

Summary of Appendices

Appendix 1 – Adoption of the revised CIPFA Code of Practice on Treasury Management

The CIPFA Code of Practice on Treasury Management in Local Authorities was adopted by full Council in February 2002. The Code has been revised recently in light of the default by Icelandic banks in 2008 and the Council is required to adopt four amended clauses and a revised Treasury Policy Statement.

Appendix 2 – Prudential Indicators

The Local Government Act 2003 and supporting regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable. The capital programme for the next five years has been used as a basis for calculating that the Council will use up to 5% (previously 3%) of council tax to fund prudential borrowing.

Appendix 3 – Annual Investment Strategy

The Council is required, under CIPFA's Treasury Management Code of Practice to formulate an Annual Investment Strategy each year which requires approval by full Council. The Annual Investment Strategy confirms the Council's investment priorities as the security of capital and the liquidity of its investments.

Appendix 4 – Minimum Revenue Provision (MRP) Statement

This shows the Council's policy on its annual Minimum Revenue Provision. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

Appendix 5 – Council's Approved Lending List

This schedule details Shropshire Council's latest lending list and where the Council's funds were invested on 31 January 2010. The list is monitored continuously and formally updated monthly. Any additions to the list must be approved by the Director of Resources.

Appendix 6 – Calculation of Prudential Indicators

Schedules 1 to 7 provide details of how all of the Prudential Indicators included within the Treasury Strategy have been calculated.

Adoption of the revised CIPFA Treasury Management Code of Practice 2009

The CIPFA Code of Practice on Treasury Management in Local Authorities was last updated in 2001 and has been revised in 2009 in the light of the default by Icelandic banks in 2008. The revised Code requires that a report be submitted to the Council setting out four amended clauses which should formally be passed in order to approve the adoption of the new version of the Code of Practice and Cross - Sectoral Guidance Notes.

The revised Code has also set out various requirements which have been summarised in paragraph 2 of the Treasury Strategy 2010/11.

Resolutions

CIPFA recommends that the Council adopt as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses:-

1. The Council will create and maintain, as the cornerstones for effective treasury management:
 - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
 - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the Council materially deviating from the Code's key principles.

2. This Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in its TMPs.
3. The Council delegates responsibilities for the implementation and regular monitoring of its treasury management policies and practices to full Council, and for the execution and administration of treasury management decisions to the Director of Resources, who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
4. The Council nominates Strategic Overview & Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Policy Statement

The revised Code also includes an amended version of the treasury management policy statement incorporating the following three clauses which includes a revised definition of treasury management activities.

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 those activities, and the pursuit of optimum performance consistent with those risks".
2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Prudential Indicators

Prudential Indicator	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
	%	%	%	%
Non HRA ratio of financing costs to net revenue stream	9.9	11.6	12.8	14.2
HRA ratio of financing costs to HRA net revenue stream	15.4	15.3	15.0	14.8

Prudential Indicator	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
	%	%	%	%
Non HRA ratio of financing costs (net of investment income) to net revenue stream	9.6	11.1	12.4	13.7

Prudential Indicator	2010/11	2011/12	2012/13
Estimates of impact of Capital Investment decisions in the present capital programme	£ p	£ p	£ p
Cost of capital investment decisions funded from re-direction of existing resources (Band D, per annum)	20.50	39.72	56.05
Cost of capital investment decisions funded from increase in council tax (Band D, per annum)	0	0	0
Cost of capital investment decisions funded from an increase in average housing rents per week	0	0	0
Total	20.50	39.72	56.05

Prudential Indicator	2008/09* Actual	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
Net Borrowing & Capital Financing Requirement:	£ m	£ m	£ m	£ m	£ m
Gross Borrowing	251	280	310	334	346
Investments	60	149	150	150	150
Net Borrowing	191	131	160	184	196
Non HRA Capital Financing Requirement	253	279	310	335	354
HRA Capital Financing Requirement	N/A	1.2	1.2	1.3	1.3

Prudential Indicator	2008/09* Actual	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
	£ m	£ m	£ m	£ m	£ m
Non HRA Capital expenditure	60	92	119	63	51
HRA Capital expenditure	N/A	2	5	8	3

*Shropshire County Council only

Prudential Indicator	2010/11	2011/12	2012/13
External Debt	£ m	£ m	£ m
Authorised Limit for External Debt:			
Borrowing	458	475	494
Other long term liabilities	46	47	49
Total	504	522	543

Prudential Indicator	2010/11	2011/12	2012/13
External Debt	£ m	£ m	£ m
Operational Boundary:			
Borrowing	401	419	439
Other long term liabilities	20	21	22
Total	421	440	461

Prudential Indicator	2008/09*	2009/10
External Debt	Actual	Estimate
	£ m	£ m
Borrowing	251	280
Other long term liabilities	0	0
Total	251	280

*Shropshire County Council only

Prudential Indicator number 13 - The Local Authority has adopted the CIPFA Code of Practice for Treasury Management in Public Services. Shropshire County Council adopted the original 2001 Code in February 2002. Shropshire Council will adopt the revised Code in February 2010.

Prudential Indicator	2010/11	2011/12	2012/13
Borrowing Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	401	419	439
Upper Limit for Variable Interest Rate Exposure	200	209	219
Lower Limit for Fixed Interest Rate Exposure	201	210	220
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	2010/11	2011/12	2012/13
Investment Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	225	225	225
Upper Limit for Variable Interest Rate Exposure	225	225	225
Lower Limit for Fixed Interest Rate Exposure	0	0	0
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	Upper Limit	Lower Limit
Maturity Structure of Fixed Rate Borrowing During 2010/11 **	%	%
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years & within 10 years	75	0
10 years & above	100	50

**** Internal limit is to have no more than 15% of total outstanding debt maturing in any one financial year.**

Prudential Indicator	2010/11	2011/12	2012/13
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 364 days:			
Externally Managed (if appointed in 2010/2011)	30	30	30
Internally Managed	40	40	40

The Council's Annual Investment Strategy

Under the revised CIPFA's Treasury Management Code of Practice 2009, the Council is required to formulate a strategy each year regarding the investment of its revenue funds and capital receipts. From 2004-05 onwards the requirements of the Treasury Management Code have been supplemented by guidance from the Communities and Local Government (CLG) and any revisions to that guidance. Authorities are required to take the guidance into account under the terms of section 12 of the Local Government Act 2003. In addition, the Council has regard to the Audit Commission's report on Icelandic investments.

The income and expenditure flow of the Council is such that funds are temporarily available for investment. Under the Annual Investment Strategy the Council may use for the prudent management of its treasury balances any of the investments highlighted under the headings of **Specified Investments** and **Non-Specified Investments** as detailed on the attached table (Appendix 3A).

Creditworthiness Policy

The Council uses the creditworthiness service provided by its treasury advisor, Sector Treasury Services. Previously the Council set minimum long term, short term, individual and support credit ratings for its specified and non specified investments based on information supplied by Sector from two of the three credit rating agencies Fitch and Moody's. However, following the problems with Icelandic Banks and the issue of the revised CIPFA Code of Practice on Treasury Management the Council is now required to use ratings from all three credit rating agencies and must not solely rely on an institutions credit rating when considering placing an investment. In light of this, Sector has been progressively enhancing their service over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies Fitch, Moody's and Standard and Poor's. In addition, in line with the revised Treasury Management Code of Practice 2009, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:-

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration of investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by a selection of institutions down to a minimum durational band with Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands:-

- Purple - 2yrs (Council currently has maximum of 1 year)
- Blue - 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green - 3 months
- No colour – not to be used

The Sector creditworthiness service uses ratings from all three agencies, but by using a scoring system, does not give undue over reliance to just one agency's ratings.

Monitoring of Credit Ratings

All credit ratings will continue to be monitored continuously and formally updated monthly. The Council is alerted to interim changes in ratings by Sector Treasury Services.

If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty will be withdrawn immediately. If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered for approval by the Director of Resources.

In addition to credit ratings the Council will be advised of information in movements in CDS against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or the removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council will monitor the financial press and also use other market data and information e.g. information on government support for banks and the credit ratings of that government support.

Country Limits

It is recommended that the Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). However, following the problems with Icelandic Banks lending is currently restricted to the UK only which has the highest possible sovereign credit rating of AAA. The Director of Resources has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with Sector's revised creditworthiness policy if required.

Security of Capital

Following the market turmoil over the last year and problems with Icelandic Banks, the Council's current policy is to not place investments with any Foreign banks or AAA rated Money Market Funds. Lending to Foreign banks which comply with Sectors creditworthiness policy or AAA rated Money Market Funds may be considered again but only with the express approval of the Director of Resources. Also with security and liquidity of capital being the main priority, an account was set up with the UK Debt Management Office, a counterparty with the highest level of security, as deposits placed are effectively with the UK Government.

In addition, in order not to solely rely on an institutions credit ratings there have also been a number of other developments which require separate consideration and approval for use:

Nationalised and Part Nationalised banks in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government therefore they have been assigned an F1+ short term rating and a support rating of 1 both of which are the highest ratings possible. However, as they are no longer separate institutions in their own right the credit ratings agencies cannot assign them an individual rating for their stand alone financial strength. For this reason Lloyds TSB, Royal Bank of Scotland (RBS) and National Westminster Bank which are part of the RBS Group are included on the approved counterparty list.

A UK banking system support package (implicit guarantee) has been put in place to ensure the security of the UK banking system by supporting the following banks with a £500 billion support package:-

- Abbey (Now Santander UK)
- Barclays
- Halifax Bank of Scotland (HBOS)
- Lloyds TSB
- HSBC
- Nationwide Building Society
- Royal Bank of Scotland
- Standard Chartered Bank

Although the UK Government has not given a blanket guarantee on all deposits placed with these institutions this additional support provides extra security meaning that credit ratings alone are not relied upon. With the exception of Standard Chartered Bank and HBOS as they have now been taken over by the Lloyds Banking Group all of the institutions listed above meet the Council's creditworthiness policy so can therefore be included on the approved lending list.

Blanket (explicit) Guarantees on all deposits have been given by some countries in order to support their banking system e.g. Ireland and Singapore. Therefore, the country's sovereign rating may take precedence over the individual credit ratings for the banks covered by that guarantee. For this reason, in addition to credit ratings our treasury advisor now also include each country's sovereign ratings on their monthly credit rating lists. Other countries are also providing implicit guarantees for their banking systems. The US, countries within the EU and Switzerland are currently providing major support packages to their banking systems. Again due to this additional government support the authority may consider placing deposits with institutions covered by these guarantees following approval from the Director of Resources.

Local Authorities are not credit rated but where the investment is a straightforward cash loan, statute suggests that the credit risk attached to local authorities is an acceptable one (Local Government Act 2003 s13). Local Authorities are therefore included on the approved list.

The current list of approved organisations has been approved by the Director of Resources and is attached at Appendix 5. The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rated and Part Nationalised Institutions the maximum amount is currently limited to £20m. Any changes to the maximum limit must be approved by the Director of Resources.

ODPM (Now DCLG) Guidance

Guidance from the ODPM requires Councils to give priority to the security and liquidity of investments over yield whilst still aiming to provide good returns. This is in line with the Council's current practice and it is recommended that the policy should be reaffirmed.

The guidance also requires Councils to categorise their investments as either "specified" or "non-specified" investments.

(i) Specified Investments

Specified investments are deemed as "safer" investments and must meet certain conditions, ie they must :-

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital

- either: be invested in the UK government or a local authority
 or a body or investment scheme with a "high" credit quality.

The Council is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.

Of the investments currently authorised by the Council, deposits in the Debt Management Office Account and with other Local Authorities automatically qualify as specified investments as they are of less than 12 months duration and are denominated in sterling.

The classification of the other investments is dependent on the counterparty having a high credit rating in line with Sector's creditworthiness policy. The Council is alerted to any changes in an institutions credit rating by Sector Treasury Services.

(ii) Non Specified Investments

The Council is required to look at non-specified investments in more detail. It must set out:

- procedures for determining which categories of non-specified investments should be used
- the categories deemed to be prudent
- the maximum amount to be held in each category

The Strategy must also set out procedures for determining the maximum period for committing funds.

It is recommended that the following procedure be adopted for determining which categories of non-specified investments should be used:

- the Cabinet/Council should approve categories on an annual basis
- advice should be provided by the Director of Resources
- priority should be given to security and liquidity ahead of yield

It is recommended that for specified investments the range of maximum limits is set between £4m and £20m for the internal treasury team. For non specified investments it is recommended that the limit for the internal treasury team should be restricted to £40m of the total investment portfolio. Any changes to the maximum limits must be approved by the Director of Resources.

Temporary Investment Strategy

The next financial year is expected to see investment rates continue to be at historically low levels. The Bank Rate has remained at 0.50% since March 2009. It is not expected to rise to 0.75% until the third quarter of 2010. It is expected to end the financial year at 1.50% following a further 0.25% rise in December 2010 and a 0.50% rise in March 2011. There is a downside risk to these forecasts if recovery from recession proves to be weaker and slower than currently expected. This view is based on the latest forecasts obtained by the Authority's treasury advisor, Sector Treasury Services.

If an external fund manager is appointed in 2010/2011 they would also have to adhere to the authorised specified and non-specified investments on the attached table. They would also have to comply with the Council's Annual Investment Strategy and their agreement must stipulate guidelines and other limits in order to contain and control risk.

Short term cash flow requirements limit the scope for longer term investments for the in-house treasury team, but the market is continually monitored for opportunities to lock in to higher, longer term rates in order to bring some stability to the returns going forward and add value. However, based on the interest rate assumptions outlined above, we do not expect to lock into longer term deals while investment rates are down at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile.

For the cash flow generated balances, we will seek to utilise business reserve/instant access accounts and short dated deposits (1-3 months) in order to benefit from the compounding of interest.

The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. Due to the current lending restrictions in place diversification has been somewhat reduced due to the reduction in the number of institutions which we can lend to however, by taking this course of action the credit risk has been reduced. The current portfolio is set out in paragraph 34 of the Treasury Strategy 2010/11 report. The amounts held as at the 31 January 2010 are also shown against each institution in Appendix 5 for information. Performance of the in-house operation will continue to be monitored on a quarterly basis by your officers in conjunction with the treasury advisor.

In December 2007, Council approved that dollar denominated deposits could be held, on behalf of West Mercia Supplies (WMS) only. This was so the cost of ordering goods from overseas could be minimised. The schedule of specified/non specified investments allows WMS funds only to be placed in US dollars. No Council funds are permitted to be placed in US dollars.

All investments will continue to be made in accordance with the Local Government Act 2003, and with those institutions on the authorised lending list. The credit status of institutions on the approved list is monitored continuously.

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

Policy on the use of external service providers

The Council currently uses Sector Treasury Services as its external treasury management advisers. The Council recognises that the responsibility for treasury management decisions remains with the Council at all times and will ensure the undue reliance is not placed upon our external service providers. The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to review.

Scheme of Delegation

Full Council

- Approval of Treasury Strategy.
- Receiving and reviewing reports on treasury management policies, practices and activities including the Annual Treasury Report and Mid Year Report.
- Budget consideration and approval

Cabinet

- Receiving & reviewing Treasury Strategy, Mid Year Report, Annual Treasury Report and Quarterly Treasury Management Update Reports

Strategic Overview & Scrutiny Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Receiving & reviewing Treasury Strategy, Mid Year Report, Annual Treasury Report and Quarterly Treasury Management Update Reports

Role of the Section 151 Officer

The role of the Director of Resources in relation to treasury management is as follows:-

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance.
- Approval of segregation of responsibilities.
- Approval of the Treasury Policy Statement and Treasury Management Practices.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers.

Pension Fund Cash

This Council will comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1st January 2010, and from 1st April 2010 will not pool pension fund cash with its own balances for investment purposes. Any investments made by the Pension Fund directly with the Council after 1st April 2010 will comply with the requirements of SI 2009 No 393.

LOCAL GOVERNMENT INVESTMENTS (England)SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Maximum period
Term deposits with the UK government (e.g. DMO Account) or with local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although LAs not credit rated.	NO	In-house and by external fund manager	1 year
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes -- Minimum colour band green	NO	In-house and by external fund manager	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) covered by the implicit UK Government guarantee: up to 1 year. <i>Custodial arrangement required prior to purchase</i>	No	Yes	Yes -- Minimum colour band green	NO	In house buy and hold and External fund managers	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) NOT covered by the implicit UK Government guarantee: up to 1 year. <i>Custodial arrangement required prior to purchase</i>	No	Yes	Yes -- Minimum colour band green	NO	In house buy and hold and External fund managers	1 year
Banks nationalised by high credit rated (sovereign rating) countries	No	Yes	Minimum Sovereign Rating AA-	No	In house and external fund managers	1 year

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
Banks & Building Societies supported by the implicit UK Government package	No	Yes	Yes – Minimum colour band green	No	In House and external fund managers	1 year
UK Nationalised & Part Nationalised banks	No	Yes	Yes – Minimum colour band green	No	In House and external managers	1 year
Government guarantee (explicit) on all deposits by high credit rated (sovereign rating) countries	No	Yes	Yes – Minimum Sovereign Rating AA-	No	In house and external fund managers	1 year
Bonds issued by multilateral development banks (Euro Sterling Bonds as defined in SI 2004 No 534) or issued by a financial institution guaranteed by UK government with maturities under 12 months.	No	Yes	AAA	NO	In-House on a buy and hold basis after consultation/advice from Sector also for use by External fund manager	1 year
<i>Custodial arrangement required prior to purchase</i>						
Gilt Funds and Bond Funds	No	Yes	AAA	NO	In House and by external fund managers	1 year
Gilts : up to 1 year	No	Yes	Govt-backed UK Sovereign Rating	NO	In House on a buy and hold basis and for trading by external fund manager subject to the guidelines and parameters agreed with them	1 year
<i>Custodial arrangement required prior to purchase</i>						

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
Money Market Funds & Government Liquidity Funds	No	Yes	Yes AAA rated & UK sovereign rating	NO	In-house and by external fund managers subject to the guidelines and parameters agreed with them	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements. Deposits are repayable at call. 1 year
Treasury bills [Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value] Custodial arrangement required prior to purchase	No	Yes	Govt-backed UK Sovereign Rating	NO	In House or external fund managers subject to the guidelines and parameters agreed with them	

Monitoring of credit ratings :
All credit ratings will be monitored continuously and formally updated on a monthly basis. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.
Any intra-month credit rating downgrade which the Council has identified that affects the Council's pre-set criteria will also be similarly dealt with.

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated (with the exception of the WMS US dollar account).

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/Loan Capital?</u>	<u>Repayable/Redeemable within 12 months?</u>	<u>Security / Minimum credit rating</u>	<u>Capital Expenditure?</u>	<u>Circumstance of use</u>	<u>Max % of overall investments</u>	<u>Maximum maturity of investment</u>
<p>Certificates of Deposit with credit rated deposit takers (banks and building societies) or banks and building societies covered by the implicit UK Government guarantee with maturities greater than 1 year</p> <p>Custodial arrangement required prior to purchase</p>	<p>(A) (i) Although in theory tradable, are relatively illiquid.</p> <p>(B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.</p>	No	Yes	UK Sovereign rating	NO	In house on a buy and hold basis after consultation/advice from Sector & external cash fund manager(s) subject to the guidelines and parameters agreed with them.	50%	<p><i>Suggested limit:</i></p> <p>Average duration in the portfolio not to exceed 5 years</p>
<p>UK government gilts with maturities in excess of 1 year</p> <p>Custodial arrangement required prior to purchase</p>	<p>(A) (i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk</p> <p>(B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.</p>	No	Yes	UK Sovereign rating	NO	In house on a buy & hold basis following advice from Sector and for trading by external cash fund manager subject to the guidelines and parameters agreed with them	100%	<p><i>Suggested limit:</i></p> <p>Average duration in the portfolio not to exceed 5 years</p>

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen- diture?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Term deposits with UK government, other Local Authorities institutions covered by the implicit UK Government guarantee and credit rated deposit takers (banks and building societies) including callable deposits with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	Minimum colour band purple	NO	In-House For trading by external cash fund manager subject to the guidelines and parameters agreed with them	£40 million 50%	Suggested limit: 2 years
Sovereign bond issues ex UK Government Gilts: any maturity	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) "Market or interest rate risk" : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	No	Yes	AAA	No	For trading by external cash fund manager only subject to the guidelines and parameters agreed with them	50%	Suggested limit: 5 years
Bonds issued by multilateral development banks (Euro-Sterling Bonds) or issued by a financial institution guaranteed by UK government	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) "Market or interest rate risk" : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	AAA	No	In house on a buy and hold basis after consultation/advice from Sector. Also for use by external fund managers	10% 50%	5 years
Custodial arrangement required prior to purchase								

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen- diture?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Corporate Bonds	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) "Market or interest rate risk": Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	Minimum Sovereign rating AA-	Yes	To be used by external fund managers only	50%	Suggested limit: 5 years
US Dollar Deposits (WMS Only)	US dollar account to be utilised as a part of West Mercia Supplies prudent management of income and expenditure, ensuring that ongoing US dollar commitments can be hedged, thus extinguishing any adverse risk of exposure to movements in the exchange rate and guaranteeing a known cashflow for West Mercia Supplies. The account is only to be used for this purpose and not for the purpose of speculative or trading transactions.	No	Yes	Minimum Colour band green	No	West Mercia Supplies Only	N/A	3 Months

The Council's Annual Minimum Revenue Provision Statement

Statutory Requirements

The Council is required by statute to set aside a minimum revenue provision (MRP) for the provision to repay external debt. The calculation of the minimum revenue provision (MRP) is as per the *Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414]*. In the new regulation 28, detailed rules are replaced with a simple duty for an authority to make an amount of MRP which it considers to be "prudent".

The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. The guidance includes four options (and there are two alternatives under Option three) for the calculation of a prudent provision.

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial years. There is also no requirement to charge MRP on the Housing Revenue Account share of the CFR.

The legislation recommends that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of that financial year and submits it to the Full Council for approval.

Policy for calculation of Prudent Provision

The options for the calculation of a prudent Provision are detailed in appendix 4A to this report. In line with previous years the Council proposes to use option one, regulatory method and option three (a), asset life method – equal instalment method.

Regulatory Method

For debt which is supported by the Government through the RSG system, MRP will continue to be calculated in accordance with the former regulations 28 and 29 of the 2003 Regulation. Adjustment "A" (variance between the credit ceiling and the capital financing requirement as at 1 April 2004) will continue to be given the value attributed to it in the financial year 2004/05. Authorities can also continue to take advantage of the commutation adjustment in the former regulation 29.

MRP is calculated using opening Capital Financing Requirement which is adjusted for new supported capital expenditure, adjustment "A", non Shropshire Council (pre-1998 LGR reorganisation) debt and the MRP for the previous year. MRP is calculated as 4% of this adjusted total. This is then reduced by the value of the commutation adjustment for that financial year.

This option reduces the Capital Financing Requirement by adjustment "A" which reduces the MRP charged to revenue each year. This is allowable in accordance with the regulations.

Asset Life Method – Asset Life method

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed (unsupported borrowing) the MRP has been calculated in accordance with option three Asset Life Method. Option three is to make provision over the estimated life of the asset for which the borrowing is undertaken.

Freehold land cannot properly have a life attributed to it, so for the purposes of Option three it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

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.

This method is a straight forward calculation of MRP for unsupported borrowing which calculates MRP based on asset life.

As with option one, provision for debt under Option three will normally commence in the financial year following the one in which the expenditure is incurred. But the guidance highlights an important exception to the rule. In the case of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This "MRP holiday" would be perhaps two or three years in the case of major projects, or possibly longer for some complex infrastructure schemes, and could make them more affordable. The Council does not have any unsupported borrowing that falls into this area at present.

The authority can still make voluntary extra provision for MRP in any year.

2010/11 Annual MRP Statement

Appendix 4B provides the MRP statement for the 2010/11 financial year.

Capital Receipts set aside

The current regulations, Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414] state that the minimum revenue provision is calculated using the previous year's closing Capital Financing Requirement for supported borrowing.

In 2009/10 Shropshire Council got DCLG approval to allow the new council to voluntarily set aside capital receipts as at 1st April 2009 to reduce the CFR and consequently reduce the MRP charge for 2009/10. This approach was discussed with our Treasury Advisors and External Auditors and was approved by Members in a report to Council in December 2009.

As the extent of new borrowing is not subject to any limitation the sum of capital receipts set aside are still available to support capital expenditure in future years. This will increase the CFR to its previous level and the MRP charge in future years will increase, but not beyond the level had the saving not been generated in 2009/10. Thus the saving in MRP is therefore temporary, albeit very helpful to the short-term financial position.

In the 2010/11 MRP Statement it has been assumed all the capital receipts set aside as at 1st April 2009 to reduce the CFR will be offset by an increase in the CFR in 2009/10 from capital expenditure incurred in 2009/10. In the event that the level of capital expenditure in 2009/10 to be financed from the capital receipts set aside is below the level of capital receipts set aside, it is proposed to retain the balance in capital receipts as set aside in order to achieve a further MRP saving in 2010/11.

Appendix 4A: Options for Prudent Provision

Option 1: Regulatory Method

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004-05. However, it would be reasonable for authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour.

Option 2: CFR Method

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation.

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

(a) Equal instalment method

MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

Where:

A is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements

B is the total provision made before the current financial year in respect of that expenditure

C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

For the purpose of the above formula in the initial year of making the MRP the variable "C" should be given the maximum values set out in the following table:

Expenditure Type	Maximum value of "C" in initial year
Expenditure capitalised by virtue of a direction under s16(2)(b)	"C" equals 20 years
Regulation 25(1)(a) Expenditure on computer programs	"C" equals the value it would have for computer hardware
Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties	"C" equals the estimated life of the assets in relation to which the third party expenditure is incurred
Regulation 25(1)(c) Repayment of grants and loans for capital expenditure	"C" equals 25 years, or the period of the loan, if longer
Regulation 25(1)(d) Acquisition of share or loan capital	"C" equals 20 years
Regulation 25(1)(e) Expenditure on works to assets not	"C" equals the estimated life of the assets

owned by the authority	
Regulation 25(1)(ea) Expenditure on assets for use by others	"C" equals the estimated life of the assets
Regulation 25(1)(f) Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	"C" equals 25 years

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation Method

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose standard depreciation accounting procedures should be followed, except in the following respects.

- (a) MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.
- (b) On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.
- (c) Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

Appendix 4B: Minimum Revenue Provision Statement 2010/11

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Supported Borrowing – Option 1

General Fund

Closing CFR 2008/09	219,159,070.39
Add SCE (R) 2009/10	21,354,970.00
Add use of capital receipts voluntarily set aside (applied 2009/10)	27,228,877.73
	267,742,918.12

Less Adjustment "A"	(2,065,478.00)
Less LGR (98) Debt	(916,163.00)
	264,761,277.12

Less MRP 2009/10	(8,794,330.46)
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CFR for Supported Borrowing MRP Calculation **255,966,946.66**

Add back Adjustment "A"	2,065,478.00
Add back LGR (98) Debt	916,163.00

258,948,587.66

District inherited debt:

OBC – Closing 2008/09 CFR	4,786,361.40
NSDC – Closing 2008/09 CFR	680,250.06
	5,466,611.46

Closing CFR 31/03/10 – Supported Borrowing (GF) **264,415,199.12**

Housing Revenue Account

<i>District inherited debt:</i> OBC – Closing 2008/09 & SC 2009/10 CFR	1,212,619.49
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Closing CFR 31/03/09 – Supported Borrowing (GF&HRA) **265,627,818.61**

Unsupported Supported Borrowing – Option 3

Unsupported Borrowing brought forward	6,865,305.86
Add prudential borrowing 2009/10	6,806,000
Less MRP – Previous year	(296,326.67)
	13,374,979.19

<i>District inherited debt:</i> NSDC – Closing 2009/10 CFR	1,425,881.95
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Closing CFR 31/03/10 – Unsupported Supported Borrowing **14,800,861.14**

Closing CFR (GF&HRA) 31/03/10 **280,428,679.75**

Summary MRP

MRP 2010/11 at 4% of above (Option 1)	10,238,677.87
LGR (98) Debt MRP (Option 1)	153,190.00
Unitary inherited – OBC & NSDC (Option 1)	122,301.23
Prudential Borrowing MRP (Option 3)	670,509.52
Unitary inherited Prudential Borrowing MRP – NSDC (Option 3)	68,946.21

Total MRP 2010/11 **11,253,624.83**

Shropshire Council Authorised Borrowers
Revised at 29 January 2010

Counterparty	Limit £m	Limit months	Investments as at 31 Jan 10 £m
Local Authorities (Per Authority)	10	12	33.64
UK Clearing Banks and wholly owned subsidiaries			
Lloyds TSB Bank plc	20	12	15
HSBC	10	12	0
National Westminster Bank plc	10	12	9.67
RBS	10	12	5
Group limit	20		
Clydesdale Bank (Fully owned by National Australia Bank)	6.5	3	6.5
Santander UK	10	6	10
Barclays	10	3	3.03
Building Societies			
Nationwide	10	3	6.35
UK Debt Management Account			
DMO Account	unlimited	6	15.74
			<u>104.93</u>

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital against the net revenue stream.

The cost of capital includes borrowing and finance leases. The cost of operating leases are excluded on the basis of the following definitions:-

Financing Costs / Net Revenue Stream x 100%**Non HRA Capital Financing Costs Ignoring Investment Income****Actual**

2008/09	21.538/189.473x100	11.4%
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From 2006/07 onwards schools funding has been removed from the Council's net budget with the introduction of the Dedicated Schools Grant. Net Revenue Stream Figures From 2006/07 onwards therefore exclude education grant.

Estimates

2009/10	21.3m / 215.7m x 100	9.9%
2010/11	25.0m / 216.0m x 100	11.6%
2011/12	28.1m / 219.2m x 100	12.8%
2012/13	31.7m / 223.4m x 100	14.2%

Non HRA Capital Financing Costs net of Investment Income**Actual**

2008/09	21.538m-3.768m/189.473m x 100	9.4%
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From 2006/07 onwards schools funding has been removed from the Council's net budget with the introduction of the Dedicated Schools Grant. Net Revenue Stream Figures From 2006/07 onwards therefore exclude education grant.

Estimates

2009/10	21.3m-0.64m / 215.7m x 100	9.6%
2010/11	25.0m-1.0m / 216.0m x100	11.1%
2011/12	28.1m-1.0m / 219.2m x100	12.4%
2012/13	31.7m-1.0m / 223.4m x100	13.7%

Borrowing requirement for next 3 years has been included at a rate of 5.00% 2010/11, 5.30% 2011/12 & 5.50% 2012/13

Investment Income Budget 2010/2011 is £1.0m, 2009/10 figures taken from Dec 2009 Monitoring & Outstanding Debt Report as at 27 January 2010.

Capital Financing costs include supported capital expenditure, prudential borrowing plus the potential for a £1m finance lease to be taken out over a 5 year period, the rentals included are as follows:-

2010/11 £218,000 (based on a cost per £'000 of £218)

2011/12 £218,000 (based on a cost per £'000 of £218)

2012/13 £218,000 (based on a cost per £'000 of £218)

Calculation of Impact on Council Tax Payers/Redirection of Existing Resources

	2010/11	2011/12	2012/13
Children & Young People's Services			
Capital Expenditure/Unsupported Borrowing	3,580,000	3,580,000	3,580,000
Finance Costs (based on 4.25%)	152,150	152,150	152,150
Minimum Revenue Provision (based on 25yr asset life)		143,200	143,200
Total Revenue Implication	152,150	295,350	295,350
Development Services			
Capital Expenditure/Unsupported Borrowing	2,000,000	2,000,000	2,000,000
Finance Costs (based on 4.05%)	81,000	81,000	81,000
Minimum Revenue Provision (based on 20yr asset life)	100,000	100,000	100,000
Total Revenue Implication	181,000	181,000	181,000
Resources			
Capital Expenditure/Unsupported Borrowing	450,000	450,000	450,000
Finance Costs (based on 4.25%)	19,125	19,125	19,125
Minimum Revenue Provision (based on 5/6 yr asset life)	76,327	76,327	76,327
Capital Expenditure/Unsupported Borrowing	3,000,000	3,000,000	3,000,000
Finance Costs (based on 3.83%)	114,900	114,900	114,900
Minimum Revenue Provision (based on 25yr asset life)	120,000	120,000	120,000
Capital Expenditure/Unsupported Borrowing	2,000,000	2,000,000	2,000,000
Finance Costs (based on 3.83%)	76,600	76,600	76,600
Minimum Revenue Provision (based on 35yr asset life)	57,143	57,143	57,143
Capital Expenditure/Unsupported Borrowing	3,744,000	3,744,000	3,744,000
Finance Costs (based on 4.02%)	150,509	150,509	150,509
Minimum Revenue Provision (based on 25yr asset life)	149,760	149,760	149,760
Capital Expenditure/Unsupported Borrowing	2,782,000	2,782,000	2,782,000
Finance Costs (based on 4.02%)	111,836	111,836	111,836
Minimum Revenue Provision (based on 25yr asset life)	111,280	111,280	111,280
Capital Expenditure/Unsupported Borrowing	280,000	280,000	280,000
Finance Costs (based on 4.02%)	11,256	11,256	11,256
Minimum Revenue Provision (based on 5yr asset life)	56,000	56,000	56,000
NSDC Capital Expenditure/Unsupported Borrowing	1,788,917	1,788,917	1,788,917
Finance Costs (based on 4.05%)	72,451	72,451	72,451
Minimum Revenue Provision (based on 25/5 yr asset life)	68,946	81,746	81,746
Capital Expenditure/Unsupported Borrowing	4,000,000	4,000,000	4,000,000
Finance Costs (based on 4.05%)	162,000	162,000	162,000
Minimum Revenue Provision (based on 25yr asset life)		160,000	160,000
Capital Expenditure/Unsupported Borrowing	4,400,000	4,400,000	4,400,000
Finance Costs (based on 4.05%)	178,200	178,200	178,200
Minimum Revenue Provision (based on 25yr asset life)		176,000	176,000
Capital Expenditure/Unsupported Borrowing	7,055,000	7,055,000	7,055,000
Finance Costs (based on 4.05%)	285,728	285,728	285,728
Minimum Revenue Provision (based on 25yr asset life)		282,200	282,200
Capital Expenditure/Unsupported Borrowing	1,828,000	1,828,000	1,828,000
Finance Costs (based on 2.06%)	37,657	37,657	37,657
Minimum Revenue Provision (based on 5yr asset life)		365,600	365,600
Capital Expenditure/Unsupported Borrowing	-	13,584,000	13,584,000
Finance Costs (based on 5.30%)	-	719,952	719,952
Minimum Revenue Provision (based on 25yr asset life)		-	543,360

Calculation of Impact on Council Tax Payers/Redirection of Existing Resources

	2010/11	2011/12	2012/13
Capital Expenditure/Unsupported Borrowing	-	2,932,000	2,932,000
Finance Costs (based on 5.30%)	-	155,396	155,396
Minimum Revenue Provision (based on 5yr asset life)		-	586,400
Capital Expenditure/Unsupported Borrowing	-	-	11,295,000
Finance Costs (based on 5.30%)	-	-	598,635
Minimum Revenue Provision (based on 25yr asset life)		-	-
Capital Expenditure/Unsupported Borrowing	-	-	573,000
Finance Costs (based on 5.30%)	-	-	30,369
Minimum Revenue Provision (based on 5yr asset life)		-	-
Total Revenue Implication	1,859,717	3,731,665	5,433,287
Potential Use of Finance Leases*	1,000,000	1,000,000	1,000,000
		1,000,000	1,000,000
			1,000,000
Finance Costs (based on 2.80% Cost of Funds)	28,000	28,000	28,000
		28,000	28,000
			28,000
Minimum Revenue Provision		40,000	80,000
Total Revenue Implication	28,000	96,000	164,000
Council Tax Base Band D	108361	108361	108361
	£ p	£ p	£ p
Children & Young People Services	1.40	2.73	2.73
Development Services	1.67	1.67	1.67
Resources	17.42	35.32	51.65
Total Impact	20.50	39.72	56.05
Percentage of existing council tax re-directed to fund Prudential borrowing	1.74%	3.37%	4.80%

*The Director of Resources will assess the relative merits of operating and finance leases on a case by case basis and enter into the most advantageous.

A £1m allowance is included in the event that finance leases are deemed the most cost effective.

THERE IS NO IMPACT ON COUNCIL TAX AS A RESULT OF THE ABOVE CAPITAL EXPENDITURE. PRUDENTIAL BORROWING IS WITHIN THE LIMIT OF 3% OF COUNCIL TAX.

Net Borrowing and The Capital Financing Requirement (CFR)

This indicator compares the Council's borrowing position and temporary investments against its capital financing requirements plus any additional capital financing requirement in the current and next two financial years.

Actual External Debt as at 31 March 2009	£m
Less Investments	250.918
Net Borrowing	(60.447)
	190.471
Estimated External Debt as at 31 March 2010	280.429
Less Estimated Investments	(149.400)
Net Borrowing	131.029

Calculation of CFR**Shropshire County Council only**

Fixed Assets at 31 March 2009	937.700		
Intangible Assets	0.128		
Long Term Debtor - QICS PFI	2.185		
Long Term Debtor - Waste PFI	4.766		
Revaluation Reserve	(157.420)		
Capital Adjustment Account	(443.834)		
Deferred Government Grants	(90.266)		
CFR As At 31 March 2009 (per balance sheet)	253.259		

Shropshire Council

CFR inherited from OBC @ 1 April 2009	4.890	1.181	6.071
CFR inherited from NSDC @ 1 April 2009	1.501	0	1.501
CFR inherited from SSDC @ 1 April 2009	-0.005	0	-0.005
Estimated S.C.E (R) 2009/10	21.355	0.032	21.387
Prudential borrowing	7.454	0	7.454
Estimated Minimum Revenue Provision 2009/10 (MRP)	(8.794) *	0	(8.794)
Estimated MRP 2009/10 OBC & NSDC	(0.147)	0	(0.147)
Estimated MRP 2009/10 based on asset life	(0.296)	0	(0.296)
CFR As At 31 March 2010	279.217	1.213	280.430

Estimated Capital Exp 2010/11 per supported capital exp (revenue)	19.672	0.032	19.704
Prudential borrowing**	21.183	0	21.183
Potential use of Finance Leases***	1.000	0	1.000
Estimated MRP 2010/11	(10.392) *	0	(10.392)
Estimated MRP 2010/11 based on asset life	(0.671)	0	(0.671)
Estimated MRP OBC & NSDC 2010/11	(0.191)	0	(0.191)
CFR As At 31 March 2011	309.818	1.245	311.063
Estimated Capital Exp 2011/12 per supported capital exp (revenue)	20.090	0.032	20.122
Potential use of Finance Leases***	1.000	0.000	1.000
Prudential borrowing **	16.516	0	16.516
Estimated MRP 2011/12	(10.769) *	0.000	(10.769)
Estimated MRP OBC & NSDC 2011/12	(0.200)	0.000	(0.200)
Estimated MRP 2011/12 based on asset life	(1.798)	0.000	(1.798)
CFR As At 31 March 2012	334.657	1.277	335.934
Estimated Capital Exp 2012/13 per supported capital exp (revenue)	20.425	0.032	20.457
Potential use of Finance Leases***	1.000	0.000	1.000
Prudential borrowing **	11.868	0.000	11.868
Estimated MRP 2012/13	(11.147) *	0.000	(11.147)
Estimated MRP 2012/13 based on asset life	(2.927)	0.000	(2.927)
Estimated MRP OBC & NSDC 2012/13	(0.196)	0.000	(0.196)
CFR As At 31 March 2013	353.680	1.309	354.989

* Includes pre 1998 LGR debt attributable to Telford & Wrekin and debt transferred to Probation and Magistrates Courts

** Possible Prudential Borrowing for CYPs & New Prudential Borrowing Approved in Capital Programme 2010-2015

*** If Finance Leases are used they will appear on the balance sheet and have an incremental impact on the CFR

	2008/09 Actual £	2009/10 Forecast £	2010/11 Forecast £	2011/12 Forecast £	2012/13 Forecast £
General Fund					
Community Services	4,843,059	14,749,550	22,825,004	11,011,000	4,667,000
Childrens and Young People's Services	23,023,219	38,366,713	51,574,514	16,800,000	15,900,000
Development Services - Non LTP	9,467,218	10,749,429	20,166,425	12,133,000	8,209,204
Development Services - LTP	21,683,413	19,556,921	21,586,349	19,893,000	20,092,000
Resources, Legal & Democratic & CEO	1,292,522	8,895,705	2,895,867	2,901,767	1,651,767
General Fund Total	60,309,431	92,318,318	119,048,159	62,738,767	50,519,971
HRA					
Community Services - HRA	-	1,688,449	5,000,000	8,035,580	2,584,310
HRA Total	-	1,688,449	5,000,000	8,035,580	2,584,310
Overall Total	60,309,431	94,006,767	124,048,159	70,774,347	53,104,281

2008/09 just include Shropshire County Council figures

The figures for 2009/10 onwards are based on Shropshire Council Capital Programme 2010/11 - 2014/15 report and are based on indicative government grants, supported borrowing and other assumed expenditure.

Capital Expenditure figures exclude Operating Leasing

Authorised Borrowing Limit

This represents the limit beyond which borrowing is prohibited, and needs to be set and revised if necessary by members. This limit will be subject to monitoring and will be revised annually.

Appendix 6 (Schedule 5)

	£'000	£'000	
2010/11			
SC Outstanding Debt 1 April 2010 (Estimate)	280,429		Estimate
Supported Capital Expenditure (Revenue) for 2010/13	60,283		
Prudential Borrowing 2010/13****	37,699		
Estimated MRP for 2010/13*	<u>(38,291)</u>		
		340,120	
Maturing Debt for 2010/13**		21,311	
2/12 of Estimated Gross Revenue Budget (579m)		<u>96,500</u>	
		<u>457,931</u>	
Other Long Term Liabilities***		45,793	
2011/12			
Outstanding Debt 1 April 2011 (Estimate)	340,120		Estimate
Supported Capital Expenditure (Revenue) for 2013/14	20,798		
Prudential Borrowing 2013/14****	8,308		
Estimated MRP for 2013/14*	<u>(15,133)</u>		
		354,093	
Maturing Debt for 2011/14**		23,800	
2/12 of Estimated Gross Revenue Budget (582m)		<u>97,000</u>	
		<u>474,893</u>	
Other Long Term Liabilities***		47,489	

2012/13

	Estimate
Outstanding Debt 1 April 2012 (Estimate)	354,093
Supported Capital Expenditure (Revenue) for 2014/15	21,146
Prudential Borrowing 2014/15	7,993
Estimated MRP for 2014/15*	<u>(16,000)</u>
	367,232
Maturing Debt for 2012/15**	28,800
2/12 of Estimated Gross Revenue Budget (586m)	<u>97,666</u>
	<u>493,698</u>
Other Long Term Liabilities***	49,370

Borrowing up to 3 years in advance is permitted under the prudential code so has been included

2/12 of Gross Revenue budget has been used in the event that no Council Tax or Grant is received therefore temporary borrowing would be required.

* Including Telford & Wrekin, Probation, Magistrates Courts, OBC & NSDC inherited CFR

** Includes possible repayment of LOBO's if interest rate is changed on call dates plus OBC maturing debt

*** Estimated at 10% of total (Includes the potential for Finance Leases up to £1m)

**** Possible Prudential Borrowing based on 2010-2015 Capital Programme

Appendix 6 (Schedule 6)

Operational Boundary

This indicator is based on the probable external debt during the course of the year. Actual borrowing could vary around this boundary for short times during the year. This limit will be subject to monitoring and will be revised annually.

	£'000	£'000
2010/11		
Outstanding Debt 1 April 2010 (Estimate)	280,429	
Supported Capital Expenditure (Revenue) for 2010/12	39,826	Estimate
Prudential Borrowing 2010/12****	37,699	
Estimated MRP for 2010/12*	<u>(24,021)</u>	
	333,933	
Maturing Debt for 2010/12**	18,700	
1/12 of Estimated Gross Revenue Budget (579m)	<u>48,250</u>	
	400,883	
Other Long Term Liabilities***		20,044
2011/12		
Outstanding Debt 1 April 2011 (Estimate)	333,933	
Supported Capital Expenditure (Revenue) for 2012/13	20,457	Estimate
Prudential Borrowing 2012/13****	11,868	
Estimated MRP for 2012/13*	<u>(14,270)</u>	
	351,988	
Maturing Debt for 2011/13**	18,800	
1/12 of Estimated Gross Revenue Budget (582m)	<u>48,500</u>	
	419,288	
Other Long Term Liabilities***		20,964

2012/13

Outstanding Debt 1 April 2012 (Estimate)	351,988	Estimate
Supported Capital Expenditure (Revenue) for 2013/14	20,798	
Prudential Borrowing 2013/14****	8,308	
Estimated MRP for 2013/14*	<u>(15,133)</u>	
	365,961	
Maturing Debt for 2012/14**	23,800	
1/12 of Estimated Gross Revenue Budget (586m)	48,833	
	<u>438,594</u>	
Other Long Term Liabilities***	21,930	

Figures include 2 years borrowing requirement

* Including Telford & Wrekin, Probation, Magistrates Courts, OBC & NSDC inherited CFR

** Includes possible repayment of LOBO's if interest rate is changed on call dates plus OBC maturing debt

*** Estimated at 5% of total (Includes the potential for Finance leases up to £1m)

**** Possible Prudential Borrowing based on 2010-2015 Capital Programme

Appendix 6 (Schedule 7)

Ratio Financing Cost to Net Revenue Stream

	2009/10	2010/11	2011/12	2012/13
<u>Financing Cost</u>				
Interest Payable	64740	61430	61430	61430
MRA Depreciation	2524180	2552310	2602120	2652910
Interest Earned	-20930	-31000	-25000	-23000
Garages Depn.	73100	73100	73100	73100
Total Financing Cost	2641090	2655840	2711650	2764440
<u>Revenue Stream</u>				
Rent Income	13519360	13771410	14329580	14896000
Garage	223980	235470	240180	244980
Other	228730	222820	228270	232840
Supporting People	543410	547920	558870	570050
MRA	2524180	2552310	2602120	2652910
Appropriation Garage Depn.	73100	73100	73100	73100
Total Revenue Stream	17112760	17403030	18032120	18669880
RATIO	15.43%	15.26%	15.04%	14.81%
Average Rents	61.93	63.13	65.72	68.35