THE MAIDSTONE BOROUGH COUNCIL

REPORT OF THE CHIEF FINANCE OFFICER

11 FEBRUARY 2009

CABINET

Report Prepared by: John Owen, Accountant

1. TREASURY MANAGEMENT STRATEGY 2009/10 – 2011/12

1.1 Issue for Decision

1.1.1 In accordance with CIPFA's Code of Practice on Treasury Management, the Cabinet is asked to consider and endorse a Treasury Management Strategy for 2009/10 including a series of prudential indicators required under the 2003 Prudential Code for Capital Finance.

1.2 Recommendation of the Chief Finance Officer

1.2.1 It is recommended that Cabinet recommend to Council:

1.2.2 To agree the proposed strategy, as shown in 1.9.17 and as follows:

- Counterparties
  Retain current criteria plus:

  Nationalised Banks and Guaranteed Deposits – As the Sovereign ratings take precedent over the bank's own ratings, we would use these for our lending criteria.

  Supported banks – Use the same lending criteria as the Authority uses for building societies to ensure risk of rate changes are kept to a minimum.

- Investment Strategy
  Invest funds short term (up to 1 year) so that funds are available to invest when rates increase.

- Borrowing Strategy
  Agree potential borrowing, either external or using internal balance/balance sheet item resources of up to £4m.

1.2.3 Agree the prudential indicators detailed in **Appendix C**, as amended by the Budget Strategy Report.

1.2.4 Agree that the Chief Financial Officer be given delegated authority (in consultation with the Cabinet Member for Corporate Services) to make use of alternative investment instruments should it be considered prudent to do so and should it be of advantage to the Council.

1.2.5 Agree that the Council's Treasury Management Practices be amended to reflect the recommendations of this report.

1.3 Reasons for Recommendation

1.3.1 On an annual basis, at this time, Cabinet agrees to recommend to Council the general direction for Treasury Management in the following financial year. The detailed administration of the strategy will be undertaken in accordance with the Treasury Management Practices endorsed by Council within CIPFA's Code of Practice on Treasury Management.

1.3.2 The code gives greater freedom to authorities to decide their own levels of affordable borrowing, and encourages them to borrow for capital investment if they need to do so and if they can afford to do so. The indicators are set to allow authorities to monitor their borrowing and any other long-term liabilities on an on-going basis

1.3.3 The Prudential Code for Capital Finance requires the Council to set a number of Prudential Indicators. The Prudential Code also requires the indicators, and therefore this strategy, to be for an extended period of three years but with an annual review. The indicators are shown in Appendix C.

1.3.4 Section 3 of the Local Government Act 2003 sets a duty for the Authority to determine an affordable borrowing limit. The Prudential Code for Capital Finance identifies one indicator "The authorised limit for external debt" as satisfying the requirements of that duty.

1.3.5 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increased revenue charges from any new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

1.3.6 The Treasury Management Strategy and the Prudential Indicators are based upon the ongoing use of the capital receipt from the stock transfer in February 2004, and other receipts, as previously agreed by Cabinet, and also proposals in the Corporate Revenue and Capital Budgets 2009/10 onwards reported elsewhere on this agenda.

1.4 2008/09 Strategy

1.4.1 The current strategy agreed by Council in February 2008 for investments allows for a combination of short term (less than 1 year) and long term (greater than 1 year) investments. This strategy was devised in the knowledge that there was a very clear and known spending profile for the resources available, particularly from capital receipts. The strategy was agreed as follows:

1.4.2 Invest a maximum of £5m over a maximum time period of 2 years, to give some further certainty to investment income as there is a risk of a further cut in rates during 2008. It is considered prudent to have a degree of flexibility in the strategy given the possibility of a cut in rates. As shown at 1.9.12 above market rates for 2 and 3 year investments are currently around the 5% projected base rate level that the investment income budget is based on.

1.4.3 Once these deals have been made any sums left will be utilised for short term (less than 1 year) cashflow purposes. This will allow some flexibility to take advantage of any temporary increases in money market rates during the course of the year.

1.4.4 There will be no planned borrowing, other than for short-term cashflow purposes. The Council is currently debt-free.

1.4.5 This strategy and accompanying agreement on counterparties credit rating, and limits on amounts and duration of investments has served the Authority well during 2008/09. It has allowed investment returns to be maximised against strong security criteria on counterparties.

1.5 <u>Current Cashflow Performance</u>

1.5.1 Detailed below is the Council's current portfolio position at 1st February 2009.

	Principal **£m**	Average Rate **%**
Total Debt	0.0	
Short-term Investments	27.2	3.98
Long-Term Investments	11.6	5.83
Total Investments	38.8	

1.5.2 Throughout 2008/09 the level of investments has remained high, with an average balance of £32.7m invested over the course of the year. This covers investment of balances, capital receipts and other balance sheet assets. However it is higher than anticipated as a consequence of slippage in both revenue and capital expenditure, as reported to Cabinet in various budget monitoring reports.

1.5.3 The level of investments at 1st April 2008 was £26.4m and has varied during the year as a result of day to day cashflow management. In addition, due to the impact of the economic downturn, the level of anticipated capital receipts has not been achieved although this has been offset by slippage in the level of spend on the capital programme. In overall terms, the level of investment at March 2009 is projected to reduce to approx £16.9m. This takes into account the effects of using existing capital receipts to fund the capital programme and utilising balances to fund revenue costs, as detailed in the Budget Strategy Report.

1.5.4 Higher than expected levels of investments will generate investment income in 2008/09 of approximately £1.8m, compared to an original estimate of £1.6m. This increase is in part a consequence of the credit crunch, as well as slippage in the forecast revenue and capital expenditure. Money Market Rates rose as high as 6.7% for short term investments during the period of the crisis in the banking sector.

1.5.5 The only borrowing that has taken place during 2008/09 has been for short-term cashflow purposes.

1.6 Updated Cashflow Projection

1.6.1 A cashflow projection up to March 2011 has been created reflecting spending proposals in the Budget Strategy Report. The cashflow projection shows that anticipated investment income will be £0.7m in 2009/10 and £0.4m in 20010/11, based on all known factors at this point in time. The substantial reduction relates to issues around funding of the Capital Programme and the reductions in investment returns. The impact of reduced investment income has been a material factor in the Budget Strategy for 2009/10 and future years.

1.6.2 Based on the current cashflow projection the Council has anticipated year end cash balances available for investment totalling £16.9m at present, comprising basically of balances and capital receipts. Based on current forecasts it is anticipated that this will be utilised or available for potential problems as follows:

Use in 2009/10	£m
Capital Receipts	7.0
Capital Grants	2.0
Balances	0.9
Total	9.9

Ongoing

Balances	4.8
Collection fund and other Balance Sheet Items	2.2
Total	7.0

1.7 Base Rate Forecast

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011	Q/E2 2011	Q/E3 2011	Q/E4 2011	Q/E1 2012
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%

1.7.1 It is the view of the Council's Treasury Management advisors that base rates will fall from current levels because of the intensifying global recession. Starting in 2009 at 2.00%, Bank Rate is forecast to fall to 0.5% in Quarter 1 2009. It is then expected to remain there until starting to rise gently up from Quarter 2 2010 till it reaches 4.0% in Quarter 1 2012. There is a downside risk to these forecasts, if the recession proves to be deeper and more prolonged than currently expected.

1.8 Economic Background

1.8.1 Nationally, the story of 2008 has been the credit crunch, the banking crisis and the change in economic outlook from slow growth to outright recession.

1.8.2 After the initial concerns about the impact of the credit crunch in the earlier part of 2008 it appeared as though the storm had been weathered. The MPC had been very concerned about Consumer Price Index inflation, which had been rising sharply on the back of higher commodity and food prices. Bank rate reached a peak of 5.75% in July 2007 after which cuts of 0.25% occurred in December 2007 and February and April 2008 before the major cuts in the autumn. These cuts have accompanied reductions in the various measures of inflation.

1.8.3 The economic data had been indicating a slowing economy for some while but it was not sufficiently weak to force the MPC into another cut.

1.8.4 The strength of the banking crisis, pre-empted by the collapse of Lehmans in New York eventually drove the MPC to cut interest rates by 0.50% on October 8th in concert with the Federal Reserve, the ECB and other central banks.

1.8.5 It was then appreciated that the economic downturn would be much more severe than previously thought and interest rates were substantially slashed by 1.50% on 6th November, 1.00% on 4th December and 0.50% on 8th January 2009.

1.8.6 It is now acknowledged that the economy is formally in recession and the immediate prospect is for further reduction in the Base Rate and inflation.

1.9 Proposed Strategy 2009/10

1.9.1 In formulating and executing this strategy the Council will have regard to the ODPM's Guidance on Local Authority Investments issued in March 2004 and CIPFA's Code of Practice on Treasury Management and any update and lessons learnt from the Icelandic Banks situation experienced in 2008.

1.9.2 CIPFA's Treasury Management Code of Practice states that *"in balancing risk against return, local authorities should be more concerned to avoid risks than maximise returns".* Therefore the underlying principles of the strategy are to ensure absolute security of Council funds, and to minimise large variations in annual investment returns, which would impact upon the budget.

1.9.3 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to on-lend and make a return is unlawful and the Council will not engage in such activity.

1.9.4 Investment instruments identified for potential use in the financial year are listed at **Appendix A** under the 'Specified' and 'Non-Specified' investment categories, as per the ODPM guidance referred to at 1.9.1.

1.9.5 Specified instruments are those that are recommended as being suitable for use by local authorities in the ODPM guidance. Non-specified instruments are included at the Council's discretion, based on guidance from our Treasury Management advisors.

1.9.6 The Council uses credit ratings from an agency called Fitch. The banks and certain building societies are rated for their credit worthiness on Long Term, Short Term, Individual and Support ratings. A list of these and their meanings are listed on **Appendix B.** As well as using these ratings the Authority also look at market intelligence provided to the Borough through money brokers and the Council's Treasury Management Advisors.

1.9.7 Due to the banking crisis a number of banks have been removed from the Council's lending list due to their ratings falling below the required minimum level. However, there are a number of developments which require separate consideration and approval for use:-

- **Nationalised Banks –** Individual ratings have been reduced to an F as these have previously failed and are now owned by the Government. Short term ratings are F1+ as they take on the credit worthiness of the Government itself. They also have a support rating of 1, in other words, on both accounts, they have the highest ratings possible.
- **Blanket Guarantee on all Deposits –** Some countries have supported their banking system by giving a blanket

guarantee on **ALL** deposits, eg, Ireland. The sovereign rating of that Country then takes precedence over the individual credit ratings for the banks covered by that guarantee. Irish Sovereignty has been put on negative watch due to the Nationalisation of Anglo Irish Bank. It is uncertain that the Irish Government would be able to offer the same package to another bank.

- **UK Banking System Support Packages –** The UK Government has **NOT** given a blanket guarantee on all deposits but has underlined it's determination to ensure security by supporting eight named banks with a £500bn support package. The banks are Abbey, Barclays, HBOS, Lloyds TSB, HSBC, Nationwide Building Society, RBS and Standard Chartered. The Treasury Management Advisors have suggested that the UK Government would not allow these larger banks to become insolvent, so suggesting using these banks but keeping smaller funds for short periods of time to reduce the risks.
- **Building Societies –** Currently the Council has the top 30 Building Societies on its lending list and has been advised by the Treasury Management Advisors to keep these on the list. Even though they are not rated in the same way as Banks, they are a low risk and keeping smaller funds short term would minimise any risk.
- **Other Countries –** The US, Countries within the EU and Switzerland (and other countries) are currently providing major support packages.

1.9.8 At this stage it is anticipated that the current approved forms of investment will be sufficient to deliver the strategy based on current and forecast base rate projections. However, as has been mentioned previously actual base rates can deviate significantly from those forecast, so it would be appropriate to have a flexible approach to the use of the alternative instruments listed above.

1.9.9 There are a number of alternatives that have been discussed with the Council's Treasury Management advisors during the formulation of this strategy, which have been included in the list of Specified and Non-specified instruments referred to at 1.9.4. These are as follows (full definitions are shown at **Appendix A**):

- Corporate Bonds
- Callable Structures
- Callable Range Accruals
- Certificates of Deposit (CDs)
- Snowballs

1.9.10 The Chief Finance Officer has previously been given delegated authority to use alternative forms of investment, should the appropriate opportunity arise to use them, and should it be prudent and of advantage to the Council to do so. This delegated authority is subject to prior consultation with the Cabinet Member for Corporate Services on any possible use of these instruments. This has not been exercised to date.

1.9.11 Based on the information in the table at 1.5.3 above there will be a balance of £16.9m invested at the start of 2009/10. £11.5m of this figure is already invested in Eurosterling Bonds and long-term deposits that mature as follows:

Repayment profile maturities

Investment	**Total invested £m**	**2009/10 £m**	**2010/11 £m**
Eurosterling Bonds	**4.5**	4.5	-
Long-term investments	**7.0**	2.0	5.0
Short Term investments	**5.4**	5.4	-
Totals	**16.9**	11.9	5.0
Use of Balances/Capital receipts	-	9.9	-

1.9.12 These maturities will therefore cover the anticipated use of cash balances for the periods above. This leaves only £2.0m available for investment, along with day to day cashflow management funds.

1.9.13 As mentioned previously interest rates are projected to fall during 2009 before rising during 2010. The budget for investment income is based on this projection. Over the same period current money market rates are as follows:

(Rates based on an investment of £1m)	**Market Rate**	**Forecast Base Rate**
1 month deposit (Mar 09)	1.50%	0.50%
3 months deposit (May 09)	2.00%	0.50%
6 month deposit (Aug 09)	2.15%	0.50%
1 year deposit (Jan.10)	2.30%	0.50%
2 year deposit (Jan.11)	2.17%	1.75%

3 year deposit (Jan.12)	2.51%	4.00%

1.9.14 However, recent experience has shown that over time actual interest rates can vary considerably from what was originally forecast. As was mentioned previously the forecast for the current base rate this time last year was 4.75%, compared to the actual current rate of 1.50%.

1.9.15 The £2.0m available for investment in 2009/10 is subject to changes in future spending projections. In addition forecast rates are also subject to change, as has been shown in the past year.

1.9.16 To deal with the ongoing Capital Programme it may be necessary to look into borrowing to fund these projects. Where investments are in excess of borrowing requirements, internal borrowing and access to cash from maturing investments within the year, may be worth considering. This will have the benefits of reducing exposure to interest rate and credit risk.

1.9.17 Based on these issues, and following consultation with the Council's Treasury Management advisors the following strategy is recommended:

- Counterparties

  Retain current criteria plus:

  Nationalised Banks and Guaranteed Deposits – As the Sovereign ratings take precedent over the bank's own ratings, we would use these for our lending criteria.

  Supported banks – Use the same lending criteria as the Authority uses for building societies to ensure risk of rate changes are kept to a minimum.

- Investment Strategy

  Invest funds short term (up to 1 year) so that funds are available to invest when rates increase.

- Borrowing Strategy

  Agree potential borrowing, either external or using internal balance/balance sheet item resources of up to £4m.

1.10 Prudential Indicators

1.10.1 The indicators important to the Treasury Management strategy are detailed on the attached Appendix C, the most important of which are listed below. The upper and lower limits are set with reference to the peaks and flows of cashflow throughout the year. There always exists the possibility of the limits being approached at the start and end or each financial year when the income stream is at its lowest:

a) Authorised Limit for External Debt

This places an upper limit on the Authority's borrowing by indicating a level of debt that the authority calculates is affordable and relevant. Along with the debt held for the financing of capital expenditure and other long term liabilities, this limit includes provision for day to day cash flow needs. Borrowing above this limit should not occur.

b) Operational Boundary for External Debt

This provides a limit for day to day cash flow management. It is the equivalent of the Authorised Limit for External Debt without the allowance for cash flow purposes. It is intended that Treasury Management on a day to day basis should use this limit as a focus. Borrowing to exceed this limit should only occur for short periods of time for cash flow management purposes.

c) Capital Financing Requirement

This indicator measures the Council's underlying need to borrow for capital purposes based on past, present and future financing decisions. This indicator must be affordable within the Operational Boundary. The receipt from the transfer of housing stock to Maidstone Housing Trust and other receipts directly affect this indicator and this means the Council has no current plans to borrow.

d) Upper Limit for Fixed Rate Exposure

This places a limit on the proportion of borrowing and investment that can be at a fixed rate of interest. Due to the nature of the Council's cashflows it is likely that this limit will only be approached at the start and the end of the financial year when there are less surplus funds available for surplus investment. (Fixed rate is defined as any borrowing or investments where the rate is fixed but only where the period is in excess of one year.)

e) Upper Limit for Variable Rate Exposure

This places a limit on the proportion of borrowing and investment that can be at a variable rate of interest. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and payments made. (Variable rate is defined as any borrowing or investments for a period up to a maximum of 364 days, irrespective of whether the rate is fixed or not.)

f) Upper Limit for Total Principal Sums Invested over 364 days

This limit has been set in consultation with the Council's Treasury Management Advisers, and the background to this is dealt with in more detail in the proposed investment strategy earlier in this report.

g) Maturity Structure of New Fixed Rate Borrowing during 2009/10

This indicates the assumed maturity structure for any borrowing that may occur at a fixed rate of interest, during 2009/10. As any borrowing is expected to be for cash flow purposes only it will be short term borrowing at variable rates.

1.11 Alternative options and why not recommended

1.11.1 The Council is required to endorse a Treasury Management Strategy and monitor and update the strategy and prudential indicators as necessary. The Council could endorse a simple strategy for Treasury Management; however, this would be contrary to best advice from the Council's advisors and likely to produce a reduced income stream from investments.

1.11.2 External Fund Managers – by appointing external managers local authorities benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns and capital appreciation. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of educing investment levels.

1.12 Impact on Corporate Objectives

1.12.1 The Treasury Management Strategy will impact upon all corporate objectives through the resource it provides from the investment of the Council's balances. These resources are incorporated in the budget detailed elsewhere on this agenda.

h)

1.13 Risk Assessment

1.13.1 Borrowing and investment activity only takes place within a set of clearly-defined guidelines that emphasis the need to place security of funds before any potential return. In addition the Council's Treasury Management advisors provide timely notifications of any potential issues that the Council may need to address.

1.13.2 The risks associated with the delivery of the strategy have been identified as part of the Council's Strategic Risk Register.

1.14 Other Implications

Financial	X
Staffing	-
Legal	X
Social Inclusion	-
Considerations for Disabled Persons	-
Environmental/Sustainable Development	-
Community Safety	-
Human Rights Act	-

1.14.1 The 2009/10 Budget includes investment income of £0.7m which will be delivered through the application of the Treasury Management Strategy.

1.14.2 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Background Documents

Working papers held in the Corporate Finance office.

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision?	Yes	X	No	

If yes, when did it appear in the Forward Plan?
____

Is this an Urgent Key Decision?	Yes		No	X

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]

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LIST OF SPECIFIED & NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS (SHORT TERM ONLY)	Minimum 'High' Credit Criteria	Use	Further Explanation
Term deposits – local authorities	--	In-house	
Term deposits – banks and building societies *	Short-term F1, Long-term A, Individual B, Support 3	In-house	
Certificates of deposits issued by banks and building societies *	Short-term F1, Long-term A, Individual B, Support 3	In-house	A CD is a tradable debt instrument issued by banks and other financial institutions to investors. In exchange for lending the institution money for a predetermined length of time, the investor is paid a set rate of interest. Maturities on certificates of deposit can range from only a few weeks to 12 months. There are some providers that issue CDs longer than one year but the market is quite illiquid beyond one year. CDs provide a good alternative to a Fixed Term Deposit up to one year because you can buy and see easily, however, because of this advantage the yield offered is below a Fixed Term Deposit of the same maturity.
UK Government Gilts	Long term AAA	In-house	
Bonds issued by multilateral development banks	Long term AAA	In-house	
Bonds issued by a financial institution which is guaranteed by the UK government	Long term AAA	In-house	A corporate bond is a 'catch-all' term used to describe all long-term debt other than Gilts and Multilateral Development Bonds, issued in sterling. They are instruments used predominately by banks, companies etc. to raise finance. The use of corporate bonds is a very new area for local authorities.
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house	
** Only credit-rated building societies in top 31 ranked by asset size are included*			
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -			
1. Money Market Funds	AAA	In-house	

NON-SPECIFIED INVESTMENTS (UP TO 3 YEARS MAXIMUM)	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period	Further Explanation
Fixed term deposits with variable rate and variable maturities: -					
1. Callable deposits	Short-term F1, Long-term A, Individual B, Support 3	In-house	80	3 years	Callable notes pick up in yield over a 1-year deposit or the base rate tracking accounts adding greater certainty to the budgeting process. The same disadvantage of getting an interest rate view wrong exists, and with regard to the callable deposits, the chances of accurately predicting rates beyond twelve months decreases, the longer the period of the forecast and the deposit may not run until maturity as the borrower may call the deposit at pre-determined intervals.
2. Range trade	Short-term F1, Long-term A, Individual B, Support 3	In-house	80	3 years	A callable range accrual note is a range accrual note where the issuer has the option to call the note at specified dates in the future, typically at par. It is bond-like instrument in the sense that the coupon accrues at a pre-set rate as long as the reference rate stays within a pre-established collar/band.
3. Snowballs	Short-term F1, Long-term A, Individual B, Support 3	In-house	80	3 years	A snowball is a financial instrument where the issuer has the option to call the note at pre-determined intervals. The interest rate of the instrument varies depending on market conditions over the non-call period of the instrument. If interest rates are falling snowballs achieve higher rates of return than when interest rates are rising. For example; A note with a final maturity of 3 years has a callable period every 3 months. The first three months the note is issued with a market interest rate plus another interest rate which is constant throughout the life of the note minus the average 3 month LIBOR rate over the three months.
Term deposits – local authorities	--	In-house	80	3 years	
Term deposits – banks and building societies *	Short-term F1, Long-term A, Individual B, Support 3	In-house	80	3 years	
Certificates of deposits issued by banks and building societies	Short-term F1, Long-term A, Individual B, Support 3	In-house	80	1 year	
UK Government Gilts	AAA	In-house	80	3 years	
Bonds issued by multilateral development banks	AAA	In-house	80	3 years	
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house	80	3 years	
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house	80	3 years	

COUNTERPARTIES LIST 2008-09

Ratings Matrix:

Long-Term	Short-Term	Individual	Support	Max. Deposit	Max. Term
AAA	F1+	B	3	£10m	5yrs
AA	F1+	B	3	£4m	3yrs
A	F1 +/F1	B	3	£3m	1yr
BUILDING SOCS. *				£2m	6mths

Due to ratings change constatntly. Any institution meeting the Council's minimum criteria in the Ratings Matrix, will be added to the lending list.

UK Top 30 Building Societies			
Institution Name		**Deposit**	**Term**
Nationwide Building Society	1	£4,000,000	3yrs
Britannia Building Society	2	£2,000,000	6mths
Yorkshire Building Society	3	£2,000,000	6mths
Coventry Building Society	4	£3,000,000	1yr
Chelsea Building Society	5	£2,000,000	6mths
Skipton Building Society	6	£2,000,000	6mths
Leeds	7	£3,000,000	1yr
West Bromwich Building Society	8	£2,000,000	6mths
Derbyshire	9	£2,000,000	6mths
Principality Building Society	10	£2,000,000	6mths
Cheshire	11	£2,000,000	6mths
Newcastle	12	£2,000,000	6mths
Norwich & Peterborough	13	£2,000,000	6mths
Stroud & Swindon	14	£2,000,000	6mths
Dunfermline	15	£2,000,000	6mths
Nottingham	16	£2,000,000	6mths
Scarborough	17	£2,000,000	6mths
Kent Reliance	18	£2,000,000	6mths
Progressive	19	£2,000,000	6mths
Cumberland	20	£2,000,000	6mths
National Counties	21	£2,000,000	6mths
Furness	22	£2,000,000	6mths
Cambridge	23	£2,000,000	6mths
Leek United	24	£2,000,000	6mths
Saffron	25	£2,000,000	6mths
Hinckley & Rugby	26	£2,000,000	6mths
Manchester	27	£2,000,000	6mths
Darlington	28	£2,000,000	6mths
Newbury	29	£2,000,000	6mths
Monmouthshire	30	£2,000,000	6mths

OTHER PUBLIC BODIES		
UK Government	£10,000,000	5yrs
UK Local Authorities (Inc.Police & Fire Authorities)	£4,000,000	3yrs

EURO-STERLING BOND ISSUERS (AAA RATED)		
European Investment Bank	£10,000,000	5yrs
Inter-American Development Bank	£10,000,000	5yrs
International Finance Corporation	£10,000,000	5yrs
European Bank for R&D	£10,000,000	5yrs
International Bank for R&D	£10,000,000	5yrs
GTD Export Finance Corporation	£10,000,000	5yrs

MONEY MARKET FUNDS (AAA RATED)	£10,000,000	5yrs

FITCH CREDIT RATING DEFINITIONS

International Long-Term Credit Ratings

Investment Grade

AAA Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

International Short-Term Credit Ratings

A short-term rating has a time horizon of less than 12 months for most obligations, or up to three years for US public finance securities, and thus places greater emphasis on the liquidity necessary to meet financial commitments in a timely manner.

F1 Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.

F2 Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.

F3 Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near-term adverse changes could result in a reduction to non-investment grade.

Individual Ratings

Fitch's Individual Ratings attempt to assess how a bank would be viewed if it were entirely independent and could not rely on external support. These ratings are designed to assess a bank's exposure to, appetite for, and management of risk and thus represents Fitch's view on the likelihood that it would run into significant difficulties such that it would require support.

A A very strong bank. Characteristics may include outstanding profitability and balance sheet integrity, franchise, management, operating environment, or prospects.

B A strong bank. There are no major concerns regarding the bank. Characteristics may include strong profitability and balance sheet integrity, franchise, management, operating environment or prospects.

C An adequate bank which, however, possesses one or more troublesome aspects. There may be some concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

Support Ratings

Support/Legal Ratings do not assess the quality of a bank. Rather, they are Fitch's assessment of whether it would receive support in the event of difficulties. Fitch emphasises that these ratings constitute their opinions alone - although they may discuss the principles underlying them with the supervisory authorities, the ratings given to banks are Fitch's own and are not submitted to the authorities for their comment or endorsement.

1 A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its wn right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-term rating floor of 'A-'.

2 A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.

3 A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-term rating

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PRUDENTIAL INDICATORS

Ratio of Financing Costs to Net Revenue Stream (1)

2008/09 %	2009/10 %	2010/11 %	2011/12 %
-8.2	-3.2	-1.8	-1.7

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. As there is no borrowing planned this shows as a negative figure as it is based on investment income only.

Ratio of Financing Costs to Net Revenue Stream (2)

2008/09 %	2009/10 %	2010/11 %	2011/12 %
-8.2	-1.8	-0.9	-1.3

This indicator assumes borrrowing in 2009/10.

Incremental Impact of Capital Investment Decisions on the Council Tax (1)

	2008/09 £,000	2009/10 £,000	2010/11 £,000	2011/12 £,000
i) Forecast of total budgetary requirement no changes to capital programme	11,965	12,500	13,129	14,075
ii) Forecast of total budgetary requirement after changes to capital programme	12,155	12,805	13,499	14,225
iii) Additional Council Tax Required	3.26	5.16	6.20	2.49

Demonstrates the affordability of the capital programme. It demonstrates the impact of the proposed capital programme upon the Council Tax.

Incremental Impact of Capital Investment Decisions on the Council Tax (2)

	2008/09 £,000	2009/10 £,000	2010/11 £,000	2011/12 £,000
i) Forecast of total budgetary requirement no changes to capital programme	11,965	12,490	12,829	13,875
ii) Forecast of total budgetary requirement after changes to capital programme	12,155	12,805	13,499	14,225
iii) Additional Council Tax Required	3.26	5.33	11.23	5.81

Demonstrates the affordability of the capital programme. It demonstrates the impact of the proposed capital programme upon the Council Tax. This indicator assumes that we will borrow in 2009/10.

PRUDENTIAL INDICATORS

Current Financial Plan

2008/09 £,000	2009/10 £,000	2010/11 £,000	2011/12 £,000
12,324	14,677	8,327	7,221

This is the estimate of capital expenditure taken from the Corporate Revenue and Capital Budget 2008/09 Onwards elsewhere on this agenda.

Capital Financing Requirement (1)

2008/09 £,000	2009/10 £,000	2010/11 £,000	2007/08 £,000
0	0	0	0

This indicator measures the underlying need to borrow for capital purposes.

Capital Financing Requirement (2)

2008/09 £,000	2009/10 £,000	2010/11 £,000	2007/08 £,000
0	4,000	3,500	3,000

This indicator measures the underlying need to borrow for capital purposes, and assumes that borrowing may be required in 2009/10.

Authorised Limit for External Debt (1)

	2008/09 £,000	2009/10 £,000	2010/11 £,000	2011/12 £,000
Borrowing	4,000	4,000	4,000	4,000
Other Long Term Liabilities	580	310	250	250
Total	4,580	4,310	4,250	4,250

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

Authorised Limit for External Debt (2)

	2008/09 £,000	2009/10 £,000	2010/11 £,000	2011/12 £,000
Borrowing	4,000	8,000	4,000	4,000
Other Long Term Liabilities	580	310	250	250
Total	4,580	8,310	4,250	4,250

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003. This limit assumes

PRUDENTIAL INDICATORS

Operational Boundary (1)

2008/09 £,000	2009/10 £,000	2010/11 £,000	2011/12 £,000
580	310	250	250

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing.

Operational Boundary (2)

2008/09 £,000	2009/10 £,000	2010/11 £,000	2011/12 £,000
580	4,310	250	250

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing. It does however include the possibility of the need to borrow in 2009/10

Upper Limit for Fixed Interest Rate Exposure

2008/09 %	2009/10 %	2010/11 %	2011/12 %
30	100	100	100

This is the maximum amount of net borrowing and investment that can be at a fixed rate. Due to the nature of the Council's cashflows it is likely that this limit will only be approached towards the end of the financial year when there are less surplus funds available for short term investment.

Upper Limit for Variable Interest Rate Exposure

2008/09 %	2009/10 %	2010/11 %	2011/12 %
80	80	80	80

This is the maximum amount of net borrowing and investment that can be at a variable rate. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and payments made.

Maturity Structure of New Fixed Rate Borrowing during 2009/10

	Upper Limit %	Lower Limit %
Under 12 months	100	0
12 months to under 24 months	100	0
24 months to under 5 years	100	0
5 years to under 10 years	100	0
10 years and over	100	0

It is may be necessary to borrow that at fixed term rates during 2009/10. This will be monitored as the year progresses and a decision will then be made.

Principal Invested for more than 364 Days

2008/09 %	2009/10 %	2010/11 %	2011/12 %
30	0	0	0

This indicator is set to reflect current advice from our Treasury Management Advisors.