COUNCIL
13th December 2011

Report of the Portfolio Holder Corporate Services and Assets

Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2011/12

Purpose

To present to Members the Mid-year review of the Treasury Management Strategy Statement and Annual Investment Strategy;

To gain Members approval to the recommended changes outlined within the report.

Recommendations

That Council:

1. **Accept the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2011/12,**

2. **Approve the revision to the Prudential and Treasury indicators and limits for 2011/12 to 2013/14 contained within the report and at Appendix 1, as a result of the new Housing Finance system.**

3. **Approve the inclusion of additional capital expenditure of £45.148m (subject to finalisation) in the 2011/12 Capital Programme, to facilitate the capital financing implications of the new Housing Finance system and authorise the Corporate Director Resources to make the payment to DCLG.**

Executive Summary

This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following

- An economic update for the first six months of 2011/12;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital Position (Prudential Indicators);
- A review of the Council's investment portfolio for 2011/12;
- A review of the Council's borrowing strategy for 2011/12;
- A review of any debt rescheduling undertaken during 2011/12;
- Icelandic Banking Situation;
- A review of compliance with Treasury and Prudential Limits for 2011/12;

The main issues for Members to note are:

1. The Council has complied with the professional codes, statutes and guidance.

2. There are no issues to report regarding non-compliance with the approved prudential indicators.

3. The investment portfolio yield for the first six months of the year is 1.23% compared to the 3 Month LIBID benchmark rate of 0.70%. This excludes all investments currently classified as 'At Risk' in the former Icelandic Banking institutions.

The aim of this report is to inform Members of the treasury and investment management issues to enable all Members to have ownership and understanding when making decisions on Treasury Management matters. In order to facilitate this training on Treasury Management issues has been delivered for Members in February and October 2010 and September of this year.

Implications of the Report

Subject to statutory powers, the Council will be required to make a one off payment to the Department for Communities & Local Government (CLG) to remove the Housing Revenue Account (HRA) from the current Housing Subsidy System. The payment is expected to be in the region of £45.148m (subject to finalisation). This one off payment is compensation, ensuring the HRA will no longer make future annual payments to the CLG. It is expected that the overall impact will be beneficial to the Council. Whilst the legislative framework is not yet in place, by agreeing to these revised prudential indicators the Council is ensuring the necessary local requirements are in place well before the payment is required on the 28th March 2012.

There are no staffing implications arising from the report.

The Treasury Strategy has been the subject of an Equalities Impact Assessment.

Background Papers:-	***Local Government Act 2003***
	CIPFA Code of Practice on Treasury Management in Public Services 2009
	Treasury Management Strategy & Prudential Indicators Report 2011/12
	Budget & Medium Term Financial Strategy 2011/12
	Financial Healthcheck Period 6, September 2011
	DCLG Housing Determinations and Local Government Finance Settlement 2011/12
	CIPFA Treasury Management Benchmarking Club Report Quarter 2 September 2011

Equalities implications

There are no equalities implications arising from the report.

Legal implications

Approval of Prudential Indicators and an Annual Investment Strategy is a legal requirement of the Local Government Act 2003. Members are required under the CIPFA Code of Practice to have ownership and understanding when making decisions on Treasury Management matters.

Resource and Value for Money implications

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

Risk implications

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

Report Author :

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1 Background

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the revised Code of Practice for Treasury Management in November 2009, following consultation with Local Authorities during that summer. The revised Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This is the second monitoring report for 2011/12 presented to Members this year and therefore ensures this Council is embracing Best Practice in accordance with CIPFA's revised Code of Practice. Cabinet also receive regular monitoring reports as part of the quarterly healthcheck on Treasury Management activities and risks.

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Treasury Management is defined as:

"The management of the local 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 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 22nd February 2011.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Governance Committee.

This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2011/12;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital Position (Prudential Indicators);
- A review of the Council's investment portfolio for 2011/12;
- A review of the Council's borrowing strategy for 2011/12;
- A review of any debt rescheduling undertaken during 2011/12;
- Icelandic Banking Situation;
- A review of compliance with Treasury and Prudential Limits for 2011/12.

3 Economic update

3.1 Global economy

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

This, coupled with political difficulties in the US over their plans to address the budget deficit, the size and control over the US sovereign debt, and the subsequent loss of the AAA credit rating from Standard and Poor's, has led to a much more difficult and uncertain outlook for the world economy.

Growth prospects in the US, UK and the euro zone have been lower than expected, with future prospects similarly cut. Whilst not a central view, concerns of a double dip recession in some Western countries have increased. World stock markets fell in the second quarter of 2011/12 as a consequence.

3.2 UK economy

Following zero growth in the final half of 2010/11 the UK economy grew by a weaker than expected 0.1% in the first quarter of 2011/12, providing a knock on effect to future growth prospects. Growth prospects will be governed by UK consumer sentiment, which is currently subdued due to falling disposable income. Higher VAT, overhanging debt, high inflation and concerns over employment are likely to weigh heavily on consumers into the future.

The announcement by the Monetary Policy Committee (MPC) on 6 October of a second round of Quantitative Easing (QE) of £75bn emphasised how seriously the MPC now views recession as being a much bigger concern than inflation. Although inflation remains stubbornly high, the MPC's expectation of future falls resulting in an undershoot of its 2% target opened the way for this new round of QE.

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

3.3 Outlook for the next six months of 2011/12

There remain huge uncertainties in economic forecasts due to the following major difficulties:

- the increase in risk that the UK, US and EU could fall into recession;
- the likely political gridlock in the US preventing significant government fiscal action to boost growth ahead of the Presidential elections in November 2012;
- the potential for a major EU Sovereign Debt crisis which could have a significant impact on financial markets and the global and UK economies;
- the degree to which government austerity programmes will dampen economic growth;
- the potential for further quantitative easing, and the timing of this in both the UK and US;
- the speed of recovery of banks' profitability and balance sheet imbalances and the risk of substantial losses being incurred on EU Sovereign Debt.

The overall balance of risks is weighted to the downside:

- We expect low growth in the UK to continue, with a low Bank Rate to continue for at least 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed;
- The expected longer run trend for PWLB borrowing rates is for them to rise, primarily due to the need for a high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However the current safe haven status of the UK may continue for some time, postponing any increases until 2012.

3.4 Sector's interest rate forecast

	NOW	Dec-11	**Mar-12**	Jun-12	Sep-12	Dec-12	**Mar-13**	Jun-13	Sep-13	Dec-13	**Mar-14**	Jun-14	Sep-14	Dec-14	**Mar-15**
BANK RATE	0.50	0.50	**0.50**	0.50	0.50	0.50	**0.50**	0.50	0.75	1.00	**1.25**	1.50	2.00	2.25	**2.50**
3 month LIBID	0.75	0.70	**0.70**	0.70	0.70	0.70	**0.75**	0.80	0.90	1.20	**1.40**	1.60	2.10	2.40	**2.60**
6 month LIBID	1.00	1.00	**1.00**	1.00	1.00	1.00	**1.10**	1.20	1.40	1.60	**1.80**	2.00	2.50	2.70	**2.90**
12 month LIBID	1.50	1.50	**1.50**	1.50	1.50	1.60	**1.70**	1.80	1.90	2.20	**2.40**	2.60	3.10	3.20	**3.30**
5 yr PWLB	2.30	2.30	**2.30**	2.30	2.30	2.40	**2.50**	2.60	2.70	2.80	**2.90**	3.10	3.30	3.50	**3.70**
10 yr PWLB	3.30	3.30	**3.30**	3.30	3.40	3.40	**3.50**	3.60	3.70	3.80	**4.00**	4.20	4.40	4.60	**4.80**
25 yr PWLB	4.20	4.20	**4.20**	4.20	4.30	4.30	**4.40**	4.50	4.60	4.70	**4.80**	4.90	5.00	5.10	**5.20**
50 yr PWLB	4.30	4.30	**4.30**	4.30	4.40	4.40	**4.50**	4.60	4.70	4.80	**4.90**	5.00	5.10	5.20	**5.30**

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2011/12 was approved by Council on 22nd February 2011.

The underlying TMSS approved previously requires revision in the light of the implementation of the new Housing Finance system.

Subject to statutory powers, the Council will be required to make a one off payment to the CLG to remove the HRA from the current housing subsidy system. The payment is expected to be in the region of £45.148m. This one off payment is compensation, ensuring the HRA will no longer make future annual payments to the CLG. It is expected that the overall impact will be beneficial to the Council. Whilst the legislative framework is not yet in place, by agreeing to these revised prudential indicators the Council is ensuring the necessary local requirements are in place well before the payment is required on the 28th March 2012. Members are therefore requested to approve the following key changes to the 2011/12 prudential indicators (as summarised in **Appendix 1**):

Prudential Indicator 2011/12	**Original £000's**	**Impact of HRA Reform £000's**	**HRA Reform Potential Headroom £000's**	**Revised Prudential Indicator £000's**
Authorised Limit	36,100	45,148	11,344	92,592*1
Operational Boundary	27,600	45,148	-	72,748
Capital Financing Requirement	27,034	45,148	-	72,182

**1 This limit includes the Self Financing Valuation (Debt Cap) of £79.887m including £11,344m Headroom.*

5 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 HRA Reform

The proposed reform of the HRA subsidy arrangements are expected to take place on 28 March 2012. This will involve the Council paying funds to the CLG which will remove the Council from the HRA subsidy system. The expected payment is £45.148m (subject to finalisation). This will impact on both the capital structure of the Council (as the HRA Capital Financing Requirement (CFR) will rise by the size of the CLG payment) and the Treasury Management service will need to consider the funding implications for the borrowing. The Council's prudential indicators shown below highlight the position in relation to the original position, the expected impact of the HRA reform payment is incorporated in the recommended prudential indicator changes in section 4. The new HRA CFR will form a cap on any future HRA capital expenditure.

5.2 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	**2011/12 Original Estimate £000's**	**Current Position £000's**	**2011/12 Revised Estimate £000's**
General Fund	1,998	206	993*1
HRA	4,298	2,431	49,583*2
Total	6,296	2,637	50,576

*1 - *Proposals regarding the re-profile of approximately £1.2m in to 2012/13 are being made, due to rescheduling of certain schemes.*

**2 - Includes the estimated £45.148m borrowing in relation to the HRA Housing Financing reform.*

5.3 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the CFR, although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	**2011/12 Original Estimate £000's**	**2011/12 Revised Estimate £000's**
Supported	-	45,148
Unsupported	6,296	5,427
Total spend	**6,296**	**50,575**
Financed by:		
Capital receipts	943	482
Capital grants	1,249	510
Capital reserves	-	-
Revenue	4,104	4,435
Total financing	**6,296**	**5,427**
Borrowing need	**-**	**45,148**

5.4 Changes to the Prudential Indicators for the CFR, External Debt and the Operational Boundary

The table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – CFR: We are on target to achieve the original forecast CFR, as adjusted for the additional HRA self financing borrowing.

Prudential Indicator – External Debt / the Operational Boundary:

	2011/12 Original Estimate £000's	Current Position £000's	2011/12 Revised Estimate £000's
Prudential Indicator – CFR			
CFR – Non Housing	3,639*1	3,639*1	3,639*1
CFR – Housing	23,395	23,395	68,543
Total CFR	27,034	27,034	72,182
Net movement in CFR	**(194)**	**(194)**	**44,954**
Prudential Indicator – External Debt / the Operational Boundary			
Borrowing	27,600	27,600	72,748
Other long term liabilities	0	0	0
Total debt 31 March	**27,600**	**27,600**	**72,748**

*1 Includes capitalisation of £3.386m which is subject to change following the Supreme Court decision regarding Glitnir deposits. This will be reviewed in light of anticipated repayments, when known.

5.5 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Net external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2011/12 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2011/12 Original Estimate £000's	Current Position £000's	2011/12 Revised Estimate £000's
Gross borrowing	27,228	20,392	68,543
Plus other long term liabilities	0	0	0
Less investments	18,200	16,719	16,719
Net borrowing	9,028	3,673	51,824
CFR (year end position)	27,034	27,034	72,182

The Corporate Director Resources reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	**2011/12 Original Indicator £000's**	**Current Position £000's**	**2011/12 Revised Indicator £000's**
Borrowing	33,100	33,100	89,592*[1]
Other long term liabilities	3,000	3,000	3,000
Total	36,100	36,100	92,592

*[1] Includes £79.887m HRA Self financing debt cap – including headroom of £11.344m.

6 Investment Portfolio 2011/12

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

The Council held £16.719m of investments as at 30 September 2011 (£12.993m at 31 March 2011) and the investment portfolio yield for the first six months of the year is 1.23% against a benchmark of the 3 months LIBID of 0.70%. A full list of investments held as at 30th September 2011 is in **APPENDIX 2**.

The Corporate Director Resources confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2011/12.

The Council's budgeted investment return for 2011/12 is £256k, and performance for the year to date is £55k below budget.

CIPFA Benchmarking Club

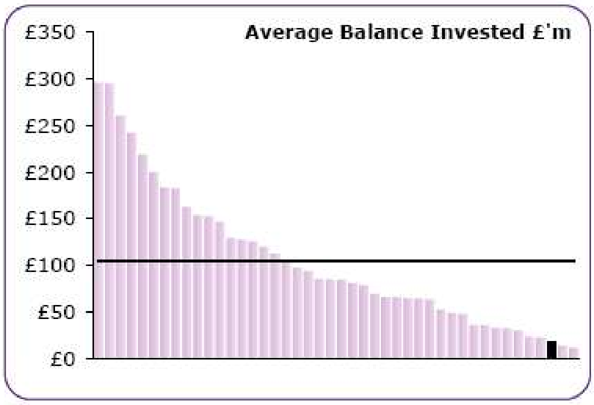
The Council is a member of the CIPFA Treasury Management Benchmarking Club which is a means to assess our performance over the year against other members (43 Authorities). Our average return for the period October 2010 to September 2011 was 1.09% compared to the group average of 1.24% (information from CIPFA Benchmarking Draft Report Q2 2011/12) excluding the impaired investments in Icelandic banks. This is not considered to be a poor result in light of the current financial climate, our lower levels of deposits/funds and shorter investment time-lines due to Banking sector uncertainty, when compared to other Authorities.

This can be analysed further into the following categories:

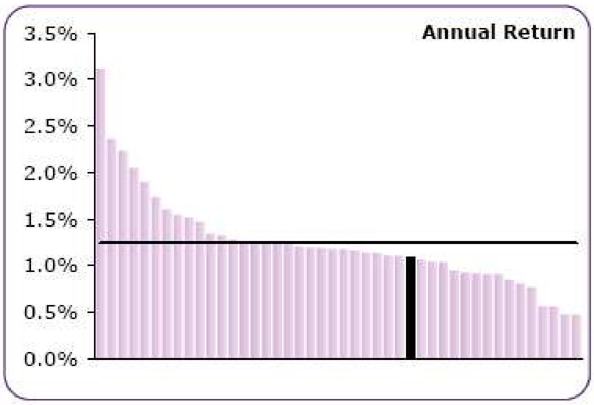
Excluding Impaired Investments	**Average Balance Invested £ 000's**		**Average Rates Received %**	
Category	Tamworth Borough Council	CIPFA Benchmarking Club	Tamworth Borough Council	CIPFA Benchmarking Club
Investments < 365 days Managed in-house	9,700	47,800	1.15	1.17
Investments > 365 days Managed in-house	1,900	18,000	1.88	3.02
Call Accounts	5,700	24,900	0.81	0.82
Money Market Funds	900	11,200	0.63	0.69
DAMDF (Govt Debt Management Office)	200	4,900	0.25	0.25
Average of All Investments Managed in-house	**18,400**	**108,500**	**1.09**	**1.24**

The data above and graphs below display that despite the Council being a small investor in the markets, performance is only marginally lower when compared with other members of the benchmarking club and affirms our 'low appetite for risk' in the continuing unsettled markets.

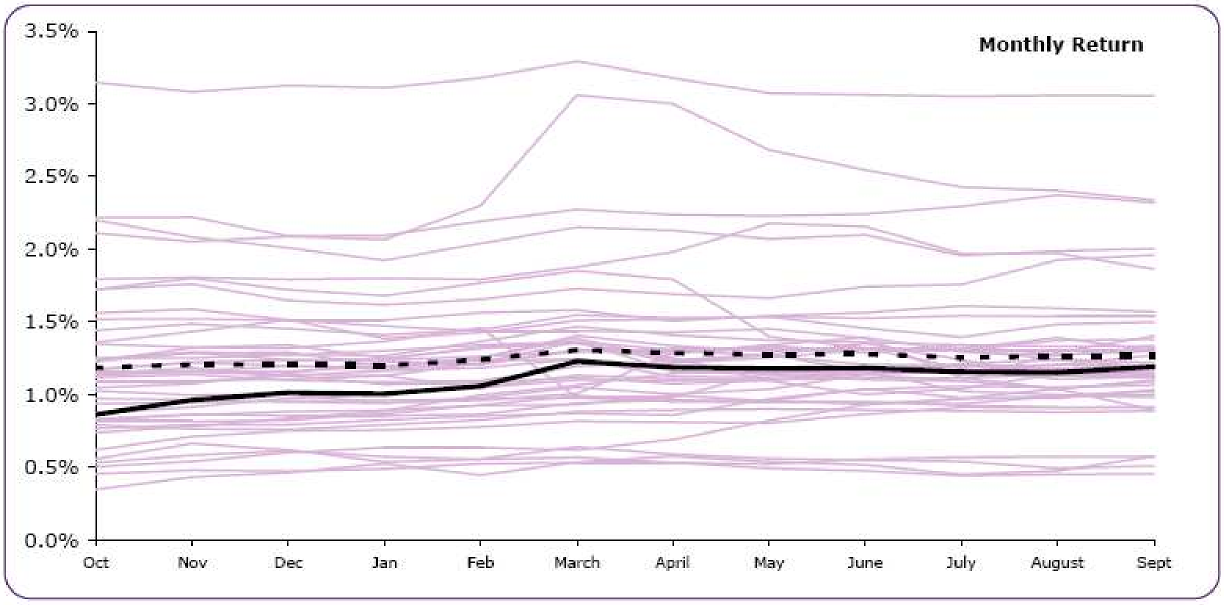
COMBINED IN-HOUSE INVESTMENTS (excluding impaired investments)



Tamworth 18.4 *Avg 105.0*



Tamworth 1.09% *Avg 1.24%*



Monthly Return (Oct 10 - Sept 11)	Oct	Nov	Dec	Jan	Feb	March	April	May	June	July	Aug	Sept	Year
Av Bal £'m	21.68	21.50	20.80	20.82	18.94	14.69	15.72	16.30	16.65	17.57	18.03	17.92	18.39
Earned £'k	15.9	17.0	17.9	17.7	15.4	15.3	15.3	16.3	16.2	17.3	17.7	17.5	199.5
% Return	0.86%	0.96%	1.01%	1.00%	1.06%	1.23%	1.19%	1.18%	1.18%	1.16%	1.15%	1.19%	1.09%
Average	*1.18%*	*1.21%*	*1.21%*	*1.20%*	*1.24%*	*1.31%*	*1.29%*	*1.28%*	*1.28%*	*1.25%*	*1.26%*	*1.27%*	*1.24%*
Margin	-0.32%	-0.25%	-0.19%	-0.20%	-0.18%	-0.08%	-0.10%	-0.10%	-0.10%	-0.10%	-0.11%	-0.08%	

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the Treasury Management function.

7 Borrowing

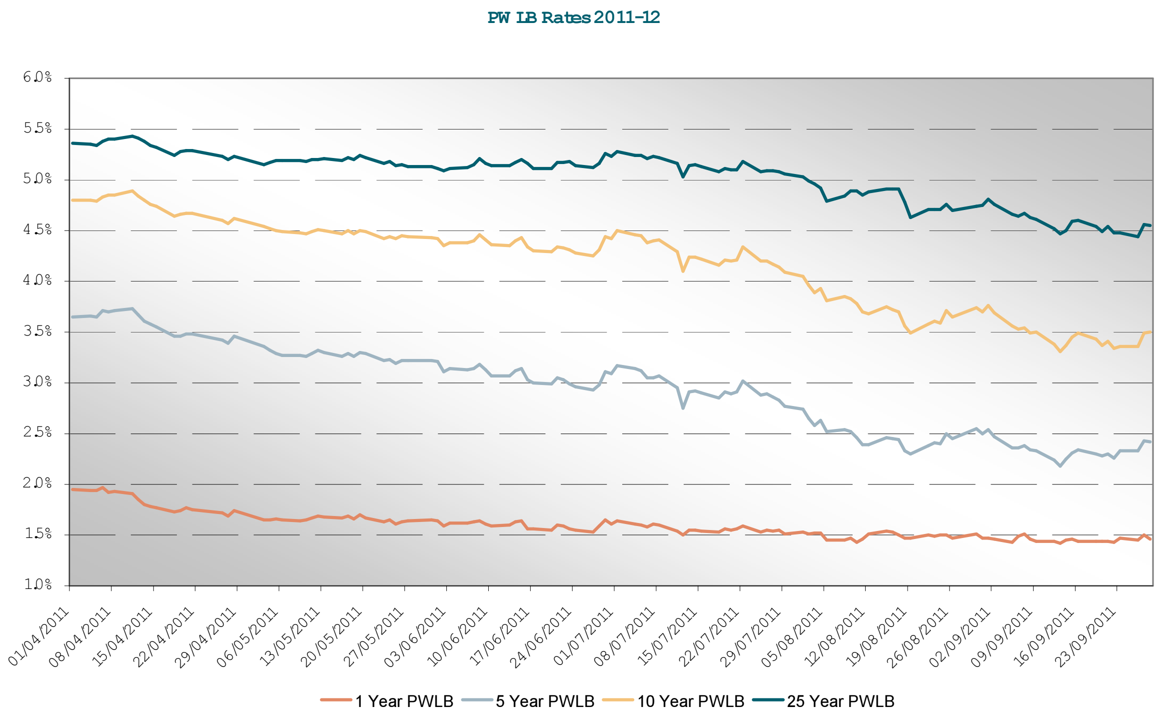
The Council's CFR – *excluding HRA Reform* for 2011/12 is £27.034m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The table at 5.5 shows the Council has borrowings of £20.392m and utilised £6.642m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate.

As outlined below, the general trend has been a reduction in interest rates during the six months, across all maturity bands.

It is anticipated that further borrowing may be undertaken during this financial year, in addition to the HRA Reform funding requirement, but will be determined to some extent by the potential receipts from the Icelandic Banks.

The treasury service is currently analysing the options for the implications of the HRA reform impact. As the CLG will require payment on the 28 March 2012 of approximately £45.15m, a mix of loans and available cash resources could be used to pay this amount to ensure the overall position of the Council is safeguarded and the HRA and non-HRA are not disadvantaged. The overall structure and appropriateness of the resulting portfolio is being considered.

The graph and table below show the movement in PWLB rates for the first six months of the year and provide benchmarking data showing high and low points etc:



8 Debt Rescheduling

Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. No debt rescheduling was undertaken during the first six months of 2011/12.

9 Icelandic Banks Update

Appendix 2 contains detail of the situation with Icelandic investments as at 30th September 2011. Expectations of future receipts and timeframes based on current information regarding each bank are given below;

- Glitnir

On 28 October 2011, the Supreme Court in Reykjavik handed down its decision in relation to the Glitnir appeals. The Supreme Court upheld the District Court decision that UK wholesale depositors are priority creditors and as such should receive full repayment of their deposits.

The decision was based on submissions made by two Local Authority 'test claims'. The Winding-up Board of Glitnir will need to apply this decision to all other non-test cases involved and it will also confirm when distribution of repayments will be made.

- Heritable

As at the end of September the Council had received £909k against our claim of £1.505m (with a further £63k being received in October). Current estimates given by the Administrator project a total recovery of 85% or approximately £1.3m with the majority of repayments being received by October 2012.

- Kaupthing, Singer and Friedlander

As at the end of September the Council had received £1.842m against our claim of £3.175m (with a further £159k being received in October). Current estimates given by the Administrator project a total recovery of 82% or approximately £2.6m with the majority of repayments being received by January 2013.

APPENDIX 1

PRUDENTIAL INDICATORS	2010/11	2011/12	2011/12	2012/13	2013/14
Extract from budget and rent setting report	**Actual**	**Original Estimate**	**Revised Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure					
Non - HRA	1,273	1,998	993	1,351	472
HRA	4,352	4,298	49,582	4,532	4,786
TOTAL	5,625	6,296	50,575	5,883	5,258
Ratio of financing costs to net revenue stream	**%**	**%**	**%**	**%**	**%**
Non - HRA	3.69	1.76	(0.68)	(0.07)	(0.83)
HRA	(7.57)	(4.79)	(5.18)	16.93	16.79
Net borrowing requirement	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
brought forward 1 April	8,616	8,810	7,399	52,760	52,567
carried forward 31 March	7,399	8,627	52,760	52,567	52,375
in year borrowing requirement	(1,217)	(183)	45,361	(193)	(192)
Capital Financing Requirement as at 31 March	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non – HRA *1	3,833	3,639	3,639	3,446	3,254
HRA	23,395	23,395	68,543	68,543	68,543
TOTAL	27,228	27,034	72,182	71,989	71,797
Annual change in Capital Financing Requirement	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non – HRA *1	(195)	(194)	(194)	(193)	(192)
HRA	-	-	45,148	-	-
TOTAL	(195)	(194)	44,954	(193)	(192)
Incremental impact of capital investment decisions	**£ : p**	**£ : p**	**£ : p**	**£ : p**	**£ : p**
Increase in Council tax (band D)	3.52	1.04	1.04	5.83	9.75
Increase in average housing rent per week	0.45	0.07	0.07	0.67	0.11

*1 Includes capitalisation of £3.386m which is subject to change following the Supreme Court decision regarding Glitnir deposits. This will be reviewed in light of anticipated repayments, when known.

The main changes to the prudential indicators are due to the HRA Self Financing borrowing requirement.

TREASURY MANAGEMENT INDICATORS	2010/11	2011/12	2011/12	2012/13	2013/14
	Actual	Original Estimate	Revised Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt -					
borrowing	32,800	33.100	89,592	89,592	89,592
other long term liabilities	3,000	3,000	3,000	3,000	3,000
TOTAL	35,800	36.100	92,592	92,592	92,592
Operational Boundary for external debt -					
borrowing	27,300	27,600	72,748	72,748	72,748
other long term liabilities	-	-	-	-	-
TOTAL	27,300	27,600	72,748	72,748	72,748
Actual external debt	20,392	-	-	-	-
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments	11,797	14.570	10,470	57,115	57,035
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments	2,278	2,737	2,092	6,854	6,854
Upper limit for total principal sums invested for over 364 days	3,500	3,500	3,500	3,000	2,500
(per maturity date)					

Maturity structure of fixed rate borrowing during 2011/12	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

APPENDIX 2

Current Investment List 30th September 2011

Borrower Principal (£) Interest Rate Start Date Maturity Date

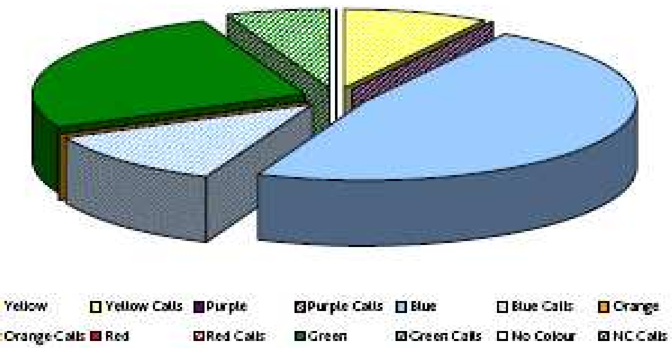
Tamworth Borough Council

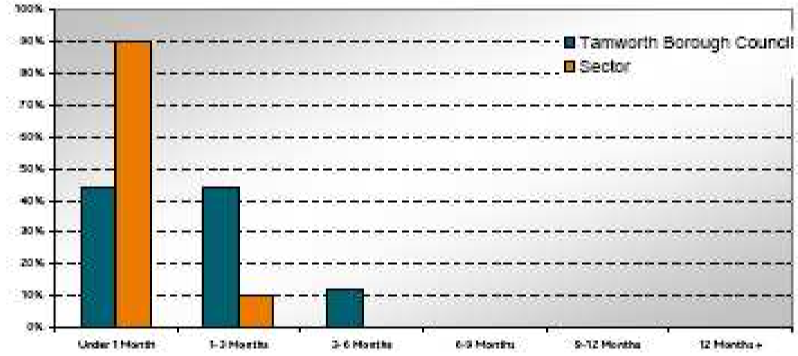
Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date
Natwest Bank	1,920,000	0.80%		Call
Santander UK plc	999,000	0.75%		Call
Deutsche Bank	1,439,000	0.62%		MMF
Lloyds TSB Bank	1,000,000	1.90%	05/10/2010	05/10/2011
Natwest Bank	2,000,001	0.95%		Call30
Lloyds TSB Bank	2,000,000	1.85%	05/11/2010	04/11/2011
Santander UK plc	3,000,000	1.20%	11/08/2011	11/11/2011
Lloyds TSB Bank	1,000,000	1.25%	16/08/2011	14/11/2011
Barclays Bank	1,350,000	0.72%	15/09/2011	24/11/2011
Bank of Scotland	2,000,000	2.05%	08/03/2011	06/03/2012
Borrower - Icelandic Exposure	**Principal (£)**	**Interest Rate**	**Start Date**	**Maturity Date**
Glitnir	1,000,000	6.28%	10/10/2007	09/10/2008
Glitnir	1,000,000	6.55%	31/08/2007	28/08/2009
Singer & Friedlander	420,000	6.69%	31/08/2007	09/08/2010
Singer & Friedlander	420,000	6.16%	31/10/2007	29/10/2008
Singer & Friedlander	420,000	5.90%	14/01/2008	14/01/2010
Glitnir	1,000,000	6.16%	14/12/2007	12/12/2008
Heritable Bank	197,918	5.38%	12/09/2008	13/10/2008
Heritable Bank	395,837	5.45%	15/09/2008	22/10/2008
Total Investments	£21,561,756			
Total Investments - excluding Icelandic exposure	£16,708,001	1.23%		
Total Investments - Icelandic Exposure Only	£4,853,755	6.20%		

Tamworth Borough Council

Portfolio Composition by Sector's Suggested Lending Criteria





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

Portfolios weighted average risk number = 3.8

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

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs WAM	Excluding Calls/MMFs WAM at Execution
Yellow	8.61%	£1,439,000	100.00%	£1,439,000	8.61%	0.62%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	59.37%	£9,920,001	19.35%	£1,920,000	11.49%	1.45%	50	199	62	246
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Green	32.01%	£5,349,000	18.68%	£999,000	5.98%	0.99%	37	69	46	85
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	£16,708,001	26.08%	£4,358,000	26.08%	1.23%	42	140	56	190

ICELANDIC BANKING SITUATION (30/09/2011)

	Deposit with;	Ref Number	Date Invested	Amount		%
1	GLITNIR	1696	10/10/2007	1,000,000		
	GLITNIR	1715	31/08/2007	1,000,000		
	GLITNIR	1754	14/12/2007	1,000,000		
	Total Principal			3,000,000		
	Interest due at point of administration (contractual/default)			473,985		
	Total of Claim			3,473,985		
	Repayments Received to date			0		*0.00*
	Outstanding at 30/09/2011			**3,473,985**		

- Local Authority creditor status in the two test cases placed before the Supreme Court as 'Priority Depositors' has been confirmed. This decision needs to be applied to all Local Authority claimants by the Glitnir Winding-up Board before distribution of repayment commences.
- Best case recovery 100%

2	Heritable Bank	1802	12/09/2008	500,000		
	Heritable Bank	1803	15/09/2008	1,000,000		
	Total Principal			1,500,000		
	Interest due at point of administration 07/10/2008			5,127		
	Total of Claim			1,505,127		
	Repayments Received to date			(909,343)		*60.42*
	Outstanding at 30/09/2011			**595,785**		

- Current indications project an 85% recovery of our investments
- A further dividend distribution of £63k was received in October 2011

3	Singer & Friedlander	1716	31/08/2007	1,000,000		
	Singer & Friedlander	1740	31/10/2007	1,000,000		
	Singer & Friedlander	1746	14/01/2008	1,000,000		
	Total Principal			3,000,000		
	Interest due at point of administration 08/10/2008			175,256		
	Total of Claim			3,175,256		
	Repayments Received to date			(1,841,648)		*58.00*
	Outstanding at 30/09/2011			**1,333,608**		

- Current indications project an 82% recovery of our investments
- A further dividend distribution of £159k was received in October 2011

	Summary					
	Total Principal			7,500,000		
	Interest due at point of administration (contractual/default)			654,368		
	Total of Claim			8,154,368		
	Repayments Received to date			(2,750,991)		*33.74*
	Outstanding at 30/09/2011			**5,403,377**		

1 Registered Bank in Iceland - In Administration under Icelandic Law
LA creditor status will determine potential recovery level

2 Registered Bank in UK - In Administration in UK by Ernst & Young
Under English Law

3 Registered Bank in UK - In Administration in UK by Ernst & Young
Under English Law