www.oxford.gov.uk

OXFORD CITY COUNCIL

To: **City Executive Board**

Date: **23rd March 2009** **Item No: 5**

Report of: **Head of Finance**

Title of Report: **Treasury Management Strategy 2009/10**

Summary and Recommendations

Purpose of report:
To seek approval of the Treasury Management Strategy and Prudential Indicators for 2009/10 onwards

Key decision? No

Executive lead member: Councillor Ed Turner

Report approved by:
Councillor Ed Turner
Finance: Penny Gardner
Legal: Lindsay Cane

Policy Framework: Sustaining Financial Stability

Recommendation(s): The City Executive Board is asked to recommend to Council to:
1. Adopt and approve the Prudential Indicators and limits for 2009/10 to 2011/12 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 2009/10 to 2011/12, and the treasury prudential indicators
4. Approve the Investment Strategy 2009/10 contained in the Treasury Management Strategy, and the detailed criteria.
5. Approve the Counterparty List as attached at appendix B.

Executive Summary

1. This report contains a lot of technical terminology, therefore a list of explanations of these words and phrases is attached at Appendix A

2. **Capital Expenditure -** the projected capital expenditure for 2008/09 and 2009/10 is expected to be:

	2008/09 Estimate £000's	2009/10 Estimate £000's
General Fund	12,985	12,021
HRA	11,463	10,471
Total	24,448	22,492

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

4. The original budget for investment income for 2008/09 was £2.8m, due to the change in the economic climate during the last year this forecast has fallen to around £2.0m. We are on target to achieve this revised figure but it will be dependent on the further fluctuations in the interest rates obtainable on the money market.

5. Our investment interest forecast for 2009/10 was originally £2.4m, this has now been reduced substantially, following the dramatic drop to market rates, and now stands at £0.8m.

6. **Debt** – the Council had £7.7m of external debt as at 1st April 2008, repayments were made during the year reducing this debt down to an estimate of £7.2m by the end of the financial year. All of this debt 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.

7. **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.

8. **I**n synchronisation with the corporate plan and the long term financial plan of the organisation the Council is looking to invest future capital receipts with the aim of earning 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 Council's Capital Financing Requirement (CFR) each year. The table below shows our CFR for the current year and future years.

9. The General Fund CFR is reduced each year by the statutory revenue charge for the repayment of debt, the MRP. There is currently no requirement for an MRP charge to reduce the HRA CFR, but the Council has the option to undertake this if it is considered prudent.

	2008/09 Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's
Housing	18,190	18,736	19,282
Non Housing	-5,474	-374	-885
Total	**12,716**	**18,362**	**18,397**

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

11. 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 prior to their inclusion within the prudential borrowing programme. 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.

12. Two schemes that we will potentially need to borrow for in 09/10, are the Leisure transfer and the play area refurbishment. There are other potential schemes on the horizon, but these two have been included within the limits on the prudential indicators appended to this report.

13. **MRP Statement** – New CLG Guidance have been issued which require full Council to approve an MRP (minimum revenue provision) statement on an annual basis, prior to the start of the year. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. 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, the MRP policy will be based on the non-housing CFR (Option 2)
    - 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.

MRP is an equivalent annual cost of which has been allocated for within the revenue budgets in future years.

Introduction

14. This report outlines the Council's prudential indicators for 2009/10 – 2011/12 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:
    - The reporting of the prudential indicators setting out the expected capital activities as required by the CIPFA Prudential Code for Capital Finance in Local Authorities;
    - The Council's Minimum Revenue Provision (MRP) policy, which sets out how the Council will pay for capital assets through revenue each year as required by Guidance under the Local Government and Public Involvement in Health Act 2007.
    - The treasury management strategy, which sets out how the Council's treasury service will support the capital decisions taken, the day to day treasury management and the limitations on activity through treasury prudential indicators. This is in accordance with the CIPFA code of Practice on Treasury Management;
    - The investment strategy, which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the CLG investment guidance.

15. 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 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.

16. The Constitution requires an annual strategy to be reported to City 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 to report on actual activity for the year.

17. This report revises the indicators for 2008/09, 2009/2010 and introduces new indicators for 2010/11 and 2011/12. Each indicator reflects the outcome of the Council's underlying capital appraisal systems.

18. The Council's current Treasury Management Strategy was approved at Executive Board on 4th February 2008, and at Council on 18th February 2008. The strategy has also been updated at City Executive Board on the 22nd October and at Council on the 15th December 2008 following the collapse of the Icelandic banks, and the change to the economic climate and the subsequent changes to our strategy.

19. 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.

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

Capital Expenditure Plans

21. The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government, any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This needs to be affordable, sustainable and prudent. The revenue consequences of this spend will need to be covered from the Council's own resources.

22. This capital expenditure can be paid for immediately, by applying capital resources such as capital receipts, capital grants, external funding or revenue contributions, but if these resources are insufficient any residual expenditure will add to the Council's borrowing need.

23. The key risks to the plans are that the level of Government support has been estimated and is therefore perhaps subject to change. Other estimates of resources such as capital receipts may be subject to uncertainty. Anticipated asset sales may be postponed or reduced due to the impact of the declining economy on the property market.

24. The Council is asked to approve the summary capital expenditure projections below. This is the first prudential indicator:

Capital Expenditure £m	2008/09 Revised £000's	2009/10 Estimated £000's	2010/11 Estimated £000's	2011/12 Estimated £000's
General Fund	12,985	12,021	6,282	2,490
HRA	11,463	10,471	16,193	14,737
Financed by:				
Capital receipts	13,151	1,860	4,340	2,440
Capital grants	10,490	8,490	8,296	6,202
Supported Borrowing Revenue Backed	892	4,736	2,565	1,335
Revenue	0	1,120	1,500	1,500
Capital Reserves	(85)	6,286	5,774	4,145
Net financing need for the year	**0**	**0**	**0**	**1,605**
Capital Reserves b/fwd	6,469	6,554	4,287	506
Increase in Reserves	0	4,019	1,993	3,639
Decrease in Reserves	85	(6,286)	(5,774)	(4,145)
Capital Reserves c/fwd	6,554	4,287	506	0

25. The figures in the above table do not tie into the budget book as the budget assumes full repayment of prudential borrowing will be in year one, but this repayment is actually over a number of years, usually the life of the asset, and therefore an element of each years spend is still outstanding and therefore is a financing deficit. For example: in 09/10 the play park refurbishment project plans to spend £1.25m but the repayment in year one will be £83k, therefore leaving £1.17m still needing to be funded. This amount therefore increases our CFR temporarily.

26. The second prudential indicator is the council's Capital Financing Requirement (CFR). The CFR is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's underlying need to borrow. The capital expenditure above which has not immediately been paid for will increase the CFR.

27. Council is asked to approve the CFR projections below:

	2007/08 Actual £000's	2008/09 Original Estimate £000's	2008/09 Revised Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's	2011/12 Estimate £000's
Housing	17,644	18,190	18,190	18,736	19,282	19,282
Non Housing	(8,079)	(5,454)	(5,474)	(374)	(885)	(2,492)
Total	9,565	12,736	12,716	18,362	18,397	16,790

Interest Rates

28. Interest rates are important 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.

29. Interest rates are currently at an all time low, with Base Rate at 0.5%. Since October last year the Base Rate has been cut month after month, to try to get the economy moving again. Some economists are predicting that Base Rate may even fall as low as 0%.

30. The interest rate forecast for 2009/10 was originally set at £2.4m, this was based on interest rate forecast approximately a year ago. Following the change to the economic climate and the dramatic reduction to base rates in the last six months, this has been reduced substantially, and now stands at £0.8m.

31. The Finance department manages the council's cash investment. Assuming average cash holding of £40 million, a quarter point increase or decrease in interest rates is worth approx £100K.

Borrowing and Debt Strategy 2009/10 – 2011/12

32. The Council had £7.75m of external debt as at 1st April 2008, 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.

33. During 2008/09 repayments will reduce debt outstanding to £7.5m at the end of March 2009.

34. The Council also has £2.1m of long-term liabilities; this is an outstanding debt with South Oxfordshire District Council and is held at a variable rate, and will reduce to £1.9m by the end of March 2009.

35. The CFR as at 1st April 2007 is £9.5m which is slightly above our external borrowing. This indicates that there will soon be a need to borrow external funds

36. As at the 31st March 2009 our CFR is expected to be £12.7m and our external borrowing at £7.7m. This indicates a need to borrow on the external market in the medium term, if all schemes on the current capital programme go ahead, unless revenue or other funding sources are used.

37. Long-term fixed interest rates are at risk of being higher over the medium term. The Head of Finance as S151 Officer has delegated powers to determine the need for any future borrowing depending on the prevailing interest rates at the time, taking into account the risks. A combination of long-term and short-term fixed and variable rate borrowing may be considered. This may include borrowing in advance of future years' requirements.

38. If the Council were to borrow we would consider the options open to us, which include borrowing from banks or building societies, although in the current market these types of borrowing are less likely to be found. We do have the facility to borrow from the Public Works Loan Board (PWLB) which is part of the government and provides loans to local authorities. A forecast of future borrowing rates can be seen in the table in paragraph 65, but these do change on a daily basis, but are also competitive in the current market.

39. The option of postponing borrowing and running down investment balances will also be considered. This would reduce counterparty risk and hedge against the expected fall in investment returns. To be able to do this we would need to consider the cashflow requirements of the

organisation to be able to maintain a sufficient flow of funds throughout the year by utilising short term investments to allow sufficient liquidity.

40. Currently our average rate of return on investments is approximately 2.4% and predicted to be approximately 1.8% for 2009/10. The current rates for borrowing for periods between 5 and 50 years are between 2.4% and 3.8%, therefore this shows you that there is a deficit between investment rates and borrowing rates. The Council has the option to use investments to internally fund capital expenditure, the consequence of this would be reduced interest earned, but this would be supplemented by the interest that would be charged to service areas for this provision of funds. The Council would look to create an equalisation fund with the surplus interest between that charged to services and that lost on investments. This fund would be used for future years to cover any budget deficits.

41. The Council is not looking to pursue the issuance of Local Authority bonds at this time, the reasons for this are outlined in Appendix D.

Prudential Borrowing

42. Under the prudential system, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to CIPFA's code of practice. The system is designed to allow authorities that need, and can afford to, to borrow in order to pay for capital investment.

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

44. The Council intends to undertake prudential borrowing over the short and 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 within the prudential borrowing programme.

45. Some examples of the types of schemes that the Council may wish to consider using prudential borrowing for are:
    - Spend to save schemes, for example ICT transfer or other 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
    - Improvement of Leisure facilities following transfer to a "not for profit" organisation
    - Review of office accommodation
    - Replacement and refurbishment of play areas around the city

46. 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 invest to save schemes to proceed where they are not only affordable but also prudent and sustainable.

47. Any prudential borrowing undertaken will affect the Councils prudential indicators, and when deciding on our levels of prudential borrowing the Council must 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

48. 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.

49. Many local authorities have appraised potential prudential borrowing from within an 'invest to save' framework. This has allowed them to justify the capital expenditure by way of financing them from the revenue savings that they will make over the life of the project. The Council is looking to undertake transformational projects that will fall within the invest to save framework, and because of the prospect of lower capital receipts this has enabled us to undertake these projects.

50. 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.

Investment Strategy 2009/10 – 2011/12

51. 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.

52. Expectations on shorter-term interest rates, on which investment decisions are based, shows a likelihood of the current 1% Bank Rate reducing throughout 2009 and perhaps into 2010. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

53. Credit ratings remain the main independent market indicator of the financial strength of an organisation and are embodied in the current government guidance. However, the recent credit rating changes have impacted on counterparty lists drawn from the minimum credit rating criteria. We review our counterparty list on a daily basis to ensure it is up to date with all recent changes, we look at credit ratings and also news on the economic climate to ensure that each counterparty that we consider on a daily basis is secure When looking to make an investment we also consider a wide range of counterparties, we obtain rates for a major bank, a large building society, a smaller building society and an Irish institution, along with rates from any counterparty that is on our list that is offering a competitive rate. We then review this range of rates before making the final decision about where to invest our funds.

54. Credit rating agencies have been brought into question as to their relevance and reliability, and therefore we have looked for further ways to select our counterparties. We still maintain a log of credit rating changes and use them in our selection process, but we also consider the alternatives, such as the economic climate of individual countries, those institutions or countries with Government Guarantees, security of individual institutions, general information in the public domain regarding individual institutions.

55. There is a clear operational difficulty arising from the current banking crisis. Ideally investments would be invested longer to secure better returns, however uncertainty over counterparty creditworthiness suggests shorter dated investments would provide better security.

56. The criteria for choosing counterparties set out below provides a sound approach to investment in 'normal' market circumstances. Whilst Members are asked to approve this base criteria, under the exceptional current market conditions the Head of Finance will temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These

restrictions will remain in place until the banking system returns to 'normal' conditions, or such time as the Head of Finance in conjunction with the Chief Executive and portfolio holder for finance decides to amend them. Similarly the time periods for investments will also be restricted to a maximum of 3 months. In exceptional circumstances and prior approval by the Head of Finance, this limit may be exceeded.

57. Options for increased security of funds include:
    - Debt Management Deposit Account Facility (DMADF – a government body which accepts local authority deposits)
    - Money Market Funds (MMF) deposit facilities rated AAA
    - Strongly rated institutions offered support by the UK Government
    - Investments with UK based institutions

Example rates for the above funds are as follows, as at 25th February 2009:

	Overnight rate %	1 month rate %	3 month rate %
DMO	0.55	0.55	0.45
MMF	2.56	Na	Na
Institutions with Government support	0.90	1.41	2.06
UK based institutions	0.90	1.50	2.20

58. The Head of Finance as S151 Officer has delegated powers to undertake the most appropriate form of investments depending on the prevailing interest rates and security of counterparty at the time.

Criteria for approving counterparties

59. 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. We are currently holding two list, one that details all those banks and building societies that meet our given criteria, and a condensed list that we are currently using on a daily basis. The latter includes a list of UK banks and building societies that we believe are the most secure institutions to be investing our money with in the current economic climate. 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 investments are. The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one of which meets the Council's criteria, and the other does not, the institution will fall outside the lending 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

In addition to this the Council will use banks whose ratings fall below the criteria specified above if all of the following conditions are met:

a) Wholesale deposits in the bank are covered by a government guarantee
b) The government providing the guarantee is rated "AAA" by all three major rating agencies (Fitch, Moody's and Standard & Poors); and
c) The Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee

The Council's house bank – Co-operative – if this falls below the above criteria.

- Building Societies – the Council will use all societies with assets in excess of £0.5billion
- Bank Subsidiary and Treasury Operations – the Council will use these where the parent bank has the necessary ratings outlined above.
- Money Market Funds = AAA
- UK Government - including gilts and the DMADF
- 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-	£10.0m	>364 days
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£7.0m	<365 days
Unrated Building Societies					
Lower Limit Category	Asset base between 0.5bn and 2bn			£4.0m	183 days
Upper Limit Category	Asset base greater than 2bn			£7.0	< 365 days
Other					
Money Market Funds	-	-	-	£10.0m	364 days
DMO				£10.0m	364 days
Local Authorities				£10.0m	364 days

60. Due to the uncertainty in the financial markets it is recommended that the Investment Strategy is approved on a similar approach to previous years which will provide officers with the flexibility to deal with any unexpected occurrences. Officers will restrict the pool of available counterparties from this criteria to safer instruments and institutions. Currently this involves the use of DMADF, AAA rated Money Market Funds and institutions with higher credit ratings than those outlined in the investment strategy or which are provided support from the Government. Investments are also currently only being carried out for short fixed periods to also improve the security of investments.

61. The Council's house bank is the Co-operative Bank. The credit ratings for this bank do currently meet our criteria, but any further downgrades may affect this. Fitch have recently placed the Co-operative Bank on a negative rating watch ahead of the intended merger with Britannia Building Society. If the Co-operative bank were to fall below our specified criteria then we would continue to use them as a bank with no more than overnight exposure, this would ensure security of funds without having to break our contract.

62. 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.

63. 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. Currently the Council is not undertaking any long term investments due to the uncertainty of the economy and to reduce the risk of any losses.

64. A Specified investment is one that is in sterling, is not more than 1 year from inception to repayment, or 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.

65. The current counterparty list is attached as Appendix B for information and approval.

66. The proposed criteria for Specified and Non-Specified investments are shown in Appendix C for approval.

67. The expected movement in interest rates

Medium Term Rate Estimates (averages)

Annual Average %	Bank Rate	Money Rates		PWLB Rates*		
		3 month	1 year	5 year	20 year	50 year
2008/09	3.9	5.0	5.3	1.9	3.7	4.4
2009/10	1.0	1.6	1.8	2.4	3.9	3.8
2010/11	1.7	2.1	2.8	3.2	4.1	4.0
2011/12	2.4	2.8	3.6	4.0	4.3	4.1

* borrowing rates, 2008/09 shown as actual rates as at 24th February

68. The UK economy has entered a profound recession, worsened by a dangerous combination of negative growth and dislocation in the domestic and world financial markets. The situation in the economy is considered critical by the policy setters who are concerned that the testing financial environment, the sharp decline in house prices and persistently tight credit conditions could trigger a collapse in consumer confidence. At best this could deliver a short, sharp downturn, at worst a prolonged Japanese-style recession.

69. The sharp downturn in world commodity, food and oil prices, the lack of domestic wage pressures and weak retail demand promises a very steep decline in inflation in the year ahead. In the recent pre-Budget Report, the Treasury suggested RPI inflation could fall to minus 2.25% by September 2009. The Bank of England will not let the inflation outlook be the only element of influence on their policy action. It may be seen that deflation will strengthen the possibility of further base rate cuts.

70. The Government's November pre-Budget Report did feature some fiscal relaxation but it also highlighted the very poor health of public sector finances. The size of the package may not be sufficient to kick-start the economy. The onus for economic stimulation will fall upon monetary policy and the Bank of England.

71. The Bank will continue to ease policy and the need to drive commercial interest rates, currently underpinned by the illiquidity of the money market, to much lower levels suggests the approach will be more aggressive than might otherwise have been the case. A bank rate below 1% now seems a distinct possibility and short-term LIBOR rates of below 2% may result. Only when the markets return to some semblance of normality will official rates be edged higher.

72. Long-term interest rates will be the victim of conflicting forces. The threat of deep global recession should drive bond yields to yet lower levels and this will be a favourable influence upon the sterling bond markets. But the prospect of exceptionally heavy gilt-edged issuance in the next three years (totalling in excess of £100bn per annum), as

the Government seeks to finance its enormous deficit, could severely limit the downside potential for yields.

Sensitivity to Interest Rate Movements

73. Future Council Statement of Accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to treasury management costs/income for next year. That element of the debt and investment portfolios which are of a longer term, fixed interest rate nature will not be affected by interest rate changes.

£	**2009/10 Estimated +1%**	**2009/10 Estimated –1%**
Revenue Budgets		
Interest on Borrowing	0	0
HRA interest on balances	-40,000	40,000
HRA Item 8 interest	35,000	-35,000
Investment Income	125,000	-125,000

Prudential Indicators

74. 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 a statutory requirement and therefore have to be reported to Council each year. These indicators are split into two categories the first is affordability. Our affordability indicators are listed below:

75. **Estimates of Capital Expenditure**, split between GF and HRA, this is based on the current capital programme.

	2008/09 Original Estimate £000's	**2008/09 Revised Estimate £000's**	**2009/10 Estimate £000's**	**2010/11 Estimate £000's**	**2011/12 Estimate £000's**
General Fund	8,029.8	12,985	12,021	6,282	2,490
HRA	12,941.0	11,463	10,471	16,193	14,737

76. **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	**2007/08 Actual £000's**	**2008/09 Original Estimate £000's**	**2008/09 Revised Estimate £000's**	**2009/10 Estimate £000's**	**2010/11 Estimate £000's**	**2011/12 Estimate £000's**
Interest Costs		1,183.95	937.02	1,162.78	1,275.67	535.62
Investment Income		-2,807.75	-2,066.43	-798.12	-955.15	-1,252.69
Net Financing Cost		-1,623.80	-1,129.41	364.66	320.52	-717.07
Revenue Stream		27,706.58	29,534.00	28,958.00	28,958.00	28,958.00
Ratio		-5.9%	-3.8%	1.3%	1.1%	-2.5%

Housing Revenue Account	**2007/08 Actual £000's**	**2008/09 Original Estimate £000's**	**2008/09 Revised Estimate £000's**	**2009/10 Estimate £000's**	**2010/11 Estimate £000's**	**2011/12 Estimate £000's**
Item 8 Interest		1,238.65	1,194.10	1,004.97	1,039.95	1,039.95
Investment Income		-320.00	-365.00	-142.00	-200.00	-285.00
Net financing Cost		918.65	829.10	862.97	839.95	754.95
Revenue Stream		15,873.41	14,559.82	14,979.98	14,979.98	14,979.98
Ratio		5.8%	5.7%	5.8%	5.6%	5.0%

77. **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.
78. 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.

79. 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.

80. 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. The pot of brought forward capital receipts is currently being treated more generally, and therefore the split between HRA and GF is more flexible through the period of reduced receipts.

81. 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 £0.82.

	2008/09 Original Estimate £	2008/09 Revised Estimate £	2009/10 Estimate £	2010/11 Estimate £	2011/12 Estimate £
Capital spend impact on Council Tax Band D	10.13	6.36	2.53	4.58	4.70
Capital receipts impact on Council Tax Band D	-10.13	-6.36	-2.53	-4.58	-4.70
Overall net impact on Council Tax Band D	0.00	0.00	0.00	0.00	0.00

82. **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.

83. 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.

84. 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.

85. 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.

86. 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.

87. For every £1 million that the Council spends on new capital projects without asset sales to finance it will have an impact of £0.09 per week on rents.

	2008/09 Original Estimate £	2008/09 Revised Estimate £	2009/10 Estimate £	2010/11 Estimate £	2011/12 Estimate £
Capital spend impact on Weekly Housing Rents	1.29	0.00	0.00	0.03	0.04
Capital receipts impact on Weekly Housing Rents	-1.29	0.00	0.00	-0.03	-0.04
Overall net impact on Weekly Housing Rents	0.00	0.00	0.00	0.00	0.00

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

89. **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.

	2007/08 Actual £000's	2008/09 Original Estimate £000's	2008/09 Revised Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's	2011/12 Estimate £000's
Housing	17,644	18,190	18,190	18,736	19,282	19,282
Non Housing	-8,079	-5,454	-5,474	-374	-885	-2,492
Total	**9,565**	**12,736**	**12,716**	**18,362**	**18,397**	**16,790**

90. **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.

	2008/09 Original Estimate £000's	2008/09 Revised Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's	2011/12 Estimate £000's
Borrowing	15,000	15,000	17,000	17,000	17,000
Other Long Term Liabilities	2,200	2,200	1,900	1,700	1,500
Total	**17,200**	**17,200**	**18,900**	**19,700**	**19,500**

91. **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.

	2008/09 Original Estimate £000's	2008/09 Revised Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's	2011/12 Estimate £000's
Borrowing	12,500	11,500	14,000	14,000	14,000
Other Long Term Liabilities	2,200	2,200	1,900	1,700	1,500
Total	**14,700**	**14,700**	**16,900**	**17,700**	**19,500**

92. **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.

	2008/09 Revised Estimate £000's	2009/10 Estimate £000's	2010/11 Estimate £000's	2011/12 Estimate £000's
Total Debt 31 March	12,220	9,394	7,952	5,640
Investments	42,417	44,340	41,528	41,756
Net Borrowing	-30,197	-34,946,	-33,576	-36,116
CFR	12,736	18,362	18,397	16,790

93. **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 t 2008/09.

94. **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.

	2008/09 Original Estimate %	2008/09 Revised Estimate %	2009/10 Estimate %	2010/11 Estimate %	2011/12 Estimate %
Limit on fixed rate borrowing	100	100	100	100	100
Limit on variable rate borrowing	25	25	25	25	25
Limit on fixed rate investments	100	100	100	100	100
Limit on variable rate investments	50	50	50	50	50

95. **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.

	2008/09 Revised Estimate Upper %	2008/09 Revised Estimate Lower %	2009/10 Estimate Upper %	2009/10 Estimate Lower %	2010/11 Estimate Upper %	2010/11 Estimate Lower %	2011/12 Estimate Upper %	2011/12 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	50	0	80	0	80	0	80	0
5 yrs to 10 yrs	100	0	50	0	50	0	50	0
10 yrs and above	100	0	50	0	50	0	50	0

96. 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. This has been set at zero due to the uncertainty of the market and reducing our risk of longer term investments.

	2008/09 Original Estimate £m	2008/09 Revised Estimate £m	2009/10 Estimate £m	2010/11 Estimate £m	2011/12 Estimate £m
Investments for periods longer than 364 days	8	0	0	0	0

97. The Council currently has a contract for its Treasury Management advisory service with Butlers. This contract includes:
    - Strategic Advice
    - Interest Rate Forecasting and Economic Advice
    - Portfolio Structure and Volatility
    - Investment Policy
    - Credit Ratings
    - Treasury Management Policy

98. This contract was initially for 3 years with the option to extend for 1 year. The initial 3 year period end in November 2009, and at this point we will retender the contract.

Recommendation

99. The City Executive Board is asked to recommend to Council to:
    1) Adopt and approve the Prudential Indicators and limits for 2009/10 to 2011/12 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 2009/10 to 2011/12, and the treasury prudential indicators

4) Approve the Investment Strategy 2009/10 contained in the Treasury Management Strategy, and the detailed criteria
5) Approve the Counterparty List as attached at appendix B.

Name and contact details of author:
Anna Winship
Group Accountant (Technical)
Telephone number 01865 252517
Email: awinship@oxford.gov.uk

List of background papers: None
Version number: 2

Appendix A

Explanation of technical terms used in Treasury Management Strategy

Minimum Revenue Provision (MRP) - how the Council will pay for capital assets through revenue each year
Libor London Interbank Borrowing Rate **-** is a daily reference rate based on the interest rates at which banks borrow unsecured funds from banks in the London wholesale money market (or interbank market).

Libid London Interbank Bid Rate **-** is a bid rate; the rate bid by banks on Eurocurrency deposits (i.e., the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR. Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

Specified Investments These are high security, and high liquidity investments in sterling and anything less than 1 year.

Non Specified Investments anything that is not a specified investment, eg anything over 1 year, and investment that are less secure.

Capital Financing Requirement (CFR) Councils underlying need to borrow**.** Total outstanding capital expenditure which has not yet been paid for from either revenue or capital resource.

Public Works Loan Board (PWLB) is a non-ministerial government department, now managed as part of the UK Debt Management Office. It provides loans to local authorities of all types in Great Britain

Appendix B

OXFORD CITY COUNCIL LENDING LIST
2008/2009

Red Negative Ratings Watch
Green Positive Ratings Watch

Institution	Group	Max Limit £M's	Max Period (days)	BUILDING SOCIETIES Assets £000's	UK Asset Ranking	CREDIT RATINGS: Fitch Short	Fitch Long	Fitch Indvi.	Fitch Supp	Moody's Short	Moody's Long	Moody's Fin.St	S & P Short	S & P Long
UK	**(Stable Outlook)**					**F1+**	**AAA**	**-**	**-**	**-**	**-**	**-**	**A1+**	**AAA**
Allied Irish Bank (GB) *	Allied Irish Plc	2.5	90			F1+	A	D	1	-	-	-	A1	A
Bank of Scotland *	Lloyds Banking Group	2.5	90			F1+	AA-	C	1	P1	Aa1	C-	A1+	AA-
Barclays Bank		10.0	> 364			F1+	AA-	B	1	P1	Aa3	C	A1+	AA-
Bradford & bingley Plc *		2.5	90			F1+	A-	B/C	3	P1	A2	C	A1	-
Britannia Building Society *		2.5	90	32,377,000	2	F2	A-	C	3	P1	A2	C	A2	A-
Chelsea Building Society		7.0	364	13,016,951	5	F1	A-	B/C	3	P1	A2	C	-	-
Co-operative Bank Plc		7.0	364			F1	A	B/C	3	P1	A2	C	-	-
Coventry Building Society		7.0	364	14,908,400	4	F1	A	B	3	P1	A2	C+	-	-
Cumberland Building Society		4.0	183	1,284,519	20	-	-	-	-	-	-	-	-	-
Dunfermline Building Society *		2.5	90	3,308,785	14	-	-	-	-	P2	Baa2	D+	-	-
HSBC Bank Plc	HSBC Group	10.0	> 364			F1+	AA	A/B	1	P1	Aa1	B	A1+	AA
Kent Reliance Building Society		7.0	364	2,129,826	18	-	-	-	-	-	-	-	-	-
Leeds Building Society		7.0	364	9,199,200	7	F1	A	B	3	P1	A2	C+	-	-
Lloyds TSB Bank	Lloyds Banking Group	10.0	> 364			F1+	AA-	B/C	1	P1	Aa3	C+	A1+	AA-
National Counties Building Society		4.0	183	1,157,331	21	-	-	-	-	-	-	-	-	-
National Westminster Bank	RBS Group	7.0	364			F1+	AA-	-	1	P1	Aa3	B	A1	A+
Nationwide Building Society		7.0	364	138,637,600	1	F1+	AA-	B	1	P1	Aa2	B	A1	A+
Newcastle Building Society *		2.5	90	4,698,854	12	F1	A-	B/C	3	P2	A3	C-	A2	BBB+
Northern Rock *		7.0	90			F1+	A-	F	-	P1	A2	-	A1	A
Norwich & Peterborough Building Society		7.0	364	4,309,548	13	F1	A-	B/C	3	P1	A2	C	-	-
Nottingham Building Society		7.0	364	3,024,462	16	-	-	-	-	-	-	-	-	-
Principality Building Society *		2.5	90	5,825,958	10	F2	A-	B/C	3	P2	A3	C-	-	-
Progressive Building Society		4.0	183	1,495,379	19	-	-	-	-	-	-	-	-	-
Royal Bank of Scotland *	RBS Group	2.5	90			F1+	AA-	B/C	1	P1	Aa1	B	A1	A+
Scarborough Building Society *		2.5	90	2,319,042	17	-	-	-	-	P2	A3	C-	-	-
Skipton Building Society		7.0	364	11,966,998	6	F1	A	B/C	3	P1	A2	C+	-	-
Stroud & Swindon Building Society		7.0	364	3,156,109	15	-	-	-	-	-	-	-	-	-
West Bromwich Building Society *		2.5	90	7,164,200	8	F2	A-	B/C	3	P2	A3	C-	-	-
Yorkshire Building Society		7.0	364	23,136,924	3	F1	A	B/C	3	P1	A2	C	A1	A
FRANCE	**(Stable Outlook)**					**F1+**	**AAA**	**-**	**-**	**-**	**-**	**-**	**A1+**	**AAA**
Dexia Bank *		7.0	90			F1+	AA-	C	1	P1	Aa1	C-	A1+	AA-
IRELAND	**(Stable Outlook)**					**F1+**	**AAA**	**-**	**-**	**-**	**-**	**-**	**A1+**	**AAA**
Allied Irish Bank Plc *	Allied Irish Bank Plc	2.5	90			F1+	A	D	1	P1	Aa2	C	A1	A+
Anglo Irish Bank *		2.5	90			F1+	A-	D/E	1	P1	A1	C+	A1	A-
Bank of Ireland		7.0	364			F1+	A	C	1	P1	Aa2	B-	A1	A+
Bank of Scotland (Ireland) *		2.5	90			-	-	-	-	P1	A2	C-	-	-
EBS Building Society *		2.5	90			F1+	BBB	C/D	2	P1	A2	C-	-	-
Irish Nationwide Building Society *		2.5	90			F1+	BBB-	D/E	2	P1	Aa3	D-	-	-
Irish Permanent Plc		7.0	364			-	-	-	-	P1	Aa3	C	A1	A-
OTHERS						**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt Management Office		Unlimited	364			-	-	-	-	-	-	-	-	-
Local Authorities		10.0	364			-	-	-	-	-	-	-	-	-
Money Market Funds		10.0	364			-	-	-	-	-	-	-	-	-

N.B. - No placements to be made <u>without first</u> manually checking current loan arrangements (including forward loans) against lending limit

No more than 20% with any counterparty
Country limits to be applied - No limit for UK investments
- Upto a maximum of 15% of total investment to be with Irish Institutions
- Upto a maximum of 10% of total investment to be with institutions in other countries

Appendix C

Treasury Management Practice (TMP) 1 (5) – Credit and Counterparty Risk Management

The office of the Deputy Prime Minister (now CLG) issued investment Guidance on 12th March 2004, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the code on 26th March 2002 and will apply its principles to all investment activity. In accordance with the Code, the Section 151 officer has produced it treasury management practices. This part TMP 1(%), covering investment counterparty policy requires approval each year.

Annual Investment Strategy – The key requirement of both the Code and the Investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for decision making on investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (ie high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

This strategy is to be approved by full Council.

The investment policy proposed for the Council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury management strategy.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

1. The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society)
6. A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has an AAA sovereign long term rating these institutions will be included within the Council's criteria temporarily until such time as the rating improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee.

For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

For category 5 this covers bodies with a minimum rating of F1/A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is as shown in the table below:

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Banks & Building Societies					
Upper Limit Category	*F1+/AA-*	P-1/Aa3	A1+/AA-	£10.0m	>364 days
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£7.0m	<365 days
Unrated Building Societies					
Lower Limit Category	Asset base between 0.5bn and 2bn			£4.0m	183 days
Upper Limit Category	Asset base greater than 2bn			£7.0	< 365 days
Other					
Money Market Funds	-	-	-	£10.0m	364 days
DMO				£10.0m	364 days
Local Authorities				£10.0m	364 days

Non-Specified Investments - Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	Limit (£ or %)
A	Supranational Bonds greater than 1 year to maturity (a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). (b) A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£2million
B	Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£2million
C	Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The council may use such building societies which have a minimum asset size of £0.5m, but will restrict these type of investments to £4million for upto 183 days	£4.0million for maximum period of 183 days
D	Any bank or building society that has a minimum long term credit rating of AA- (or equivalent), for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Maximum limit of 100%, so long as no more than 20% of investments have maturities of longer than one year at any one time.
E	Any non rated subsidiary of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to the credit rating of the parent company meeting	£4 million

	the counterparty criteria set out or those that have Government Guarantees.	
F	Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	£0.25million

Within categories c, d and e, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. This criteria is that any Building Society with an asset base above £1bn but without credit ratings will be limited to £4 million for a maximum of 183 days. Any Building Society that has an asset base over £1bn, but has credit ratings that do not meet our criteria will be limited to £2.5 million for a maximum of 90 days.

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information from Butlers on a daily basis, as and when ratings change, and counterparties are checked promptly. A log of all changes is kept with any action that recorded that has been taken, ie removed from counterparty list. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and if required new counterparties which meet the criteria will be added to the list.

Appendix D

Local Authority Bonds

Bonds are loans raised by local authorities, as a way of raising funds, in the form of a fixed interest rate bond, repayable on a fixed date. Local Authorities have the power to issue bonds under the Local Authority (Stocks and Bonds) regulations 1974, as amended.

Typical bonds are issued for a period of 2 to 5yrs and for amounts between £500 to £5,000, at an interest rate fixed at the issue of the bond. Interest would be paid every 6 months for the life of the bond, with the principal being repaid at the end of the fixed period.

It is considered that there would be a great deal of administration attached to the issue of bonds, for example:

- Issue of many small value bonds, for varying amounts and over varying maturity dates
- Calculation and payment of interest every 6 months for each bond
- Repayments at the end of each fixed period
- Transfers of ownership in cases of probate

As a local authority we can borrow any amount, over the period we choose from the PWLB at competitive rates. This is considered to be a much simpler way to raise funds in the current climate.