MUNICIPAL YEAR 2009/2010 REPORT NO. **99**

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REPORT OF:
Director of Finance and
Corporate Resources

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Agenda – Part: 1	**Item: 14**
Subject: **ANNUAL TREASURY MANAGEMENT OUTTURN REPORT 2008/09** **Wards: All**	
Cabinet Member consulted: Cllr. E. Hurer	

1. EXECUTIVE SUMMARY

1.1 This report reviews the activities of the Council's Treasury Management function over the financial year ended 31 March 2009.

1.2 The report also makes recommendations to extend the Council's investment criteria to include banks where the Government have a substantial interest.

1.3 The key points of the report are highlighted below:

		See section:
Debt Outstanding at year end	• *Down from £242 million to £220 million*	***5***
Interest on new borrowing in year	• *4.42 % against average Public Works Loans Board Rate (PWLB) in year of 4.52%*	***5***
Average interest on total debt outstanding	• Down from 5.5% to 5.43%	**6**
Debt Re-scheduling	• *None undertaken*	**9**
Interest earned on investments	• *Out-performed benchmark by 2.18%*	**10**
Net Borrowing	• *Net borrowing (difference between total debt & investments): £97.2 million*	**10**

2. RECOMMENDATIONS

2.1 The Council is recommended to accept the Treasury Outturn report. .

2.2 The Council is also recommended to approve some adjustment to the 2009/10 investment criteria, to reflect the recent changes in the banking sector.

3. BACKGROUND

3.1 The Council adopted the CIPFA Revised Treasury Management Code of Practice and approved the annual Treasury Management Policy Statement in February 2003.

3.2 The statement requires the Director of Finance & Corporate Resources to report on the preceding year's treasury management activities. In accordance with best practice, the Director's report includes information about borrowing levels and costs, as well as the impact of the cash flow management arrangements on the Council's financial position.

4. NATIONAL CONTEXT

4.1 The 2008/09 financial year has featured one of the most testing and difficult economic and investment environments since the 1930s. There were a number of very significant changes in the performance of the UK as well as the global economy. And beneath all of this has been the undercurrent of uncertainty and mistrust in the financial markets.

4.2 The year opened on an uncertain note. The ongoing effects of the "credit crunch" which had started in 2007, prompted a bout of monetary policy easing in early April when the Bank of England cut its Bank Rate by 0.25% to 5%.

4.3 But inflation was rising sharply, courtesy of the strength of global commodity and food prices and the very steep rise in oil prices. The CPI inflation measure breached the 3% upper limit of the Governments' target range in April. The Bank was concerned that these external cost pressures could eventually transform into a domestic wage/price spiral and kick start a bout of damaging inflation.

4.4 Rates were left on hold through the summer months and there seemed to be some signs of a gradual return to slightly more normal conditions in the money markets. But this was not to last. Mid-September saw a "sea change" in financial markets and economic policies. The collapse of US investment bank, Lehman Brothers, dealt a devastating blow to the markets. Liquidity dried up almost completely making it extremely difficult for banks to function normally. These developments culminated in the failure of the entire Icelandic banking system in early October.

4.5 The failure of the Icelandic banking system had a major impact on local authority investments.

4.6 The crisis in the financial markets deepened and threatened a complete 'melt-down' of the world financial system. This, together with evidence that economies had entered recession, prompted a number of significant policy changes. In the UK these featured the following:

- a major rescue package totalling as much as £400bn to recapitalise the banking system
- a series of interest rate cuts down to 2% in early December
- a fiscal expansion package, including a 2.5% cut in VAT.

4.7 The New Year failed to herald a change in the fortunes of the banking sector. Central banks continued to ease monetary policies in an attempt to reduce borrowing rates and hence alleviate some of the cost pressures being experienced by financial institutions and, more to the point, the corporate and household sectors.

4.8 With official interest rates in the US already at close to zero at end-2008, the Bank of England was at the forefront of policy easing. The Bank Rate was cut in successive monthly moves from 2% at the outset of the year to the historically low level of 0.5% in March. Thereafter, the Bank resorted to the quantitative easing of monetary policy via a mechanism of buying securities from investment institutions in exchange for cash. This commenced in early March and is expected ultimately to amount to £150bn.

4.9 The problems of the financial markets since late 2007 had clearly spread to other parts of the economy. Economic data confirmed that the UK was in recession and the latest Bank of England Inflation Report (published in mid-February) registered a marked change in official forecasts for 2009 and 2010. Economic activity was expected to decline sharply (GDP was forecast to contract by more than 4% in 2009) and inflation was projected to fall into negative territory.

4.10 The generally uncertain backdrop to the UK and the financial markets prevented a marked easing in overall money market liquidity. While the situation did show some signs of improving as the financial year drew to a close, the margin between official interest rates and those quoted in the inter-bank market for periods longer that 1-month remained very wide.

5. THE IMPACT OF ICELANDIC BANKING COLLAPSE ON ENFIELD

5.1 As the previous section has outlined, 2008/09 was without doubt a most traumatic year. Up to the end of September while there were increasing concerns about the world economy, one could not predict the "Tsunami" which would engulf the world's financial markets in October.

5.2 The major impact on Enfield was the failure of the Heritable Bank in which the Authority had £5 million invested. This investment was made on 9th January 2008 for 364 days. On 7th October 2008 its parent bank Landsbanki went into administration after the Icelandic government withdrew support for the Icelandic banking system. This meant the Heritable bank was also forced into administration.

5.3 The appointed administrator for the Heritable Bank indicated that book cost the bank matched its assets but much would depend on how well the property market recovers. The administrator has indicated that the Council is likely to receive between 70 –90% of the investment repaid. The first initial distribution was made repaying the Council £839k this accounts for 16.3% of the investment. The administrator's have also proposed a further distribution (approximately 10%) will be made by December 2009, this will depend on the continued improvement in market conditions. Further payments will be made in 2010 with a final distribution in 2012. Members will be kept fully informed of any developments.

5.4 The Council's external auditors Grant Thornton have reviewed the Council's Treasury management arrangements and found that the Council had sound arrangements in place and has taken positive and appropriate action to deal with the fall out from the Icelandic banking crisis.

6 BORROWING IN 2008/09

6.1 Enfield's external debt decreased by £20 million.

6.2 In August the Authority borrowed £10m to finance the Council's capital programme. Table 1 sets out the details.

Table 1: New Borrowing 2008/09				
Lender	**Date Borrowed**	**Interest Rate %**	**Loan £000**	**Length of Loan**
Public Work Loans Board	02/08/2008	4.42%	10,000	50 years

6.3 As a result of the increasing financial uncertainty (see section 4) the Authority decided to repay £32 million of PWLB debt. This decision was taken to reduce the risk of holding investments and hence the potential for default and because of the relative high cost of borrowing compared to short term investment rates.

6.4 Table 2 sets out the movement in debt over the year.

Table 2: Movement in year	**Debt 1 April 2008**	**Debt Repaid**	**New Debt Raised**	**Debt 31 March 2009**
	£000	**£000**	**£000**	**£000**
Temporary Borrowing	**-**			
Public Work Loan Board loans (PWLB)	**212,043**	(31,696)	10,000	**190,347**
Commercial Loan	**30,000**	-	-	**30,000**
Total Debt Outstanding	**242,043**	**(31,696)**	**10,000**	**220,347**

7. INTEREST ON TOTAL DEBT OUTSTANDING

7.1 The average rate paid on total external debt was 5.53% in 2008/09 (5.55% in 2007/08).

7.2 Table 3 shows the interest paid (i.e. the cost of borrowing) by the Council during the year:

Table 3: Cost of Borrowing	**2008/09**	**2007/08**
	£000	**£000**
Public Work Loan Board loans (PWLB)	10,727	10,424
Commercial Loans	2,143	2,143
Total Interest on Debt	**12,870**	**12,567**
Short Term Loans	39	25
Total interest paid	**12,909**	**12,592**
Interest Premiums	224	224
Total Cost of Debt	**13,133**	**12,816**

8. DEBT MATURITY STRUCTURE

8.1 The Council has 30 loans spread over 50 years with the average maturity being 35 years. This maturity profile allows the Council to spread the risk of high interest rates when debt matures in any one year.

8.2 Table 4 shows the maturity structure of Enfield's long-term debt and the average prevailing interest rates.

Table 4: Profile Maturing Debt	**Debt Outstanding as at 31 March 2009**	**Average Interest Rate**	**Debt Outstanding as at 31 March 2008**	**Average Interest Rate**
Years	**£000**	**%**	**£000**	**%**
1-5	5,000	3.89	5,000	3.89
5-10	30,000	7.145	-	-
10-15	1,000	15.125	31,000	7.40
15-25	20,070	5.00	31,765	4.99
25-40	29,257	5.35	39,257	5.14
40-45	99,020	5.09	99,020	4.85
45-50	36,000	5.70	30,000	6.65
50-55	-	-	6,000	4.38
	220,347	**5.51**[1]	**242,043**	**5.43**[1]

9. DEBT RESTRUCTURING

9.1 Debt restructuring normally involves prematurely replacing existing debt (at a premium or discount) with new loans in order to secure net savings in interest payable or a smoother maturity profile. Restructuring can involve the conversion of fixed rate interest loans to variable rate loans and vice versa.

[1] This is the calculated on the year end weighted average basis.

9.2 No debt restructuring was undertaken during the years . We will continue to actively seek opportunities to re-structure debt over 2009/10.

10. TREASURY MANAGEMENT PRUDENTIAL INDICATORS: 2008/09

10.1 Throughout 2008/09 total loan debt was kept within the limits approved by the Council at its meeting in February 2008. Against an authorised limit of £400 million and an operating limit of £272 million, the total borrowed started at £242 million, peaked at £252 million and finished the year at £220 million. The authorised limit (as defined by the Prudential Code) was set at £400 million as a precaution against the failure, for whatever reason, to receive a source of income e.g. Council Tax. In the unlikely event of this happening, the Council would need to borrow on a temporary basis to cover the shortfall in cash receipts. In practice it is the operating limit by which the Council monitors its borrowing; any significant breach must be reported to Council.

10.2 Temporary borrowing began the year at nil, peaked at £8.5 million and ended the year at nil. The Council used temporary borrowing to provide short-term cash flow. This occurred on 8 occasions (over weekend/month end periods) during the year to cover high cash outflows.

10.3 The Council held no variable interest rate debt during 2008/09. The Council's Prudential Code however does allow for up to 25% of the debt to be held in variable interest rate debt.

11. INVESTMENTS

11.1 The Council manages its investments arising from cash flow activities in-house and invests within the institutions listed in the Authority's approved lending list. It invests for a range of periods, from overnight to up to five years dependent on the Authority's cash flow, the limits set out in the Prudential Code and the interest rates on offer. The Council also acts as the treasury manager for the 79 Enfield schools within the HSBC banking scheme. The Council produces a three year cash flow model (based on daily transactions) which projects the cash flow movements of the Council links into the Council's medium term financial plan. This allows the Treasury Management team to make more informed decisions on borrowing and lending decisions.

11.2 In 2008/09 the Council received £11.1 million in interest on money lent out to the money markets. See table 5

Table 5: Interest Receipts	**2008/09 £000**	**2007/08 £000**
Total Interest Receipts	11,058	11,580
Interest paid to HRA	(871)	(1,700)
Interest paid to Schools & Enfield Homes	(914)	(1,073)
Section 106 Applications	(174)	(254)
Earmarked Balances	(63)	(108)
Total Interest to General Fund	**9,093**	**8,445**

11.3 This over-achievement of interest receipts arose from a pro-active treasury management approach to secure maximum returns on investment rates and from higher than anticipated cash flow balances. When the 2008/09 budget was set it was anticipated that the Council would hold average cash balances of the order of £150 million throughout the year. As a result of improvements in debt collection, adjustments to reserves, and some slippage in the capital programme, the average balance was £188 million. The meant that there was an £3.2m out-performance against the interest income target.

11.4 As a consequence, the estimated cost of the impairment (£1.2m) of the Council's Heritable Bank investment has therefore been written off in the year; this estimate is based on the assumptions contained in the Administrator's most recent published report and takes into account the likely timing of the receipt of instalment payments in settlement of the Council's claim. In addition, a further revenue contribution to the funding of capital expenditure in 2008/09 (£2.0m) has been made. The effect of this will be to reduce the Council's Capital Financing Requirement at 31st March 2009 and therefore the amount of unsupported borrowing for capital expenditure for the year

11.5 Table 6 shows the maturity structure of Enfield's investments and the prevailing interest rates.

Table 6: Maturing Investments	**Investments as at 31 March 2009**	**No of Deals**	**Investments as at 31 March 2008**	**No of Deals**
Months	**£000**		**£000**	
Within 1 month	33,100	6	42,000	10
Within 3 Months	41,000	8	35,000	7
Within 6 Months	24,000	4	15,000	3
Within 9 Months	15,000	3	40,000	8
Within 12 Months	-	-	26,500	5
Over 12 Months	5,000	1	20,000	4
	118,100	**22**	**178,500**	**27**

11.6 Table 7 shows how investments are split over specified investments (i.e. investments that have a good credit rating or standing) and non-specified investments (i.e. investments held in building societies or investments over one year). Appendix 1 sets out the investments held as at 31 March 2009. All investment transactions were achieved within the limits approved in the 2008/09 Treasury Management strategy.

Table 7: Split of Investments between Specified & Non-specified	Inv'ts as at 31/3/09	No of deals	Year end position	Max. Limit
	£000		%	%
Specified Investments:				
Investments under 364 days & a high credit rating	53,600	12	45.4	
Total Specified Investments	**53,600**	**12**	**45.4**	**100**
Non-specified Investments:				
• Investments with over one year to run with a credit rating[1]	5,000	1	4.2	
• Investments held with Building Societies under 364 days	59,500	9	50.4	
Total Non-Specified Investments	**64,500**	**10**	**54.6**	**7**
Total Investments	**118,100**	**22**	**100.0**	

11.7 The Treasury Management team achieved an average interest rate of 5.88%, out-performing the benchmark (Inter-Bank 7-day lending rate) by 2.18%. This was achieved by adopting an active treasury policy.

11.8 The average rate of interest earned by the average local authority in 2008/09 (based on the CIPFA benchmarking club) was 5.22%. Enfield's average interest rate of 5.88% meant that Enfield achieved one of the best returns on cash deposits in England during 2008/09.

11.9 Enfield was also one of the most cost effective treasury teams covered in the benchmark exercise.

11.10 The Council's net borrowing increased in 2008/09 as Table 8 demonstrates. The increase on net borrowing reflects the fact that the Authority took the decision from November 2008 to fund capital financing from internal funds in order to avoid the short term uncertainties in the banking section and to shield the Council from relative higher borrowing costs.

Table 8: Trend in Net Borrowing	2004/05	2005/06	2006/07	2007/08	2008/09
	£000	**£000**	**£000**	**£000**	**£000**
Total Borrowing	198,043	227,043	222,043	242,043	220,347
Total Investments	(137,150)	(152,400)	(160,050)	(178,500)	(123,100)
Net Borrowing	**60,893**	**74,643**	**61,993**	**63,543**	**97,247**

11.11 Through careful cash management control (i.e. the ability to accurately predict the daily out/in flows of cash) the Treasury Management team have limited overdraft costs in the year to less than £600.

12. EXTENSION TO THE 2009/10 INVESTMENT CRITERIA

12.1 The Council approved the 2009/10 investment criteria in February 2009. This was at a time when the financial climate was very chaotic and there was a prevailing concern over financial institutions. The restrictive nature of the investment criteria reflected the financial environment at that time. Appendix 2 sets out the current investment criteria.

[1] The Council only lends to financial institutions with a minimum credit rating of AA-.

12.2 Given the improving financial climate, it is now considered prudent to extend the current investment limits to include the banks where the UK Government has a substantial interest in them. Investments in these banks will be limited to a maximum of £20 million in each bank group with a maximum lending period of 90 days and will be classified as specified investments

12.3 Extending the criteria set out in 12.2 will mean that the following banks will be added onto the Council's lending list:

- Royal Bank of Scotland Group (RBS), and
- the Lloyds Group of banks (this will also include the Bank of Scotland).

13. ALTERNATIVE OPTIONS CONSIDERED

13.1 This report is required to comply with the Council's Treasury Management Policy statement, agreed by Council in February 2003.

14. REASONS FOR RECOMMENDATIONS

14.1 To inform the Council of Treasury Management performance in the financial year 2008/09 and to extension the Council's list of approved bank in order to spread risk

15. COMMENTS OF THE DIRECTOR OF FINANCE & CORPORATE RESOURCES

15.1 Financial Implications

Financial implications are implicit in the body of the report.

15.2 Legal Implications

The Council has a statutory duty to ensure the proper administration of its financial affairs and a fiduciary duty to tax payers to use and account for public monies in accordance with proper practices.

The Statement has been prepared in accordance with the CIPFA Code of Practice.

15.3 Risk Management Implications

The effective management of risk is already contained within the report (such as Appendix 2 paras 52 to 61) however Cabinet might also wish to consider the following points:

- The extent of the improving financial climate is debatable given the ongoing difficulties in the United States which tends to have a significant impact on the rest of the world. This risk is mitigated by having a maximum of £20m in each of the UK banks with maximum lending periods of three months;

- The ROI has recently been downgraded from AAA (stable) to AA+. This is a long term view however and will have no impact on existing deposits due in October 2009;
- There may be some opportunities to re-structure debt over 2009/10 depending on changes to the gilt market;
- In the longer term, there may be opportunities to explore the possibility of pooling resources with other authorities;
- The Treasury Management team will test professional advice given against other data available on the market to verify the robustness of the advice provided.

16. PUTTING ENFIELD FIRST

16.1 The Treasury Management Service supports Objective 5b: the delivery of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good Performance Management.

Background Papers:
Treasury Management Strategy & Policy Report 2009/10
2008/09 CIPFA benchmarking club

APPENDIX 1: INVESTMENTS OUTSTANDING AT 31ST MARCH 2009

	Maturity Date	£	Interest Rate
HSBC TREASURY CENTRE STERLING LIQUIDITY FUND	On call	13,600,000	0.5%
EBS BUILDING SOCIETY	April 3, 2009	5,000,000	5.970%
SKIPTON BUILDING SOCIETY	April 9, 2009	5,000,000	5.850%
NEWCASTLE BUILDING SOCIETY	April 9, 2009	5,000,000	5.850%
CLOSE BROTHERS	May 7, 2009	5,000,000	5.930%
NORWICH & PETERBOROUGH BUILDING SOCIETY	May 14, 2009	5,000,000	6.200%
NATIONWIDE BUILDING SOCIETY	May 27, 2010	5,000,000	6.250%
NORWICH & PETERBOROUGH BUILDING SOCIETY	May 26, 2009	5,000,000	6.300%
DEPFA BANK	June 4, 2009	5,000,000	6.100%
CLYDESDALE BANK	June 5, 2009	5,000,000	6.200%
BRITANNA BUILDING SOCIETY	June 12, 2009	5,000,000	6.550%
EBS BUILDING SOCIETY	June 29, 2009	6,000,000	6.560%
SKIPTON BUILDING SOCIETY	June 30, 2009	5,000,000	6.530%
DUNFERMLINE BUILDING SOCIETY	August 10, 2009	5,000,000	6.220%
EBS BUILDING SOCIETY	Sept 30, 2009	9,000,000	6.600%
BANK OF IRELAND	Sept 30, 2009	5,000,000	6.600%
ANGLO IRISH BANK CORPORATION	Sept 30, 2009	5,000,000	6.600%
ANGLO IRISH BANK CORPORATION	October 2, 2009	5,000,000	6.500%
ANGLO IRISH BANK CORPORATION	October 5, 2009	5,000,000	6.500%
ANGLO IRISH BANK CORPORATION	October 6, 2009	5,000,000	6.500%
NATIONWIDE BUILDING SOCIETY	May 27,2010	5,000,000	6.250%
TOTAL INVESTMENTS OUTSTANDING AT 31ST MARCH 09		**123,100,000**	

APPENDIX 2 – 2009/10 INVESTMENT CRITERIA -

The Council's Investment Strategy (including investment criteria)

Extract from February 2009 Budget report

Introduction

47. The Council's investment strategy is reviewed annually to ensure that it meets the requirements of the prevailing economic and financial climate. The 2009/10 investment strategy has been considered in light of two major factors that have severely affected the actions of the Council's Treasury Management strategy:

- the liquidity problems surrounding the financial standing of the banking sector, and
- in particular the lessons to be learnt from the failure of the Heritable Bank when it went into administration on 7th October 2008.

48. The Director of Finance and Corporate Resources commissioned an internal audit review of the Heritable investment entered into by the Council's Treasury team. The review considered the circumstances surrounding this deposit.

49. This review has been completed and the results reported to the Audit Committee in January 2009. The overall conclusion of the report was that the transaction with the Heritable Bank was properly conducted within the guidance of the Council's approved Treasury Management Strategy, and was entered into using the best information available to the Treasury Management team at the time. Put another way, there was nothing that could have avoided this transaction being entered into at the time.

50. Since the event, steps have been taken by the Treasury Management Team to reduce the risk to the Council of any similar exposure arising, (these are set out in paragraphs 52 to 61).

51 The review contained a number of recommendations designed to further strengthen the Council's risk management position in this area. They are forward looking and centre around ensuring that lessons learnt from experiencing the current difficult market conditions are reflected in future management of money market risk exposure. They are seen as supplementing those changes already made by the Treasury Management Team, and reflect the unique circumstances within which all local authorities and many other organisations have to work at the present time.

Investment Strategy Objectives

52 The Council's 2009/10 Treasury Management Strategy has been devised with regard to two main objectives:

a. To minimise the Council's exposure to investment risk of default, and

b. In a period where long term borrowing rates are higher than the prevailing interest rates on investments, it will be opportune to minimise the Council's exposure to the higher borrowing rates

Action Plan

53 These objectives will be achieved by financing the 2009/10 borrowing requirement by internal borrowing (as set in paragraph 28 of this appendix). This will have the effect of reducing the level of investments and shielding the Council from the relative higher borrowing. It will also reduce the level of investments held, thereby reducing the amount of reserves exposed to counterparty risk.

54 The Council will, however, need to hold investments during the year. To minimise counterparty default, there will be a requirement to have a set of clearly defined pre-determined conditions on which the Council will make deposits to financial institutions.

55 Although the previous Treasury Management Strategy was prudent, given the increased level of uncertainty in the financial and banking markets, the 2009/10 investment limits reflect a more prudent stance towards risk and return. The revised investment strategy will allow investments to be made up to 364 days. However, given the current financial uncertainties, unless there is a good financial case, no investments will be made longer than 90 days (exceptions to this will need to be agreed with the Director of Finance and portfolio holder). This is for two main reasons:

- Given the ongoing uncertainty within financial markets and the potential of further downgrading of credit rating of banks, it considered prudent to decrease the level of risk from counterparty default. This has been achieved by reducing the duration period of investments to a maximum period of 90 days.

- The Treasury Management Strategy also assumes that where possible, all capital borrowing will be financed internally, hence there is a greater requirement to have greater liquidity of funds across the Authority.

The reduction in deposit duration will have a 0.2% detrimental impact on our investment strategy which translates into £40k loss of interest on investment over the year. This has been built into the interest received estimate for 2009/10 and the Medium Term Financial Plan.

Investment Criteria

56 The revised strategy sets out the financial institutions that will be used and the maximum time and amounts that investments can be held with any bank.

Specified Investments

57 The specified investments must be both denominated in sterling and have a maturity of less than one year as well as having a "high" credit rating.

a) Banks:

58 Investments will be made in countries with a sovereign rating of AAA (i.e. Country). Given the level of uncertainty in the world economy, investments will be limited to EU countries only with a strong bias towards the UK.

All approved investments with financial institutions must meet the relevant credit ratings of **all** three major credit agencies.

	Fitch	S & P	Moody's
Country Rating[1]	AAA(stable)	AAA	Aaa
Long term Rating[2]	AA-	AA-	Aa3
Short term Rating[3]	F1+	A+1	P-1
Individual[4]	B		B
Support[5]	1		

The maximum for any individual investment made with a bank or Group of banks will be £30 million.

b) Money Market Funds:

Local authorities are permitted to invest in sterling denominated funds with an AAA credit rating and domiciled in the EU. Monies in funds are very liquid and funds can be called backed daily.

Up to a maximum of £30 million with any one financial institution that holds a minimum of AAA fund investments.

c) Debt Management Office Deposit Account Facility:

No limit, all funds guaranteed by the UK Government. This fund is likely to be used more if there is any further decrease in stability in the financial markets.

d) Banks with a UK Guarantee:

Up to £30 million up to the time duration of the UK guarantee. At present this will only apply to Northern Rock for periods of up to 90 days.

e) Local Authorities:

The limit on investments to individual authorities is £5 million up to 90 days.

[1] '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.

[2] '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.

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

[4] 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.

[5] A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own 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-'.

Non Specified Investments

f) Building Societies:

Building Societies with assets of over £100 billion. The limit on investments is £10 million and maximum length of investment is 90 days. This in reality will exclude all building societies apart from the Nationwide Building Society.

g) Call Accounts:

Call accounts are deposits held with financial institutions that can be withdrawn on demand and hence are very liquid assets (no notice is required to withdraw funds).

Given this level of liquidity the following minimum investment criteria will apply:

	Fitch
Country Rating	AAA(stable)
Long term Rating	AA-
Short term Rating	F1+
Individual	C
Support	1

The only UK bank that meets these requirements is the Bank of Scotland (part of the Lloyds Group).

h) External Cash Managers:

Where the Council can establish that it holds funds that will not be required within the financial year (i.e. non core cash) then in certain circumstances, subject to the overall priorities of security and liquidity, the appointment of an external manager to manage the investment of those funds may be appropriate. It is recommended that approval for the appointment of an external manager in these circumstances be delegated to the Lead Member for Finance in consultation with the Director of Finance & Corporate Resources.

59 The maximum level of non-specified investments has been set at the following ratio based on investments from 1st April 2009.

	Minimum	Maximum
	%	%
Specified investments	-	100
Non-specified Investments	-	100

The Council Investment Strategy Including Performance

60 To meet the requirements for specified/non specified investments the Director of Finance & Corporate Resources, together with the Council's Treasury Advisors – Butlers, have

drawn up a set of proposed parameters that ensure that the Council only make investments based on a prudent approach with a special emphasis upon security and liquidity.

61 Any revision of the criteria will be submitted to the Council for approval.