Leicester City Council

WARDS AFFECTED: ALL WARDS (CORPORATE ISSUE)

CABINET	**19 MARCH 2001**
FINANCIAL RESOURCES AND EQUAL OPPORTUNITES	
SCRUTINY COMMITTEE	**20 MARCH 2001**
COUNCIL	**29 MARCH 2001**

TREASURY STRATEGY 2001/2002

Report of the Chief Financial Officer

1. Purpose of Report

1.1 The report recommends a Treasury Strategy for 2001/2002. The Treasury Strategy governs the way the Council manages its debt (of around £250 million) and its investments (of around £50 million).

2. Summary

2.1 Treasury Management is the process by which the Council's borrowing and investments are managed. In March 2000, the former Finance Sub-Committee adopted a policy stating how borrowing and investments should be organised, the responsibilities of officers, and the limits placed on officers' discretion to act without committee approval. It should be noted that as decisions on borrowing individual sums have to be taken very quickly, this is delegated to officers within a framework specified by this policy. At the beginning of each year, the Cabinet approves a strategy for treasury management for that year taking into account the Council's need for capital spending, the economic outlook and prospects for interest rates. This can be revised from time to time if circumstances warrant it. At the end of each year, a report is submitted to the Scrutiny Committee considering the activity undertaken in the year and a progress report is taken to Scrutiny Committee half way through the year.

2.2 The proposed Treasury Strategy for 2001/2002 is detailed in the attached background papers.

3. Recommendations

3.1 The Cabinet are recommended: -

i. To adopt the Strategy detailed in the supporting information;
ii. To recommend that the Council adopt the borrowing limits detailed in paragraph 5.1 of the strategy.
iii. To adopt the proposed lending list attached as appendix A to the Strategy.

3.2 Members of the Financial Resources and Equal Opportunities Scrutiny Committee are recommended:-

i. To consider the decision of the Cabinet regarding the Treasury Strategy for 2001/2002.

3.3 The Council is recommended to adopt the borrowing limits detailed in paragraph 5.1 of the strategy.

4. Financial and Legal Implications

4.1 This report is solely concerned with Financial Issues.

5 Report Author/Officer to contact:

5.1 David Janes, Treasury Manager (Financial Services) - extn. 7490

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TREASURY STRATEGY 2001/2002

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SUPPORTING INFORMATION

1. **Summary**

1.1 This report describes the proposed Treasury Strategy for the Council for 2001/2002.

REPORT

2. **Purpose of Report**

2.1 Treasury Management is the process by which the Council's borrowing and investments are managed. This is a vital activity because of the sums involved.

2.2 As at 3 February 2001, the Council's debt was £247 million, which has been raised to pay for capital projects over many years. This level of indebtedness should, however, be seen in the light of the value of the Council's assets which were recorded at the end of 1999/00 at a value of £800 million.

2.3 The Council also holds a lot of externally invested cash which stood at £49 million as at 3 February 2001. These investments represent working cash balances (the extent to which the Council receives income before it has to pay bills) and the Council's reserves. Some of these monies are managed by professional fund managers, some are managed by my staff. Professional managers achieve better rates of return on the monies they manage, but like to have assurance that money will not be withdrawn very often. Consequently, monies which may be needed during the course of the year are managed in-house.

2.4 Since the introduction of new political management arrangements, it has become the responsibility of the cabinet to approve treasury strategy. The cabinet will receive a report at the beginning of each year identifying how it is proposed to borrow and invest in the light of capital spending requirements, interest rate forecasts and economic conditions (the last such report was approved by the former Finance Sub-Committee in March). This is the first such report.

2.5 Monitoring of the implementation of treasury strategy has become the responsibility of the Financial Resources and Equal Opportunities Scrutiny Committee, and it is proposed to report at the end of and midway through each year.

2.6 This Treasury Management Strategy details the expected activities of the Treasury function in the financial year 2001/2002. The suggested strategy for 2001/2002 is based upon my views of interest rates, which are supported by the use of leading market forecasts. The strategy covers the matters listed below:

i. the Council’s current debt and investments;
ii. prospects for interest rates;
iii. borrowing limits in force which will limit the activity of the Council;
iv. capital borrowing required and the portfolio strategy;
v. investment strategy;
vi. the balance between holding investments and using them to repay debt (or as a substitute for new borrowing);
vii. debt rescheduling opportunities;

2.7 The key factors to consider are

i. How much new borrowing will cost. Members are asked to note that interest rates for borrowing over a long period of time are different from rates for borrowing over a short period.

ii. How much interest the Council can get on its investments

iii. When loans are due to be repaid and how much it is likely to cost to refinance them at that time

iv. The security of investments.

3. **Changes Since 2000/2001**

3.1 Your Committee agreed the previous Treasury Strategy on 21 March 2000. The main changes, which this report addresses, are:

i. Interest rates for short-term loans have recently fallen and further reductions are expected.
ii. Interest rates for long-term loans have been relatively stable but the outlook is that these may fall in the short term but may then subsequently increase.
iii. Interest rates for long-term loans remain low when judged from a historical perspective.

4. **Current Portfolio Position**

4.1 The Council's current debt and investment position is shown in the table below. Members are asked to note that the figures shown represent a snapshot at a single moment in time. The table excludes £53M of debt managed by the County Council on behalf of the City Council. This relates to loans raised by the County Council prior to 1998 in relation to services which transferred to the City on the attainment of unitary status

Treasury Position As At 3/02/2001	**Amount**	**Average Interest Rate %***
Fixed Rate Funding Public Works Loan Board Stock	 £154m £80m	 7.3 7.0
Variable Rate Funding/Temporary Loans Public Works Loan Board Market	 £nil £13m	 5.7
Total Debt	£247m	7.1
Investments: Managed Directly Managed By Fund Managers	 £14m £35m	 6.0 7.2
Total Investments	£49m	6.9

* Whilst the table shows the actual level of loans and investments the interest rate shown is the average rate for 2000/2001 (estimated)

4.2 The £49M of investments represents net working capital: i.e. the cash flow benefit that derives from income receipts flowing in faster than payments are made, reserves and funds (e.g. the insurance fund). These items of working capital represent future calls on the cash of the authority over the short to medium term, for example creditors represent payments due in the near future whilst reserves and funds may, potentially, be drawn upon in the medium term. The overall level of such balances has been fairly stable in recent years and it is considered appropriate to adopt a medium term strategy for the use of these funds. The main options are;

i. To invest with fund managers. Fund managers are expected to earn a higher return than the Council would expect to get by placing deposits itself. In the short term the returns earned by fund managers can be variable and as a rule of thumb funds should not be placed with fund managers unless it is envisaged that the fund managers will hold them for at least 18-24 months. Over shorter periods the return may be less than would be obtained by placing the funds on short-term deposit.

ii. To place the funds on short-term deposit. The level of interest earned would depend on the prevailing level of interest rates.

iii. To purchase fixed interest investments with the intention of holding them to maturity. The level of interest earned would be fixed and this can be an attractive feature in that it assists financial planning for future years.

iv. To use the funds to avoid new borrowing or to prematurely repay existing debt.

4.3 Of the £49M of investments currently held approximately £10-£15M is considered likely to be required at any given moment and should be held on short-term deposit (option ii). The remainder might be applied to either option i, iii or iv or could also be placed on deposit (option ii).

5. **<u>Treasury Limits For 2001/2002</u>**

5.1 By law, the Council has to approve certain limits to borrowing and these following limits are recommended:

the overall borrowing limit, which is the total amount the Council can borrow at any one time	£320 Million
the amount of the overall borrowing limit which may be outstanding by way of short term borrowing;	£55 Million
the maximum proportion of interest on	20%

borrowing which is subject to variable
rate interest.

5.2 These limits are higher than current debt levels, in order to ensure that they are sufficient to cover any temporary positions which might arise if we borrow money to repay existing debt but do not make repayment straight away

5.3 This report affirms the previously agreed policy that the Council continues to use set aside capital receipts received in the year to reduce the need to raise new loans and this is reflected in the recommended borrowing limits shown above.

5.4 This treasury strategy has been prepared in conjunction with the Council's revenue and capital budgets for 2001/2002 and onwards in order to ensure consistency.

6. **Prospects for Interest Rates**

6.1 Short-term interest rates in the UK have recently fallen and further reductions are possible particularly if the recent economic slowdown seen in the USA impacts on the UK economy.

6.2 The position on interest rates for long-term loans is more complex. The main factors are identified below:

i. The decrease in short-term interest rates in the UK has exerted downward pressure on the rates for long-term loans.

ii. The current level of inflation is at historically low levels and the Monetary Policy Committee of the Bank of England (the body that sets interest rates) is generally seen as having the resolve to control inflation. Long-term interest rates are strongly linked to the market expectation of future levels of inflation and the favourable outlook helps keep long-term interest rates low.

iii. Interest rates on very long-term loans are being kept lower than would otherwise be the case because of the high demand by pension funds for government bonds. This arises because pension funds need to achieve a reasonable match between their liabilities (pensions now being paid and future pensions) and the value of their investments. Long dated government bonds are very well suited for that purpose but are becoming scarce (due to reduced government borrowing). This is a "sellers market" and price of such bonds has risen: when bond prices rise long-term interest rates fall. The resolution of the current difficulties faced by Equitable Life (which offered guaranteed retirement annuity rates that it can not afford to honour) may require a substantial purchase of bonds in the near future and this may mean a further, but temporary, reduction in long-term interest rates, which we will seek to exploit.

iv. The Council’s primary source of loans is the Public Works Loans Board; a government body that loans money to local authorities by recycling government borrowing. Were the Council to borrow directly from the money markets the cost of borrowing would be higher.

v. Markets are influenced by expectations as to whether and/or when the UK will participate in Economic and Monetary Union (EMU). At present the expectation seems to be that an early participation in EMU is unlikely. If early entry were expected then on current market conditions it is considered likely that short term interest rates would reduce and that long term interest rates would rise, especially very long interest rates.

vi. The Government’s finances are in a very healthy state and as noted in ii above it is has been repaying debt. In part this healthy position reflects a higher than expected level of taxation revenue. This position could change, for example if there was an unexpected economic slowdown. In addition the government plans substantial increases in public expenditure over future years.

6.3 Current interest rates are 5.75% for short-term loans and around 4.7% - 5.3% for long-term loans. Whilst long-term interest rates have risen they are low by historic standards. Forecasts of future interest rates from a number of City analysts have been considered and are discussed below.

6.4 Short term interest rates - Short-term interest rates were held at 6% for most of 2001 but were recently cut to 5.75%. Until recently the "average" City view had suggested that short-term interest rates would end 2001 at around 5.75% to 6% but views are increasingly being expressed that further a further reduction to 5.5% is possible. UBS Warburg, a bank that has proved to be quite accurate in its interest rate forecasts in recent years, see short term interest rates falling to 5.5% early in 2001 and staying at that level during 2002.

6.5 Longer-term interest rates - The broad consensus is that longer term fixed interest rates, as indicated by 10-year government bonds, will rise from about 4.75% to 5% by 2002. Interest rates on long-term loans from the Public Works Loan Board could be expected to show increases. In practice long-term interest rates tend to fluctuate due to changes in market sentiment and this often exaggerates the peaks and troughs in long-term interest rates (we can often take advantage of this to borrow when interest rates trough). In addition whilst an loan in excess of 10 years may be considered a long term loan the precise rate of interest paid will depend on the loan period. In 2001/2002, taking both factors into account, likely long-term borrowing costs are expected to be in the range 4.75% to 5.50% although lower rates are a possibility (paragraph 6.2 above).

6.6 Interest rates for intermediate periods are expected to lie somewhere between short term and long-term rates.

6.7 This outlook for interest rates favours taking long term loans early in 2001/2002 with the possibility of taking some loans in late 2000/2001.

7. <u>Capital Borrowings Required</u>

7.1 Capital borrowing strategy is mainly based on a two year time frame and drawing up a strategy for 2001/2002 requires consideration of the Council's capital financing needs for both 2001/2002 and 2002/03.The Council needs money to finance new capital investments and these borrowing requirements are expected to be £23 million a year over this two year period. The calculation of the total borrowing needs of the Council needs also to take into account the following factors:

i. The sums the Council is required by law to "set aside" from revenue each year to repay its borrowings - in much the same way a homeowner repays a mortgage over a number of years.

ii. The need to repay maturing loans.

iii. Future housing capital receipts, some of which must be set aside to repay debt.

7.2 Taking all these factors into account the estimated future borrowing needs of the Council total £19 million in 2001/2002 and £20 million in 2002/2003.

7.3 Some of the Council's borrowing could be met by using some of the Council's working cash balances (which would need to be refinanced if this became necessary). The interest rate outlook suggests that this is not the best option, as the Council would miss taking new loans in 2001/2002 at low rates only to borrow in 2002/2003 when interest rates were higher. Accordingly this option is not recommended.

8. <u>Borrowing Strategy</u>

8.1 During most of 2000/2001 short-term borrowing costs are expected to average around 5.5% to 5.75% whilst long-term borrowing costs are expected to be in the range 4.75%-5.5%. Under such conditions it would be cheaper to borrow long term than to take short-term debt. Furthermore the expectation is that long term interest rates are more likely to rise than to fall and it is likely to be advantageous for any long term borrowing to be taken in early 2001.

8.2 It is proposed that the £19 million borrowing requirement 2000/2001 be met by taking long-term loans at interest rate of around 4.75%-5.5%.

8.3 Pre-borrowing in order to meet the Council's capital financing requirement 2002/2003 of £21 million may be an option should attractive long term interest rates become available during 2001/2002 or if the indications are that long term interest rates will increase by more than expected.

8.4 Borrowing is likely to be from the Public Works Loans Board as this is the cheapest source of long-term loans available to local authorities.

9. **Investments Strategy**

9.1 Generally it is expected that the highest returns on money market deposits will be earned on deposits made for periods of 3 months or less. Any temporary anomalies offering above average returns by lending out for a longer period will, however, be exploited. It will also be important to monitor views on how and far and how fast short term interest rates are expected to fall in order to take advantage of opportunities to "lock into" attractive interest rates.

9.2 The Council's investment list includes certain bonds issued by "Supranational" institutions provided these have a "triple A" rating (the highest that is available) and permits investments up to a period of 5 years. Such investments pay interest at a rate 0.3% to 0.7% higher than that paid on similar UK government bonds as well as providing a way in which to "lock into" attractive interest rates. To get the highest investment return it is usually best to hold such investments to maturity and the amount, if any, invested in supranational bonds would take into account the forecast cash flow needs of the authority and the Council would aim to hold sufficient funds on deposit as a buffer against unexpected demands. These factors mitigate the risk that the Council has to sell such investments prematurely.

9.3 It is proposed that the cash available for investment be split between that managed in house (primarily for cash flow management), that placed with fund managers and, potentially, that invested in bonds issued by supranational institutions. It is likely that if an investment in bonds issues by supranational institutions were made that the value of the funds held by fund managers would be reduced. Investments will only be made with the institutions identified in the Council's investment list.

9.4 Any debt repayments (see paragraphs 12.1-12.4 below), however, will affect the amount of any investment.

10. **Debt Rescheduling & Premature Repayment of Debt**

10.1 Debt rescheduling is the premature repayment of loans with the repayment being financed by taking out new, cheaper, loans. It is proposed that we undertake debt rescheduling if financially advantageous. The reasons for any rescheduling to take place will include:

i. the generation of savings at minimum risk; or

ii. in order to enhance the balance of the long-term portfolio (i.e. the dates of repayment and balance between fixed and variable interest rates).

When making decisions we will be guided by our expectation of future movements in interest rates but the situation will be continually monitored in order to take advantage of any perceived “tremors” in the market. To maximise the savings from debt rescheduling replacement loans should be taken at low interest rates and when interest rates are expected to fall we would delay taking the replacement loan until this happened. In the interim, temporary finance would be found by raising a temporary loan or by using cash balances. (Thus, it is proposed that our borrowing limits contain sufficient capacity to achieve this).

10.2 The premature repayment of existing debt utilising cash investments may also be considered where financially attractive.

10.3 It is possible that the range of investments that a local authority is legally permitted to hold may be expanded. For example some commentators suggest that investment in cash unit trusts should be permitted. Should this happen a further report will be brought to Cabinet recommending appropriate changes to the Treasury Strategy and to the list of approved investments.

10.4 All rescheduling and premature repayment of debt will be reported to the Scrutiny committee, at the meeting following the rescheduling.

11. **Sensitivity of This Strategy**

11.1 The strategy is based on the current economic and political outlook but might need to be reconsidered if early UK participation in Economic Monetary Union (EMU) became a real possibility. At this stage it is difficult to state what an appropriate response to such a development would be. On one hand, long term interest rates are higher in the Eurozone than in the UK and this argues for pre-borrowing. On the other hand short-term interest rates are considerably lower in the Eurozone than in the UK and this would offer short-term savings if the Council did not pre-borrow but instead borrowed short term. At this stage it is probably sufficient to note that such a development would almost certainly require the preparation of a revised Treasury Strategy.

11.2 As time progresses the next general election becomes nearer. General elections often increase uncertainty in the markets and this can lead to increases in interest rates (principally long term interest rates). The strategy envisages borrowing early in 2001/2002 and this may mitigate this risk although much would depend on the timing of the election.

11.3 Information from some sources suggests that the government may put pressure on local authorities to transfer their housing stock to social housing landlords and at an extreme some commentators suggest that within 10 years no UK local authority will hold housing stock. On current information it remains speculative whether this will happen. In the event that it did happen the Council would need to repay its housing debt and this would incur premia. The strategy does not assume this will happen, but decisions will take into account the impact if this did happen. It may, for instance, be beneficial to restructure debt in circumstances where this has no impact on current or forecast future borrowing costs if it increases our flexibility at a future date, and any such opportunities will be taken.

11.4 The government is consulting on possible changes to the framework governing capital finance, borrowing and housing subsidy. Any such changes appear unlikely to affect either 2001/02 or 2002/03. I shall, however, monitor developments.

11.5 Consideration should be given to the possibility that inflation is higher or lower than expected. Generally it might be expected that higher levels of inflation will lead to higher interest rates and lower than expected inflation levels to lower interest rates. Any large variations in the rate of inflation would, however, require that the Council revise its Treasury Strategy.

11.6 The interest rate assumptions upon which this strategy is based are stated in paragraphs 8.1 to 8.4 above. Given the limitations inherent in any forecast it is appropriate to consider the action to be taken if these forecasts do not come to pass. The following table considers the likely response to changes in short term and long term interest rates. If, however, such changes were the result of a significant economic or political development it would probably be appropriate to revise the Council's Treasury Strategy.

Change To Long Term Interest Rates	Change To Short Interest Rates	Response To Change
Increase	-	(1) Long term borrowing would be less attractive. Options would be borrowing less, deferring borrowing until lower rates are available or borrowing for a shorter period. The premature repayment of existing long term debt would be cheaper hence might consider the premature repayment of existing long-term debt or debt rescheduling. This presupposes that long-term interest rates would go down again.
Increase	Increase	(2) As (1) above except that long term borrowing might appear slightly more attractive and the premature repayment of existing long term debt less attractive.
Increase	Fall	(3) As (1) above except that long term borrowing might appear even less attractive and the premature repayment of existing long term debt more attractive.
Fall	-	(4) The converse of (1). Long-term borrowing would become more attractive and the premature repayment of existing debt less attractive.
Fall	Increase	(5) As (4) above except that long term borrowing might appear slightly more attractive and the premature repayment of existing long term debt even less attractive.
Fall	Fall	(6) As (4) above except that long term borrowing might appear less attractive and the premature repayment of existing long term debt slightly more attractive.
-	Increase	(7) The strategy outlined in this report would remain valid but long-term borrowing might appear slightly more attractive and the premature repayment of existing long term slightly less attractive.
-	Fall	(8) The strategy outlined in this report would remain valid but long-term borrowing might appear slightly less attractive and the premature repayment of existing long term slightly more attractive.

11.7 Movements in long-term rates are usually more significant than changes to short term rates. Higher than expected long term rates have the beneficial effect of making the premature repayment of existing long term debt cheaper and this makes debt rescheduling, or the outright repayment of debt, more attractive. The opposite applies when long-term interest rates are lower than expected. Lower than expected long term rates make long term borrowing more attractive by offering the opportunity to “lock into” low interest rates for a long time and the opposite applies when long term interest rates are higher than expected. Authorities are permitted to borrow in anticipation of future borrowing needs for both the current financial year and for one year ahead. Changes to short term rates have a smaller impact than changes to long-term rates because our strategy is driven by the maximisation of the long-term position of the authority. Changes to short term rates impact at the margins however by changing the relative attractions of long term and short term debt. In a similar way short-term interest rates impact on the financially viability of the premature repayment of debt (the precise impact here is quite complicated and has not been described).

11.8 The commentary and table above indicates how changes to short term and long-term interest rates impact on debt management decisions. Where significant changes to interest rates occur a revised Treasury Strategy will be submitted to your committee. Where, exceptionally, immediate action will benefit the Council such action will be taken, and will be reported to the next meeting of the Financial Resources and Equal Opportunities Scrutiny Committee.

12. External Fund Managers

12.1 The Council uses a fund manager to manage cash balances when it is expected that the balances will not be required within the next 12-18 months. The rationale for the use of fund managers is that on average they should earn 0.5% interest a year more than the Council would earn on short-term deposits. Over periods shorter than 18-24 months fund managers may earn less than would be earned on short-term deposits and this, potentially, makes it difficult for the Council to forecast its budgetary position.

12.2 The other risk with this strategy is that if the Council needs to recall funds from the fund manager at short notice that this may require investments to be sold at a loss, i.e. if market conditions were adverse. This risk is mitigated, however, by the following factors:

i. Recent years have shown a fairly predictable cash position and this strategy suggests that the Council retain £10 - £15 million of investments managed in house which are mostly invested within a one-two month time frame but could, if necessary, be liquidated at short notice and at low cost. This provides a buffer to meet any sudden demands for cash.

ii. The Council’s financial standing is such that it can borrow short-term borrowing at low cost.

12.3 The expectation is that in 2000/01 the fund manager will earn around 7.2%, a figure 1.5% higher than their target. This is an exceptional level of performance given our expectation that in the long run the fund manager should outperform the index by 0.5%. By contrast the indications are that market conditions will be such that in 2001/02 any outperformance of the benchmark will be minimal.

13. **Lending Criteria**

13.1 Investments will only be made with the institutions identified in the Council's approved investment list. The last such list was approved by your Committee on 21 March 2000. A revised list is attached as appendix A and your Committee is recommended to agree that it be adopted. The purpose of issuing a revised lending list is to reflect current data on the credit ratings of banks and other institutions. The Committee is asked to note that all credit rating downgrades are acted upon immediately under delegated powers.

14. **Treasury Management Consultants**

14.1 The Council employs Sector Treasury Services as treasury management consultants. The service provides advice on our borrowing and investment policies and strategies. The annual fee for this service is £30,000 and the current contract expires in 2001. It is proposed that this contract be renewed for 1 year but that it is reviewed as part of the best value review of the treasury management function that is, subject to member approval, scheduled to take place in 2001. When the contract was tendered it was my view that the costs of the service would be more than recovered by reduced debt costs, higher investment returns and by controlling and minimising risk. This view still holds.

15. **Operational Leasing**

15.1 The Council is likely to enter into operational leases in 2001/2002 to acquire equipment with a capital value of the order of £1M, principally vehicles. Lease rentals may be fixed at the outset with regard to interest rates or the agreement may provide for the rental to be adjusted to reflect changes in interest rates (as established from an accepted market benchmark). Our current practice is to fix lease rentals at the outset but we are, on a trial basis, evaluating the possibility of linking lease rentals to variable interest rates as this may be more cost effective.

16. **Financial Implications**

16.1 This report is solely concerned with Financial Issues

17. **Legal Implications**

17.1 None.

18. **Other Implications**

OTHER IMPLICATIONS	**YES/NO**	**Paragraph References Within Supporting information**
Equal Opportunities	No	**-**
Policy	No	**-**
Sustainable and Environmental	No	**-**
Crime and Disorder	No	**-**
Human Rights Act	No	**-**

19. **Author**

19.1 The author of this report is David Janes of the Town Clerk's & Corporate Resources Department on extension 7490

M Noble
Chief Financial Officer.

APPENDIX A

APPROVED INSTITUTIONS FOR DEPOSITS

Banking Institutitons – Page 1 of 4

Banking institutions	Home State	maximum amount	maximum period
Abbey National plc	UK	£ 10 m	364 days
ABN AMRO Bank NV	Netherlands	£ 10 m	364 days
Bank of America NA	United States	£ 10 m	364 days
Bank of New York	United States	£ 10 m	364 days
Bank of Scotland plc	UK	£ 10 m	364 days
Banque Internationale a Luxembourg SA	Luxembourg	£ 10 m	364 days
Barclays Bank plc	UK	£ 10 m	364 days
Chase Manhatten Bank NA	United States	£ 10 m	364 days
Citibank NA	United States	£ 10 m	364 days
Credit Agricole (Caisse Nationale de)	France	£ 10 m	364 days
Deutsche Bank AG	Germany	£ 10 m	364 days
Dexia Bank	Belgium	£ 10 m	364 days
Dexia Public Finance Bank	France	£ 10 m	364 days
Halifax plc	UK	£ 10 m	364 days
HSBC Bank plc	UK	£ 10 m	364 days
Landesbank Baden-Wurttemberg	Germany	£ 10 m	364 days
Landwirtschaftliche Rentenbank	Germany	£ 10 m	364 days
LLoyds TSB Bank plc	UK	£ 10 m	364 days
Morgan Guaranty Trust Co. of New York	United States	£ 10 m	364 days
National Australia Bank Ltd	Australia	£ 10 m	364 days
National Westminster Bank plc	UK	£ 10 m	364 days
NV Bank Nederlandse Gemeenten	Netherlands	£ 10 m	364 days
Rabobank International(Cooperatieve Centrale Raiffeisen-Boerenleenbank BA)	Netherlands	£ 10 m	364 days
Royal Bank of Canada	Canada	£ 10 m	364 days
Royal Bank of Scotland plc	UK	£ 10 m	364 days
State Street Bank and Trust Company	US	£ 10 m	364 days
UBS AG	Switzerland	£ 10 m	364 days

APPROVED INSTITUTIONS FOR DEPOSITS

Banking Institutitons – Page 2 of 4

Bank	Home State	maximum amount	maximum period
Alliance & Leicester plc	UK	£ 10 m	6 months
Allied Irish Banks plc	Rep. Ireland	£ 10 m	6 months
Australia and New Zealand Banking Group Ltd	Australia	£ 10 m	6 months
Banco Bilbao Vizcaya Argentaria	Spain	£ 10 m	6 months
Banco Santander Central Hispano	Spain	£ 10 m	6 months
Bank Brussels Lambert	Belgium	£ 10 m	6 months
Bank of Ireland	Rep. Ireland	£ 10 m	6 months
Bank of Montreal	Canada	£ 10 m	6 months
Bank of Nova Scotia	Canada	£ 10 m	6 months
Banque Generale du Luxembourg SA	Luxembourg	£ 10 m	6 months
Canadian Imperial Bank of Commerce	Canada	£ 10 m	6 months
Commonwealth Bank of Australia	Australia	£ 10 m	6 months
Credit Commercial de France	France	£ 10 m	6 months
Credit Suisse First Boston	Switzerland	£ 10 m	6 months
Danske Bank International SA	Denmark	£ 10 m	6 months
Fortis Bank NV	Belgium	£ 10 m	6 months
HypoVereinsbank AG	Germany	£ 10 m	6 months
Landesbank Hessen Thuringen Girozentrale (Helaba)	Germany	£ 10 m	6 months
Societe Generale	France	£ 10 m	6 months
Svenska Handelsbanken AB (publ)	Sweden	£ 10 m	6 months
Toronto Dominion Bank	Canada	£ 10 m	6 months
UniCredito Italiano SpA	Italy	£ 10 m	6 months
Wachovia Bank NA	United States	£ 10 m	6 months
Westpac Banking Corporation	Australia	£ 10 m	6 months

APPROVED INSTITUTIONS FOR DEPOSITS

Banking Institutitons – Page 3 of 4

Banking institutions	**Home State**	**maximum**	
		amount	**period**
Banca Intesa	Italy	£ 5 m	3 months
Banca Monte dei Paschi di Siena	Italy	£ 5 m	3 months
Banque et Caisse d'Epargne de l'Etat	Luxembourg	£ 5 m	3 months
Bayerische Landesbank Girozentrale	Germany	£ 5 m	3 months
BNP Paribas	France	£ 5 m	3 months
Bradford & Bingley	UK	£ 5 m	3 months
Cariverona Banca SpA	Italy	£ 5 m	3 months
Cheltenham & Gloucester plc	UK	£ 5 m	3 months
Citibank International plc	UK	£ 5 m	3 months
Clydesdale Bank plc	UK	£ 5 m	3 months
Confederaciaon Espanola de Cajas de Ahorros	Spain	£ 5 m	3 months
Credit Suisse First Boston International	UK	£ 5 m	3 months
Dresdner Bank AG	Germany	£ 5 m	3 months
Hamburgische Landesbank Girozentrale	Germany	£ 5 m	3 months
ING Bank NV	Netherlands	£ 5 m	3 months
Jyske Bank	Denmark	£ 5 m	3 months
KBC Bank NV	Belgium	£ 5 m	3 months
Landesbank Berlin Girozentrale	Germany	£ 5 m	3 months
Landesbank Rheinland-Pfalz Girozentrale	Germany	£ 5 m	3 months
Landesbank Schleswig-Holstein Girozentrale	Germany	£ 5 m	3 months
Natexis Banque Populaires	France	£ 5 m	3 months
National Bank of Canada	Canada	£ 5 m	3 months
Norddeutsche Landesbank Girozentrale	Germany	£ 5 m	3 months
San Paolo IMI SpA	Italy	£ 5 m	3 months
SwedBank (foreningsSparbanken AB (publ))	Sweden	£ 5 m	3 months
The Bank of New York Europe Limited	UK	£ 5 m	3 months
Ulster Bank Ltd	UK	£ 5 m	3 months
Woolwich plc	UK	£ 5 m	3 months

APPROVED INSTITUTIONS FOR DEPOSITS

Banking Institutitons – Page 4 of 4

Banking institutions	**Home State**	**maximum**	
		amount	**period**
Artesia Banking Corporation	Belgium	£ 3 m	1 month
Banco Espanol de Credito SA	Spain	£ 3 m	1 month
Banco Espirito Santo a Comercial de Lisboa (BES)	Portugal	£ 3 m	1 month
Banco Totta e Acores SA	Portugal	£ 3 m	1 month
BHF Bank AG	Germany	£ 3 m	1 month
Bristol & West plc	UK	£ 3 m	1 month
Christiania Bank og Kreditkasse	Norway	£ 3 m	1 month
CIBC World Markets plc	UK	£ 3 m	1 month
Commerzbank AG	Germany	£ 3 m	1 month
Den norske Bank ASA	Norway	£ 3 m	1 month
Hypotheken in Essen AG	Germany	£ 3 m	1 month
Irish Intercontinental Bank Ltd	Rep. Ireland	£ 3 m	1 month
Irish Life & Permanent plc	Rep. Ireland	£ 3 m	1 month
Kleinwort Benson Limited	UK	£ 3 m	1 month
Merita Bank Limited	Finland	£ 3 m	1 month
NIB Capital Bank NV	Netherlands	£ 3 m	1 month
Nordbanken AB (publ)	Sweden	£ 3 m	1 month
Raiffeisen Zentralbank Osterreich AG	Austria	£ 3 m	1 month
Republic National Bank of New York	United States	£ 3 m	1 month
Rheinhyp Rheinische Hypothekenbank AG	Germany	£ 3 m	1 month
Skandinaviska Enskilda Banken AB (publ)	Sweden	£ 3 m	1 month
Unibank A/S	Denmark	£ 3 m	1 month

APPROVED INSTITUTIONS FOR DEPOSITS

Building Societies & Local Authorities – Page 1 of 1

Building Societies	**maximum**	
	amount	**period**
Nationwide	£ 10 m	6 months
Britannia	£ 5 m	1 month
Coventry	£ 5 m	1 month
Portman	£ 5 m	1 month
Principality	£ 5 m	1 month
Skipton	£ 5 m	1 month
Yorkshire	£ 5 m	1 month
Chelsea	£ 3 m	7 days
Derbyshire	£ 3 m	7 days
Dunfermline	£ 3 m	7 days
Leeds & Holbeck	£ 3 m	7 days
UK Local Authorities – All Are Permitted	£ 10 m	364 days

APPROVED INSTITUTIONS FOR INVESTMENTS

BONDS ISSUES BY SUPRANATIONAL BODIES – Page 1 of 1

Table Of Authorised Issuers

Supranational Bodies	maximum amount	maximum period
European Investment Bank	£ 5 m	5 Years
European Bank for Reconstruction & Development	£ 5 m	5 Years
Guranteed Export Finance Corporation	£ 5 m	5 Years
Guranteed Export Finance Corporation plc	£ 5 m	5 Years
Intra-American Development Bank	£ 5 m	5 Years
International Bank for Reconstruction & Development	£ 5 m	5 Years

Table Of Bonds That Currenly Meet The Council's Investment Criteria

The table below shows, for information, the bonds issued by Supranational Bodies that meet the Council's investment criteria. These are that the name of the bond issuer has been approved by the Council (see table above), that the bond maturity does not exceed 5 years, that the bond carries a triple A credit rating with one of the major credit rating organisations and that the bond is listed on the London Stock Exchange.

Issuer	Coupon Interest Rate	Maturity Date
European Investment Bank	9.000	16-Jul-01
Guranteed Export Finance Corporation	10.625	15-Sep-01
European Bank for Reconstruction & Development	5.750	07-Jun-02
European Investment Bank	11.000	23-Sep-02
Intra-American Development Bank	7.250	31-Dec-02
Intra-American Development Bank	12.500	08-Jan-03
International Bank for Reconstruction & Development	11.500	09-Nov-03
European Investment Bank	10.375	22-Nov-04