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OXFORD CITY COUNCIL

Report of: HEAD OF FINANCE

To: EXECUTIVE BOARD AND COUNCIL

Date: 4th February 2008 **Item No:**

Title of Report : TREASURY MANAGEMENT STRATEGY 2008/2009

Summary and Recommendations

Purpose of report: To seek approval of the Treasury Management Strategy and Prudential Indicators for 2008/09 onwards

Key decision: No

Portfolio Holder: Councillor Jim Campbell – Better Finances

Scrutiny Responsibility: Finance

Ward(s) affected: All

Report Approved by:
Councillor Jim Campbell – Portfolio Holder
Sarah Fodgen/Penny Gardner – Heads of Finance
Lindsay Cane - Legal

Policy Framework: Sustaining Financial Stability

Recommendation(s): The Board is asked to recommend Council to:

1. Adopt and approve the Prudential Indicators and limits for 2008/09 to 2010/11 contained within this report.
2. Approve the Minimum Revenue Provision (MRP) statement contained within the report which sets out the Council's policy on MRP
3. Approve the Treasury Management Strategy 2008/09.
4. Approve the Investment Strategy 2008/09 contained in the treasury management strategy, and the detailed criteria.

Executive Summary

1. **Capital Expenditure** – the projected capital expenditure for 2007/08 and 2008/09 is expected to be:

	2007/08 Estimate £000's	2008/09 Estimate £000's
General Fund	9,108.8	8,029.8
HRA	11,300.0	12,941.0
Total	**20,408.8**	**20,970.8**

2. **Investments** – the Council has investments of between £40 million and £50million at any one time during the year, loans are made at or close to prevailing interest rates in order to achieve our current indicators of 3 month and 7 day Libid.

3. The budget for investment income for 2007/08 is £2.5m and we are currently predicting to achieve this target, although this will be dependent on the fluctuations in the interest rates obtainable on the money market.

4. **Debt –** the Council had £11.3m of external debt as at 1st April 2007, a repayment has been made in 2007/08 reducing this debt down to an estimate of £7.7m by the end of the financial year. All of which is held at fixed rates, with varying lengths of time before maturity. The debt is wholly related to Housing with the interest met through the Housing Revenue Account subsidy mechanism. Restructuring and premature repayment of the debt have been considered, however neither option offers any advantage because any reduction in interest payable would result in an equivalent reduction in subsidy and both options would incur significant costs that would not be met from subsidy.

5. **Debt Requirement –** the Council's capital programme will be funded from resources such as government grants, capital receipts and revenue funding, although there is an element that will not be funded from these direct resources.

6. In synchronisation with the corporate plan and the long term financial plan of the organisation the Council is looking to invest future capital receipts in the aim to earn additional interest, and to use revenue resources to fund capital spend. This spend may be in full in year one or used to fund prudential borrowing over a number of years. If the later is chosen this is classified as unsupported borrowing and will therefore increase the Councils Capital Financing Requirement (CFR) each year. The table below shows our CFR for the current year and 2008/09.

	2007/08 Estimate £000's	2008/09 Estimate £000's
Housing	17,644	18,190
Non Housing	-6,776	-5,454
Total	**10,868**	**12,736**

7. Key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable.

8. The Council intends to undertake prudential borrowing over the medium term, and any interest costs associated with this will be budgeted for. As potential schemes are put forward they will be assessed on an individual basis to ascertain their inclusion with the prudential borrowing scheme. This will look at the schemes and their ability to spread the costs over a number of years, alongside the affordability, prudence and sustainability of the scheme and its funding.

9. **MRP Statement -** Draft CLG Regulations are currently issued for comment which, if implemented, will require full council to approve an MRP statement. This will need to be approved in advance of each year. Whilst the regulations will revoke current MRP requirements, councils are allowed to continue historical accounting practice. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The timetable for implementation is very tight and so Members are asked to approve the following policy, based on the draft regulations. Should the final regulations change this statement, it will be re-submitted for approval.

10. The Council is recommended to approve the following MRP statement:
    - For expenditure incurred before 1st April 2008 or which in the future will be supported capital expenditure, for example, borrowing funded from revenue resources, the MRP policy will be:
        - Existing practice – MRP will follow the existing practice outlined in former CLG regulations

    - From 1st April 2008 for all unsupported borrowing the MRP policy will be:
        - Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations.

Introduction

11. This report outlines the Council's prudential indicators for 2008/09 – 2010/11 and sets out the expected treasury operations for this period. It fulfils three key reports required by the Local Government Act 2003:

- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The treasury strategy in accordance with the CIPFA code of Practice on Treasury Management;
- The investment strategy in accordance with the CLG investment guidance;

12. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management and as a result adopted a Treasury Management Policy statement (Executive Board 26th March 2002). This adoption meets the requirements of the first of the treasury prudential indicators.

13. The Constitution requires an annual strategy to be reported to Executive Board and Full Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks associated with the treasury service. A further treasury report is produced after the year-end report on actual activity for the year.

14. This report revises the indicators for 2007/08, 2008/09 and 2009/2010 and introduces new indicators for 2010/11. Each indicator reflects the outcome of the Council's underlying capital appraisal systems.

15. The Council's current Treasury Management Strategy was approved at Executive Board on 19th February 2007, and at Council on 30th April 2007. This strategy covered the period of 2007/08, and included our prudential indicators for that period.

16. The Treasury Management service is an important part of the overall financial management of the Council's affairs. Whilst the prudential indicators consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding and financing of these decisions.

17. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service.

18. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

Interest Rates

19. Interest rates are of particular importance to the City Council as we have between £40 million and £50 million of funds lent out (the amount varies during the year). Our loans are made at or close to prevailing interest rates.

20. Since November 2006 the Bank of England has applied a series of 0.25% rises and at July 2007 the base rate rose to 5.75%, where it has stayed until December 2007, when the Bank of England reduced the base rate to 5.50%. Current forecasts suggest that the base rate will fall further to a potential low of 4.75%.

21. Finance and Asset Management manage the council's cash investments. Assuming average cash holdings of £50 million, a quarter point increase in interest rates is worth £125k.

Borrowing and Debt Strategy 2008/09 – 2010/11

22. The Council had £11.3 million of external debt as at 1st April 2007, all of which is held at fixed rates, with varying lengths of time before maturity. The debt is wholly related to Housing with the interest met through the Housing Revenue Account subsidy mechanism. Restructuring and premature repayment of the debt have been considered, however neither option offers any advantage because any reduction in interest payable would result in an equivalent reduction in subsidy and both options would incur significant costs that would not be met from subsidy.

23. During 2007/08 a loan of £3 million has been repaid back to Public Works Loan Board (PWLB), and this will reduce our external debt to £7.7 million by the 31st March 2008.

24. The Council also has £2.3 million of long-term liabilities; this is an outstanding debt with South Oxfordshire District Council and is held at a variable rate, this reduces to £2.1m by 31st March 2008.

25. The Capital Financing Requirement (CFR) is the total outstanding capital expenditure that has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. In Oxford City Council's case the CFR, as at 1st April 2007 is £7.5m and our external borrowing is £11.3m, indicating that there is no need to undertake any external borrowing in the short-term.

26. The position as at the 31st March 2008 is expected to be, our CFR at £10.9m and our borrowing to be £9.9m. This would indicate a need to borrow on the external market, in the near future if all schemes on the current capital programme are to go ahead, unless revenue or other funding sources are used.

27. The risks associated with long-term fixed interest rates are expected to be for higher rates over the medium term. The Head of Finance as S151 Officer has delegated powers to determine the need for any future borrowing and the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks. It is likely that longer term fixed rates will be considered if borrowing levels remain relatively low.

28. There have recently been some changes to the PWLB borrowing arrangements; they are:
    - Maturity brackets with a uniform length of six months
    - Rates expressed in increments of one basis point
    - A separate set of rates is to be applied to early repayments

    This will mean we may need to consider other alternatives to PWLB for any borrowing that we may wish to undertake. Market lenders continue to offer borrowing rates at significantly lower levels than the PWLB, and with some of the advantages reduced by PWLB, market loans are becoming a more attractive borrowing proposition.

Prudential Borrowing

29. Under the prudential system, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to CIPFAs code. The system is designed to encourage authorities that need, and can afford to, to borrow in order to pay for capital investment.

30. Key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable.

31. The Council intends to undertake prudential borrowing over the medium term, and any interest costs associated with this will be budgeted for. As potential schemes are put forward they will be assessed on an individual basis to ascertain their inclusion with the prudential borrowing scheme. This will look at the schemes and their ability to spread the costs over a number of years.

32. The prudential system provides a flexible framework approach within which capital assets can be procured, managed, maintained and developed. At a strategic level it allows authorities to make their own decisions about the balance to be struck between revenue intensive or capital intensive methods of procuring services. It also allows capital investment to proceed where the authority can fund it within prudent and affordable limits. As a consequence these arrangements permit ‘spend to save’ schemes to proceed where they are not only affordable but also prudent and sustainable.

33. Any prudential borrowing undertaken will affect the Councils prudential indicators, and when deciding on our levels of prudential borrowing we need to consider how this will affect our prudential indicators, and the Council must also have regard to:
    - Affordability eg; implications for Council Tax
    - Prudence and Sustainability eg: implications for external borrowing
    - Value for money
    - Stewardship of assets
    - Service Objectives eg: strategic planning for the authority

- Practicality

34. A fundamental aspect of the prudential system is the ability of each local authority to determine locally the need for capital investment against the option of revenue expenditure.

35. Many local authorities have appraised potential prudential borrowing from within an ‘invest to save’ framework. This has been justified on the grounds that mainstream capital programming has to make decisions about the merits of alternative competing priorities whereas a sound invest to save scheme does not have an opportunity cost in terms of other capital schemes foregone to finance it.

36. Financial planning has to take into account the range of options for revenue funding and capital investment by:
    - Establishing whether the authority considers it is affordable and prudent to bear the additional future revenue cost associated with additional investment, eg: financing and running costs
    - Establishing whether this use of existing or new revenue resources to finance capital investment should have precedence over other competing needs for revenue expenditure
    - Establishing the scope for capital investment to generate future revenue savings or income, taking into account the risks associated with such proposals.

37. Some examples of the types of schemes that the Council may wish to consider using prudential borrowing for are:
    - Spend to save schemes, where there can be seen to be financial savings over the life of the scheme,
    - Energy improvement schemes,
    - Purchase of vehicles, to replace the previous leasing scheme.

Investment Strategy 2008/09 – 2010/2011

38. The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:
    - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed.
    - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.

39. Expectations on shorter-term interest rates, on which investment decisions are based, shows a likelihood that the fall to the current level of 5.50% as being the start of a further decline in rates, with a potential low of 4.75%. The Council’s investment decisions are based on comparisons between the rises priced into market rates against the

Council's and advisers own forecasts. It is likely that investment decisions will be made for longer periods with fixed investments rates to lock in good value and security of return if opportunities arise, subject to over riding credit counterparty security. The Head of Finance as S151 Officer has delegated powers to undertake the most appropriate form of investments depending on the prevailing interest rates at the time.

Criteria for approving counterparties

40. A counterparty list will also be maintained in compliance with the following criteria and will be reviewed on a regular basis. This will be submitted to Council for approval annually or as required. The Counterparty list contains all those banks and building societies that meet our given criteria, but many of those on the list may not be used. This criteria is separate to that which chooses Specified and Non-Specified investments as it selects which counterparties the council will choose rather than defining what its investment are. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits, for example the Council will consider ratings from all rating agencies but will use the lowest rating to decide if they meet the criteria.

- Banks – the Council will use banks which have at least the following ratings
  - Fitch Short Term = F1
  - Fitch Long Term = A-
  - Moody's Short Term = P-1
  - Moody's Long Term = A3
  - S&P's Short Term = A1
  - S&P's Long Term = A-
  - Individual/Financial Strength = C
  - Support = 3
- Building Societies – the Council will use all Societies with assets in excess of £0.5billion
- Money Market Funds = AAA
- Unrated Bank Subsidiaries – the Council will use all unrated bank subsidiaries where their parent company meets the ratings above
- UK Government – including Gilts and DMO
- Local Authorities, Parish Councils etc
- Supranational institutions

The time limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Banks & Building Societies					
Upper Limit Category	*F1+/AA-*	P-1/Aa3	A1+/AA-	£8.0m	>364 days
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£5.0m	<365 days
Unrated Building Societies					
Lower Limit Category	Asset base between 0.5bn and 2bn			£2.5m	183 days
Upper Limit Category	Asset base greater than 2bn			£5.0	< 365 days
Other					
Other Institution Limits	-	-	-	£8.0m	364 days

41. In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short-term investments.

42. The use of longer-term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the council's liquidity requirements are safeguarded. This will also be limited by the investment prudential indicator.

43. A Specified investment is one that is not more than 1year from inception to repayment, or those which could be for a longer period but where the Council has the right to be repaid within that period if it wished. Non-specified investments are any other type of investment.

44. The current counterparty list is attached at Appendix A for information, and approval.

The Expected Movement in Interest Rates

45. The general outlook for the British economy has deteriorated over the past few months due only in part to the turbulence in financial markets and the possible emergence of a credit crunch. Several particular features cloud the outlook: an expected slow-down in the economy and the possible emergence of a mild form of 'stagflation' (rising inflation alongside slow output growth); the emergence of a substantial twin deficits: (a large external payment deficit and a substantial and worsening budget deficit); the prospect of falling house prices;

dilemmas in the conduct of monetary policy, and uncertainties arising from continued financial market turbulence.

46. To date, the main areas of concern for the MPC can be itemised as follows:
    - The aggressive pricing intentions of the corporate sector
    - The persistent buoyancy of retail spending
    - The strength of money supply and credit growth
    - The apparent lessening of competitive pressure from Chinese exporters
    - The lack of spare capacity in the UK economy after 10 years of upbeat growth
    - The current rise in oil prices
    - The increased use of crops for bio-fuels
    - The increase in house prices and the rising risk of repossessions

47. Some of these factors have shown signs of responding to the tightening of policy, notably corporate pricing intentions. Either companies have achieved their planned price increases, or a weakening in domestic demand has frustrated their intentions.

48. The prospective deterioration in households' finances will combine with the shock delivered by the Northern Rock crisis to undermine consumer confidence. Retail spending growth is in danger of coming to a rapid halt and with it the main support of company pricing power.

49. Growth in the economy is likely to slow quite significantly this year, several factors are combining to weaken the growth outlook: consumers' expenditure is likely to moderate as households seek to raise their savings ratio; government expenditure is likely to be less expansionary and house prices will certainly weaken. Furthermore, while the Bank of England is likely to lower bank rates, effective interest rates for many house-holds are likely to rise for two reasons: market rates may not fall in line with official rates, and at least 1.4 million households on short-term fixed interest rate mortgages will face re-fixes at higher rates of interest. For these households, the rise in interest rates during 2006 and last year has yet to make a real impact. Generally interest rate adjustments can take up to two years to take effect.
50. The Bank of England has emphasised three factors likely to weaken growth in the coming year: a likely fall in equity prices, a squeeze on consumers' expenditure, and the delayed impact of the strengthening of sterling on the foreign exchange markets.

51. The economy is also vulnerable to the impact of the rise in oil, energy and commodity prices, continued uncertainty in financial markets and a possible credit crunch, weaker house building, and a weakening in consumer confidence. The Financial Services Authority has also warned of difficult times ahead for lenders.

52. The Bank of England has recently argued that inflation is a serious threat in the economy.

53. CPI has been above the central 2% target for several months since late 2006 and the Bank of England currently forecast that it will remain above target for most of this year.

54. The Bank of England cut the base rate by 0.25% in December, and this was a unanimous decision of the MPC. The factors cited as influencing the MPC's decision were the uncertainties in financial markets and the prospect of a weakening economy. More generally, the Bank of England's Inflation Report issued in November suggested that, while there are inflation concerns most especially in the short run, the central forecast was that the 2% inflation target would be met on the basis of market interest rate expectations that implied two cuts of 0.25%. It is likely, therefore that there will be further cuts in interest rates over this year.

55. Interest Rate Forecasts 2007-2009

	End Period	Bank Rate		Gilt Yields	
			5-yr	20-yr	50-yr
2007	Sept	5.75	4.5	4.8	4.4
	Dec	5.50	4.4	4.5	4.3
2008	March	5.25	4.6	4.6	4.4
	June	5.00	4.7	4.7	4.5
	Sept	4.75	4.7	4.7	4.5
	Dec	4.75	4.7	4.8	4.6
2009	March	4.75	4.8	4.8	4.6

Butlers forecast

56. Medium Term Rate Forecasts (averages)

	Bank Rate	5 yr Gilt	20 yr Gilt	50 yr Gilt
2007/08	5.6	4.3	4.9	4.5
2008/09	4.8	4.7	4.8	4.6
2009/10	4.8	4.8	4.7	4.6
2010/11	5.0	4.9	4.8	4.8
2011/12	5.2	5.3	5.2	5.1

Butlers forecast

Prudential Indicators

57. The Strategy also includes the Prudential Indicators, which the authority is required to consider before determining its budget and treasury management arrangements for the new financial year. These indicators are split into two categories the first is affordability. Our Affordability indicators are listed below:

58. **Estimates of Capital Expenditure**, split between GF and HRA, this is based on the current capital programme, but will be reviewed once the 2008/09 budget is finalised.

	2007/08 Original Estimate £000's	2007/08 Revised Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
General Fund	11,137.1	9,108.8	8,029.8	4,429.0	4,071.5
HRA	11,900.0	11,300.0	12,941.0	11,340.0	10,930.0

59. **Actual and Estimate of the ratio of financing costs to the net revenue stream**, this identifies the trend in the cost of capital against the net revenue stream and show GF and HRA separately.

General Fund	2006/07 Actual £000's	2007/08 Original Estimate £000's	2007/08 Revised Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Interest Costs	1,292.3	1,040.8	1,034.5	1,298.8	1,361.5	1,509.9
Investment Income	-2,228.0	-2,286.0	-2,413.0	-2,425.0	-2,348.0	-2,161.2
Net Financing Cost	-935.7	-1,245.2	-1,378.5	-1,126.2	-986.5	-651.3
Revenue Stream	28,363.1	27,201.6	27,772.4	27,544.2	27,544.2	27,544.2
Ratio	-3.3%	-4.6%	-5.0%	-4.1%	-3.6%	-2.4%

Housing Revenue Account	2006/07 Actual £000's	2007/08 Original Estimate £000's	2007/08 Revised Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Item 8 Interest	1,316.3	1,206.5	1,206.5	1,238.7	1,232.4	1,235.0
Investment Income	-86.1	-170.0	-320.0	-320.0	-320.0	-320.0
Net financing Cost	1,230.2	1,036.5	886.5	918.7	912.4	915.0
Revenue Stream	15,422.5	15,966.3	16,013.7	14,162.4	16,116.0	15,973.8
Ratio	8.0%	6.5%	5.5%	6.5%	5.7%	5.7%

60. **Estimate of the incremental impact of capital investment decisions on the Council Tax**, this shows the impact of any decisions that are made on investment through the capital programme and how this will ultimately affect the Basic Band D Council Tax.

61. The figures in the table below have been calculated by looking at those schemes that are currently uncommitted on the current capital programme and looking at the impact they will have on Council Tax. The figures in the table show the impact this spend will have on the full year Band D basic amount of Council Tax.

62. The first line of the table shows the gross impact of those capital schemes, but the Council intends to cover this funding by the sale of assets, and the use of future capital receipts, therefore this would have a nil impact on the Council Tax, which is shown in the table.

63. The Council will not enter into any uncommitted capital scheme until the sale of assets is confirmed, therefore not allowing this capital spend to have an impact on Council Tax.

64. In summary if the Council were to spend £1million on a new capital project without asset sales to finance it, this could potentially impact on Basic Band D Council Tax by £1.19.

	2007/08 Original Estimate £	**2007/08 Revised Estimate £**	**2008/09 Estimate £**	**2009/10 Estimate £**	**2010/11 Estimate £**
Capital spend impact on Council Tax Band D	10.73	8.40	10.13	7.52	7.05
Capital receipts impact on Council Tax Band D	-10.73	-8.40	-10.13	-7.52	-7.05
Overall net impact on Council Tax Band D	0.00	0.00	0.00	0.00	0.00

65. **Estimate of the incremental impact of capital investment decision on housing rents**, this shows the impact any decisions made on our capital investments will have on our weekly housing rents.

66. The figures in the table below have been calculated by looking at those schemes that are currently on the capital programme with funding resources coming from the revenue account, and looking at the impact this will have on the weekly housing rents.

67. The first line of the table shows the gross impact of those capital schemes, but the Council also intends to cover this funding by the sale of assets, and the use of available capital receipts, therefore this would have a nil impact on the Weekly housing rents, which is shown in the table.

68. The Council will not enter into any uncommitted capital scheme until the sale of assets is confirmed, therefore not allowing this capital spend to have an impact on the housing rents.

69. The key driver for setting our housing rents is the rent formula from Central Government, capital spend should not affect the rent we charge, therefore the net impact of capital spend will be zero.

70. For every £1 million that the Council spends on new capital projects without asset sales to finance it will have an impact of £0.13 per week on rents.

	2007/08 Original Estimate £	2007/08 Revised Estimate £	2008/09 Estimate £	2009/10 Estimate £	2010/11 Estimate £
Capital spend impact on Weekly Housing Rents	1.29	0.30	0.10	0.10	0.10
Capital receipts impact on Weekly Housing Rents	-1.29	-0.30	-0.10	-0.10	-0.10
Overall net impact on Weekly Housing Rents	0.00	0.00	0.00	0.00	0.00

71. Dwelling rents are increased in line with Government rent restructuring policy. The value of a property influences the level of rent charged.

72. Estimate of capital financing requirement (CFR), this is the total outstanding capital expenditure that has not yet been paid for from either capital or revenue resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

	2006/07 Actual £000's	2007/08 Original Estimate £000's	2007/08 Revised Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Housing	17,098	17,644	17,644	18,190	18,736	19,282
Non Housing	-9,581	-6,894	-6,776	-5,454	-4,570	-4,154
Total	**7,517**	**10,750**	**10,868**	**12,736**	**14,166**	**15,128**

73. Authorised limit for external debt, this represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

	2007/08 Original Estimate £000's	2007/08 Revised Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Borrowing	25,000	20,000	20,000	20,000	20,000
Other Long Term Liabilities	4,000	2,400	2,200	1,900	1,700
Total	**29,000**	**22,400**	**22,200**	**21,900**	**21,700**

74. **Operational boundary for external debt,** this is based on the expected maximum external debt during the course of the year, it is not a limit, actual external debt can vary around this boundary for short times during the year.

	2007/08 Original Estimate £000's	2007/08 Revised Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Borrowing	20,000	11,500	13,500	15,000	17,000
Other Long Term Liabilities	3,000	2,400	2,200	1,900	1,700
Total	**23,000**	**13,900**	**16,000**	**17,800**	**19,200**

75. **Net Borrowing v Capital Financing Requirement (CFR),** the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2008/09 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

	2007/08 Original Estimate £000's	2007/08 Revised Estimate £000's	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Total Debt 31 March	9,857	9,857	10,937	8,144	6,752
Investments	35,000	40,000	45,000	45,000	45,000
Net Borrowing	-25,143	-30,143	-34,063	-36,856	-38,248
CFR	10,750	10,868	12,736	14,166	15,128

76. **Compliance with the CIPFA Code of Practice for Treasury Management in the Public Sector,** the Council can confirm that it has complied with this code throughout 2007/08.

77. **Upper limit on fixed and variable interest rate borrowing and investments,** the purpose of this and the following two prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse

movement in interest rates. This indicator identifies the maximum limit for fixed interest rates based upon the debt position net of investments.

	2007/08 Original Estimate %	2007/08 Revised Estimate %	2008/09 Estimate %	2009/10 Estimate %	2010/11 Estimate %
Upper limit on fixed rate borrowing and investments	100	100	100	100	100
Upper limit on variable rate borrowing and investments	100	100	100	100	100
Lower limit on fixed rate borrowing and investments	25	25	25	25	25
Lower limit on variable rate borrowing and investments	20	20	20	20	20

78. **Upper and Lower limit for the maturity structure of borrowing,** these are used to reduce the Council's exposure to large fixed rate sums falling due for repayment at the same time.

	2007/08 Revised Estimate Upper %	2007/08 Revised Estimate Lower %	2008/09 Estimate Upper %	2008/09 Estimate Lower %	2009/10 Estimate Upper %	2009/10 Estimate Lower %	2010/11 Estimate Upper %	2010/11 Estimate Lower %
Under 12 months	30	0	30	0	30	0	30	0
12 months to 2 yrs	30	0	30	0	30	0	30	0
2 yrs to 5 yrs	80	0	50	0	50	0	50	0
5 yrs to 10 yrs	50	0	100	0	100	0	100	0
10 yrs and above	50	0	100	0	100	0	100	0

79. **Upper limit for principle sums invested for periods longer than 364 days,** this indicator is used to reduce the need for early sale of an investment, and is based on the availability of funds after each year-end.

	2007/08 Original Estimate £m	2007/08 Revised Estimate £m	2008/09 Estimate £m	2009/10 Estimate £m	2010/11 Estimate £m
Investments for periods longer than 364 days	8	8	8	8	8

Recommendations

80. The Executive Board is asked to recommend Council to:
   1) Adopt and approve the Prudential Indicators and limits for 2008/09 to 2010/11 contained within this report;
   2) Approve the Treasury Management Strategy 2008/09;

3) Approve the Minimum Revenue Provision (MRP) statement contained within the report which sets out the Council’s policy on MRP
4) Approve the Investment Strategy 2008/09 contained in the treasury management strategy and the detailed criteria contained within this report.

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Background papers:
MTFS – Executive Board 9th November 2006
TM Strategy 2007/08 – Executive Board 19th February 2007
TM Annual Report 2006/07 – Executive Board 5th November 2007

OXFORD CITY COUNCIL LENDING LIST

2007/2008

Institution	Group	Max	Max	BUILDING SOCIETIES		CREDIT RATINGS:							
		Limit	Period	Assets	UK Asset	Fitch			Moody's			S & P	
		£M's	(days)	£000's	Ranking	Short	Long	Indvi.	Short	Long	Fin.St	Short	Long
UK BUILDING SOCIETIES:													
Assets greater than £2bn													
Nationwide Building Society		8.0	> 364	118,228,300	1	F1+	AA-	A/B	P1	Aa2	B	A1	A+
Britannia Building Society		5.0	364	30,644,500	2	F1	A+	B	P1	A2	C+	A1	A
Yorkshire Building Society		5.0	364	18,861,886	3	F1	A+	B	P1	A2	C+	A1	A
Coventry Building Society		5.0	364	12,280,800	4	F1	A	B	P1	A2	C+	-	-
Chelsea Building Society		5.0	364	11,080,386	5	F1	A	B	P1	A2	C+	-	-
Skipton Building Society		5.0	364	10,112,779	6	F1	A	B	P1	A2	C+	-	-
Leeds Building Society		5.0	364	8,142,229	7	-	-	-	P1	A2	C+	-	-
West Bromwich Building Society		5.0	364	6,604,400	8	F1	A	B	P1	A2	C	-	-
Derbyshire Building Society		5.0	364	6,019,000	9	-	-	-	P1	A2	C	-	-
Principality Building Society		5.0	364	4,812,296	10	F1	A	B	P1	A2	C+	-	-
Cheshire Building Society		5.0	364	4,706,000	11	-	-	-	P1	A2	C	-	-
***Newcastle Building Society ***		5.0	364	4,296,860	12	F1	A	B	P1	A2	C	A2	BBB+
Norwich & Peterborough Building Society		5.0	364	3,671,167	13	-	-	-	P1	A2	C	-	-
Stroud & Swindon Building Society		5.0	364	2,804,016	14	-	-	-	-	-	-	-	-
Dunfermline Building Society		5.0	364	2,744,894	15	-	-	-	P1	A2	C	-	-
Nottingham Building Society		5.0	364	2,617,155	16	-	-	-	-	-	-	-	-
Assets £1bn - £2bn													
Scarborough Building Society		2.5	183	1,735,307	17	-	-	-	-	-	-	-	-
Kent Reliance Building Society		2.5	183	1,614,831	18	-	-	-	-	-	-	-	-
Progressive Building Society		2.5	183	1,332,980	19	-	-	-	-	-	-	-	-
Cumberland Building Society		2.5	183	1,187,127	20	-	-	-	-	-	-	-	-
National Counties Building Society		2.5	183	1,032,978	21	-	-		-	-	-	-	-
Assets £0.5bn - £1bn													
Furness Building Society		2.5	183	814,281	22	-	-	-	-	-	-	-	-
Cambridge Building Society		2.5	183	797,725	23	-	-	-	-	-	-	-	-
Leek United Building Society		2.5	183	741,105	24	-	-	-	-	-	-	-	-
Saffron Walden Herts & Essex Building Society		2.5	183	709,628	25	-	-	-	-	-	-	-	-
Hinckley & Rugby Building Society		2.5	183	685,206	26	-	-	-	-	-	-	-	-
Manchester Building Society		2.5	183	676,729	27	-	-	-	-	-	-	-	-
Darlington Building Society		2.5	183	605,870	28	-	-	-	-	-	-	-	-
Newbury Building Society		2.5	183	564,014	29	-	-	-	-	-	-	-	-
OVERSEAS BUILDING SOCIETIES													
EBS Building Society		5.0	364	17,142,100	1	F1	A	B	P1	A1	C+	-	-
Irish Nationwide Building Society		2.5	183	14,619,400	2	F1	A	B	P2	A3	C-	-	-
UK BANKS & SUBSIDIARIES													
Alliance & Leicester Group		**8.0**	**> 364**										
Alliance & Leicester	Alliance & Lecister	-	-			F1+	AA-	B	P1	Aa3	B-	A1	A+
Banco Santander Central Hispano Group													
Abbey National Plc	BSCH Group	**See Banco Santander for Limits**				F1+	AA-	B	P1	Aa3	C+	A1+	AA
Bank of Ireland													
Bristol and West Plc	Bank of Ireland	**See Bank Of Ireland For Limits**				F1+	AA-	B	P1	A1	C	A1	-
Citigroup													
Citibank International Bank	Citigorup	**See Citibank, N.A for Limits**				F1+	AA+	NR	P1	Aaa	A	A1+	AA+
HBOS Group		**8.0**	**> 364**										
Bank Of Scotland Plc	HBOS Group	-	-			F1+	AA+	A/B	P1	Aa1	B	A1+	AA
Bank of Scotland (Ireland)	HBOS Group	-	-			-	-	-	-	-	-	-	-
HSBC Group		**8.0**	**> 364**										
HSBC Bank Plc	HSBC Group	-	-			F1+	AA	A/B	P1	Aa1	B	A1+	AA
Lansbanki Islands Group													
Heritable Bank Limited	Landsbanki Group	**See Landsbanki Islands HF For Limits**				F1	A	C	-	-	-	-	-
Lloyds TSB Group		**8.0**	**> 364**										
Lloyds TSB Bank	Lloyds TSB Group	-	-			F1+	AA+	A	P1	Aaa	B+	A1+	AA
National Australia Bank Group													
Clydesdale Bank	NAB Group	**See NAB For Limits**				F1+	AA-	B/C	P1	Aa3	B-	A1+	AA-
Royal Bank of Scotland Group		**8.0**	**> 364**										
***National Westminster Bank ***	RBOS Group	-	-			F1+	AA+	A/B	P1	Aaa	B+	A1+	AA
Royal Bank of Scotland Plc	RBOS Group	-	-			F1+	AA+	A/B	P1	Aaa	B+	A1+	AA
Ulster Bank Ireland Ltd	RBOS Group	-	-			F1+	AA	B	P1	Aa2	C+	A1+	AA
Ulster Bank Ltd	RBOS Group	-	-			F1+	AA	B	P1	Aa2	C+	A1+	AA
Adam & Co.	RBOS Group	-	-			-	-	-	-	-	-	-	-
OTHER UK BANKS													
Bank of England		8.0	> 364			-	-	-	-	-	-	A1+	AAA
Allied Irish Bank (GB)		5.0	364			-	-	-	-	-	-	A1	A+
Bank Of Butterfield (UK) Ltd		5.0	364			F1	A-	C	P1	Aa3	C	A2	A-
Barclays Bank		8.0	> 364			F1+	AA+	A/B	P1	Aa1	B+	A1+	AA
***Bradford & Bingley ***		5.0	364			F1	A	B	P1	A1	C+	A1	-
Co-operative Bank plc		5.0	364			F1	A	B	P1	A2	C	-	-
Egg Banking Ltd		5.0	364			F1+	AA	C	P1	A2	D+	-	-
Kaupthing Singer & Friedlander Ltd		5.0	364			F1	A	B/C	-	-	-	-	-
Merrill Lynch International Bank Ltd		5.0	364			F1+	AA-	B	-	-	-	-	-
Schroders Plc		5.0	364			F1	A+	B	-	-	-	A1	A

Institution	Group	Max	Max	BUILDING SOCIETIES		CREDIT RATINGS:							
		Limit	Period	Assets	UK Asset	Fitch			Moody's			S & P	
		£M's	(days)	£000's	Ranking	Short	Long	Indvi.	Short	Long	Fin.St	Short	Long
OVERSEAS BANKS													
ABN AMRO Bank		8.0	> 364			F1+	AA-	B	P1	Aa2	B-	A1+	AA-
Anglo Irish Bank Corporation		5.0	364			F1	A+	B	P1	A1	C+	-	-
Australia & New Zealand Banking Group		8.0	> 364			F1+	AA-	B	P1	Aa1	B	A1+	AA
Banca Monte dei Paschi di Siena		5.0	364			F1	A+	B/C	P1	Aa3	C+	A1	A
Banco Bilbao Vizcaya Argentaria		8.0	> 364			F1+	AA-	A/B	P1	Aa1	B	A1+	AA-
Banco Commercial Portugues	BCP Group	5.0	364			F1	A+	B	P1	Aa3	C+	A1	A
Banco Espirito Santo		5.0	364			F1	A+	B	P1	Aa3	C+	A1	A
Banco Santander Central Hispano	BSCH Group	8.0	> 364			F1+	AA	A/B	P1	Aa1	B	A1+	AA
Bank of America N.A	Bank America Corporation	8.0	> 364			F1+	AA	A/B	P1	Aaa	A	A1+	AA+
Bank of Ireland		5.0	364			F1+	AA-	B	P1	Aa2	B-	A1	A+
Bank of Montreal		5.0	364			F1+	AA-	B	P1	Aa1	B	A1	A+
Bank of New York	Bank of NY Co, Inc Group	8.0	> 364			F1+	AA-	A/B	P1	Aaa	B+	A1+	AA-
Bank of Nova Scotia		8.0	> 364			F1+	AA-	B	P1	Aa1	B	A1+	AA-
Bayerische Landesbank Girozentrale		5.0	364			F1+	A+	C	P1	Aa2	C-	A1	A
Bayerische Hypo - und Vereinsbank AG		5.0	364			F1	A	C	P1	A1	C-	A1	A
BHF-Bank		5.0	364			F1	A	B/C	-	-	-	-	-
BNP Paribas		8.0	> 364			F1+	AA	A/B	P1	Aa1	B	A1+	AA+
Calyon	Credit Agricole Group	**See Credit Agricole For Limits**				F1+	AA	B/C	P1	Aa1	C+	A1+	AA-
Canadian Imperial Bank of Commerce	CIBoC Group	5.0	364			F1+	AA-	B	P1	Aa2	B-	A1	A+
Citibank N.A	Citigroup	8.0	> 364			F1+	AA+	A	P1	Aaa	A	A1+	AA+
Commonwealth Bank of Australia		8.0	> 364			F1+	AA	A/B	P1	Aa1	B	A1+	AA
Credit Agricole	Credit Agricole Group	8.0	> 364			F1+	AA	B	P1	Aa1	B	A1+	AA-
Credit Industriel et Commercial		8.0	> 364			F1+	AA-	B/C	P1	Aa3	C-	A1+	AA-
Credit Lyonnais		8.0	> 364			F1+	AA	B/C	P1	Aa1	B-	A1+	AA-
CIT Group Inc		5.0	364			F1	A	-	P1	A2	-	A1	A
Danske Bank		8.0	> 364			F1+	AA-	B	P1	Aa1	B	A1+	AA-
DePfa Bank Plc	DePfa Bank Group	8.0	> 364			F1+	AA-	B	P1	Aa3	C+	A1	A+
Deutsche Bank AG		8.0	> 364			F1+	AA-	B	P1	Aa1	B	A1+	AA
Development Bank of Singapore		8.0	> 364			F1+	AA-	B	P1	Aa1	B	A1+	AA-
Dexia Bank		8.0	> 364			F1+	AA+	B	P1	Aa1	B-	A1+	AA
Dexia Credit Local		8.0	> 364			F1+	AA+	A/B	P1	Aa1	B+	A1+	AA
Dresdner Bank, AG		5.0	364			F1+	A+	B/C	P1	Aa2	C	A1	A+
ForeningsSparBanken (Swedbank)		5.0	364			F1	A+	B	P1	Aa1	B	A1	A+
Fortis Bank		8.0	> 364			F1+	AA-	B	P1	Aa2	B-	A1+	AA-
Glitnir		5.0	364			F1	A	B/C	P1	Aa3	C	A2	A-
HSH Nordbank AG		5.0	364			F1	A	C	P1	Aa2	C	A1	A
Internationale Nederlanden Bank/ING Bank	ING Bank Group	8.0	> 364			F1+	AA	A/B	P1	Aa1	B	A1+	AA
Intesa Sanpaolo		8.0	> 364			F1+	AA-	B	P1	Aa2	B-	A1 +	AA-
IIB Bank Limited	KBC Bank Group	**See KBC Bank for Limit**				F1	A+	B	P1	A1	C	A1	A+
Irish Permanent Plc		8.0	> 364			-	-	-	P1	Aa3	C+	A1	A+
JP Morgan Chase Bank		8.0	> 364			F1+	AA-	B	P1	Aaa	B+	A1+	AA
KBC Bank	KBC Bank Group	5.0	364			F1+	AA-	B	P1	Aa2	B-	A1+	AA-
Landesbank Baden - Wurttemberg		5.0	364			F1+	A+	B/C	P1	Aa1	C+	A1	A+
Landesbank Hessen - Thuringen Girozentrale		5.0	364			F1+	A+	-	P1	Aa2	C-	A1	A
Landsbanki Islands HF	Landsbani Islands Group	5.0	364			F1	A	B/C	P1	Aa3	C	-	-
Mizuho Corporate Bank Ltd		5.0	364			F1	A+	B	P1	Aa2	C	A1	A+
National Australia Bank	NAB Group	8.0	> 364			F1+	AA	A/B	P1	Aa1	B	A1+	AA
National Bank of Canada		5.0	364			F1	A+	B	P1	Aa2	B-	A1	A
Norddeutsche Landesbank Girozentrale		5.0	364			F1	A	C	P1	Aa2	C-	A1	A
Nordea Bank Finland	Nordea Group	8.0	> 364			F1+	AA-	B	P1	Aa1	B	A1+	AA-
Rabobank		8.0	> 364			F1+	AA+	A	P1	Aaa	B+	A1+	AAA
Riyad Bank		5.0	364			F1	A	B	P1	A1	C	A1	A
Royal Bank of Canada		8.0	> 364			F1+	AA	A/B	P1	Aaa	B+	A1+	AA-
Skandinaviska Enskida Banken		5.0	364			F1	A+	B	P1	Aa2	B-	A1	A+
Societe Generale (SG)		8.0	> 364			F1+	AA	A/B	P1	Aa1	B	A1+	AA
State Street Bank & Trust Company		8.0	> 364			F1+	AA-	A/B	P1	Aa1	B+	A1+	AA
Svenska Handelsbanken		8.0	> 364			F1+	AA-	B	P1	Aa1	B	A1+	AA-
Toronto - Dominion Bank		8.0	> 364			F1+	AA-	B	P1	Aaa	B+	A1+	AA-
UBS AG		8.0	> 364			F1+	AA+	A/B	P1	Aaa	A-	A1+	AA
Unicredito Italiano		5.0	364			F1	A+	B	P1	Aa2	B-	A1	A+
Wachovia Bank N A		8.0	> 364			F1+	AA-	B	P1	Aa1	B+	A1+	AA
Westpac Banking Corporation		8.0	> 364			F1+	AA-	B	P1	Aa1	B	A1+	AA