

Public Document Pack



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AUDIT COMMITTEE

TO FOLLOW

DATE: FRIDAY 5 FEBRUARY 2010
TIME: 9.15 AM
PLACE: COUNCIL HOUSE, PLYMOUTH

Members –

Councillor Sam Leaves, Chair
Councillor Vincent, Vice Chair
Councillors Stark, Thompson and Tuohy

Independent Members –

Mr. Clarke, Ms. Myles and Mr. Stewart.

Please find attached a ‘to follow’ report in respect of item 4 ‘Treasury Management Statement and Investment Strategy 2010/2011’, for your consideration.

BARRY KEEL
CHIEF EXECUTIVE

AUDIT COMMITTEE

4. TREASURY MANAGEMENT STATEMENT AND INVESTMENT STRATEGY 2010/2011 (Pages 1 - 42)

The Director for Corporate Support will submit for the Committee's consideration the Treasury Management Statement and Investment Strategy 2010/2011.

CITY OF PLYMOUTH

Subject:	Treasury Management Strategy Statement and Investment Strategy 2010/11
Committee:	Audit Committee Cabinet Overview and Scrutiny Management Board
Date:	Audit Committee -5 February 2009 Cabinet - 9 February 2010 Overview and Scrutiny Management Board- 15 & 17 February 2010
Cabinet Member:	Councillor Bowyer
CMT Member:	Director for Corporate Support
Author:	Sandra Wilson, Corporate Accountancy and Finance Manager
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Ref:	SW
Part:	I

Executive Summary:

The Local Government Act 2003 requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. Officers have worked closely with the Council's Treasury Management advisors, Arlingclose Ltd, to review the options available to produce a borrowing and investment strategy that seeks to balance financial returns from the Council's cash balances whilst at the same time minimising financial risk to the Council.

In December 2009, CIPFA published a revision to the Treasury Management Code of Practice. This code contains a number of recommendations aimed to improve the security of investments. The recommendations have been adopted within the Investment strategy statement for 2010/11. CIPFA have also revised the Prudential Code, with a number of recommendations affecting the Council's borrowing strategy. The report contains more detail on the two Codes of Practice.

This report outlines how the treasury management function contributes to the Council's overall policy objectives. It also outlines in detail the risks inherent within the treasury management function and how officers will seek to minimise those risks.

The borrowing and investment policies proposed in this report therefore offer flexibility for the Director for Corporate Support, acting under delegated powers in accordance with Financial Regulations, to respond quickly to market circumstances without the need to seek prior Cabinet approval. Any amendments to the treasury management strategy will of course continue to be reported to Cabinet as part of the bi-monthly performance and finance monitoring reports. Changes to the Prudential Indicators can only be approved by Full Council. Officers will seek to develop suitable benchmarking targets against which members can measure the performance of the treasury management activity and how well the treasury management risk is managed. These will be incorporated into a mid year formal strategy monitoring and review report.

Due to improvements in the global economic climate and action taken by Governments throughout the world to support its banks the proposals in this report add greater flexibility for investment in 2010/11. The strategy over the medium term will be to align borrowing with the Capital Financing Requirement and Investments with available balances and reserves. The Council will continue to regard Security and Liquidity as the key factors in all its investments with the interest rate achieved only considered after these prime objectives. In order to spread risk within this required security it is proposed that additional banks with the required 'high credit rating' in Countries that provide support and guarantees be added to the counter part list.

Further details are outlined in the report.

This report also outlines the Council's Prudential Indicators for the next three years as required by the Local Government Act 2003, together with the MRP policy for 2010/11 required under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. These require approval by Full Council.

Corporate Plan 2009-2012

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is key factor in facilitating the delivery against a number of corporate priorities.

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

Treasury Management affects the Council's budget in terms of borrowing costs and investment returns.

Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management, Equalities Impact Assessment, etc.

The current volatility and uncertainty within the global financial markets has had a substantial effect on Treasury Management activities. The Council's investment strategy has been added to the strategic risk register as a 'Red' risk. This risk will be constantly monitored and acted upon through the Treasury Management Board which is meeting weekly until further notice. The report outlines other risks specific to the treasury management function.

Recommendations & Reasons for recommended action:

Cabinet is recommended:

1. To approve the Treasury Management Strategy Statement for 2010/11, to feedback from Audit Committee following its scrutiny of the strategy.
2. To approve the Investment Strategy for 2010/11 as outlined in Section 13 of the report, subject to feedback from Audit Committee following its scrutiny of the strategy.
3. To approve the Lending Organisations and Counter party Limits as outlined in Appendix E
4. To request the Director for Corporate Support acting under delegated authority in accordance with Financial Regulations, to keep the lending list under review and update the list during the year as dictated by market circumstances.
5. To recommend to full Council (subject to any amendments that may be required as a result of the inclusion of the PFI scheme on the balance sheet) to approve:
 - a) The Authorised Borrowing limits of £312m, £302m and £289m for the period 2010/11 to 2012/13;
 - (b) The Operational Boundary of £260m, £260m and £258m for 2010/11 to 2012/13;
 - (c) The Prudential Indicators set out in Appendix B;
 - (d) The MRP Policy for 2010/11.
6. A formal mid year review and monitoring report be taken to Audit Committee.
7. Officers seek to develop a set of benchmarking targets for the treasury management activity against which performance can be measured.

Alternative options considered and reasons for recommended action:

It is Statutory requirement under the Local Government Act 2003 and supporting Regulations to set a an annual treasury strategy for borrowing and prepare an annual investment strategy. Prudential indicators and the MRP policy must be approved by Full Cabinet.

Background papers:

- Treasury management strategy report 2009/10 to Cabinet 10 February 2009
- Bi- Monthly monitoring reports to Cabinet
- Treasury management budget working papers

Sign off:

Finance	AB CorpF900 011	Legal	DVS 1094	HR	n/a	Corp Prop	n/a	IT	n/a	Strat Proc	n/a
Originating SMT Member Malcolm Coe											

Treasury Management Strategy Statement and Investment Strategy 2010/11

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services (the “CIPFA TM Code”) requires local authorities to set the Treasury Management Strategy Statement (TMSS) for borrowing each financial year. The Code was adopted by full Council in April 2002. The Council is also required to set an annual investment strategy and this has been incorporated within this report.
- 1.2 In response to the financial crisis in 2008 and the collapse of the Icelandic banks, CIPFA has revised the TM Code and Guidance Notes as well as the Prudential Indicators. The Communities and Local Government (CLG) have also issued proposals to revise and update their Investment Guidance and the consultation date ended on 4 January 2010. The final outcome of the consultation has not yet been received although it is anticipated that the final recommendations would apply from 1 April 2010.
- 1.3 CIPFA has defined Treasury Management as:
- “the management of the organisation’s investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- 1.4 The Council’s Treasury Management Policy Statement is set out in Appendix A. Treasury management activity is a key driver for the Council in achieving its objectives. The strategy takes into account the impact of the Council’s Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position (Section 6), the Prudential Indicators (Appendix B) and the outlook for interest rates (Appendix C).
- 1.5 Officers have worked with the Council’s Treasury management advisors, Arlingclose, to develop a strategy that seeks to balance financial returns from the Council’s cash balances whilst at the same time minimising, as far as possible, the risks associated with treasury management activity. This report reaffirms the current policy that in the current financial climate the Council should seek to reduce the underlying level of borrowing and investments.
- 1.6 The purpose of this Treasury Management Strategy Statement is to approve:
- Treasury Management Strategy for 2010/11 (Borrowing - Section 10, Debt Rescheduling - Section 11, Investments - Section 12/13)
 - Prudential Indicators – Appendix B
 - MRP Statement – Section 16
 - Use of Specified and Non-Specified Investments – Appendix D
 - The Counter party list applicable from 1 April 2010– Appendix E

2. The Council's Objectives

- 2.1 The Corporate Plan outlines the Council's objectives over the medium term period as shown in figure 1 below:

Figure 1

COUNCIL CORPORATE PLAN (STEP CHANGE PRIORITY FOCUS)							
OUR CITY							
■ Helping people to live independently		■ Providing better and more affordable housing		■ Keeping children safe		■ Providing more and better culture and leisure activities	
■ Reducing inequalities between communities		■ Delivering sustainable growth		■ Disposal of waste and increasing recycling		■ Improving skills and educational achievement	
		■ Improving access across the city				■ Developing high quality places to learn in	
OUR COUNCIL					OUR CUSTOMERS		
■ Supporting council staff to perform better		■ Improving value for money		■ Informing and involving customers		■ Improving customer service	

3. Treasury Management Code of Practice and Prudential Code

- 3.1 Local Authorities have wide powers to borrow and invest but regulation, custom, convention and market practice mean in reality authorities can make only limited use of those powers. Following the collapse of the Icelandic banks, both CIPFA and the CLG have sought to implement revised controls over treasury management activity.
- 3.2 In carrying out their day to day treasury management activities, local authorities must have regard to two CIPFA Codes of Practice:
- The Code for Treasury Management in the Public Services
 - The Prudential Code
- 3.3 CIPFA have recently published an updated Treasury Management Code of Practice and a revised Prudential Code. The main recommendations contained within the Codes have been adopted by CLG and incorporated into Capital Finance Regulations, currently issued in draft for consultation. The Codes require authorities to treat effective risk management as a higher priority than the pursuit of performance, listing priorities as:

Security... Liquidity....Yield

and require evidence of affordability, prudence and sustainability, as measured by the Prudential Indicators

- 3.4 The Codes outline the principles that should be followed by local authorities for borrowing and investments. The Treasury Management Code in particular concentrates on Investments whilst the Prudential Code covers borrowing strategies. The revised codes include recommendations from both the House of Commons Select Committee and the Audit Commission following their report 'Risk and Returns'.
- 3.5 One of the new recommendations arising from the House of Commons Select Committee report relates to scrutiny of the treasury management function. The report stated:
- “All Local Authorities should have an Audit Committee with specific responsibility for the scrutiny of the Treasury management function”
- “Audit Committee members should take their responsibility for that scrutiny seriously and need to ensure they are properly trained”.
- 3.6 A formal training session was held on 22 January 2010 for Audit Committee Members (mandatory attendance) with an open invitation to Cabinet and Scrutiny Panel members. The training was facilitated by external consultants independent to both the Council and its Treasury Management advisors.
- 3.7 In addition to the recommendations above, the other main recommendations include:
- Investment priorities should be Security and Liquidity before considering Yield.
 - Strategies must be taken to Full Council before the start of the financial year but Councils should consider revised strategies during the year where appropriate.
 - Investment Strategies should be formally published.
 - Authorities should not just rely on credit ratings but on a wide range of information including the internet.
 - Authorities should comment on the use of Consultants and the limits on their liability within their strategies.
 - Authorities should comment on investment of borrowing in advance and the risks associated with this.
- 3.8 The investment and borrowing strategies for 2010/11 as outlined within this report take into account the above recommendations, and build on the training session held on 22 January 2010.

4. Treasury Management Risk

- 4.1 No treasury management activity is without risk. The successful identification, monitoring and control of risk is an important and integral element of the Council's treasury management activities. The CIPFA code lists risks to treasury activity as:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal & Regulatory Risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).

- 4.2 However the main risk faced by the Council is the risk of not achieving its objectives, outlined in section 2. Therefore, in undertaking our day to day treasury management function, we should not lose sight of the bigger corporate picture.
- 4.3 Following the Icelandic bank crisis the focus on treasury management has been on the security of investments, and this is a specific priority requirement in the new code of practice and CLG guidance.
- 4.4 Balancing the various risks is a complex task. No individual or organisation can accurately forecast movements in interest rates over the medium to long term. In an attempt to manage exposure to interest rate risk, for example, authorities have taken on credit risk as illustrated below:

Debt Policy

- Long term borrowing taken to match assets
- Fixed rate to minimise interest expense uncertainties

Investment Policy

- Short term to ensure liquidity
- Floating rate to correlate with the short dated nature of the asset

- 4.5 The Council will continue to manage down the risks contained within its current debt and investment portfolios, including the 'credit' risk illustrated above. In order to achieve this, the Council has established an integrated debt management and investment policy which balances certainty and security, with liquidity and yield. As an overriding principle, the strategies proposed within this report re-affirm that in the current financial climate the Council should continue to seek to reduce the Council's underlying level of borrowing and investments. The Council will seek to make greater use of short term variable rate borrowing, whilst at the same time seeking to balance its investments across a range of investment instruments. Further details of the risks inherent in the current portfolios are given in the relevant strategy sections.
- 4.6 During the year, in order to move towards best practice, Council Officers will work to develop a set of quantifiable benchmarks against which treasury management performance can be measured. These will be reported to Audit Committee for approval as part of the formal mid year monitoring and review report.

5. Review of 2009/10

- 5.1 The Council's Treasury Management Policy for 2009/10 was approved by full Council on 2 March 2009.
- 5.2 The overriding principle contained within the strategy was that in the current financial climate the Council should seek to reduce its underlying level of borrowing and investments. Treasury Management activity during the year and progress against the strategy has been reported to Cabinet during the year as part of the bi-monthly finance and performance monitoring reports.
- 5.3 The table below compares the Council's debt and investment levels from 1 April 2009 to 19 January 2010 and shows its estimated levels at 31 March 2010. Borrowing includes £34m of pre LGR debt administered by Devon County Council.

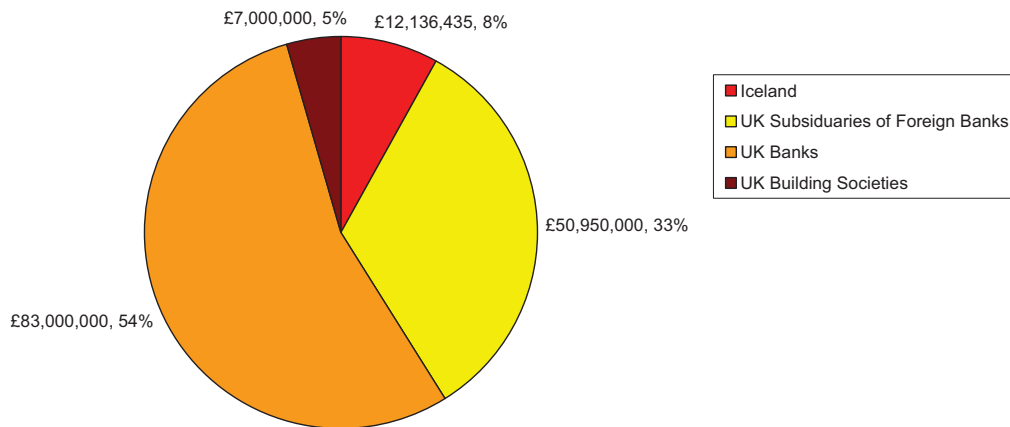
Table 1

Date	Investments £m	Borrowing £m
(a) 1 April 2009	213.800	405.734
(b) 19 January 2010	153.086	237.082
(c) 31 March 2010 (E)	105.000	232.560
Reduction in year	108.800	173.174

- 5.4 Following the Stock transfer, the Department of Communities and Local Government (DCLG) repaid the Housing Revenue Account (HRA) proportion of the Council's Public Works Loan Board (PWLb) debt totalling £91.37m (together with an early redemption premium of £25.94m) which has led to a significant reduction in the Council's debt. Whilst the reduction in debt is a positive step, the Council's revised debt portfolio has a significant proportion of market loans which will need to be addressed over time.
- 5.5 The current borrowing strategy for the remainder of 2009/10 will be to continue maximise cash flow and maturing deposits to finance the capital programme taking low rate short-term loans as required, delaying the need to take out additional long-term loans at relatively high interest rates.
- 5.6 The Council's underlying risk in terms of investments has been managed down throughout the year with maturing deposits used to repay short term borrowing and cover cash flow requirements. A number of investments in Countries and Sectors where security of deposit was a key consideration have been "bought out" early in order to further reduce risk. The pie chart below analyses the investments by Country as at 19th January 2010, which shows that the majority of investments are now held within the UK, which has itself, in terms of spreading risk by country, increased risk.

Figure 2

**PCC DEPOSITS BY COUNTRY AT 19th JANUARY 2010 - Total Deposits
£153,086,435.48**



- 5.7 The deposits with UK subsidiaries of foreign banks are with Santander UK PLC (Previously Abbey) owned by Banco Santander of Spain and Clydesdale Bank owned by National Australian Bank. Both Santander UK PLC and Clydesdale along with major UK owned banks are named institutions with access to the UK Government's Credit Guarantee Scheme and have long-term ratings in the 'double-A' category. Further detail of the Council's deposits by counterparty is shown in Appendix F.
- 5.8 During the year the Council has restricted its new investments to:
- The Debt Management Agency Deposit Facility (DMO)
 - Term deposits or business reserve accounts with UK banks or building societies that have access to the UK Government Credit Guarantee scheme
 - UK nationalised banks
 - Deposits with other local authorities
- 5.9 In line with cash flow requirements to year end, deposits will be made in shorter period maturities and call accounts.
- 5.10 The Treasury Management Board set up following the Icelandic bank Collapse continues to meet weekly to keep under review the investment and borrowing position and take timely action to respond to changing market conditions.

Icelandic Bank Update

5.11 The Council had £13m invested across three Icelandic banks, of which £0.864m of the principal element and £0.043m interest has been repaid to date. Regular updates on the progress of recovery of the monies invested have been made as part of the bi-monthly performance and budget monitoring reports. The Director for Corporate Support remains a member of the local authority Icelandic Bank steering committee and continues to work with the LGA and other local authorities to recommend action required to maximise returns. The steering committee continues to appoint Bevan Britton as legal advisors, representing the interest of all local authorities.

5.12 The latest position in respect of each of the banks is outlined below:

Glitnir £6m

The formal creditor claim was submitted to the creditor winding up board by the deadline of 30 November. At the Glitnir Winding Up board meeting held on 9 December 2009, ahead of the open creditor meeting of 17 December, the board rejected the claim that local authority deposits should have priority creditor status. The local authority solicitors, Bevan Britton will be appealing this decision on behalf of all local authorities and remain hopeful that full recovery of monies will still be attained. The Board has rejected claims for penalty interest.

Landsbanki £4m

The formal creditor claims were submitted to the creditor winding up board by the deadline of 31 October 2009. At the formal meeting of the Board the priority creditor status for local authorities was approved but a number of objections to this decision have been lodged by other creditors which will likely result in a delay in moving forward as these are resolved. The board has rejected the local authority claims for penalty interest. Final recovery is anticipated at 88%.

Heritable Bank £3m

Heritable Bank recovery is being dealt with under English insolvency law and is progressing as anticipated. The Council has received two dividend repayments during 2009, bringing the total amount recovered to date, including interest, to £907,594. Final recovery is still anticipated at 80%.

5.13 The Council has been permitted to defer charging any losses to its revenue account until 2010/11 under special regulations and has requested that these regulations should be extended for at least a further year given the uncertainties surrounding recoveries at the present time. However in the meantime, Officers have submitted a request to CLG for a Capitalisation Direction which would enable any losses to be spread over a ten to twenty year period. The outcome of the Capitalisation Direction request will not be known until the end of January 2010. An update will be provided verbally to Cabinet on the outcome of the Capitalisation Direction.

6. The Council's Forecast Treasury Position

6.1 The estimated treasury position for 31/3/2010 and 31/3/2011 is as follows:

Table 2

	31/3/2010 Estimate £m	Ave %	31/3/2011 Estimate £m
External Borrowing			
Fixed Rate PWLB	28.89	5.81	27.77
Fixed Rate - Market	81.08	4.42	74.08
Variable Rate - Market	94.41	3.45	106.46
DCC Administered Debt	33.94	5.40	32.58
Existing Long term Liabilities	238.36	3.10	240.89
IFRS long-term liabilities:			
PFI (2009/10)	TBA*		TBA*
Finance Leases (2010/11 onwards)	TBA*		TBA*
Total External Debt			
Total Investments	105.00	2.77	63.00

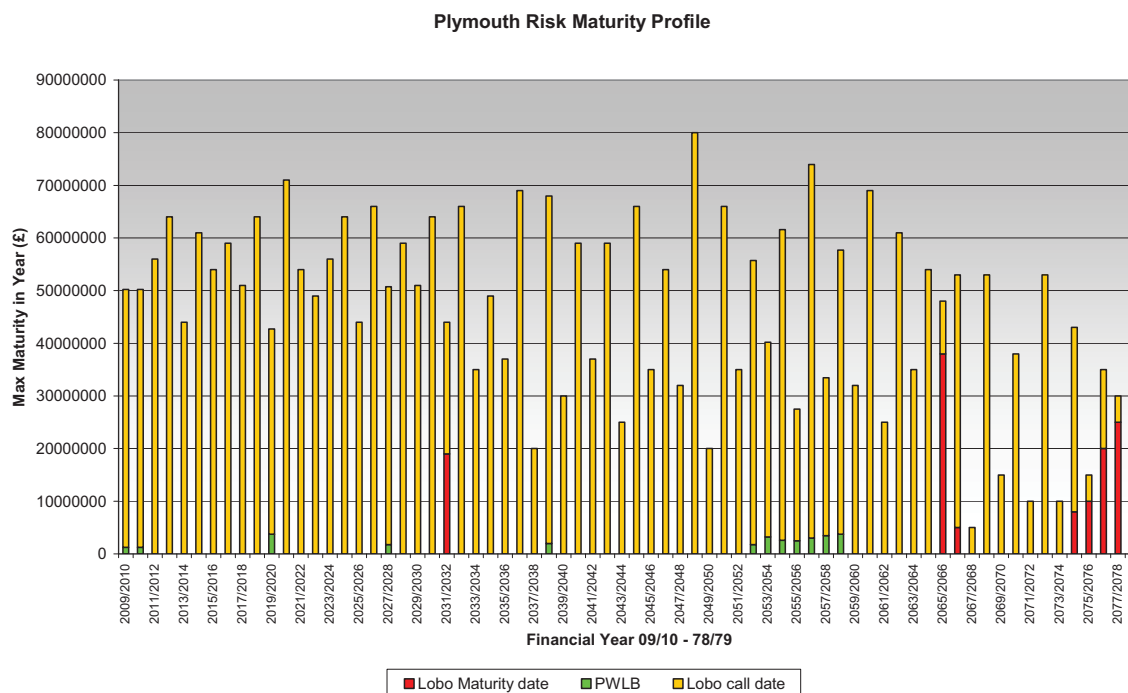
*figures currently being finalised

Debt

- 6.2 Under the new IFRS accounting requirements, the Council will be required to bring additional liabilities onto the balance sheet, and include these within external debt calculations as required under the Prudential Indicators. Liabilities relating to PFI schemes will impact on the end of year position for 2009/10 with any further liability relating to reclassification of operating leases to finance leases impacting in 2010/11. The CLG is proposing to issue mitigating regulations in order to minimise any financial impact on Council's revenue accounts from these changes.
- 6.3 The estimated debt position at 31 March 2011 assumes the borrowing requirement to fund the capital programme will be taken in short term fixed and variable rate debt. The strategy will depend on rates being lower than investment rates. If borrowing rates rise cash flow and internal balances will be used reducing the forecast debt at the end of 2010/11.
- 6.4 In partnership with Torbay Council, Officers are currently in discussion with Devon County Council to transfer to the two authorities the debt they currently administer on behalf of the Councils as a result of local government reorganisation. To date the Council has been making monthly payments of principal and interest on this debt. The aim of the transfer is to give the Council more opportunity to manage this debt in accordance with its policy on reducing risks inherent in its debt portfolio. The debt can only be transferred if Devon are not penalised by the transfer and are left in the same financial position as if they still continued to administer the debt.

- 6.5 The following graph shows the maturity profile of the Council's external debt:

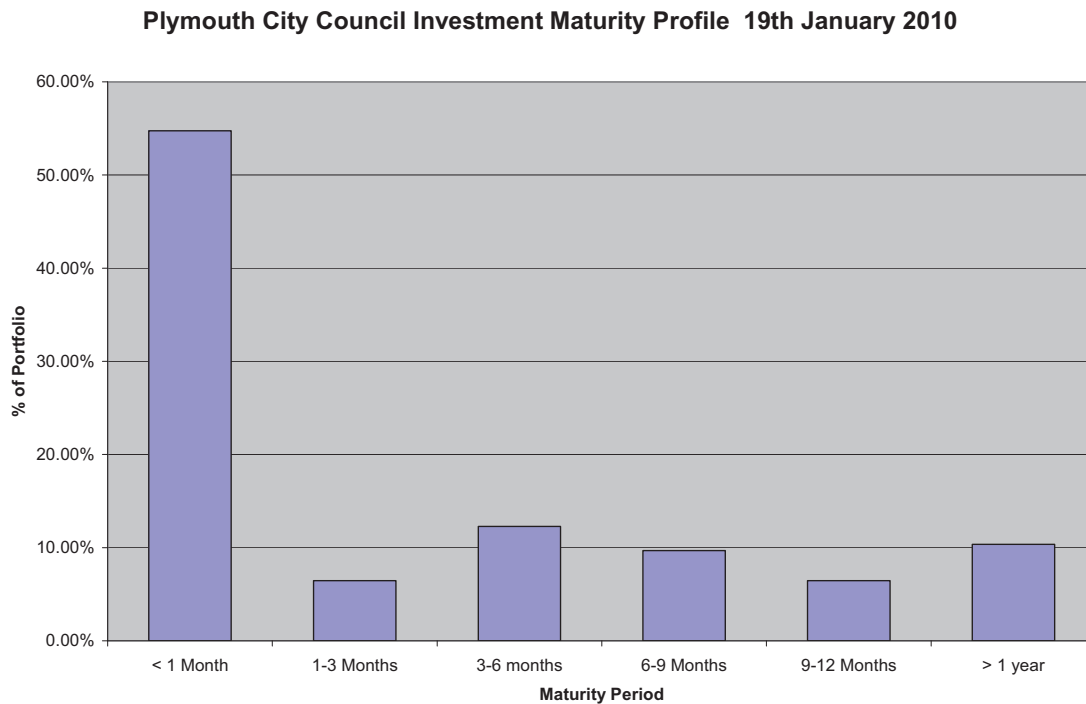
Figure 3



- 6.6 The debt portfolio currently includes £130m of LOBO loans. These loans have various option call dates where the banks have the ability to amend the loan terms and at which point the Council could choose to repay the loan if the terms are changed adversely. This is reflected within the maturity profile shown above (in amber) to enable officers to risk manage the Council's cashflows.
- 6.7 The estimate for interest payable during 2010/11, as included in the revenue budget, is £7.928m.
- 6.8 As part of the housing stock transfer negotiations, the CLG repaid £91.37m of the Council's PWLB debt on 25 November 2009. This has resulted in a significant proportion of the Council's remaining debt being in market loans, which Officers will seek to reduce over time, as outlined in the Borrowing Strategy for the year (section 10).

Investments

- 6.9 The graph below shows the current maturity profile of the Council's investments. In terms of risk management, the majority of the investment portfolio is now held in UK institutions. Whilst these institutions have access to the Government Credit Guarantee Scheme, there is a risk, albeit a small risk, should the UK Government, ie our sovereign state, collapse.

Figure 4

6.10 The estimate for interest receipts for 2010/11, as included in the revenue budget proposals, is £2.040m.

7. Outlook for Interest Rates

7.1 Interest rate forecasts can provide a useful tool in determining short term investment and borrowing decisions, but should be reviewed cautiously when longer term decisions are being considered.

7.2 The economic interest rate outlook provided by the Council's treasury advisor, Arlingclose Ltd, is attached at Appendix C, with the forecast movement in the Official Bank Rate set out in table 3 below.

Table 3

Official Bank Rate										
	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Upside Risk				+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50
Central Case	0.50	0.50	0.50	0.50	1.00	1.50	2.25	3.00	4.00	4.00
Downside Risk					-0.50	-0.50	-0.50	-0.25	-0.25	-0.25

7.3 The Bank Rate started 2009 at 1.5% and was cut by 0.5% in February and March, bringing the Bank Rate down to 0.5%, a level the Bank deemed appropriate for the prevalent economic conditions. This rate is the lowest in the Bank of England's 315-year history. It is expected this rate will remain until at least the latter part of 2010 with a downside risk that it will continue at this historically low rate to March 2011.

8. The Council's Borrowing Requirement

- 8.1 The Council's underlying need to borrow for capital purposes is measured by reference to its Capital Financing Requirement (CFR). The CFR represents the cumulative capital expenditure of the local authority that has not been financed. To ensure that this expenditure will ultimately be financed, local authorities are required to make a Minimum Revenue Provision for Debt Redemption (MRP) from within the Revenue budget each year. The estimated MRP included in the 2010/11 budget is £6.860m.
- 8.2 Table 4 below shows the estimated CFR over the medium term.

Table 4

Capital Financing Requirement	31/3/2010 Approved £m	31/3/2010 Revised £m	31/3/2011 Estimate £m	31/3/2012 Estimate £m	31/3/2013 Estimate £m
Total CFR*	209.036	212.531	234.550	236.301	233.741

* excludes impact of IFRS- see below

- 8.3 The move to International Financial Reporting Standards (IFRS) has implications for the Capital Financing Requirement components on the Balance Sheet. Analysis of the Council's Private Finance Initiative (PFI) schemes and Operating leases against IFRS requirements may result in the related long term assets and liabilities being brought onto the Council's Balance Sheet. The estimates for the CFR and Long Term Liabilities will therefore need to take into account such items. This will influence the determination of the Council's Affordable Borrowing Limit and Operational Boundary. This is currently under investigation and may increase the CFR and borrowing limits included in this report. If required amendments will be made for approval by Full Council at its budget meeting on 1 March 2010.
- 8.4 Capital expenditure not financed from internal resources, ie from Capital Receipts, Capital Grants and Contributions, Revenue or Reserves, will produce an increase in the CFR (the underlying need to borrow) and may in turn produce an increased requirement to charge MRP in the Revenue Account.
- 8.5 The borrowing requirement forecast to cover the capital programme over the next 3 years is:
- | | |
|---------|--------|
| | £m |
| 2010/11 | 30.236 |
| 2011/12 | 10.529 |
| 2012/13 | 6.257 |
- 8.6 Actual borrowing may be greater or less than the CFR, but in accordance with the Prudential code, the Council will ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus estimated of any additional CFR for the current and next two financial years. The Council will have no borrowing in advance at 1 April 2010.

- 8.7 Under Section 3 of the Local Government Act 2003 and supporting regulations the Council must determine and keep under review how much it can afford to borrow. The Council is required to set two limits:

- The Authorised Limit
- The Operational Boundary

- 8.8 The proposed limits are based on the Council's anticipated borrowing requirements whilst providing flexibility for potential additional borrowing such as use of unsupported borrowing within the capital programme, to cover possible shortfalls in capital receipts, debt maturities, an overspend on the capital programme, or other temporary cash flow requirements. The limits also allow for borrowing in advance of the following two years capital financing requirements if required.

- 8.9 The proposed limits for external borrowing are included as part of the Prudential Indicators in Appendix B. The limits proposed for 2010/11 and the following two years are:

	2010/11 £m	2011/12 £m	2012/13 £m
• Authorised Limit *	312	302	289
• Operational boundary *	260	260	258

**will need to be increased for IFRS (PFI) prior to approval by Council*

- 8.10 The Borrowing limits are required to be formally approved by full Council, and whilst these can be amended during the year, any amendment also requires full Council approval. The limits will reduce in 2011/12 and 2012/13 as debt is repaid and the forecast borrowing for the capital programme is reduced.

9. **The outlook for borrowing rates:**

- 9.1 The outlook for borrowing rates is as follows:

- *Fixed rate borrowing:* Short-dated gilt yields are forecast to be lower than medium- and long-dated gilt yields during the financial year. Despite additional gilt issuance to fund the UK government's support to the banking industry, short-dated gilts are expected to benefit from expectations of lower interest rates as the economy struggles through a recession.
- *Variable rate borrowing:* PWLB variable rates have fallen below 1%. They are expected to remain low as the Bank Rate is maintained at historically low levels to enable the struggling economy emerge from the recession.

- 9.2 The differential between investment earnings and debt costs, despite long term borrowing rates being around historically low levels, remains acute and is expected to remain a feature during 2010/11. The so called "cost of carry" associated with long term borrowing compared to temporary investments returns means that any long term borrowing will bring additional short-term costs whilst borrowing rates are higher than those available for investments.

10. The Borrowing Strategy for 2010/11

10.1 The underlying principles of the Borrowing Strategy for 2010/11 are:

- To manage out the risks inherent in the existing portfolio in terms of the proportion of market loans to PWLB
- To reduce the underlying level of debt

10.2 After considering the risks inherent in the existing portfolio and the outlook for interest rates in the short term, the capital financing borrowing requirement for 2010/11 will be financed from short-term fixed rate borrowing or variable rate borrowing where rates are lower than those available to the Council on its investments. Where borrowing rates are higher than investment rates internal resources will be used in lieu of borrowing with borrowing only taken to cover short term cash flow requirements. Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term.

10.3 Decisions to borrow at low, variable rates of interest will be taken after considering the absolute level of longer term interest rate equivalents and the extent of variable rate earnings on the Council's investment balances. When longer term rates move below the cost of variable rate borrowing any strategic exposure to variable interest rates will be reviewed and, if appropriate, reduced.

10.4 In conjunction with advice from its treasury advisor, Arlingclose Ltd, the Council will keep under review the options it has in borrowing from the PWLB, the market and other sources up to the available capacity within its CFR and Authorised Borrowing Limit.

10.5 Following the Stock transfer, the Department of Communities and Local Government (DCLG) repaid the Housing Revenue Account (HRA) proportion of the Council's Public Works Loan Board debt totalling £91.37m (together with an early redemption premium of £25.94m) which has led to a significant reduction in the Council's debt. Whilst the reduction in debt is a positive step, the Council's revised debt portfolio has a significant proportion of market loans which we will look to address over time and as such the PWLB remains the preferred source of borrowing for 2010/11.

10.6 The Council has £130m loans which are LOBO loans (Lender's Options Borrower's Option) of which £49m of loans are currently in or will be in their option state during 2010/11. In the event that the lender exercises the option to change the rate or terms of the loan, the Council will consider the terms being provided and if possible will seek to repay the loan without penalty, utilising cash resources or replacing the loan(s) by borrowing from the PWLB. LOBO's are extremely complex instruments with sophisticated embedded derivatives and remove local authority control over their refinancing decisions. Future use of such loans will need to be carefully considered.

- 10.7 Actual borrowing undertaken and the timing will depend on capital expenditure levels, interest rate forecasts and market conditions during the year. The Council will be advised by Arlingclose of the specific timing of borrowing. This may include borrowing in advance of future years' requirements provided that overall borrowing is maintained within the Council's projected CFR and its approved Authorised Borrowing Limit.
- 10.8 During the year, Officers will seek to identify a range of quantifiable debt benchmarks which will enable better monitoring and risk reporting of debt management activity. These will be reported to audit committee in a mid year treasury management review and monitoring report.

11. Debt Rescheduling

- 11.1 As the strategy proposes that the underlying level of debt should be reduced, it is not expected that the Council will undertake any debt rescheduling over the next year. However, there is a need to continue to maintain a flexible policy for debt rescheduling in the following circumstances:
- Savings in interest costs with minimal risk.
 - Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
 - Amending the profile of maturing debt to reduce any inherent refinancing risks.
- 11.2 In September 2009, the PWLB issued a Consultation document, entitled 'PWLB Fixed Rates', where the PWLB is reviewing the frequency of rate setting (currently daily) and could move to a live pricing basis. The deadline for the consultation period was 08 January 2010. The likely outcome of this is a reduction in the extent of the margins between premature repayment and new borrowing rates, particularly for longer maturities.
- 11.3 Any debt rescheduling opportunities will consider the longer term risks as well as short term savings and will be undertaken within the Council's treasury management policy and strategy. The Council will agree in advance with Arlingclose the strategy and framework within which debt will be repaid/rescheduled if opportunities arise. Thereafter the Council's debt portfolio will be monitored against equivalent interest rates and available refinancing options on a regular basis. As opportunities arise, they will be identified by Arlingclose and discussed with the Council's Officers.
- 11.4 Any rescheduling activity will comply with the accounting requirements of the local authority SORP and regulatory requirements of the Capital Finance and Accounting Regulations (SI 2007 No 573 as amended by SI 2008/414).
- 11.5 Borrowing and debt rescheduling activity will be reported as part of the Council's bi-monthly budget and performance monitoring reports.

Investment Policy and Strategy 2010/11

12. Investment Policy

12.1 Guidance from the then ODPM (now DCLG) on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set. The Guidance permits the TMSS and the AIS to be combined into one document.

12.2 To comply with the CLG's guidance, the Council's general policy objective is to invest its surplus funds prudently. The Council's investment priorities are:

1. Security of the invested capital;
2. Liquidity of the invested capital;
3. An optimum yield which is commensurate with security and liquidity.

The CLG's recent (draft) revised Guidance on investments reiterates security and liquidity as the primary objectives of a prudent investment policy.

12.3 The speculative procedure of borrowing purely in order to invest is unlawful and this Council will not engage in such activity. However there are circumstances where the Council may borrow money before it is required to finance capital expenditure, in accordance with the prudential code, and these circumstances provide additional balances for temporary investment. Any borrowing in advance of need will come at a cost and is not planned for 2010/11. However the Director for Corporate Support will monitor interest rates for both borrowing and investments and will react to changes in circumstances that make any advance borrowing that fits in with the Council's overall strategy and prudential indicators a viable option. This borrowing comes with additional credit risk by increasing the available funds for investments. This risk will be managed by depositing in high security institutions within limits set within the strategy.

12.4 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the ODPM Guidance. Non specified investments are regarded as higher risk than specified ones. The Council has traditionally invested in term deposits or call accounts, although the annual strategy statements have outlined a number of other specified and non specified instruments. The Council's investment maturity profile is outlined in section 6.

12.5 The credit crisis has refocused attention on the treasury management priority of security of capital monies invested. The Council will continue to maintain a counterparty list based on its criteria and will monitor and update the credit standing of the institutions on a regular basis. This assessment will include credit ratings and other alternative assessments of credit strength as outlined in paragraph 13.4. A subscription to the Bloomberg financial system is currently being negotiated. This will be used along with the internet and financial press to research and monitor news impacting on the Council's current deposits and the institutions in which future deposits will be considered.

- 12.6 The Council needs to maintain flexibility in its investment options if it is to be able to respond quickly to changing circumstances. Appendix D therefore continues to outline a number of investment instruments available for use in the coming year. The inclusion of such instruments on the list will afford the Director for Corporate Support, acting under delegated authority in accordance with Financial Regulations and in consultation with the Treasury Management Board, the flexibility required to manage the investment portfolio on a day to day basis without the need to seek prior Council approval for changes. Inclusion of an instrument on the list does not mean that the Council will necessarily make use of these during the year. The current lending list proposed to start on 1 April 2010 is attached at Appendix E. This will be reviewed with any banks no longer meeting the required credit quality criteria on 1 April removed from the list.
- 12.7 The proposed lending list includes the following amendments to the current strategy:
- the investment limit with the DMO be removed to give greater flexibility to react to changes in the economy and any heightened credit risk.
 - total investment in Eurosterling bonds be increased from 5% to 10% of the total investment portfolio allowing for the reduction in investments and maintaining flexibility to invest in secure longer-term investments.
 - the addition of a number of foreign banks to enable a greater spread of credit risk. It is proposed that the limit for total deposits in each non-UK country will be set at 25% of the total investments.
- 12.8 The Council's estimated levels of investments are set out in section 6.

13. Investment Strategy 2010/11

- 13.1 The global financial market storm in 2008 and 2009 has forced investors of public money to reappraise the question of risk versus yield. Income from investments is a key support in the Council's budget.
- 13.2 The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates are likely to remain at very low levels which will have a significant impact on investment income. The Council's strategy must however be geared towards this development whilst adhering to the principal objective of security of invested monies.
- 13.3 The Director for Corporate Support, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Decisions taken on the core investment portfolio will be reported to Cabinet as part of the bi-monthly performance and financial monitoring report.
- 13.4 In making investment decisions, the Council will have regard to a range of information sources including:

- Central banks
- Government Departments,
- Debt Management Office
- Multilateral agencies
- Multilateral development banks
- Newspapers and periodicals
- Financial data providers eg Bloomberg
- Professional bodies and associations
- Annual reports of Banks and Building Societies
- Ratings agencies
- Bank and Building Society websites

13.5 The Council's shorter term cash flow investments are made with reference to the outlook for the UK Bank Rate and money market rates. For 2010/11 the Council's will continue to invest in:

- The Debt Management Agency Deposit Facility (DMO)
- Term deposits or business reserve accounts with UK banks or building societies that have access to the UK Government Credit Guarantee scheme
- UK nationalised banks
- Deposits with other local authorities
- AAA-rated Money Market Funds (MMF) with a Constant Net Asset Value (Constant NAV) investing predominantly in government securities
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV) investing in instruments issued primarily by financial institutions

13.6 Conditions in the financial sector have begun to show signs of improvement, albeit with substantial intervention by government authorities. In order to diversify the counterparty list, the use of comparable non-UK Banks for investments is now considered appropriate and the sovereign states whose banks are recommended for inclusion are Australia, Canada, Finland, France, Germany, Netherlands, Spain, Switzerland and the US. Whilst these countries are to be added to the list for 2010/11, no investment will be made until Council Officers and their treasury advisors are comfortable that they meet all the credit criteria set by the Council, including in the case of foreign investments, the measure of GDP, yet to be agreed with Arlingclose.

13.7 These countries, and the Banks within them have been selected by our Treasury management advisors after analysis and careful monitoring of:

- Credit Ratings (minimum long-term – Fitch A+, Moody's A1, S&P A+)
- Credit Default Swaps
- GDP; Net Debt as a Percentage of GDP
- Sovereign Support Mechanisms / potential support from a well-resourced parent institution
- Share Price

- 13.8 The Council has also taken into account information on corporate developments and market sentiment towards the counterparties. The Council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.
- 13.9 We do remain in a heightened state of sensitivity to risk. Vigilance is key. This modest expansion of the counterparty list is an incremental step. In order to meet requirements of the revised CIPFA Treasury Management Code the Council is focusing on a range of indicators (as stated above), not just credit ratings.
- 13.10 During the year, Officers will seek to develop a range of quantifiable investment benchmark criteria. This should:
- Give the Council confidence to diversify its investment portfolio, eg by sector, geography, duration, type of instrument
 - Avoid excessive concentration of risk
 - Consider having both absolute and percentage limits
- 13.11 Protection against the downward move in interest rates through 1-year deposits and through longer-term secure investments will be actively considered within the limits the Council has set for Non-Specified Investments and on the advice of Arlingclose should include Eurosterling Bonds such as those issued by the European Investment bank (EIB) or the Nordic Investment Bank for 2010/11. The joint and individual pan European government guarantees in place on these bonds provide security of the principal invested. Even at the lower yields likely to be in force, the return on these bonds could be attractive relative to the increasingly low outlook for interest rates. A limit of £20m or 10% of total investment portfolio (whichever the lower) in Eurosterling Bonds is recommended by our treasury advisors.
- 13.12 The Council's updated lending list for 2010/11 is included at Appendix E. The list will continue to be reviewed and updated by the Director for Corporate Support during the year.
- 13.13 The target rate on new investment in 2010/11 is 1%. The current deposits include deposits which were taken out for longer-term prior to the Icelandic banking crisis and are at much higher rates than current deposit rates. Taking these deposits into account the average rate on all deposits in 2010/11 is forecast at 2.35%. The investment interest included in the 2010/11 budget is £2.04m. This does not take account of any repayments from our Iceland bank deposits

14. Investments defined as Capital Expenditure

- 14.1 The acquisition of share capital or loan capital in any body corporate, a loan or grant or financial assistance by the Council to another body for capital expenditure, and certain other types of investment are defined as capital expenditure under the relevant Regulations.

- 14.2 The Council's policy is to not use any investment which will be deemed capital expenditure.

15. Balanced Budget Requirement

- 15.1 The Council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget. The proposed budget for 2010/11 is set out in the 2010/11 budget report.

16. Annual MRP Statement

- 16.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision (MRP) has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003. The broad aim of 'prudent' provision is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits.

- 16.2 The four MRP options available are:

Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

- 16.3 The 2009 SORP and IFRS may result in PFI schemes and leases being brought on balance sheet. Where this is the case the CFR will increase, which will lead to an increase in the MRP charge to revenue. MRP for these items will match the annual principal repayment for the associated deferred liability. The Council currently has one PFI scheme, the schools at Riverside and Woodview campus, and this has been assessed as meeting the criteria for inclusion on the balance sheet. Officers are currently identifying the implications on the CFR and MRP. In order to mitigate against any revenue impact the CLG has issued draft regulations which include a further definition to the Asset Life Method which will enable the annual principal repayment to be matched to the associated deferred liability. The final Regulations are expected to be published by 31 March 2010, and apply retrospectively to financial year 2009/10.

- 16.4 MRP in 2010/11: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

- 16.5 Under the regulations, the authority is required before the start of each financial year to prepare a statement of its policy on making MRP in respect of that financial year and submit it to the full Council. The proposed policy for 2010/11 is as follows:

Supported Borrowing

For borrowing supported by Revenue Support Grant the Council will continue to use the current method of 4% of the adjusted Non-HRA capital financing requirement, (Option 2).

Unsupported Borrowing

For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, MRP will be made in equal annual instalments over the life of the asset (Option 3).

Capitalisation Directions

For capitalisation directions on expenditure incurred since 1 April 2008 MRP will be made in equal annual instalments over 20 years in line with DCLG guidance (Option 3).

PFI/Leases

MRP in respect of PFI and leases brought on Balance Sheet under the 2009 SORP and IFRS will match the annual principal repayment for the associated deferred liability.

In all cases MRP will commence in the financial year following the one in which the expenditure is incurred.

17. Reporting on the Treasury Management Activities

- 17.1 In accordance with the recommendations of the Treasury Management Code, the Council's Audit Committee will be responsible for the scrutiny of treasury management activities and practices.
- 17.2 The Director for Corporate Support will report to the Audit Committee on treasury management activity and performance at least twice a year against the strategy approved for the year (being a mid year review and an end of year review).
- 17.3 The Council is required to produce an outturn report on its treasury activity no later than 30 September after the financial year.
- 17.4 In addition treasury management activity will continue to be reported as part of the bi-monthly budget and performance reports to Cabinet and as part of the budget outturn report.

18 Recommendations

- 18.1 To approve the Treasury Management Strategy Statement for 2010/11, subject to feedback from Audit Committee following its scrutiny of the strategy.
- 18.2 To approve the Investment Strategy for 2010/11 as outlined in Section 13 of the report, subject to feedback from Audit Committee following its scrutiny of the strategy.

- 18.3 To approve the Lending Organisations and Counter party Limits as outlined in Appendix E
- 18.4 To request the Director for Corporate Support, acting under delegated authority in accordance with Financial Regulations, to keep the lending list under review and update the list during the year as dictated by market circumstances.
- 18.5 To recommend to full Council (subject to any amendments that may be required as a result of the inclusion of PFI schemes on the balance Sheet) to approve:
 - (a) The Authorised Borrowing limits of £312m, £302m and £289m for the period 2010/11 to 2012/13
 - (b) The Operational Boundary of £260m, £260m and £258m for 2010/11 to 2012/13
 - (c) The Prudential Indicators set out in Appendix B;
 - (d) The MRP Policy for 2010/11.
- 18.6 A formal mid year review and monitoring report be taken to Audit Committee.
- 18.7 Officers seek to develop a set of benchmarking targets for the treasury management activity against which performance can be measured.

Appendix A

Treasury Management Policy Statement

Plymouth City Council defines the policies and objectives of its treasury management activities as follows:-

1. This organisation defines its treasury management activities as:
“The management of the authority’s investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the organisation.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Appendix B**Prudential Indicators 2010/11 to 2012/13**

There is a requirement under the Local Government Act 2003 for local authorities to have regard to Cipfa's Prudential Code for Capital Finance in Local Authorities (the "Cipfa Prudential Code") when setting and reviewing their Prudential Indicators. This Code together with the Cipfa Code of Practice for Treasury Management was fully revised in late 2009 and is incorporated into the calculation of the Prudential Indicators for 2010/11 to 2012/13.

The Council's Prudential Indicators are outlined in Annex 1. The following comments explain in more detail the purpose of each indicator.

Estimates of Capital Expenditure:

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

The detailed capital programme for the medium term period ending 2014/15 is outlined in the 2010/11 budget report.

Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing. It is an aggregation of the amounts shown for Fixed and Intangible assets, the Revaluation Reserve, the Capital Adjustment Account, Government Grants Deferred and any other balances treated as capital expenditure.

The Prudential Code provides the following statement as a key indicator of prudence: "in order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

Authorised Limit and Operational Boundary for External Debt:

The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR. There are two borrowing limits specified within the Code.

The Authorised Limit

This is the absolute borrowing limit beyond which any borrowing is prohibited until revised by the authority. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

The Operational Boundary

This limit is intended to cover the probable borrowing needs of the authority during the year. It is a focus for day to day Treasury Management and a means by which the authority manages its external debt within the self imposed Authorised limit. It is lower than the Authorised limit because cash flow variations may lead to the occasional breach of this indicator.

Upper Limits for Fixed and Variable Interest Rates

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits as:

- Fixed rate interest rate exposure: net fixed rate debt (fixed rate debt less fixed rate investments) as a % of total net debt (total debt less total investments)
- Variable interest rate exposure: net variable rate debt (variable rate debt less variable rate investments) as a % of total net debt (total debt less total investments)

The fixed rate indicator generally remains high reflecting historical policy to take long term fixed rate debt and short term investments (investments for less than 1 year are classified as variable rate). The strategy for 2010/11 is to reduce the exposure to fixed rates by taking a proportion of any borrowing requirement in short term variable rate loans.

Borrowing at fixed rates for long periods can give the opportunity to lock into low interest rates and provide stability but risks missing possible opportunities to borrow at low rates in the medium term, or to convert short term loans into long term if long term rates were to fall.

The proposed limits for 2010/11 will provide flexibility to adapt to different possible scenarios which could arise from changing market conditions within the Treasury Management Strategy.

The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments. The upper limit of 200% on fixed interest rate exposure allows for periods when short term deposits exceed variable rate debt due to balances/cashflow.

Officers will work with the Council's treasury advisors to develop a range of benchmarking indicators to be reported in the mid-year treasury management report covering performance against Prudential Indicators and variations to proposed limits.

Upper Limit for sums invested over 364 days:

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Ratio of Financing Costs as a % of Net Revenue Stream:

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

The ratio is based on the cost of interest on borrowing and the minimum revenue provision, less Interest and Investment income. In Plymouth's case, a proportion of the cost comes from debt arising from Local Government Reorganisation, which is managed by Devon County Council.

Incremental Effect of Additional Programme on Council Tax

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current year's approved capital programme with an equivalent calculation of the revenue budget requirement in future years as a result of additional spend on the capital programme each year over the medium term period.

The figures shown in the annex assume only limited new borrowing will be taken out in 2009/10 and 2010/11, with the borrowing requirement being met as far as possible from cash flow and balances. This has resulted in a negative impact on the Council tax in 2009/10, and a low incremental impact for 2010/11. Internal balances will be exhausted during 2010/11, and the full cost of borrowing will be a cost to the revenue budget. The impact on the council tax is therefore the loss of interest that could be achieved if these balances were available for investment. In latter years the incremental effect is the additional borrowing that will be required to finance the approved capital programme.

Maturity Structure of Fixed Rate borrowing:

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. The repayment of the majority of PWLB loans over the last 12 months have resulted in an high proportion of Lobo (lenders Option, Borrowers Option) loans which may be subject to rate change or repayment at specified intervals. On specified dates the Lender has the option to vary the rate. If the option is taken the Council (Borrower) has the option to repay the loan. Therefore the loan may be subject to repayment on a number of occasions throughout the life of the loan. These repayment possibilities are included in the limits set for the maturity of fixed rate borrowing.

2010/11 TREASURY MANAGEMENT STRATEGY - PRUDENTIAL INDICATORS

PRUDENTIAL INDICATOR	2009/10 Approved	2009/10 Update	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate
<u>AFFORDABLE BORROWING LIMITS</u>	£M	£M	£M	£M	£M
Estimated Capital expenditure					
Non - HRA	84.691	84.030	93.317	45.182	22.044
HRA	7.222	7.991	n/a	n/a	n/a
Total	91.913	92.021	93.317	45.182	22.044
Capital Financing Requirement - As at 31st March	209.036	212.531	234.550	236.301	233.741
Authorised Limit for External Debt					
Borrowing	460	460	312	302	289
Other Long Term Liabilities (PFI)	0	TBA	TBA	TBA	TBA
Total	460	460	312	302	289
Operational Boundary					
Borrowing	430	430	260	260	258
Other Long Term Liabilities (PFI)	0	TBA	TBA	TBA	TBA
Total	430	430	260	260	258
Limit for Fixed Interest Rate Exposure					
Net Fixed Rate (Borrowing less investments)	200%	310%	200%	200%	200%
Limit for Variable Rate Exposure					
Net Variable Rate (borrowing less investments)	60%	60%	85%	85%	85%
Upper Limit for sums Invested over 364 days	£60m	£60m	£25m	£25m	£25m
Capital Financing Cost as a % of Revenue Stream	%	%	%	%	%
General Fund					
- Plymouth Debt	6.12	6.41	6.11	6.44	6.33
- Devon Managed Debt	1.71	1.67	1.56	1.49	1.43
Total	7.83	8.08	7.67	7.93	7.76
Housing Revenue Account	28.69	n/a	n/a	n/a	n/a
Incremental Effect of Additional Programme on Council Tax (Band D p.a)	£0.75	-£1.30	£0.34	£15.86	£32.97

Fixed Rate Borrowing Maturity Limits for 2010/11	2009/10 Upper Limit	2010/11 Upper Limit	2010/11 Lower Limit
Under 12 months	60%	65%	0%
12 months and within 24 months	60%	65%	0%
24 months and within 5 years	30%	55%	0%
5 years and within 10 years	25%	50%	0%
10 years and above	60%		
10 years and within 20 years		45%	0%
20 years and within 30 years		45%	0%
30 years and within 40 years		45%	0%
40 years and within 50 years		55%	0%
50 years and above		50%	0%

Arlingclose's National Economic and Interest Rate Forecast (dated 14 December 2009)

	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
Official Bank Rate										
Upside risk				+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.50	0.50	1.00	1.50	2.25	3.00	4.00	4.00
Downside risk					-0.50	-0.50	-0.50	-0.25	-0.25	-0.25
1-yr LIBID										
Upside risk				+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	1.25	1.25	1.25	1.50	2.00	2.75	3.50	4.00	4.25	4.25
Downside risk					-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
5-yr gilt										
Upside risk		+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	2.60	2.70	2.80	2.90	3.00	3.25	3.50	3.75	4.00	4.25
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
10-yr gilt										
Upside risk			+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25
Central case	3.60	3.75	3.75	4.00	4.00	4.25	4.25	4.50	4.50	4.75
Downside risk			-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
20-yr gilt										
Upside risk		+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25	+0.25
Central case	4.10	4.25	4.50	4.75	4.75	5.00	5.00	5.00	5.00	5.00
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
50-yr gilt										
Upside risk	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	4.00	4.25	4.50	4.50	4.50	4.75	4.75	4.75	4.75	4.75
Downside risk			-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- The recovery in growth is likely to be slow and uneven, more “W” than “V” shaped. The Bank of England will stick to its lower-for-longer stance on policy rates.
- Gilt yields will remain volatile; yields have been compressed by Quantitative Easing and will rise once QE tapers off and if government debt remains at record high levels.
- Central banks will eventually wind down and exit their emergency liquidity provisions and shrink their balance sheets, but official interest rates in the UK, Eurozone and US will stay low for some while.
- There are significant threats to the forecast from potential downgrades to sovereign ratings and/or political instability.

Assumptions

- The Bank of England has increased Quantitative Easing (QE) to £200bn to insure against the downside risks to growth and stimulate the economy.

- The Bank forecasts GDP to grow by 4% in 2011 but concedes growth could be impeded by corporate and consumer balance sheet adjustments, restrictions in bank credit and consumers' cautious spending behaviour. This is an optimistic forecast in our view; evidence of recovery is scant with weak real economic data and rising unemployment.
- Looming bank regulation and liquidity and capital requirements will curb banking lending activity. The Bank retains the option to reduce the rate on commercial banks' deposits to encourage them to lend.
- The employment outlook remains uncertain. Pay freezes and job cuts will continue into 2010.
- Inflation is not an immediate worry. The Bank's forecast is for CPI to rise in the next few months from higher commodity prices and VAT reverting to 17.5%, but is forecast to remain below 2% in the short term, only surpassing the target in 2012. There is a risk that inflation overshoots in 2010 prompting a letter from the Bank's Governor to the Chancellor.
- The UK fiscal deficit remains acute. Cuts in public spending and tax increases are now inevitable and more likely to be pushed through in 2010 by a new government.
- The net supply of gilts will rise to unprecedented levels in 2010. Failure to articulate and deliver on an urgent and credible plan to lower government borrowing to sustainable levels over the medium term will be negative for gilts.
- The Federal Reserve Chairman Bernanke's diagnosis of a weak U.S. economy and labour market signal that the Fed's "extended period" of low rates may get even longer. The outlook the Eurozone is more optimistic but the European Central Bank will only increase rates after a durable upturn in growth.

Specified and Non Specified Investments

The CLG is in the process of undertaking a review of the Investment Guidance for local authorities in England and this section may therefore be subject to review and amendment.

Specified Investments identified for use by the Council:

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high” credit criteria as determined by the Council or is made with the UK government or is made with a local authority in England, Wales and Scotland.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the Council’s use are:

- Deposits in the DMO’s Debt Management Account Deposit Facility
- Deposits with UK local authorities
- Deposits with banks and building societies
- *Certificates of deposit with banks and building societies
- *Gilts : (bonds issued by the UK government)
- *Bonds issued by multilateral development banks
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV) investing predominantly in government securities
- AAA-rated Money Market Funds with a Constant Net Asset Value (Constant NAV) investing in instruments issued primarily by financial institutions;
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

* Investments in these instruments will be on advice from the Council’s treasury advisor.

For credit rated counterparties, the minimum criteria will be the short-term / long-term ratings assigned by various agencies which may include Moody’s Investors Services, Standard & Poor’s, Fitch Ratings. The lowest rating of the 3 agencies will be used when making investment decision or including/removing counterparties from the Council’s lending list.

For 2010/11 the following Minimum ratings proposed are.

Term Deposits with Banks and Building Societies for periods up to 1 year

	Minimum long-term	Minimum short-term
Fitch	A+	F1
Moody's	A1	P-1
S&P	A+	A-1

However in making investment decisions the Council will not solely rely on credit ratings but will have regard to a range of information sources including:

- Central banks
- Government Departments,
- Debt Management Office
- Multilateral agencies
- Multilateral development banks
- Newspapers and periodicals
- Financial data providers eg Bloomberg
- Professional bodies and associations
- Annual reports of Banks and Building Societies
- Ratings agencies
- Bank and Building Society websites

The Council will also take into account information on corporate developments of and market sentiment towards investment counterparties.

The Council needs to maintain flexibility in its investment options if it is to be able to respond quickly to changing circumstances, and the above list continues to outline a number of investment instruments available for use in the coming year. The inclusion of such instruments on the list will afford the Director for Corporate Support, acting under delegated authority in accordance with Financial Regulations and in consultation with the Treasury Management Board the flexibility required to manage the investment portfolio on a day to day basis without the need to seek prior Council approval for changes. Inclusion of an instrument on the list does not mean that the Council will necessarily make use of these during the year.

Further details on the non-specified investments, and the associated risks are given below.

The proposed lending list for 2010/11, based on current circumstances is set out in Appendix E.

NON-SPECIFIED INVESTMENTS

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemabl</u> <u>e within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum</u> <u>credit rating</u>	<u>Capital</u> <u>Expenditure?</u>	<u>Circumstance</u> <u>of use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	Lending limits varied, depending on Credit Ratings. Minimum Rating Long Term: Fitch AA- Moody's Aa3 S & P AA- Short tTerm: Fitch F1++ Moody's P-1 S&P A-1+	NO	In-house.	30%	5 Years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	Lending limits varied, depending on Credit Ratings. Minimum Rating Long Term: Fitch AA- Moody's Aa3 S & P AA- Short tTerm: Fitch F1++ Moody's P-1 S&P A-1+	NO	To be used only after consultation/ advice from Arlingclose.	10%	5 Years

Appendix D

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemabl</u> <u>e within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum</u> <u>credit rating</u>	<u>Capital</u> <u>Expenditure?</u>	<u>Circumstance</u> <u>of use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity. (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	Lending limits varied, depending on Credit Ratings. Minimum Rating Long Term: Fitch AA- Moody's Aa3 S & P AA- Short tTerm: Fitch F1++ Moody's P-1 S&P A-1+ Lending limits varied depending on Credit Ratings Long Term AA-	NO	In-house.	20%	5 Years

Appendix D

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemabl</u> <u>e within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum</u> <u>Credit Rating?</u>	<u>Capital</u> <u>Expenditure?</u>	<u>Circumstance</u> <u>of use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
UK government gilts with maturities in excess of 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk': Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	NO	Buy and hold to maturity; to be used only after consultation/ advice from Arlingclose.	20%	10 Years
Sovereign issues ex UK govt gilts : any maturity <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk': Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	AAA	NO	Buy and hold to maturity; to be used only after consultation/ advice from Arlingclose.		10 Years
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning. (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period	No	No	Lending limits varied, depending on Credit Ratings. Minimum Rating Long Term: Fitch AA- Moody's Aa3 S & P AA- Short tTerm: Fitch F1++ Moody's P-1 S&P A-1+	NO	In-house.	10%	5 Years

Appendix D

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemabl</u> <u>e within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum</u> <u>credit rating</u>	<u>Capital</u> <u>Expenditure?</u>	<u>Circumstance</u> <u>of use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
Deposits with unrated deposit takers with unconditional financial guarantee from HMG or credit-rated parent institution : any maturity	Credit standing of parent will determine ultimate extent of credit risk	No	Yes, but only if maturity is 1 year or less	Not rated in their own right, but parent must have minimum rating. Long Term AA- Short term F1+	NO	In-house.	25%	1 Year
Bonds issued by a financial institution that is guaranteed by the United Kingdom Government (as defined in SI 2004 No 534) with maturities in excess of 1year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen.	Yes	Yes	AAA / government guaranteed	NO	Buy and hold to maturity: to be used only after consultation/ advice from Arlingclose.	10%	10 Years

Appendix D

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemabl</u> <u>e within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum</u> <u>credit rating</u>	<u>Capital</u> <u>Expenditure?</u>	<u>Circumstance</u> <u>of use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities in excess of 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity). (B) (i) 'Market or interest rate risk': Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen.	Yes	Yes	AAA or government guaranteed	NO	Buy and hold to maturity; to be used only after consultation/ advice from Arlingclose.	10%	10 Years

PLYMOUTH CITY COUNCIL- PROPOSED ORGANISATIONS FOR INVESTMENT (Effective 1st April 2010)

MAX LENGTH		12 Months	12 Months			3 Months	1 Month	Money Market Funds	10 years
MAX AMOUNT		No limit	£20m*** Minimum rating required for all 3 agencies Elitch Moodys S&P	£5m Minimum rating required for all 3 agencies Elitch Moodys S&P	£5m**		£20m*** Minimum rating required for all 3 agencies Elitch Moodys S&P	£5m * Minimum rating (Rating scaled from at least 1 agency) Elitch Moodys S&P	£ 20m *
Investment Criteria	Country	UK Government	Long Term A+ A1 A+ Short Term F1 P-1 A-1	Long Term A+ A1 A+ Short Term F1 P-1 A-1	Local Authorities	Nationalised Banks	Long Term A+ A1 A+ Short Term F1 P-1 A-1	A Constant Net Asset value investing predominantly in Government securities A Constant Net Asset value investing in instruments issued primarily by financial institutions	Eurosterling bonds *
UK Banks supported by Government capitalisation/ or have access to the Credit Guarantee Scheme	UK		Barclays HSBC Lloyds Banking Group Royal Bank of Scotland Santander UK PLC (Barco Santander Group) *** Nationwide				Cydesdale Bank (National Australia Bank Group) ***		
Other UK Banks supported by Government capitalisation/ or have access to the Credit Guarantee Scheme	UK								
Central Government Local Authorities	UK	UK Government Debt Management Office (DMO) - DMADF			Upper Councils County Councils Metropolitan Councils London borough Councils	Northern Rock			
Foreign Banks	Australia		Australia and NZ Banking Group Commonwealth Bank of Australia National Australia Bank Ltd Commonwealth Bank of Australia National Australia Bank Ltd *** Westpac Banking Corp. Bank of Nova Scotia Canadian Imperial Bank of Commerce Royal Bank of Canada Toronto-Dominion Bank BNP Paribas Credit Agricole Group Credit Agricole SA						
	Canada								
	France								
	Germany								
	Netherlands								
	Spain								
	Switzerland								
	USA								
Money Market Funds	UK/Ireland/ Luxembourg							Barclays Global Investors Henderson Liquid Asset Fund Investec Global Short Term Liquidity Fund Investec Ann short-term Investment Co (Global series)PC Sterling Liquidity Fund	
Eurosterling bonds	EU								European Investment Bank* Nordic Investment Bank*
Footnotes:		**£20m total limit for Bank/group to include money market call accounts Lloyds Banking Group limit to include Lloyds TSB Bank of Scotland	Limit of 25% of total investments in any non UK country *** £30m overall limit with National National Bank Ltd Cydesdale Bank (UK) **** £30m overall limit with Banco Santander Group to include deposits Banco Santander SA (Spain) Santander UK PLC	*Note £20m total limit in local Authorities		**£30m total limit for Bank/group to include money market call accounts	Individual limits not to exceed 2.5% overall investment portfolio Total investments not to exceed £20m or 10% of investment portfolio		Total investments not to exceed 10% of investment portfolio

Approved by Adam Brooma, Director for Corporate Support

Council Investments as at 19 January 2010

The Council's investments as at 19th January 2010 were made up of the following deposits with the following Counterparties:

UK Banks £83m

Lloyds Banking Group – deposits with LloydsTSB and Bank of Scotland – Total £30m

<u>Bank</u>	<u>Deposit</u>	<u>Maturity Date</u>
Bank of Scotland	£5,000,000	01-Sep-2010
Bank of Scotland	£5,000,000	27-Sep-2010
Bank of Scotland	£5,000,000	02-Nov-2010
Bank of Scotland	£5,000,000	08-Dec-2010
Bank of Scotland	£5,000,000	18-Jan-2011
Lloyds TSB	£5,000,000	10-Jun-2013

The deposit with Lloyds TSB has a call option on 10 June 2010. It is anticipated that this option will be taken by the Bank and therefore the deposit will mature on this date.

Royal Bank of Scotland (RBS) – Deposits with RBS and it's subsidiary Ulster Bank Ireland – Total £30m

<u>Bank</u>	<u>Deposit</u>	<u>Maturity Date</u>
RBS	£20,000,000	Call deposit account
Ulster Bank Ireland	£5,00,0000	26-Apr-2012
Ulster Bank Ireland	£5,000,000	03-May-2012

Barclays Bank Total £23m

<u>Bank</u>	<u>Deposit</u>	<u>Maturity Date</u>
Barclays	£10,000,000	31-Mar-2010
Barclays	£5,000,000	30-Apr-2010
Barclays	£5,000,000	08-Jun-2010
Barclays	£3,000,000	13-Jun-2011

UK Building Societies- £7m

Comprises deposits with Nationwide Building Society made up as follows:

<u>Bank</u>	<u>Deposit</u>	<u>Maturity Date</u>
Barclays	£2,000,000	17-May-2010
Barclays	£2,000,000	28-May-2010
Barclays	£2,000,000	16-May-2011
Barclays	£1,000,000	27-May-2011

UK Subsidiaries of foreign banks £50.95m

Comprises deposits with Santander UK PLC (£26.5m) and Clydesdale (£24.45m) made up as follows:

<u>Bank</u>	<u>Deposit</u>	<u>Maturity Date</u>
Santander UK PLC	£26,500,000	Call deposit account
Clydesdale	£19,450,000	Call deposit account
Clydesdale	£2,000,000	07-May-2010
Clydesdale	£3,000,000	14-May-2010