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OXFORD CITY COUNCIL

To: City Executive Board
Council

Date: 8th December 2010
13th December 2010 **Item No: 7**

Report of: Corporate Director, Finance and Efficiency

Title of Report: Treasury Management Mid Year Review Report

Summary and Recommendations

Purpose of report: To report performance of the treasury management function for the period April 2010 to Sept 2010, and to amend the current treasury management strategy for 2010/11

Key decision? No

Executive lead member: Councillor Ed Turner

Policy Framework: Sustaining Financial Stability

Recommendation(s):
City Executive Board is asked to recommend Council:
1) to note the performance of the treasury management function for the first six months of 2010/11
2) to adopt and approve the proposed changes to the Treasury Management Strategy 2010/11, in particular:
- Amendments to the Counterparty list as set out in paragraphs 20 to 30 and appendix 4
- Amendments to the period of investment as set out in paragraphs 31 to 33; and
3) to note the intention to borrow in accordance with the Councils Capital Financing Requirement set out in paragraph 34 to 37.

Appendices

1. Appendices to the report are listed below
   - Appendix 1 – Current list of investments
   - Appendix 2 – Prudential indicators
   - Appendix 3 – Risk register
   - Appendix 4 – Proposed counterparty list

Introduction

2. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Revised Code of Practice on Treasury Management was adopted by this Council on 3rd February 2010

3. This mid year report has been prepared in compliance with the Code of Practice, and covers the following:
   - An economic update for the first six months of 2010/11
   - A review of the Treasury Management Strategy Statement and Annual Investment Strategy
   - A review of the Council's investment portfolio for 2010/11
   - A review of the Council's borrowing strategy for 2010/11
   - A review of compliance with Treasury and Prudential Limits for 2010/11

4. This report also includes proposed changes to the Council's Treasury Management Strategy.

Mid Year Review

Economic Update

5. The sovereign debt crisis peaked in May 2010 prompted, in the first place, by major concerns over the size of the Greek government's total debt and annual deficit. However, any default or write down of Greek debt would have a substantial impact on other countries, in particular, Portugal, Spain and Ireland. This crisis culminated in the EU and IMF putting together a €750bn support package in mid May.

6. Growth in the US, UK and the Euro zone in quarter 2 of 2010 was driven by strong growth in the construction sector catching up from inclement weather earlier in the year; early indications are that this will also be repeated in Q3, with GDP predicted to rise by 0.8%. Market expectation for all three sectors of the economy is that they have peaked and are pointing downwards, though not necessarily negative.

7. Following the general election in May 2010, the coalition government put in place an austerity plan to reduce the public sector deficit over the next five years. The result of fiscal contraction is likely to be significant job losses which will have a knock on effect on consumer and business confidence. House prices have started to trend down during the summer and mortgage approvals are at very weak levels and also declining.
   - Unemployment – the trend of falling unemployment (on the benefit claimant count) has reversed since July and is now showing small increases which are likely to be the start of a new trend of rising unemployment.
   - Inflation and Bank Rate – CPI has remained high so far during 2010. It peaked at 3.7% in April and has fallen back to 3.1% in August. RPI remains high, at 4.7% in August. Although inflation has remained stubbornly above the Monetary Policy Committee's 2% target, the MPC is

confident that inflation will fall back under the target over the next two years. The last quarterly inflation report in August projected a significant undershoot post 2011. The Bank of England finished its programme of quantitative easing with a total of £200bn in November 2009 (although there is currently some increase in expectations that there might be a second round of quantitative easing).The Council's treasury management advisors, Sector, have a view that there is unlikely to be any increase in the Bank Rate until the middle of 2011.

- AAA rating – prior to the general election, credit rating agencies had been issuing repeated warnings that unless there was a major fiscal contraction, then the AAA sovereign rating was at significant risk of being downgraded. Sterling was also under major pressure during the first half of the year. However, after the Chancellor's budget on 22 June, Sterling has strengthened against the US dollar and confidence has returned that the UK will retain its AAA rating. In addition, international investors now view UK government gilts as being a safe haven from EU government debt. The consequent increase in demand for gilts has helped to add downward pressure on gilt yields and PWLB rates. Standard and Poor's, one of the rating agencies, has reaffirmed the UK sovereign rating at AAA, and removed its negative rating watch.

Sector's view for the next six month of 2010/11

8. It is currently difficult to predict exactly how strong the UK economic recovery is likely to be, and there are a range of views in the market. Sector has adopted a moderate view. However, there are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas:
    - The speed of economic recovery in the US and EU
    - The degree to which government austerity programmes will dampen economic growth
    - The speed of rebalancing of the UK economy towards exporting and substituting imports
    - Changes in the consumer savings ratio
    - The potential for more quantitative easing, and the timing of this in both the UK and US
    - The speed of recovery of banks' profitability and balance sheet imbalances
    - The potential for a major EU sovereign debt crisis which could have a significant impact on financial markets and the global an UK economy

9. The overall balance of risk is negative and there is some risk of a double dip recession, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being small.

10. Sector believes that the longer term trend is for gilt yields and PWLB rate to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

11. Table 1 - Sector’s interest rate forecast

Sector Forecast (October 2010)													
Bank Rate													
	Now	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Sector's View	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.50%	3.00%	3.25%	3.25%
5yr PWLB Rate													
	Now	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Sector's View	2.71%	3.05%	3.05%	3.25%	3.45%	3.65%	3.85%	4.15%	4.45%	4.65%	4.95%	5.25%	5.25%
10yr PWLB Rate													
	Now	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Sector's View	4.06%	4.15%	4.15%	4.25%	4.55%	4.75%	4.85%	5.15%	5.25%	5.45%	5.45%	5.75%	5.75%
25yr PWLB Rate													
	Now	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Sector's View	5.03%	5.05%	5.15%	5.15%	5.25%	5.35%	5.55%	5.55%	5.65%	5.85%	5.85%	5.85%	5.85%
50yr PWLB Rate													
	Now	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
Sector's View	5.08%	4.95%	5.05%	5.05%	5.15%	5.25%	5.45%	5.45%	5.55%	5.75%	5.75%	5.75%	5.75%

Review of current year performance

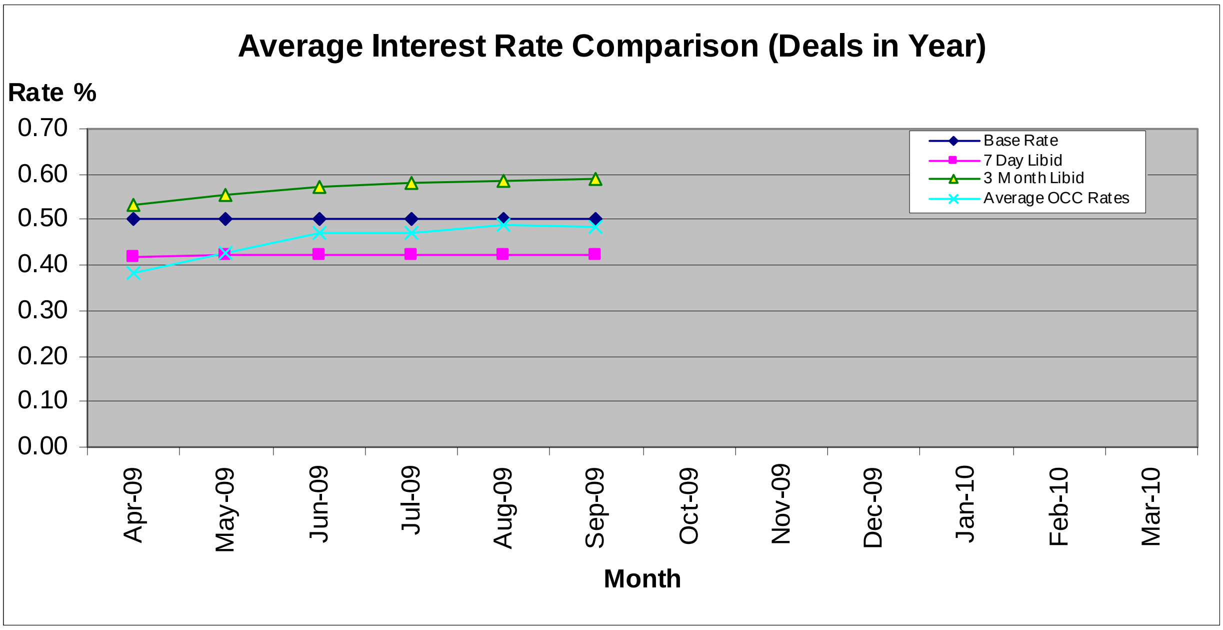
12. In February 2010 due to the exceptional market conditions and the priority to maintain principle, the City Executive Board and Council revised the council’s investment strategy which restricted investments to:
    - Money Market Funds - maximum £15m
    - Debt Management Office (DMO) – unlimited
    - Eight financial institutions supported by a £500bn government support package namely, Santander, Barclays, Bank of Scotland, HSBC, Lloyds TSB, Nationwide, Royal Bank of Scotland and Standard Charter – maximum of £10m for each counterparty
    - Call account with Co-Operative – maximum of £500k
    - Local Authorities – maximum of £10m

    In addition a maximum investment period of 3 months was place on all investments.

13. It was agreed these restrictions should remain in place until the banking system returned to ‘normal’ working conditions or until the Section 151 officer in conjunction with the Chief Executive and Portfolio Holder for Finance decided to amend them.

14. The UK economy has subsequently improved and we are now looking to revise this Strategy, whilst the restricted investment criteria has resulted in investments being place in funds providing the highest amount of security and good liquidity, yields have been low. Hence the average return on the investment portfolio for the period April 2010 to Sept 2010 was 0.485% against the 7 day Libid benchmark of 0.425%. This rate is lower than bank base rate which has remained at 0.5% for a considerable number of months. The impact on the Council’s overall General Fund budget is that the forecast outturn is £200k short of the £400k income target

15. **Average Interest Rate Comparison graph**



16. A full list of investments held as at 30th September 2010 is shown in Appendix 1 with the majority of investments held in government backed banks and call accounts, although up until the end of August the authority had up to £5.5m with DMO at a average rate of 0.25%.

Borrowing

17. The council's external debt as at 30th September 2010 is £4.722m, all at fixed interest rates. All of this debt is in respect of previous Housing Revenue Account activity and as such all interest charges are recovered through Housing Subsidy. The council also has a long term liability with South Oxfordshire District Council which as at 30th September stood at £1.4m.

18. The Council's Capital Financing Requirement (CFR) i.e. the Council's underlying need to borrow for capital purposes stood at £14.3m as at 1st April 2010, some £10m above the Council's outstanding debt.

19. No further borrowing has been taken in the year to date, although the current position is unsustainable in the long term and the council will need to give consideration of undertaking further borrowing having regard to its cash flow, capital spend and indicative borrowing rates. This is considered further below.

Review of Treasury Management Strategy Statement

20. Council officers in conjunction with Sector, have been reviewing the current investment strategy against the backdrop of
    - The current low returns from investment identified above and the possibility of increasing counterparties and increasing the 3 month investment period in order to increase yield
    - The withdrawal of the Government's backing for the 8 banks and building societies under the government guarantee
    - The timing of borrowing to finance the Capital Programme

Investment Counterparties

21. The Council's full investment policy stipulates minimum credit ratings that counterparties must have before it will consider investing, these work on the principle of the 'lowest common denominator' meaning 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. In addition any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are considered before any dealing is undertaken.

22. The Council's Treasury Management advisors, Sector, provide information on counterparties daily to the Council's Treasury Management team including information on Credit Default Swaps, (CDS's) which are insurance policies taken out by counterparties to cover risk. All of this information is overlaid to provide a view on the amount and time period an investment should be placed with any particular institution.

23. The Council's current minimum rating criteria is set out in Table 2 below:

Table 2 – Minimum Credit Rating

	Fitch	**Moody's**	**Standard & Poor's**
Banks & Building Societies			
Upper Limit Category	F1+/AA-	P-1/Aa3	A1+/AA-
Middle Limit Category	F1/A-	P-1/A3	A-1/A-

24. On the Council's current strategy, involving the use of a limited number of counterparties, all counterparties have met the Council's minimum credit ratings although with the current economic climate this may change and the council would look to apply this criteria to the restricted counterparty list as appropriate.

UK Banks

25. The government-backed guarantee for the 8 financial institutions was withdrawn in February 2010. Although this reduces the security of these institutions as counterparties for investment, some such as RBS are still partly owned by the Government and all have credit ratings which exceed the Council's minimum credit rating requirements. It is therefore recommended that the Council continue to invest with these institutions up to a maximum amount of £10m or 20% of the total investment balance

Additions to the list of Banks as Counterparties

26. The Clydesdale Bank as a counterparty which meets the Councils minimum criteria with credit ratings of F1+/AA-, P-1/A1, A-1/A+ and although owned by National Bank of Australia has a wholly owned UK subsidiary. It is therefore recommended that the Clydesdale bank is added to the Council's unrestricted list of financial institutions. Current investment returns are around 0.75% which is 0.50% higher than DMO. Sector are comfortable with the suggestion for the use of this bank

.

27. At the current time officers would recommend that the current restrictions on foreign banks, including the Irish institutions, remain in force.

Unrated Building Societies

28. In addition to the above officers have considered extending the current restriction to building societies by reference to the asset base. The current unrestricted strategy in respect of unrated building societies is set out in Table 3 below:

Table 3

	Asset Base	**Time Limit**	**Money Limit**
Unrated Building Societies			
Lower Limit Category	Asset base between 0.5bn and 2bn	183 days	£4m
Upper Limit Category	Asset base greater than 2bn	<365 days	£7m

29. Whilst judging building societies by asset size is not 'fool proof' it is a measure that is widely used, especially by the Council's previous Treasury Management advisors. Members should be aware that the council's current advisors are not in favour of unrated building societies due to the volatility of the sector. Officers believe that the structure of building societies as mutuals and their governance arrangements being different to banks will provide security of our investments.

30. Officers consider even under the current financial climate which has improved since the Icelandic crisis the asset base sizes quoted above are too low. It is therefore recommended that only Building Societies with an asset base of £9bn

or above are added to the counterparty list and that a restriction of 3 months is applied to the term of investment. An additional restriction of no more than 20% of the portfolio being placed in these non-specified investments and a maximum limit of £3m with any one counterparty is also applied. Undertaking such a proposal would increase percentage returns by between 0.25% and 0.47% compared with the DMO.

31. There are five Building Societies (one of which is the Nationwide which we currently invest with) which would fall into the category of an asset base of over £9bn which are shown below:

Building Society	Asset Base	Fitch Credit Rating
Nationwide	£190,497m	F1+/AA-
Yorkshire	£25,194m	F2/A-
Coventry	£21,037m	F1/A
Skipton	£15,859m	F2/A-
Leeds	£9,556m	F1/A

Period of investment deals

32. The current strategy allows for a maximum period for any investment transaction of 3 months this recognised the volatility of the financial markets at the time it was put in place and the need to remain flexible should individual institutions have negative financial issues.

33. As a result of this policy the Council's return has been severely restricted with 3 month deals achieving a return of between 0.25% and 1.00% compared to 12 months deals achieving between 1.30% and 1.85%. Given the use of highly rated counterparties this approach appears overly cautious. Interest rates according to our advisors are not due to begin to increase until next September at the earliest and other financial analysts say even later. Locking in now with a highly rated bank for 364 days would increase the return for some limited additional risk.

34. The Council has a core cash amount of around £10m for which it will have no immediate call, made up of General Fund balance £3m, HRA Balance £2m and reserves £5m. Placing £5m for 364 days with one of the major UK banks identified above would be feasible within the current cashflow. It is therefore recommended that up to £5m of the portfolio can be invested for a period up to 1yr.

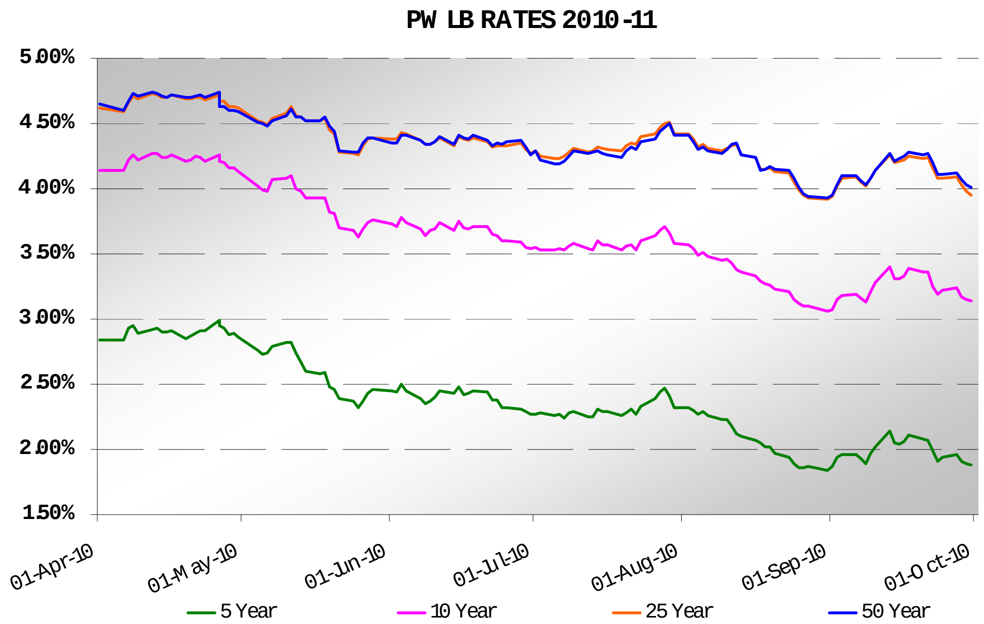
Debt and Borrowing

35. The Council's capital financing requirement (CFR) as at 1st April 2010 is £14,386k. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

36. The Treasury Management Strategy Statement for 2010/11 indicates that the Council will undertake borrowing in the current financial year, this has not yet been necessary, although this position is unsustainable. Sector estimates that PWLBs short term rates will start to increase in December 2010. Therefore if the Council were to borrow it should look to undertake this within the next month. It is the intention that the Council with borrow £10m in accordance with the CFR.

37. For the short term there will be a gap between the rates at which we borrow and the rates at which we can invest, this will be mitigated by looking at placing investments for up to 364 at the most suitable rates available.

38. The graph below shows the movement in PWLB rates for the first six months of the year and provides benchmarking data showing high and low points. As part of the Comprehensive Spending Review announced on the 20th October, PWLB rates have risen by approximately 0.88%. Council's are still able to borrow from PWLB but this rate is no longer as competitive as it has been in the past, therefore for any future borrowing we will also consider borrowing from the market.



Review of prudential indicators

39. In accordance with the CIPFA code of Practice on Treasury Management and the CIPFA Prudential Code the Council's Treasury Management Strategy sets out how the Council's treasury service supports capital decisions taken, the day to day treasury function and the limitations on activity, i.e the prudential indicators. The key prudential indicator is the Authorised Limit, i.e. the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. The Affordable Borrowing limit required by s3 of the Local Government Act 2003 is the sustainable borrowing limit.

40. In the year to date the Council has complied with its Treasury Management Practices and operated within and in accordance with the prudential indicators

set out in the Council's Treasury Management Strategy Statement. The Council's Prudential and Treasury Indicators are shown in Appendix 2.

HRA Reform

41. The Government has consulted with local authorities on the removal of the Housing Subsidy scheme. The outcome of the consultation has yet to be announced, but the proposal is that the HRA would effectively have to buy itself out of the system by taking on a level of debt. The amount of debt is likely to be up to £170m although this will depend on the final details of the scheme. It is unclear at this stage how the borrowing will be undertaken. It is unlikely that any final decision will be made and changes implemented before 2012/13. Hence no assumptions have yet been included with the Council's Medium Term Financial Strategy.

Conclusion

42. The Council's current treasury management policy restricts both the counterparty list and the term of investments to a maximum of 3 months. Whilst protecting principle it has led to very low investment returns which have impacted on the General Fund.

43. Market conditions have improved since this policy was introduced. Hence officers in conjunction with Council's Treasury advisors have reviewed opportunities to increase investment interest returns for minimal additional risk. The recommendations arising are set out above.

44. Officers will undertake a complete review of the strategy for 2011/12 which will be presented to Council in February 2011.

45. In summary the revised restricted strategy is expected to increase returns by approximately £200k per annum.

	Fitch	**Moody's**	**Standard & Poor's**	**Money Limit**	**Time Limit**
Banks & Building Societies					
Upper Limit	F1+/AA-	P-1/Aa3	A1+/AA-	£10m or 20% of total investments	>364 days
Middle Limit	F1/A-	P-1/A3	A-1/A-	£7m or 20% of total investments	<364 days
Unrated Building Societies and those not meeting the minimum criteria					
	Asset base greater than £9bn			£3m or 20% of total investments	90 days
Other					
Money Market Funds				£15m	364 days
DMO				Unlimited	364 days
Local Authorities				£10m	364

					days

Financial Implications

46. The projected outturn for 2010/11 applying the current investment criteria is an income shortfall of £200k. Interest earned up to the end of September is £94k.

47. Increasing the flexibility within the Strategy as recommended is anticipated to increase the Council’s return by around 0.5% at a conservative estimate.

Risk

48. The attached risk register at Appendix 3 considers the risks associated with this report.

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List of background papers: Treasury Management Strategy 2010/11 CEB 3rd February 2010
Version number: 1

Appendix 1

TEMPORARY LOANS ADVANCED AS AT 30-Sep-10

TOTAL LENT (£)	GROUP BORROWER	BORROWER & LOAN REFERENCE	DATE LENT	AMOUNT (£) TO 364 DAYS	PURPOSE / COVERING	CURRENT RATE (%)	REPAY DATE	AVAILABLE TO LEND (£)
0	**CO-OPERATIVE BANK PLC**	CO-OP TREASURY (CALL) - 8928	11-May-10	0	*Cashflow Only*	0.20000	-	500,000
0	**DMO**							20,000,000
5,500,000	**SANTANDER UK**	SANTANDER UK - 9030	05-Aug-10	1,000,000	*NNDR*	0.88000	04-Oct-10	3,000,000
	SANTANDER UK	SANTANDER UK - 9040	16-Aug-10	2,500,000	*Precepts*	0.87000	14-Oct-10	
	SANTANDER UK	SANTANDER UK - 9061	06-Sep-10	2,000,000	*Precepts*	0.83000	14-Oct-10	
5,250,000	**TAMESIDE METROPOLITAN BOROUGH COUNCIL**	Tameside Metropolitan BC - 9070	14-Sep-10	2,750,000	*NNDR*	0.30000	15-Dec-10	4,750,000
	SHEFFIELD CITY COUNCIL	Sheffield City Council - 9075	17-Sep-10	2,500,000	*Cashflow*	0.30000	19-Oct-10	
4,500,000	**NATIONWIDE**	NATIONWIDE - 9041	16-Aug-10	2,000,000	*NNDR*	0.54000	19-Oct-10	5,500,000
	NATIONWIDE	NATIONWIDE - 9056	01-Sep-10	1,000,000	*NNDR*	0.54000	04-Nov-10	
	NATIONWIDE	NATIONWIDE - 9072	15-Sep-10	1,500,000	*Precepts*	0.47000	14-Oct-10	
4,000,000	**BARCLAYS**	BARCLAYS BANK - 9042	16-Aug-10	2,000,000	*Salaries*	0.48000	28-Oct-10	6,000,000
	BARCLAYS	BARCLAYS BANK - 9062	06-Sep-10	2,000,000	*NNDR*	0.41000	19-Oct-10	
2,500,000	**RBS**	RBS - 9033	05-Aug-10	1,500,000	*NNDR*	0.43000	04-Oct-10	7,500,000
	RBS	RBS - 9059	03-Sep-10	1,000,000	*NNDR*	0.48000	04-Nov-10	
14,835,000	**MONEY MARKET FUNDS**	GOLDMAN SACHS MMF - 9086	30-Sep-10	4,835,000	*Cashflow*	-		165,000
	MONEY MARKET FUNDS	HENDERSONS MMF - 8517	11-May-09	5,000,000	*Cashflow*	-	-	
	MONEY MARKET FUNDS	STANDARD LIFE MMF - 9082	27-Sep-10	5,000,000	*Cashflow*	-	-	
36,585,000		**TOTAL LENT OUT**		**36,585,000**				

Appendix 2

Prudential Indicators – 2010/11

Table 1		Principal	Ave. rate
		£m	%
Fixed rate funding	PWLB	5,056	11.25%
Variable rate funding	PWLB	0	0.00%
Other long term liabilities		1,657	0.72%
Gross debt		**6,713**	**5.99%**
Total investments		**31,376**	**1.52%**
Net debt		**-24,663**	

TABLE 2: Prudential indicators	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Extract from budget and rent setting reports	**actual**	**probable out-turn**	**estimate**	**estimate**
	£'000	£'000	£'000	£'000
Capital Expenditure				
General Fund	8,283.0	14,652.80	11,161.80	8,719.10
HRA	9,024.0	21,731.50	9,167.50	6,865.00
TOTAL	17,307.0	36,384.3	20,329.3	15,584.1
Ratio of financing costs to net revenue stream				
General Fund	1.5%	1.6%	1.4%	-0.2%
HRA	5.4%	4.6%	5.0%	5.0%
Net borrowing requirment				
brought forward 1 April	10,553.0	14,386.00	23,448.00	37,980.00
carried forward 31 March	14,386.0	23,448.00	37,980.00	44,352.00
in year borrowing requirement	3,833.0	9,062.0	14,532.0	6,372.0
In year Capital Financing Requirement				
General Fund	3,287.0	8,516.00	9,932.00	6,372.00
HRA	546.0	546.00	4,600.00	0.00
TOTAL	3,833.0	9,062.00	14,532.00	6,372.00
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p
Increase in Council Tax (band D) per annum *	0.0	0.00	0.00	0.00
Increase in average housing rent per week	0.0	0.00	0.00	£xx.xx

TABLE 3: Treasury management indicators	**2009/10**	**2010/11**	**2011/12**	**2012/13**
	actual	**probable out-turn**	**estimate**	**estimate**
	£'000	£'000	£'000	£'000
Authorised Limit for external debt -				
borrowing	7,180.0	24,000.00	33,500.00	39,500.00
other long term liabilities	1,889.0	1,700.00	2,500.00	1,500.00
TOTAL	9,069.0	25,700.00	36,000.00	41,000.00
Operational Boundary for external debt -				
borrowing	14,000.0	22,500.00	32,000.00	38,000.00
other long term liabilities	1,900.0	1,700.00	1,500.00	1,500.00
TOTAL	15,900.0	24,200.00	33,500.00	39,500.00
Actual external debt	6,712.9			
Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing and investments	100%	100%	100%	100%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing and investments	50%	50%	50%	50%
Upper limit for total principal sums invested for over 364 days (per maturity date)	20%	20%	20%	20%

TABLE 4: Maturity structure of new fixed rate borrowing during 2010/11	upper limit	lower limit
under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	80%	0%
5 years and within 10 years	50%	0%
10 years and above	50%	0%

TABLE 5: Comparison of gross and net debt positions at year end	2009/10	2010/11	2011/12	2012/13
	actual	probable out-turn	estimate	estimate
	£'000	£'000	£'000	£'000
Actual external debt (gross)	6,713	17,527	32,059	38,431
Cash balances	31,376	41,528	41,756	41,756
Net debt	-24,663	-24,001	-9,697	-3,325

Appendix 3

Treasury mid year report 2010-11: Report Risk Register

Score **Impact Score**: 1 =Insignificant; 2 = Minor; 3 = Moderate; 4 = Major; 5 = Catastrophic **Probability Score:** 1 = Rare; 2 = Unlikely; 3 = Possible; 4 = Likely; 5 = Almost Certain

Risk Description Link to Corporate Obj	Gross Risk		Cause of Risk	Mitigation	Net Risk		Further Management of Risk: Transfer/Accept/Reduce/Avoid		Monitoring Effectiveness				Current Risk	
	I	P		Mitigating Control: Level of Effectiveness: (HML)	I	P	Action: Action Owner: Mitigating Control: Control Owner:	Outcome required: Milestone Date:	Q 1 ☹ 😐 ☺	Q 2 ☹ 😐 ☺	Q 3 ☹ 😐 ☺	Q 4 ☹ 😐 ☺	I	P
Loss of capital investment – if counterparty invested in collapses and is unable to repay the original investment (VFM)	4	3	Collapse of counterparty, counterparty unable to repay investments	Mitigating Control: Reducing risk by limiting the use of high risk counterparties Limiting the value of investment with those counterparties on our investment list Level of Effectiveness: M	4	3	Action: Controls and procedures are in place to ensure those counterparties on the list are kept within their limits, and that any further changes to counterparties are monitored. Action Owner: Anna Winship Mitigating Control: Procedures in place, 3 stages of checking Control Owner:Anna Winship	Outcome required: All investments are repaid in full with relevant interest paid Milestone Date: Review of current proposed counterparty list as part of Miid Year Treasury Strategy Review. Sept 2010.						
Interest Rates – Although interest rates are currently at an all time low, the period of time that they remain at this level is to be considered. A prolonged period will affect the long term returns for the organisation. (VFM)	3	3	No change to base rate and associated market investment rates, or rates that only move upwards slowly over a prolonged period of time	Mitigating Control: Making investments with larger and more secure counterparties, over a longer period of time. Increase the counterparty list to include those eligible institutions Level of Effectiveness: M	2	2	Action: Monitor the base rate and rates achieved against budget to ensure that best value is being achieved Action Owner: Anna Winship Mitigating Control: Control Owner:	Outcome required: Investment interest earned that meets budget requirement Milestone Date Mid Year Treasury Strategy Review. Sept 2010.						

Current Oxford City Council Lending List
2010/2011

Appendix 4

					Fitch				**Moodys**			**Standard & Poors**	
	Group	Max Limit £M's	Max Period days	Asset Base £m	L Term	S Term	Indiv	Support	L Term	S Term	FSR	L Term	S Term
SPECIFIED													
Barclays Bank plc		10.0	180		AA-	F1+	B	1	Aa3	P-1	C	AA-	A-1+
Cater Allen		10.0	90		-	-	-	-	-	-	-	-	-
Co-operative		0.5	Call		A-	F2	B/C	3	A2	P-1	D+		
Clydesdale Bank		10.0	90		AA-	F1+	C	1	A1	P-1	C-	A+	A-1
HSBC Bank plc	HSBC Group	10.0	364		AA	F1+	B	1	Aa2	P-1	C+	AA	A-1+
Santander UK plc		10.0	90		AA-	F1+	B	1	Aa3	P-1	C-	AA	A-1+
Standard Chartered Bank		10.0	180		AA-	F1+	B	1	A2	P-1	C+	A+	A-1
Sumitomo Mitsui Banking Corporation Europe Ltd		10.0	90		A	F1	C	1	Aa2	P-1	C	A+	A-1
Nationwide BS		10.0	90	190,497	AA-	F1+	B	1	Aa3	P-1	C-	A+	A-1
Bank of Scotland Plc	Lloyds Banking Group plc	10.0	364		AA-	F1+	C	1	Aa3	P-1	D+	A+	A-1
Lloyds TSB Bank Plc	Lloyds Banking Group plc	10.0	364		AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1
National Westminster Bank Plc	RBS Group	10.0	364		AA-	F1+	-	1	Aa3	P-1	C-	A+	A-1
The Royal Bank of Scotland Plc	RBS Group	10.0	364		AA-	F1+	C/D	1	Aa3	P-1	C-	A+	A-1
Ulster Bank Ltd	RBS Group	10.0	364		A+	F1+	E	1	A2	P-1	D-	A	A-1
NON SPECIFIED													
Yorkshire BS		3.0	90	25,194	A-	F2	B/C	3	Baa1	P-2	D+	A-	A-2
Coventry		3.0	90	21,037	A	F1	B	3	A3	P-2	C-	-	-
Skipton		3.0	90	15,859	A-	F2	B/C	3	Baa1	P-2	D+	-	-
Leeds		3.0	90	9,556	A	F1	B/C	3	A2	P-1	C+	-	-
OTHERS													
Debt Management Office		Unlimited	364										
Local Authorities		10.0	364										
Money Market Funds		15.0	364										

This is subject to change in line with credit rating changes, credit rating and outlook watches, and changes to CDS spreads