SOUTH LANARKSHIRE COUNCIL

Report

Agenda Item

7

Report to:	**Finance and Information Technology Resources**
Date of Meeting:	**7 July 2009**
Report by:	**Executive Director (Finance and Information Technology Resources)**

Subject:	**Treasury Management Activity and Prudential Code Indicators for 2008/2009**

1. Purpose of Report

1.1. The purpose of the report is to:-

- To provide an overview of the treasury management activity and interim prudential code indicators for 2008/09.

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

(1) that they note the treasury management activity for 2008/09
(2) that they note the enhanced treasury management practices being implemented
(3) that they note the interim 2008/09 prudential indicators.

3. Background

3.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management requires Councils to prepare an annual report on their treasury management activities.

3.2. The introduction of the prudential framework in April 2004 also requires Councils to prepare a series of financial indicators that demonstrate affordability, prudence and sustainability with regard to capital financing decisions. Estimates of these indicators are reported to the Finance and Information Technology Resources Committee at the start of each year, with selected indicators then reported on an actual basis at the end of the year.

3.3. The Council has embarked on an ambitious programme of capital expenditure, the funding package for which includes planned borrowing. The prudential code provides a framework to assist the management of the financial implications and helps to demonstrate that the increase is both affordable and prudent.

3.4. The full report on the Council's treasury management activities in 2008/09 is attached at appendix 1. The prudential code indicators are attached at Appendix 2.

3.5. The figures contained within this report are taken or calculated from South Lanarkshire Council's Annual Accounts for 2008/09. It should be noted that the Annual Accounts have still to be audited and so some of the figures may be subject to change. Significant changes to the indicators resulting from the audit will be reported back to committee at a later date.

4. Treasury Management Activity

4.1. The Council ended the year with debt of £589.8m with fixed rate loans from the Public Works Loans Board (PWLB) making up 95.43% of the debt. Fixed rate loans help to build in certainty to the calculation of future loan charges which forms a significant element of the Council's long term revenue budget strategy.

4.2. The Council's pooled interest rate for 2008/09 was 6.10% (6.14% in 2007/08), with an expenses rate of 0.38%. The overall cost of borrowing will increase as debt levels increase to fund the capital programme, however, the pooled interest rate is expected to reduce as new borrowing is available at lower interest rates in the longer term.

4.3. Investments totalled £81.0m at 31 March 2009, with the level varying throughout the year due to the timing of expenditure and receipts. All investments were managed in line with the Council's approved counterparty policy with the security of the investment being the main priority over yield. The level of investment return was £8.48m.

4.4. In 2008/09, the Council secured £40m of long term borrowing from the PWLB at a weighted average of 4.43%. This borrowing contributed to the funding requirements of the capital investment programme.

4.5. During 2008/09, the Council repaid £2.5m of market loans at a weighted average interest rate of 10.625%, replacing them with new loans from the PWLB at 4.44%. This allowed the Council to lock in to low interest borrowing at 4.44% for 50 years. The repayment of the market loans incurred a premium of £0.819m that regulations allow to be charged to the Income and Expenditure Account over the lifetime of the replacement loans, in this case 50 years. Annual savings, after charging the premium, amounted to £0.080m.

4.6. During January 2009, the Council took advantage of increasing PWLB rates and repaid £19m of PWLB loans at a weighted average rate of 4.29% incurring no premium in the process. The repayment was made to reduce the level of investments carried by the Council following a significant decrease in deposit rates.

4.7. In response to the banking crisis, the Council engaged PriceWaterhouseCoopers to review our Investment Risk Framework. Their report was presented to the Finance and Information Technology Resources Committee on 19 May and highlighted a number of areas of good practice. It also made suggestions on how to enhance our practices. These include an increase in the frequency of reporting to committee, changes to the monitoring and reporting of counterparty risk and further consideration of interest rate risk in our borrowing strategy.

5. Prudential Code Indicators

5.1. The Council is required by the Prudential Code to report the actual prudential indicators after the closure of the financial year. Appendix 2 lists the indicators reported to Committee.

5.2. The General Fund Capital Expenditure for 2008/09 was £122.914m which is £1.859m less than the estimate reported to Finance and Information Technology Resources Committee in February 2008. This is mainly due to slippage on various projects and expenditure in areas where the required accounting treatment differs from accepted monitoring arrangements (such as PPP land transactions and Improvement grants).

5.3. The HRA capital spend in 2008/09 was £37.392m which is £1.151m less than budget. This is due to accounting treatment differing from accepted monitoring arrangements for environmental works.

5.4. The Council's net borrowing position for 2008/09 was £504.402m which is less than the capital financing requirement of £600.531m, which represents the Council's underlying need to borrow to fund capital expenditure. This difference is due to the level of internal balances held.

5.5. The Capital Financing Requirement for the General Fund is £4.967m more than forecast, this is mainly due to lower than anticipated capital receipts.

5.6. The net borrowing is £31.255m less than forecast, due to slippage of expenditure on various capital projects, repayment of debt early, and additional income resulting in higher than out turn anticipated levels of investment.

5.7. During 2008/09, the Council remained within the operational boundary and authorised limit for gross debt. The operational boundary is the expected borrowing position, but it can vary due to changes in the cash flow and temporary breaches are acceptable. In contrast, the authorised limit represents the maximum level of debt the Council can afford and should not be breached.

6. Employee Implications

6.1. None.

7. Financial Implications

7.1. In 2008/09, the loan charges for the general fund totalled £49.0m. HRA loan charges totalled £10.5m. These costs were met from within revenue budgets.

7.2. An additional £60.4m of Prudential Borrowing was made to fund the capital programme, mainly the Primary Schools' Modernisation Programme. The HRA borrowed £1.012m to fund the ongoing Home Happening project. The ongoing revenue implications from this will be met from future revenue budgets.

8. Other Implications

8.1. None.

9. Equality Impact Assessment and Consultation Arrangements

9.1. There is no requirement to carry out an impact assessment in terms of the proposals within this report.

9.2. There is no requirement to undertake any consultation in relation to the content of this report.

Linda Hardie
Executive Director (Finance and Information Technology Resources)

4 June 2009

Link(s) to Council Objectives

- Accountable, effective and efficient

Previous References

- Finance and IT Resources Committee 19 May 2009

List of Background Papers

- CIPFA publication "The Prudential Code for Capital Finance in Local Authorities"

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Annual Report on the Treasury Management Service and Actual Prudential indicators 2008/09

Purpose

The annual treasury report is a requirement of the Council's reporting procedures and covers the treasury activity for 2008/09. The report also includes the actual Prudential Indicators for 2007/08 in accordance with the requirements of the Prudential Code (these are shown at Appendix 2).

Introduction and Background

The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government in Scotland Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Scottish Ministers to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2007/08);
- Statutory Instrument (SSI) 29 2004, requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, and therefore to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

This Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates its treasury management service in compliance with this Code and the above requirements. These require that the prime objective of treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis.

The Code requires as a minimum the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (included in Treasury Management Strategy 2009/10 and Prudential Code Indicators 2009/10 – 2011/12 reported to Finance & IT Resources Committee (Special) on 12 February 2009); and
- Review actual activity for the proceeding year (this report).

This report sets out:

- A summary of the strategy agreed for 2008/09;
- The Council's treasury position at 31 March 2009;
- A summary of the economic factors affecting the strategy over 2008/09;
- The main treasury decisions taken and their revenue effects;
- The associated risks of any of these decisions;
- The Prudential Indicators and compliance with limits;

The Strategy Agreed for 2008/09

The 08/09 strategy was formed under the umbrella of uncertainty over future interest rates, and it was accepted that this would increase the risks associated with treasury activity. As a result the Council would take a cautious approach to its treasury strategy.

The risks associated with long-term fixed interest rates were expected to be for higher rates over the medium term. The Director of Finance, under delegated powers, would therefore take the most appropriate form of borrowing depending on the prevailing interest rates at the time, and taking into account the risk of increasing rates.

Longer term fixed rates would be considered earlier if borrowing rates deteriorated. This could have included borrowing in advance of future years requirements. The Director of Finance would monitor prevailing rates, and if appropriate, consider rescheduling of our existing debt may be considered.

The main principle governing the Council's investment criteria was the security and liquidity of its investments before yield, although the yield or return on the investment would be a consideration. After this main principle the Council would ensure that investments were sufficiently liquid by considering the maximum periods for which funds could be prudently committed. A policy covering the criteria for choosing investment counterparties with adequate security would also be adhered to.

Expectations on shorter-term interest rates, on which investment decisions are based, showed that the then current bank rate of 5.50% would be the peak with falls during 2008/2009. It was likely that investment decisions would be made for longer periods with fixed investments rates to lock in good value and security of return, subject to over riding credit counterparty security. The Director of Finance, under delegated powers, would undertake the most appropriate form of investments depending on the prevailing interest rates at the time.

Treasury Position at 31 March 2009

The treasury position at the 31 March 2009 compared with the previous year was:

	31 March 2009		31 March 2008	
	Principal	Average Rate	Principal	Average Rate
Fixed PWLB	£562.8m	6.11%	£551.9m	6.24%
Fixed Market	£18.0m	9.92%	£20.5m	10.01%
European Investment Bank	£0.1m	8.22%	£0.2m	8.22%
Total Fixed Rate Debt	**£580.9m**	**6.23%**	**£572.6m**	**6.38%**
Market	£8.0m	5.09%	£8.0m	5.09%
Temporary	£0.2m	5.19%	£0.2m	5.33%
Internal	£0.7m	4.69%	£0.7m	4.71%
Total Variable Rate Debt	**£8.9m**	**5.06%**	**£8.9m**	**5.07%**
Total Debt	**£589.8m**	**6.21%**	**£581.5m**	**6.36%**
Total Investments	**£81.0m**	**1.48%**	**£133.6m**	**5.66%**

The gross debt position rose by £8.3m from 2007/08, accounted for by increases in PWLB (£10.9m), repayments of Market Loans (£2.5m) and repayments of EIB (£0.1m).

The Council's pooled cost of borrowing is measured on an equated debt basis which takes account of how the Council's capital expenditure was funded throughout the year. The following table illustrates the pooled interest cost together with the expenses rate for 2008/09 and the previous two years:

Year	Loans Fund Pooled Rate	Loans Fund Expenses Rate
2008/9	6.10%	0.38%
2007/8	6.14%	0.09%
2006/7	6.78%	0.09%

The pooled interest rate will continue to reduce as new borrowing is taken at historically low rates to fund the Council's capital programme.

The Loans fund expense rate in 08/09 includes the effect of the transactions required to account for the impairment of deposits at risk in Icelandic banks.

Economic Background for 2008/09

Inflation rose higher than anticipated in 2008/09. CPI for May breached the Monetary Policy Committee's 3% outer boundary; CPI for August reached a high of 4.7%. The price of oil reached nearly $145/barrel and food and commodity prices remained elevated.

Economic conditions in the UK, Eurozone and US economies deteriorated rapidly. The lack of available finance posed a significant risk to consumer and corporate spending and unemployment rose to 6.7%. The tightening in credit conditions and the downturn in the economy impacted on growth which fell nearly 3.8% over the 12-month period.

2008 saw the worst upheaval in credit and financial markets for some decades. In August and September several banking and financial stocks fell due to negative investor sentiment.

The financial crisis heightened further following the collapse of Lehman Brothers in September and a few weeks later Icelandic Banks. Governments and central banks acted to shore up their financial systems. These included bank bailouts and direct capital injections into banks and financial institutions. Lloyds TSB agreed to acquire HBOS; Cheshire and Derbyshire building societies were acquired by Nationwide. The government injected significant capital into Royal Bank of Scotland Group and the Lloyds Banking Group. Financial bailouts and support for banks were replicated in much of Europe and in the US.

Official bank rates in the UK and US were rapidly cut to near zero. In the UK the Bank of England cut rates from 5% in April to 0.5% by March 2009. Interest rates had little effect in reflating the economy, and so the Bank of England initiated its Quantitative Easing (QE) programme in March 2009 under which the Bank would buy back an initial £75bn of gilts over a 3-month period with the purpose of lowering gilt yields and ultimately borrowing costs for the UK corporate sector.

Money market rates and gilts yields were extreme volatile during the financial year. Money market rates spiked as the banking crisis intensified and confidence crumbled. Three month Libor, the rate at which banks will lend to each other, climbed to a high of 6.4% in October; this despite markets' forecast that the Bank Rate was set to fall below 3%. Due to the distressed state of the markets, short-term money market rates remained elevated despite the large cuts in the Bank Rate and only began to move down towards the Bank Rate in early 2009 when, following efforts to recapitalise banks, some stability seemed to have returned to the banking and financial sector.

Short-dated gilt yields benefited most from negative sentiment. The 5-year gilt yield dropped by nearly 3.2% from its high of 5.3% in June 2008 to a low of 2.1% % in March 2009. 10-year yields fell from 4.85% in October to a low of 2.95% in March 2009. Longer dated yields (30-50 year maturities) exhibited relatively less volatility; ranging between 3.60% and 4.70%.

Interest Rates

PWLB

	1yr	4½-5yrs	9½-10yrs	19½-20yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01-Apr-08	4.03	4.11	4.51	4.71	4.53	4.47	4.43
30-Apr-08	4.56	4.62	4.86	4.89	4.66	4.56	4.48
30-May08	5.19	5.15	5.20	5.10	4.79	4.64	4.56
30-Jun-08	5.19	5.24	5.24	5.09	4.79	4.63	4.52
31-Jul-08	5.01	4.95	5.04	4.97	4.69	4.55	4.46
29-Aug-08	4.80	4.58	4.70	4.77	4.57	4.48	4.42
30-Sep-08	3.98	4.33	4.60	4.76	4.65	4.64	4.60
31-Oct-08	3.00	4.02	4.69	4.92	4.69	4.57	4.48
28-Nov-08	2.13	3.55	4.11	4.53	4.30	4.18	4.12
31-Dec-08	1.00	2.89	3.55	4.10	4.00	3.96	3.91
30-Jan-09	0.94	2.95	4.09	4.65	4.63	4.62	4.56
27-Feb-09	0.97	2.73	3.83	4.54	4.51	4.50	4.48
31-Mar-09	0.83	2.56	3.38	4.14	4.38	4.54	4.58
Minimum	0.65	2.31	3.11	3.85	3.94	3.90	3.86
Average	**3.17**	**3.97**	**4.44**	**4.71**	**4.56**	**4.49**	**4.43**
Maximum	5.61	5.59	5.48	5.26	4.97	4.87	4.84
Spread	4.96	3.28	2.37	1.41	1.03	0.97	0.98

Gilt Yields

	5 year	10 year	15 year	20 year	30 year	50 year
31/03/2008	3.89	4.35	4.59	4.57	4.38	4.21
30/06/2008	5.17	5.13	5.12	5.05	4.68	4.38
30/09/2008	4.19	4.44	4.71	4.68	4.50	4.40
31/12/2008	2.44	3.02	3.86	3.96	3.66	3.64
31/03/2009	2.35	3.16	3.89	4.03	4.16	4.32

Bank Rate, Money Market Rates

Date	Bank Rate %	7-day LIBID %	1-month LIBID %	3-month LIBID %	6-month LIBID %	12-month LIBID %
01-Apr-08	5.250	5.3500	5.7000	5.9400	5.9000	5.7500
30-Apr-08	5.000	5.1000	5.4000	5.7600	5.7600	5.7400
30-May-08	5.000	5.0700	5.3800	5.7900	5.9100	6.0800
30-Jun-08	5.000	5.1000	5.3000	5.8000	6.0800	6.3700
31-Jul-08	5.000	5.0500	5.3000	5.7000	5.8500	6.1000
29-Aug-08	5.000	5.0800	5.3000	5.6900	5.8400	5.9500
30-Sep-08	5.000	5.5000	5.8500	6.1000	6.2000	6.3000
31-Oct-08	4.500	4.2500	5.4500	5.8000	5.7000	5.9400
28-Nov-08	3.000	2.3500	2.8000	3.8500	4.0000	3.5500
31-Dec-08	2.000	1.5000	2.0500	2.0000	2.7100	2.8300
30-Jan-09	1.500	1.1500	1.4500	2.0000	2.1500	2.0500
27-Feb-09	1.000	0.6000	1.2500	1.9000	2.0500	2.2000
31-Mar-09	0.500	0.5500	0.8000	1.4500	1.6200	1.8200
Minimum	0.500	0.3500	0.7000	1.4500	1.6200	1.8200
Average	**3.626**	**3.5320**	**4.0121**	**4.4879**	**4.6069**	**4.6858**
Maximum	5.250	5.5000	6.1000	6.2500	6.2500	6.5000
spread	4.750	5.1500	5.4000	4.8000	4.6300	4.6800

Actual Performance During 2008/09

Borrowing - Capital expenditure for the year was £160.306m and loans were drawn to fund both the capital spend and levels of maturing debt. The Council took advantage of low cost long term loans that were on offer during 2008/09 and borrowed £40.0m with details of each loan provided below:

Date	**Lender**	**Principal**	**Type**	**Interest Rate**	**Period (Years)**	**2008/09 Average PWLB Interest Rate for Specified Period**
07/05/08	PWLB	£40.0m	Fixed interest rate	4.43%	50.0	4.43%
TOTAL		£40.0m	Weighted Average	4.43%	50.0	4.61%

This compares with a budget assumption of 4.7% for interest on new borrowing.

Repayment of Debt – During 2008/09 the Council repaid £2.5m of market loans at a weighted average interest rate of 10.625%, replacing them with new loans from the PWLB at 4.44%. This allowed the Council to lock in to low interest borrowing at 4.44% for 50 years. The repayment of the market loans incurred a premium of £0.819m that regulations allow to be charged to the Income and Expenditure Account over the lifetime of the replacement loans, in this case 50 years. Annual savings after charging the premium amounted to £0.080m.

During January 2009 the Council took advantage of increasing PWLB rates and repaid £19m of PWLB loans at a weighted average rate of 4.29% incurring no premium in the process. The repayment was made to reduce the level of investments carried by the Council following a significant decrease in deposit rates.

Investments - The Council's investment policy was approved by Committee on 4 February 2004. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. The Council maintained an average balance of £167.9m and received an average return of 4.54%. The comparable performance indicator is the average 7 day LIBID (London Inter-bank bid) rate, which was 3.53%. At 31 March 2009 outstanding investments totalled £81.0m.

Risk

The Council has complied with all of the relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

The Council is aware of the risks of passive management of the treasury portfolio and has proactively managed the debt and investments over the year. The Council has continued to utilise low borrowing costs and has complied with its internal and external procedural requirements. There is little risk of volatility of costs in the current debt portfolio as the interest rates are predominantly fixed, utilising long-term loans.

Investment Risk

Banking Crisis

During 2008 there were a number of much publicised collapses and takeover of banking institutions. Included within this crisis was the collapse of a number of Icelandic banks, including Landsbanki, and its UK subsidiary Heritable.

Despite holding a strong credit rating prior to their collapse these banks failed and are now in a process of administration in Iceland and the UK. The Council had deposited £7.5m with these banks in line with the Council approved Treasury Strategy, and we are now actively involved in the Administration process with the aim of recovering as much of our deposits as possible.

The banking crisis changed the deposit market massively. As reported in the Treasury Management Strategy Report to the Finance and IT Committee in February 2009 during this period of uncertaintly in the banking sector, the Executive Director, Finance and IT Resources will apply appropriate restrictions to the counterparty list to ensure the security of our deposits.

We also engaged Price Waterhouse Coopers, our external auditors, to assess our Investment Risk Management Framework. The outcome of that review was presented to the Finance and IT Committee on 10 June 2009 and highlighted some areas of good practice in our Treasury activities.

Recommendations in this review and from additional guidance issued by the Chartered Institute of Public Finance and Accountancy on “Treasury Management in Local Authorities Post Icelandic Bank Collapse” have been considered and we will make the following enhancements to the way we report and undertake our treasury activities.

Enhanced Treasury Reporting

Currently Treasury reports are provided to Committee twice a year. Internal reports are provided to the Director of Finance on a monthly basis.

It is proposed that this committee will receive a quarterly investment report to provide information on investment activity, and how the market is performing.

Spreading deposits is a key factor in reducing risks. Specifically, the quarterly report will show deposits made by the Council shown with analysis shown over the following categories :-

- Geography of Banking Institution
- Ratings of Banking Institution
- Duration of deposit
- Nature of Institution (eg bank, Building Society, other public body etc)

The returns made on deposits will also be reported.

The report will also provide details of projected cash flow and expected deposits that will be made in the next quarter.

It is accepted that no treasury management transaction is without risk, and the management of this risk will be included as part of the report.

Interest Rate Risks

The Council is currently part way through a significant capital programme funded in part by borrowing. Consideration has always been made to the optimum time to borrow funds to ensure cash flow is maintained, and also that any risks of increasing borrowing interest rates are minimised.

We now must consider additional factors in our Borrowing strategy including the low level of interest that we will make on any funds which are borrowed before they are required. Also, ensuring that there is deposit capacity in secure counterparties must be made. Consideration will also be given to repaying debt

These borrowing decisions will be reported in conjunction with the investment report.

Working with Advisors

The Council recently appointed Arlingclose as its treasury management Advisors. Their expertise will be sought to provide the Council with additional information about potential investment counterparties, including accessing market data including credit default swap rates (to highlight any market concern about the risk of an institution), and share price changes.

Again, any significant advice provided by our Advisors will be included in the quarterly report.

Prudential Indicators 2008/09

The Council is required by the Prudential Code to report the actual prudential indicators after the year end. The Prudential Indicators are shown below and are split into 3 categories :

1. Capital Expenditure and Borrowing Requirement indicators
2. Affordability indicators
3. Treasury Management Indicators

Indicators 1 to 6 show position statements of the borrowing requirement for the year and attributes limits for the external borrowing that is affordable. The financial impact of the expected borrowing is also stated. Indicators 7 to 10 are set at levels to control the risk that we are exposed to when managing how we borrow the funds we need.

1. Capital Expenditure and Borrowing Requirement Indicators

Indicator 1 – Capital Expenditure

1.1 This indicator shows the capital expenditure for 2008/09. The 2008/09 estimate is also shown.

	2008/09 Actual £ m	2008/09 Estimate £ m
General Fund Capital Expenditure (Including Hamilton Ahead and Fairer Scotland Fund)	122.914	124.773
HRA Capital Expenditure	37.392	38.543

1.2. In General Fund the movement of £1.859m. This is mainly due to slippage on various projects and expenditure in areas where the required accounting treatment differs from accepted monitoring arrangements (such as PPP land transactions and Improvement grants).

1.3. The HRA capital spend in 08/09 was £37.392m which is £1.151m less than budget. This is due to accounting treatment differing from accepted monitoring arrangements for environmental works.

Indicator 2 – Councils Borrowing Need (the Capital Financing Requirement)

2.1 The Council's Capital Financial Requirement (CFR) is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow for past and present capital expenditure.

2.2 The Council is required to pay off an element of the accumulated balance of borrowing every year through a charge to the revenue account.

2.3 Over the medium term borrowing net of investments should only be for a capital purpose. Net borrowing should not, except in the short term, exceed the CFR for 2008/09 plus the expected changes to the CFR over 2009/10 and 2010/11. The table below highlights that the Council has complied with this requirement.

2.4 The net borrowing is £31.255m less than forecast, due to slippage of expenditure on various capital projects and additional income resulting in higher than anticipated levels of investment.

	31 March 2009 Actual £ m	**31 March 2009 Estimate £ m**
General Fund Capital Financing Requirement	470.431	465.464
HRA Capital Financing Requirement	130.100	132.649
Total Capital Financing Requirement	**600.531**	**598.113**
Treasury Position as at 31 March 2009		
Borrowing	589.728	606.266
Other long term liabilities	0.072	0.072
Total debt	589.800	606.338
Investments (adjusted for cash and bank balance)	85.398	70.681
Net borrowing Position	**504.402**	**535.657**

Indicator 3 – Limits to borrowing Activity

3.1 The **Operational Boundary for external debt** is based on the expected maximum external debt that could be faced in the course of the year. It is set at a level that provides a realistic pattern of day to day treasury management.

3.2 The **Authorised Limit for External Debt** represents a limit beyond which external debt is prohibited. It represents the level of external debt which could be afforded in the very short term, but is not sustainable in the longer term.

	2008/09 £ m
Original Indicator - Operational Limit for external debt	630.000
Original Indicator - Authorised Limit for external debt	650.000
Maximum borrowing position during the period	621.502
Minimum borrowing position during the period	581.502

3.3 The tables demonstrate that during 2008/09 the Council maintained its gross borrowing within its Authorised Limit and Operational Boundary.

2. Affordability Indicators

Indicator 4 – Ratio of Financing Costs to Net Revenue Stream

4.1 This indicator focuses on the extent to which the Council's net revenue budget is used for servicing debt. This is shown for both General Fund and HRA.

	2008/09 Actuals £ m	**2008/09 Estimate £ m**
General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	7.44%	7.36%
HRA General Fund Ratio of Financing Costs to Net Revenue Stream (expressed as %)	12.75%	12.09%

Indicator 5 – Estimates of the Incremental impact of General Fund capital investment on Council Tax

5.1 This indicator shows the impact of new General Fund capital investment and the subsequent servicing of additional borrowing will have on the Council Tax.

	2008/09 Actual £ m	**2008/09 Estimate £ m**
Incremental impact on council tax band D	£0.00	£0.00

Indicator 6 – Estimates of the Incremental impact of HRA capital investment on council house rents.

6.1. As the financial consequences of borrowing to fund the Housing Investment Programme will be met from existing resources there is no impact on Council House rents.

	2008/09 Actual £ m	**2008/09 Estimate £ m**
Incremental impact on council house rents	£0.00	£0.00

3. Treasury Management Indicators

Indicator 7 – Adherence to the CIPFA Treasury Code of Practice

7.1 South Lanarkshire Council adopts the CIPFA TM code through which assurance is given that the council has formal treasury objectives, policies and practices; that priority is given to identifying and controlling risk, and that proper reporting arrangements are established.

Indicator 8 – Upper Limit on fixed and variable rate exposure

8.1 This indicator identifies a limit for exposure to fixed and variable rates of interest for our invested funds. The purpose of this indicator is to provide a measure of stability against the adverse effects of market fluctuations

	2008/09 Actual £ m	**2008/09 Estimate £ m**
Upper limit of fixed rate exposures	162.10%	180%
Upper limit of variable rate exposures	-15.72%	10%

The actual fixed rate exposure is assessed by comparing the amount of Net Debt (which is borrowing less investments) we hold at a fixed rate to the Total Net Debt (both fixed and variable) of the Council. The same will be calculated for variable rate exposure.

To illustrate, the calculation of the upper limit of fixed rate exposures is shown below.

	£m			£m	
Total Debt	619.7				
Total Investments	(242.9)				
Total Net Debt	**376.8**				
Fixed Net Debt			**Variable Net Debt**		
Fixed Debt	610.8		Variable Debt	8.9	
Fixed Investments	(0)		Variable Investments	(242.9)	
Fixed Net Debt	**610.8**		**Variable Net Debt**	**(234.0)**	
Exposure	**162%**		**Exposure**	**(62%)**	
(Fixed Net Debt / Total Net debt)			(Variable Net Debt / Total Net debt)		

Indicator 9 – Maturity Structure of Borrowing

9.1 The purpose of this indicator is to limit exposure to large concentrations of fixed rate debt needing to be replaced at the same time in the future at currently unknown rates. This effectively places a limit on exposure to longer term interest rate movement.

Maturity structure of borrowings 2008 - 2012		
	Maximum	**Limit**
Under 12 months	2.21%	20%
12 months and 24 months	2.06%	20%
24 months and 5 years	7.25%	50%
5 years and 10 years	14.73%	75%
10 years and above	77.40%	90%

Indicator 10 – Total principle sums invested greater than 364 days.

10.1 This indicator is designed to set limits on amounts that can be invested for more than 1 year. This is to protect against potential loss that we would suffer if we required to get our money back earlier than the full term of the investment. As we currently have no statutory powers to invest for periods longer than 364 days, this indicator shows a nil value.