendix B

Prudential Indicators – Quarter 1 to 4 2011/12

Prudential Indicator	2011/12 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Capital Financing Requirement (CFR)	299	283*	286*		
Gross borrowing	298	278	278		
Investments	90	85	79		
Net borrowing	208	193	199		
Authorised limit for external debt	453	278	278		
Operational boundary for external debt	383	278	278		
Limit of fixed interest rates (borrowing)	348	278	278		
Limit of variable interest rates (borrowing)	174	0	0		
Principal sums invested > 364 days	40	0	0		
Maturity structure of borrowing limits	%	%	%		
Under 12 months	15	0	0		
12 months to 2 years	15	3	3		
2 years to 5 years	45	9	9		
5 years to 10 years	75	9	9		
10 years and above	100	79	79		

* Based on period 6 Capital Monitoring report (excluding PFI)

Reconciliation of Prudential Borrowing approvals and years applied/schemes applied to

APPENDIX C

Appendix C

Prudential Borrowing Approvals	Date Approved	Amount Approved £	Applied (Spent) 2006/07 £	Applied (Spent) 2007/08 £	Applied Outturn 08/09 2008/09 £	Applied Outturn 09/10 2009/10 £	Applied Outurn 10/11 2010/11 £	Budgeted Period 6 11/12 2011/12 £	Budgeted Period 6 11/12 2012/13 £	Budgeted Period 6 11/12 2013/14 £	Budgeted Period 6 11/12 2014/15 £	First year MRP Charged	Asset Life	Final year MRP Charged
Monkmoor Campus	24/02/2006	3,580,000												
Capital Receipts Shortfall -Cashflow	24/02/2006	5,000,000												
Applied:														
Monkmoor Campus			3,000,000		0							2007/08	25	2031/32
William Brooks					0		3,580,000					2011/12	25	2035/36
Tern Valley					2,000,000							2010/11	35	2044/45
		8,580,000	3,000,000	0	2,000,000	0	3,580,000	0	0	0	0			
Highways	24/02/2006	2,000,000	2,000,000									2007/08	20	2026/27
Accommodation Changes	24/02/2006	650,000	410,200	39,800								2007/08	6	2012/13
Accommodation Changes - Saving	31/03/2007	(200,000)												
		450,000	410,200	39,800	0	0	0	0	0	0	0			
Waste Management Site - Oswestry	29/06/2007	712,500												
Waste Management Site - Oswestry	20/06/2008	(712,500)												
		0	0	0	0	0	0	0	0	0	0			
William Brooks	18/07/2008	0					-					2011/12	25	2035/36
Primary School Capital Programme	19/12/2008	0					-	-				2012/13	25	2036/37
The Ptarmigan Building	05/11/2009	3,744,000				3,744,000						2010/11	25	2034/35
The Mount McKinley Building	05/11/2009	2,782,000				2,782,000						2011/12	25	2035/36
The Mount McKinley Building	05/11/2009	0					-					2011/12	5	2015/16
Capital Strategy Schemes - Capital Receipts shortfall	25/02/2010	9,283,042					-	-	6,407,442	2,688,000	-		25	
- Desktop Virtualisation						187,600	-					2010/11	5	2014/15
Carbon Efficiency Schemes/Self Financing	25/02/2010	5,799,348					115,656	2,908,692	1,725,000	550,000	500,000		5	
New School Amalgamations - Self Financing	25/02/2010	9,000,000							3,000,000	3,000,000	3,000,000			
Renewables - Biomass - Self Financing	14/09/2011	2,662,230						95,000	2,567,230			2013/14	25	2037/38
Solar PV Council Buildings - Self Financing	11/05/2011	5,200,000						100,000	3,272,000	1,828,000		2013/14	25	2038/39
Previous NSDC Borrowing		955,595			821,138	134,457	-	-				2009/10	5/25	
		50,456,215	5,410,200	39,800	2,821,138	6,848,057	3,695,656	3,103,692	16,971,672	8,066,000	3,500,000			
MRP Charged			0.00	(288,367.00)	(296,326.67)	(339,361.72)	(589,162.85)	(860,518.50)	(1,442,256.50)	(2,328,597.04)	(2,726,500.13)			
Prudential Borrowing CFR				5,161,632.52	7,686,443.86	14,195,138.94	17,301,632.44	19,544,805.59	35,074,221.09	40,811,624.05	41,585,123.92			