Annex C

Northampton Borough Council
Treasury Management Strategy 2009-10

Contents

Introduction and Equalities Statement

Introduction

The Council has adopted the CIPFA Code of Treasury Management and it is a requirement under that Code of Practice to produce an annual Treasury Management Strategy Report, incorporating:

(i) The Capital Financing and Borrowing Strategy for the coming year including:

- The Council's policy on the making of Minimum Revenue Provision (MRP) for the repayment of debt, as required by the Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008.
- The Affordable Borrowing Limit as required by the Local Government Act 2003.

(ii) The Investments Strategy for the coming year as required by the DCLG (formerly ODPM) Guidance on Local Government Investments issued in 2004.

The purpose of the Treasury Strategy is to establish the framework for the effective and efficient management of the Council's treasury management activity, including the Council's investment portfolio, within legislative, regulatory, and best practice regimes, and balancing risk against reward in the best interests of stewardship of the public purse.

Equalities Statement

An Equalities Impact Assessment has been carried out on the Council's Treasury Strategy for 2009-10, and the associated Treasury Management Practices (TMPs) and the Schedules to the TMPs.

As a result of that assessment, it should be noted that the potential impact of the strategy and associated documents (including Treasury Management Practices (TMPS) and the Schedules to the TMPs) on the different equalities groups must be considered as it is developed and put together each year. This includes the consideration of the potential impact on the different equalities groups of any processes, procedures or outcomes arising from these.

Capital Financing and Borrowing Strategy

1. Capital Financing

The Council's capital programme is financed mainly by sources other than borrowing. These include capital receipts, grants, third party contributions and revenue contributions.

The Council's policy is not to enter into finance leases, which have to be treated as capital expenditure in the accounts, and generally do not offer any financial benefits to the authority.

The Council makes use of operating leases to fund some types of expenditure that would otherwise be treated as capital where they offer better value for money. Examples of the types of expenditure that might be suitable are IT equipment and office furniture. The annual costs of operating leases are currently treated as revenue expenditure in the accounts and are not included in the Council's capital programme. This however is set to change with the introduction from 2010-11 of International Financial Reporting Standards. It is likely that all leases will then have to be treated as finance leases; further guidance is awaited on the details of this, and the extent to which the changes will have to be retrospectively applied.

There are two scenarios where borrowing may be used to fund the Council's capital expenditure.

(i) Supported borrowing – The government may award borrowing approvals in the form of Supported Capital Expenditure (Revenue) (SCE(R)) and provide associated revenue support to meet some of the costs of borrowing (i.e. repayment of principal and interest). This is targeted towards specific service blocks, including education and social services. The nature of district council services means that very little supported borrowing is awarded to this Council, with the exception of some for housing services.

(ii) Prudential borrowing – The Council has to fund the full costs of borrowing from its own revenue resources. This is sometimes referred to as unsupported borrowing. In a climate of constrained revenue resources this option is most likely to be used for 'spend to save' schemes, where the financing costs of borrowing can be funded from revenue savings.

2. Existing Borrowing

Existing borrowing to fund capital expenditure in previous years stands at £25.9m. This borrowing is primarily in the form of Money Market LOBO (Lenders Option, Borrowers Option) loans. The following tables illustrate the debt type and maturity profile of existing borrowing as at 31 January 2009.

Analysis of Outstanding Debt as at 31 January 2009

Type of Loan	Principal £'000	Proportion of Long Term Debt %	Range of Interest From %	Range of Interest To %
Public Works Loan Board	0	0		
Money Market LOBO Loans	24,600	95	4.85	7.03
English Partnerships	1,269	5	9.25	9.25
Total	25,869	100		

Long Term Debt Maturity Profile as at 31 January 2009

Time Frame: within -	Year	Value Maturing £'000	Proportion of Long Term Debt %
0-10 years	2008/09-2017/18	15,801	61
10-20 years	2018/19-2027/28	487	2
20-30 years	2028/29-2037/38	581	2
30-40 years	2038/39-2047/48	0	0
Over 40 years	2048/49 onward	9,000	35
Total		25,869	100

3. New Borrowing

Under the Local Government Act 2003 local authorities are able to borrow in year for the current year capital programme and for the following two years.

It is anticipated that the no external borrowing will be required to fund the 2009-10 and 2010-11 capital programmes, as the borrowing requirements, net of MRP are not significant across the two years. See Sections 5 and 9 below.

The estimated borrowing requirement of £3.95m (net of MRP) for 2011-12 relates to budgeted prudential borrowing of £5.07m for the HRA programme, where resources are being directed at meeting decent homes targets.

The Council has access to Public Works Loan Board (PWLB) loans for its long term borrowing needs. Loans, including LOBO loans, are also available from major banks via the Money Market and these may be considered when they offer better value than PWLB loans.

Decisions on the timing and type of the borrowing will be taken in consultation with the Council's treasury advisors, Sector Treasury Services.

4. Minimum Revenue Provision (MRP)

Prior to 2007-08 the Council was required by statute to provide for the repayment of a minimum amount of 4% of General Fund debt principal each year. This debt repayment is known as the Minimum Revenue Provision (MRP). The Housing Revenue Account is not subject to an MRP charge.

The Local Authorities (Capital Finance & Accounting) (Amendments) (England) Regulations 2008, which came into force in February 2008, requires local authorities to make instead 'prudent provision' for the repayment of debt. A number of options for prudent provision are set out in the regulations. The underlying principle is that the repayment of debt should be more closely aligned to the useful life of the asset or assets for which the borrowing has been carried out.

In 2007-08 the Council used the transitional measures available to calculate MRP for all capital expenditure prior to 1 April 2008 as if the previous regulations were still in force.

The authority is required, under the new regulations, to prepare an annual statement of their policy on making MRP for submission to Council. The Council's policy statement on MRP for 2009-10 (which also applies to 2008-09) is set out in the following paragraphs:

The Council will implement the new Minimum Revenue Provision (MRP) guidance in 2008-09 and future years, and assess their MRP for 2008-09 and future years in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

MRP relating to the historic debt liability incurred for years up to and including 2007-08 will continue to be charged at the rate of 4% on the reducing balance, in accordance with option 1 of the guidance, the "regulatory method".

The debt liability relating to capital expenditure incurred in 2008-09 and future years will be subject to MRP under option 3, the "asset life method", and will be charged over a period that is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined in line with accounting guidance and regulations. 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, the Council will generally adopt these periods. 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.

The impact of the new regulations is an increase in the minimum revenue provision that has to be made for the early years following expenditure. This will impact on the Council's revenue budgets from 2009-10 onwards, in respect of capital expenditure financed by borrowing from 2008-09 onwards. This impact is because of the nature of the Council's capital expenditure, which tends to be on short life assets such as IT hardware and software rather than long life assets such as buildings or infrastructure.

Applying the policy as set out above, MRP for the next three years is estimated at:

	2009-10 £m	2010-11 £m	2011-12 £m
Repayment of debt principal (MRP)	0.89	1.14	1.12

5. Borrowing Requirement

The Council's long-term borrowing requirement for the next three years is estimated at:

		2009-10 **£m**	**2010-11** **£m**	**2011-12** **£m**
(i)	New borrowing to cover new capital expenditure	1.38	1.07	5.07
(ii)	Replacement of loans maturing in year	0.00	0.00	0.00
(iii)	Less: debt repayment (see section 4)	(0.89)	(1.14)	(1.12)
	Total new borrowing/ (provision for debt repayment)	**0.49**	**(0.07)**	**3.95**

It is anticipated that the no external borrowing will be required to fund the 2009-10 and 2010-11 capital programmes, as the borrowing requirements, net of MRP are not significant across the two years. See Section 9 below.

6. Debt Rescheduling

As is the current practice, the debt portfolio will be kept under review throughout 2009-10 and beyond; with debt rescheduling opportunities being investigated for potential cash savings and / or discounted cash flow savings or to enhance the balance of the portfolio.

Recent changes to accounting regulations, and to the structure of PWLB rates, mean that rescheduling opportunities are more limited than in the past, but decisions will be based on appropriate advice from the Council's treasury advisers.

LOBO loans of £15.6m currently due for repayment in 2014-15 will need to be rescheduled or repaid, in full or part, before 31st March 2010 in order for the 2-5 year prudential indicator limits on the maturity structure of debt not to be breached in 2010-11 or 2011-12. Officers will be looking, during 2009-10, at optimum options to manage this.

Any debt rescheduling will be reported to Cabinet at the meeting following its action.

7. Long Term Interest Rates for Borrowing

Interest rates on PWLB and Money Market loans fluctuate daily according to market conditions, and in accordance with movements on the gilt market.

The table below illustrates the prevailing PWLB rates and forecasts to Quarter 4 (December) 2010. The forecasts are as at 30 January 2009 and are provided by Sector, the Council's treasury advisors.

Long Term Borrowing Rates - PWLB Maturity Loan Interest Rates			
	10 Years	**25 Years**	**50 Years**
	%	**%**	**%**
2009			
Forecast Quarter 1	3.10	4.00	3.85
Forecast Quarter 2	2.75	3.95	3.80
Forecast Quarter 3	2.55	3.95	3.80
Forecast Quarter 4	2.55	3.95	3.80
2010			
Forecast Quarter 1	2.55	4.00	3.85
Forecast Quarter 2	2.85	4.15	3.90
Forecast Quarter 3	3.25	4.35	4.00
Forecast Quarter 4	3.65	4.45	4.25

Due to the external interest rate environment, the LOBO market is not currently operating in an active fashion, and as a result LOBO rates are not being published at the present time.

8. Sensitivity of Forecasts

In normal times the main sensitivities of the forecast are likely to be the two scenarios below. Officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of view:

- If it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be used whilst interest rates were still relatively cheap.

- If it were felt that there was a significant risk of a sharp fall in long and short term rates, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

The borrowing and investment market is extremely volatile at the present time. However, because of the Council's relatively low debt position and the unlikelihood of having to undertake actual borrowing to fund the 2009-10 and 2010-11 capital programmes, the impact on the Council of changes to interest rate forecasts related to borrowing is not significant in the same way as that of investments – see Section 21 below.

The majority of the Council's long-term debt is in the form of Money Market LOBO (Lenders Option, Borrowers Option) loans. Officers consider that the degree of risk on these loans in the current interest rate environment is low.

9. Borrowing Strategy

It is anticipated that the no external borrowing will be required to fund the 2009-10 and 2010-11 capital programmes, as the borrowing requirements, net of MRP are not significant across the two years.

Officers will consider the use of 'internal borrowing' – i.e. through cash flow management. The Council's treasury advisers, Sector, have advised that "as the next financial year is expected to be a time of historically abnormally low bank rate, this opens up an opportunity for authorities to fundamentally review their strategy of undertaking external borrowing. For those authorities with investments in excess of their borrowing requirement over the next year and access to the cash from maturing investments within the financial year, then consideration should be given to the potential merits of internal borrowing. As long term borrowing rates are expected to be higher than rates on the loss of investment income and look likely to be so for the next couple of years or so, authorities may prefer to avoid all new external borrowing in the next financial year in order to maximise savings in the short term.

The running down of investments also has benefits of reducing exposure to interest rate and credit risk."

Should external borrowing be required, the advice of Sector is that there is a range of options available for borrowing strategy for 2009-10. For example, one option is that variable rate borrowing is expected to be cheaper than long-term borrowing and will therefore be attractive throughout the financial year compared to simply taking long term fixed rate borrowing. Rates are expected to be slightly lower at the middle to end of the year than earlier on so it may be advantageous to borrow later in the year.

Advice from Sector will be sought before entering into any long-term loan arrangements.

All long-term borrowing will require the express approval of the Chief Finance Officer, who should also sign any associated internal or external approval or authorisation documentation. The Chief Finance Officer has the delegated authority to take the most appropriate form of borrowing from approved sources.

10. Prudential Indicators

The proposed prudential indicators that relate to the Capital Financing and Borrowing Strategy are set out below. These are the subject of a separate report to Cabinet; full explanations for each of the indicators can be found in Annex A of the Prudential Indicators for Capital Finance 2009-10 to 2011-12.

.

Proposed **authorised limits for total external debt** gross of investments for the current, forthcoming, and following two financial years:

Authorised limit for external debt				
	2008-09	2009-10	2010-11	2011-12
	Limit £000	Limit £000	Limit £000	Limit £000
Borrowing	41,000	41,000	41,000	41,000
Other long-term liabilities	2,000	2,000	2,000	2,000
TOTAL	43,000	43,000	43,000	43,000

Other long-term liabilities, shown above, relate to insurance reserves. Any future finance leases entered into would also be included in this category.

Proposed **operational boundary for total external debt** for the current, forthcoming, and following two financial years:

Operational boundary for external debt				
	2008-09	2009-10	2010-11	2011-12
	Boundary £000	Boundary £000	Boundary £000	Boundary £000
Borrowing	36,000	36,000	36,000	36,000
Other long-term liabilities	2,000	2,000	2,000	2,000
TOTAL	38,000	38,000	38,000	38,000

Other long-term liabilities, shown above, relate to insurance reserves. Any future finance leases entered into would also be included in this category

Proposed **prudential limits for the maturity structure of borrowing** for 2009-10:

Maturity structure of borrowing		
	Lower Limit %	Upper Limit %
Under 12 months	0%	25%
1-2 years	0%	25%
2-5 years	0%	50%
5-10 years	0%	100%
Over 10 years	0%	100%

11. Affordable Borrowing Limit

The Local Government Act 2003 and supporting regulations require the Council to determine and keep under review how much it can afford to borrow. The amount determined is termed the “Affordable Borrowing Limit”. This is equivalent to the authorised limit at Section 10 above.

Affordable Borrowing Limit			
2008-09 Limit £000	2009-10 Limit £000	2010-11 Limit £000	2011-12 Limit £000
43,000	43,000	43,000	43,000

Accounting regulations allow local authorities to forward funding for their capital programmes up to a maximum of three years. The affordable borrowing limit figures include a provision for future forward funding should it be advantageous to do so.

Cabinet are asked to recommend to Council that they approve the Affordable Borrowing Limits for 2009-10 to 2011-12.

12. Temporary Borrowing

The Council may occasionally undertake short-term temporary borrowing if this is needed to cover its cash flow position. The maximum amount of temporary borrowing that the Council will borrow from any one counterparty will be £5m.

In addition, under long standing arrangements, the Council manages deposits from two local organisations. Formal agreements are to be set up with these organisations from 1st April 2009. Negotiations are currently under way and it is proposed that these contain the following operational arrangements:

- Interest rates set in line with the average rate of interest achieved by the Council in the preceding period, less 0.5%
- Quarterly review of interest rates
- Withdrawal notice periods of 7 days
- Termination notice of 7 days

13. Overdraft Facilities

The Council has a £1m overdraft facility with its bankers, the Co-operative Bank. Interest on overdrawn balances is charged at 1% above base rate.

The overdraft facility is only used to cover unforeseen events; usage is kept to a minimum and generally relates to relatively small balances of below £50k. The use of the overdraft facility is monitored on a daily basis and reported monthly to senior managers through the performance reporting framework. Performance against target has improved in recent months, and work is ongoing to continue this improvement.

Investment Strategy

14. Current Investment Portfolio

The investment portfolio as at 31 January 2009, including deposit and call accounts, was as follows:

	£m	%
UK banks & building societies with government support	43.6	62
Non-rated UK banks & building societies	6.0	9
Republic of Ireland banks with government guarantee	13.0	19
Republic of Ireland banks without government guarantee	3.0	4
Banks outside the UK/RoI	2.0	3
Other Local Authorities	2.0	3
Total	69.6	100

The portfolio includes investments with counterparties no longer falling within the Council's counterparty criteria. This is as a result of prior investments that have not yet matured. For example, some 364-day investments placed with non-rated banks and building societies prior to 1 April 2008 will mature during February and March 2009. This category also includes a small amount placed with the Council's own bankers, the Co-operative Bank as at 31st January 2009.

15. Specified/Non specified Investments

Under the Local Government Act 2003 the Council is required to have regard to the DCLG (formerly ODPM) Guidance on Local Government Investments issued in March 2004 and CIPFA's Treasury Management in the Public Services Code of Practice (2001) and updated Guidance Notes (2006).

The DCLG Guidance on Local Government Investments requires that investments are split into two categories:

(i) Specified investments – broadly, sterling investments, not exceeding 364 days and with a high credit rating.

(ii) Non-specified investments – do not satisfy the conditions for specified investments.

The detailed conditions attached to each of these categories are set out in the TMPs at Annex B.

16. Investment Strategy

Specified Investments - The majority of the Council's investments in 2009-10 will fall into the category of specified investments.

All investments, with the exception of those to other local authorities, will be placed only with those banks, building societies and authorised deposit takers under the Financial Services and Markets Act 2000 and allocated a satisfactory colour rating by Sector Treasury Services, whose list is updated monthly. This list is based upon credit ratings issued by the three main rating agencies. Any changes to ratings during the month are notified to the authority immediately and action taken to remove from/add to the list as appropriate.

Further counterparty limits will be put in place to minimise risk to the authority (see 17 below)

Non-Specified Investments - Prior to the start of each financial year officers review which categories of non-specified investments they consider could be prudently used in the coming year.

The officer recommendation for 2009-10 is that long-term investments (those for periods exceeding 364 days) could prudently be used where interest rates are favourable and funds are not required for short-term cashflow management.

The maximum amount that the Council will hold at any time during the year as long-term investments is £10m. This is around 15% of the forecast average level of total investments in 2009-10, which is around £66m. This could be undertaken without having an adverse effect on the required liquidity of cashflow.

Advice will be taken from Sector Treasury Services before entering into any long-term investments.

Only counterparties in the Council's current approved counterparty list that have limits of over 364 days will be used for such investments.

17. Counterparties

Policies for the management of counterparty and credit risk are set out at Section 5 of the Schedule to TMP 1, attached to the accompanying Cabinet report at Annex B.

The Council's approach to counterparties for 2009-10 is set out below:

The Chief Finance Officer (CFO) will use the recommendations of the Sector creditworthiness service to determine suitable counterparties and the maximum period of investment, using the colour ratings assigned by Sector.

The CFO will determine the maximum investment amount to be held with each type of counterparty assigned a colour rating by Sector.

In the context of the current economic and banking climate, the CFO will put in place further temporary restrictions as to the counterparties to be used for new investments.

Until such time as the CFO deems the stability of the banking sector to be sufficiently recovered, only counterparties meeting the following criteria will be used:

	Either:	
(1)	Having sovereign (country) ratings of AAA, and Rated by Sector as being suitable for maximum investment periods of 364 days or more, and Not being under a negative rating watch, alert or outlook.	Limits in force at the start of the year will be £10m and 90 days with UK counterparties, £5m and 90 days with overseas counterparties.
	Or:	
(2)	Being UK banks or building societies supported by the UK banking system support package, or acting under government ownership, and Assigned a colour rating by Sector.	Limits in force at the start of the year will be £10m and 90 days.

Annex C

As at 1 February 2009 the following counterparties meet the criteria set out above:

Counterparty	Country
Bank of Montreal	Canada
Bank of Nova Scotia	Canada
Nordea Bank Finland plc	Finland
Credit Industriel et Commercial	France
Landwirtschaftliche Rentenbank	Germany
Bank Nederlandse Gemeenten	Netherlands
Rabobank International	Netherlands
DBS Bank Ltd	Singapore
Overseas Banking Corporation	Singapore
United Overseas Bank	Singapore
Banco Popular Espanol	Spain
Confederacion Espanola de Cajas de Ahorras	Spain
Nordea Bank AB	Sweden
Svenska Handelsbanken AB	Sweden
Abbey National plc	UK
Abbey Treasury Services plc	UK
Barclays Bank plc *	UK
Cater Allen (part of Abbey Group)	UK
HBOS Treasury Services plc	UK
HSBC Bank plc *	UK
Lloyds TSB Bank plc *	UK
Nationwide Building Society *	UK
Standard Chartered Bank	UK
Sumitomo Mitsui Banking Corporation Europe Ltd	UK
Bank of New York Mellon	US

* Covered by UK government support package, but not meeting criteria at (1) above

It should be noted that the inclusion of counterparties in the list does not necessarily mean that they will be in the market for investment deals at any one point in time.

For the purposes of setting limits, institutions within the same banking group (eg Lloyds Banking Group) will be treated as one counterparty.

Investments may also be placed with other local authorities and with the Government Debt Management Office (DMO). The limits will be £10m, for periods of up to 364 days.

Deposits may be placed with the Council's own bankers, the Co-operative Bank plc. These will generally be for small amounts of up to £100k. However amounts of up to £5m may be placed for periods of up to a week for operational purposes should the need arise.

The Chief Financial Officer will have the discretion during the financial year to lift or increase the restrictions on the counterparty list and/or to adjust the associated lending limits on values and periods should it become necessary to enable the effective management of risk in relation to investments.

18. Liquidity of Investments

Most short-term investments are held for cashflow management purposes and officers will ensure that sufficient levels of short-term investments and cash are available for the discharge of the Council's liabilities. Investment periods range from overnight to 364 days as specified investments or longer as a non-specified investment.

The average period of each new investment in the current financial year, as at 31 January 2009 is 103 days. When deciding the length of each investment, regard is had to both cashflow needs and prevailing interest rates.

For short term and overnight investment the Council makes full use of appropriate bank and building society call and deposit accounts offering competitive rates and in most instances instant access to funds.

As referred to in Section 16 above, it is recommended that a maximum total of £10m be invested for periods exceeding 364 days (if interest rates are favourable) and in accordance with counterparty limits. The balance of funds will be held as short-term investments (under 365 days).

19. Bank Base Rates

The current interest rate view of Council's treasury advisors, Sector, is that bank base rate will fall from current levels because of the intensifying global recession.

The bank base rate started on a downward trend in December 2007 from the high of 5.75%, with a cut to 5.5%, and further cuts in 2008 of 0.25% in February and April, 0.5% in October, 1.5% in November and 1% in December.

Starting 2009 at 2.00%, the rate then dropped to 1.5% in January 2009 and again to 1% in February 2009, and is forecast to fall further to 0.50% by the end of Q1 2009. It is then expected to remain there until starting to rise gently up from Q2 2010 until it reaches 4.0% in Q1 2012. There is downside risk to these forecasts if the recession proves to be deeper and more prolonged than currently expected.

The table below shows Sector's forecast bank base rates for 2009 to 2011:

Base Rate	2009 Forecast	2010 Forecast	2011 Forecast
Quarter 1	0.50%	0.50%	1.75%
Quarter 2	0.50%	0.75%	2.50%
Quarter 3	0.50%	1.00%	3.25%
Quarter 4	0.50%	1.25%	3.75%

20. Short Term Interest Rates for Investments

Short-term interest rates for investments tend to be linked to the bank base rate levels, and in the current economic climate these are abnormally low.

Sector has advised that the Council should budget for an investment return of 1.50% on investments placed during 2009/10, and that locking into longer term deals should be avoided while investment rates are down at historically low levels.

The rate of return used to build the debt-financing budget for 2008-09 was 5%, and the average rate of return to 31 December 2008 was 5.27%. The reduction in rates over previous years has had a significant impact on the forecast of income from investments in 2009-10; at an average balance of £66m, the difference is around £2.3m. As some of the cash being invested relates to HRA balances, a proportion of the impact is passed on to the HRA and offset against the HRA subsidy calculations; the remaining balance has a direct hit on the general fund budget.

The impacts of the interest rate reductions have been included in the 2009-10 debt-financing budget included in the Council's Revenue Budget 2009-10 to 2011-12 report.

21. Sensitivity of Forecasts

The amount that can be earned on interest on investments is sensitive to changes in the prevailing interest rates. This is particularly marked in the current economic climate. Although officers have budgeted prudently, rates are currently so volatile that they may move in any direction, although the negative risk is that they drop further than currently forecast.

Officers, in conjunction with the Council's treasury advisors, will continually monitor both the prevailing interest rates and market forecasts, taking corrective action as required.

Any impact on the debt-financing budget of changes in forecast returns will be reported to Cabinet as part of the monthly revenue budget monitoring reporting.

22. Prudential Indicators

The proposed prudential indicators that relate to the Investment Strategy are set out below. These are the subject of a separate report to Cabinet; full explanations for each of the indicators can be found in Annex A of the Prudential Indicators for Capital Finance 2009-10 to 2011-12.

Proposed **upper limits on fixed interest rate exposures** for the current, forthcoming, and following two financial years are:

Upper limits on fixed interest rate exposures	
	Upper Limit £000
2008-09	0
2009-10	0
2010-11	0
2011-12	0

Proposed **upper limits on variable interest rate exposures** for the current, forthcoming, and following two financial years are:

Upper limits on variable interest rate exposures	
	Upper Limit £000
2008-09	38,000
2009-10	38,000
2010-11	38,000
2011-12	38,000

Annex C

Proposed **upper limits on investments for periods longer than 364 days** for the current, forthcoming, and following two financial years are:

Upper limit on investments for periods longer than 364 days	
	Upper Limit £000
2008-09	6,000
2009-10	10,000
2010-11	10,000
2011-12	10,000