Leicester
City Council

WARDS AFFECTED: ALL WARDS (CORPORATE ISSUE)

CABINET **10 MARCH 2003**
COUNCIL **27 MARCH 2003**

TREASURY STRATEGY 2003/2004

Report of the Chief Financial Officer

1. Purpose of Report

1.1 The report recommends a Treasury Strategy for 2003/2004. The Treasury Strategy governs the way the Council manages its debt (of around £290 million) and its investments (of around £60 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 member approval (this document is currently under review and an updated version will be issued for approval in the near future). 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 Finance, Resources and Equal Opportunities 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 2003/2004 is detailed in the attached background papers.

2.3 By law, the borrowing limits in the strategy have to be approved by the full Council.

2.4 In summary, the strategy envisages the following:-

i. Both long term and short term interest rates are low. During 2003, short term interest rates are forecast to remain unchanged and long term rates are forecast to increase slightly.
ii. We will save money by using short term borrowing to meet our needs for the time being. When it appears that long term rates are about to rise we will borrow long term and repay the short term debt.
iii. Out of our cash balances, we will invest around £ 10m - £15m ourselves, lending the money to institutions on our approved lending list. Of the £35m - £40m remainder, some may be lent to supra-national institutions (such as the European Investment Bank) with the rest being invested by professional fund managers.
iv. We will look for beneficial opportunities to repay our existing debt, either with our investments or cheaper new loans.
v. In order to ensure that interest payments are predictable, and within budget, the bulk of the Council's borrowing is, and will continue to be, by means of long-term, fixed rate, loans. The aim, when taking on new loans, will be to minimise the Council's revenue costs over the longer term whilst seeking opportunities to achieve short term savings where this is feasible. Currently it appears likely that such long term borrowing will not be undertaken until 2004/05.
vi. The investment strategy aims to ensure the security of the Council's investments by having a broad portfolio of investments, all of which are of high credit worthiness.

3. **Recommendations**

3.1 The Cabinet is recommended: -

i. To adopt the Strategy in respect of borrowing; investment; use of fund managers; and consultants; leasing; debt rescheduling and repayment described 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 B to the Strategy.

3.2 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

DECISION STATUS

Key Decision	**No**
Reason	**N/A**
Appeared in Forward Plan	**No**
Executive or Council Decision	**Cabinet/Council**

Leicester City Council

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TREASURY STRATEGY 2003/2004

Report of the Chief Financial Officer

SUPPORTING INFORMATION

1. **Summary**

1.1 This report describes the proposed Treasury Strategy for the Council for 2003/2004.

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 7 February 2003, the Council's debt was £282 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 2001/2002 at a value of £1,100 million.

2.3 The Council also holds a lot of externally invested cash which stood at £68 million as at 7 February 2003. 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 It is the responsibility of the cabinet to approve the treasury strategy and it receives 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 Cabinet in March 2002. Monitoring of the implementation of the treasury strategy is the responsibility of the Finance Resources and Equal Opportunities Scrutiny Committee, and reports are received twice each year.

2.5 This Treasury Management Strategy details the expected activities of the Treasury function in the financial year 2003/2004. The suggested strategy for 2003/2004 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 which will not be exceeded during the year;
iv. capital borrowing required;
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;

2.6 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 2002/2003

3.1 Cabinet agreed the previous Treasury Strategy on 11 March 2002. The main changes, which this report addresses, are:

i. Interest rates for short-term loans have fallen over the course of the year but are expected to be stable in 2003/2004.
ii. Interest rates for long-term loans have also fallen but are expected to increase slightly in 2003/04.

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 £47M of debt managed by the County Council on behalf of the City Council.

Treasury Position As At 7/02/2003	**Amount**	**Average Interest Rate %***
Fixed Rate Funding		
Public Works Loan Board	£152m	6.9
Stock	£80m	7.0
Market Loans	£25m	3.5
Variable Rate Funding/Temporary Loans		
Public Works Loan Board	£16m	4.1
Temporary Loans	£8m	3.5
Total Debt	£282m	6.5
Investments:		
Managed Directly	£30m	3.9
Managed By Fund Managers	£39m	4.9
Total Investments	£69m	4.4

* Estimate for 2003/04

4.2 The £69M 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 which assumes a fairly constant balance. These funds are currently invested but the other main options are discussed in section 8 below.

5. Treasury Limits For 2003/2004

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 of debt the Council can have at any one time	£380 Million
the amount of the overall borrowing limit which may be outstanding by way of short term borrowing;	£70 Million
the maximum proportion of interest on borrowing which is subject to variable rate interest.	22%

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.

6. Prospects for Interest Rates

6.1 The Council appointed Sector Treasury Services as a treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. This section discusses the broad economic outlook.

6.2 Short term interest rates are affected by international economic performances, particularly that of the USA. After a strong recovery from recession in 2001, the American economy has not grown as quickly recently, and strong growth is not expected in 2003:

a) share prices have fallen to 6 year lows;
b) fears of war have damaged confidence;
c) US interest rates were cut by 0.5% in November because of weak growth proposals.

Likewise, UK rates were unexpectedly cut by 0.25% in February. UK economic performance has weakened, nothwithstanding strong house prices and continuing consumer confidence. Our view is that rates will remain unchanged during 2003.

6.3 Longer-term interest rates – The Council's primary source of loans is the Public Works Loans Board (PWLB); a government body that lends money to local authorities at rates below normal levels. PWLB rates have fallen considerably during 2002 as a result of investors selling shares to buy government bonds (gilts), so causing fixed interest rates to fall. This has consequently depressed PWLB rates below normally expected levels. While fears of war on Iraq remain, these rates are expected to continue to be lower than normal and could fall further if there was renewed share selling (the outlook for share values is not promising as corporate profit growth is expected to be weak, reflecting the overall weak rate of world growth).

6.4 There could be other technical factors which affect long term interest rates from time to time. Government budgetary deficits are forecast to be on a rising trend over the next few years but which could lead to additional Government borrowing (and hence put upward pressure on interest rates).

6.5 New accounting requirements for pension funds have generated pressure to buy fixed income bonds (primarily corporate bonds), in preference to holding shares. Similar pressures have also affected insurance companies which have experienced solvency difficulties due to the huge fall in share values. These factors put downward pressures on interest rates.

7. <u>Capital Borrowings and Borrowing Strategy</u>

7.1 Capital borrowing strategy is mainly based on a two year time frame and drawing up a strategy for 2003/2004 requires consideration of the Council's capital financing needs for both 2003/2004 and 2004/2005. The Council needs money to finance new capital investments and these borrowing requirements are expected to be £25 million a year over this two year period. The calculation of the total borrowing needs of the Council also has taken 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 as 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 £14 million in 2003/2004 and £29 million in 2004/2005.

7.3 Based upon the prospects for interest rates outlined above the anticipation is that short-term rates will continue to be cheaper than long fixed rate borrowing during 2003/04. However with shorter-term rates expected to rise to match longer term fixed rates, the differential will narrow over time, especially as 2004 approaches.

7.4 There are three main options.

i. To use short term loans. Currently the Council can borrow temporary loans for periods of one month to three months at around 3.5% to 3.6% and these are very attractive rates.

iii. To use long term loans. Currently 25 year loans are available from the PWLB at 4. 5% and when judged on a historical basis long term interest rates below 5% are considered good value.

iii. To consider intermediate options. For example one type of long term loan, available from market lenders, provides for an initial loan period or 1 to 3 years at a low rate of interest (reflecting the current low interest rates for short term and medium term loans) and then reverts to a higher rate of interest for the remainder of the life of the loan.

7.5 It is considered that option i should be adopted in the short-term until clearer evidence is available of imminent increases in interest rates, at which stage long term loans will be drawn. If it appears that long term rates will rise, we will borrow 2004/05's requirement in advance.

7.6 The proposal that the Council applies option i runs the risk that we "miss the boat" and that we are not able to "lock into" interest rates at the lowest level. However the markets will be watched closely. Furthermore because of our high level of investments, the Council would benefit if we were taken by surprise by an economic event that caused short term interest rates to rise.

7.7 Long term borrowing is likely to be from the PWLB as this is generally the cheapest source of fixed-rate, long-term loans available to local authorities but other sources of borrowing will be considered, for example as described in option iii above. We shall aim to borrow when interest rates are lowest.

7.8 The bulk of the Council's borrowing, including that undertaken in earlier years, will comprise long-term, fixed-rate, loans that were taken in earlier financial years. Such loans enable the Council to forecast its future interest payments, and this is important to its medium term financial plans.

8. **Investments Strategy**

8.1 As at 7 February the Council had £69M of investments. The overall level of such balances has been fairly stable in recent years (although £69M is higher than usual), 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 bonds issued by supranational organisations 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.

8.2 It is proposed that the existing policy is continued whereby cash available for investment be split between that managed in house and that placed with fund managers. Of the £69M 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). A further £15M is expected to be spent by the end of the 2002/2003 financial year or in early 2003/2004. The £39M remainder is currently placed with fund managers but might be applied to any of the other options identified above. The purchase of bonds issued by supranational organisations is not a core part of the investment strategy, but would be considered if market conditions were favourable; ie if we could “lock into” a high rate of return for a number of years.

8.3 Investments managed by the Council’s own staff will be managed by reference to the cash flow requirements of the authority and such investments will be made for short periods only. We maintain a “lending list” of bodies to whom we are authorised to lend money (attached, for approval, at Appendix B). The criteria for approval are described in outline at paragraph 12.2 and in more detail in Appendix A.

8.4 The Council’s fund managers report their strategy to the Chief Financial Officer at twice yearly review meetings, with interim changes being notified in writing.

8.5 Supranational organisations are bodies such as the World Bank that are sponsored and financed by the governments of the major economically developed countries and the Council’s investment list includes bonds issued by these institutions. Our lending list requires a “triple A” credit rating (the highest that is available) and permits investments up to a period of 5 years for such bodies. 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. If such investments are made the level of funds invested with the Council’s fund manager is likely to be reduced but the Council would aim to hold sufficient funds on deposit as a buffer against unexpected demands. An investment in supranational organisations would be treated as an opportunity to “lock into” high interest rates when it was perceived that interest rates had peaked.

8.6 Members will observe that the Council has both loans and investments and as noted above these funds might be used to avoid new borrowing or to prematurely repay existing debt. However, the interest rate outlook suggests that if balances were used instead of new loans this would preclude taking new loans in 2003/2004 at low rates only to borrow in later years when interest rates were higher. This course of action is not, therefore, recommended.

8.7 Notwithstanding the previous paragraph it is possible to envisage situations where, as part of a debt restructuring arrangement investments are used to repay debt. This would, however, be a temporary arrangement, rather than a permanent change in policy.

9. Debt Rescheduling & Premature Repayment of Debt

9.1 Debt rescheduling is the premature repayment of loans with the repayment being financed by taking out new, cheaper, loans. Members will note from paragraph 4.1 that our debt is held at higher rates of interest than are currently available. Unfortunately, we cannot simply repay these as a penalty has to be paid. Sometimes it is worth paying such a penalty, sometimes it is not. 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).

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

9.3 The range of investments that a local authority is legally permitted to hold was expanded in 2003 to include money market funds that are, in effect, unit trusts investing in interest earning investments such as short term deposits and bonds. These funds are highly credit rated and offer easy access to funds invested. The rate of interest paid is fair, but generally lower than that achieved on investments directly placed by the authority itself. Proposals are being prepared for the approval of cabinet that would permit the use of such investments by the authority, but it is envisaged that, in practice, these will only pay a minor role. At present, use of money market funds are not proposed as part of this strategy.

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

9.5 When considering the options for rescheduling, all the Council's debts will be periodically examined in the light of current market conditions.

10. <u>Sensitivity of This Strategy</u>

10.1 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. Short-term interest rates are considerably lower in the Eurozone than in the UK and lower than long-term rates in both the UK and the Eurozone. Accordingly raising short-term loans might be financially attractive in such circumstances. At this stage it is probably sufficient to note that such a development would almost certainly require the preparation of a revised Treasury Strategy.

10.2 The attitude of the government towards the transfer of local authority housing stock to social housing landlords remains ambivalent. If the Council were to undertake such a transfer 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.

10.3 The government is legislating for changes to the framework governing capital finance, and proposes that borrowing will be primarily regulated by a "prudential code". These changes would not apply until 2004/05, or possibly later. As they stand, these proposals are unlikely to require any major changes to the Treasury Strategy for 2003/04. In addition housing subsidy remains under review, but current consultation documents do not suggest that any major revision to the strategy for 2003/04 would be required.

10.4 Consideration needs to be given to the impact of any major international crisis, such as a war in Iraq, or a major terrorist incident. History would suggest that the immediate response to such events would be a reduction in both short term and long term interest rates. If, however, the resolution of the crisis were prolonged, the position would be less clear. On one hand, investors might be expected to seek the security of government bonds, in preference to shares, and this would tend to lower long term interest rates. On the other hand, the cost of a protracted war in Iraq or a campaign against terrorism could lead to increased government borrowing, and this would tend to increase long term interest rates.

10.5 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.

10.6 The interest rate assumptions upon which this strategy is based are stated in section 6 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. Small changes in long term or short term rates will not require a major rethink of this strategy but will affect the timing of long term borrowing, possibly bringing forward into 2003/04 long term borrowing that would otherwise be undertaken in 2004/05. Additionally such changes may affect opportunities for debt rescheduling. 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.

10.7 Where, exceptionally, immediate action which does not comply with this strategy will benefit the Council such action will be taken, and will be reported to the next meeting of the Finance Resources and Equal Opportunities Scrutiny Committee.

11. <u>External Fund Managers</u>

11.1 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.

11.2 The other risk with this strategy is that if the Council needs to recall funds from the fund manager at short notice, 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 at low cost.

11.3 In 2003/2004 short term rates are forecast to remain stable and long term interest rates are expected to increase slightly. This presents a very difficult environment for a fund manager to outperform substantially the rate of interest that would be earned simply by placing the funds on deposit.

12. **Lending Criteria**

12.1 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 11 March 2002. A revised list is submitted as appendix B for approval. 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.

12.2 Appendix A describes the criteria used when preparing this list of approved investments. In short, the criteria only permit investments with banks and similar bodies with high credit ratings and the amount that may be lent, and the maximum loan period are also linked to credit ratings.

13. **Treasury Management Consultants**

13.1 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.

14. **Operational Leasing**

14.1 The Council is likely to enter into operational leases in 2003/2004 to acquire equipment with a capital value of the order of £2.5M, 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, depending on which choice is considered likely to be cheapest in the long run.

15. **Financial Implications**

15.1 This report is solely concerned with Financial Issues

16. **Legal Implications**

16.1 None.

17. **Other Implications**

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting information
Equal Opportunities	No	-
Sustainable and Environmental	No	-
Crime and Disorder	No	-
Human Rights Act	No	-
Elderly/People on Low Income	No	-

18. **Consultations**

18.1 None.

19. **Background Papers – Local Government Act 1972**

19.1 None.

20. **Author**

20.1 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

CRITERIA USED TO ESTABLISH APPROVED INSTITUTIONS FOR DEPOSITS

In order to determine the credit worthiness of an institution, information from three rating agencies is used; Standard and Poors, Fitch IBCA and Moody's. The agencies employ differing terminology so to avoid complexity the rating scale equivalencies have been converted to mirror Moody's with regard to the short term and long term ratings and Fitch IBCA for the individual FSR/SLR ratings. A glossary of the terms used is shown below.

P1 Short term rating	Judged to be investment grade and indicates a superior ability for repayment.
P2 Short term rating	Judged to be investment grade and indicates a strong ability for repayment.
Aaa Long term rating	Judged to be of best quality
A 2/3 Long term rating	Judged to have adequate factors for security of principal
FSR	Financial strength rating – an assessment of an institution's individual measure of intrinsic soundness on a stand-alone basis. As such the rating is completely divorced from any consideration of external support. A rating of C indicates good financial strength with acceptable fundamentals.
SLR Support or legal rating	An assessment of whether an institution would receive support in the event of difficulties from the State or shareholders. A rating of 3 indicates institutional owners of sufficient reputation and resources such that support would be forthcoming. A rating of 4 indicates that support would be likely, but not certain.

Each institution must achieve mimimum requirements with regard to short term and long term ratngs as well as individual FSR and SLR ratings. If this is not the cases the institution in case is excluded from the lending list. The minimum criteria are shown below.

	Minimum Requirements			
	Short Term	Long Term	FSR	SLR
UK banks and foreign banks with European home state supervision	P1	A2	C	3
Building Societies	P2	A3	C	4
Local Authorities	Local Authorities are not credit rated but their inclusion on the list is based on legislation stating that deposits are secured on all the revenues of the authority.			

To determine the maximum amount and maximum duration of an investment all four factors are considered. In weighing up these factors we have adopted decision matrices prepared by Sector Treasury Services Ltd, the Council's treasury management consultants. In permitting investment in Building Societies with a P2 short term credit rating the lending list departs from these decisions matrices, but as a counter balances additional prudential measures have been established: such investments are only permitted in societies with assets in excess of £2 billion and the maximum period is reduced to 7 days. This departure from the decision matrices has been discussed with our consultants who consider that this course of action is prudent, given these additional constraints.

Credit ratings are monitored on a continual basis and institutions will be downgraded or removed where necessary. From time to time certain areas, or categories are excluded, as a matter of caution, even if minimum criteria are met; examples are Japanese banks.

APPENDIX B

APPROVED INSTITUTIONS FOR DEPOSITS

Banking Institutitons – Page 1 of 4

Banking institutions	Home State	maximum amount	maximum period
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
Barclays Bank plc	UK	£ 10 m	364 days
BNP Paribas	France	£ 10 m	364 days
Citibank NA	United States	£ 10 m	364 days
Credit Agricole (Caisse Nationale de)	France	£ 10 m	364 days
Dexia Bank	Belgium	£ 10 m	364 days
Dexia Banque Internationale a Luxembourg SA	Luxembourg	£ 10 m	364 days
Dexia Credit Local	France	£ 10 m	364 days
HBOS Treasury Services plc	UK	£ 10 m	364 days
HSBC Bank plc	UK	£ 10 m	364 days
Landwirtschaftliche Rentenbank	Germany	£ 10 m	364 days
LLoyds TSB Bank plc	UK	£ 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
Abbey National plc	UK	£ 10 m	6 months
ABN AMRO Bank NV	Netherlands	£ 10 m	6 months
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
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
Danske Bank AS	Denmark	£ 10 m	6 months
Fortis Bank NV	Belgium	£ 10 m	6 months
J P Morgan Chase Bank	United States	£ 10 m	6 months
Landesbank Baden-Wurttemberg	Germany	£ 10 m	6 months
Nordea Bank Danmark	Denmark	£ 10 m	6 months
Nordea Bank Finland plc	Finland	£ 10 m	6 months
Nordea Bank Sweden	Sweden	£ 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
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
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 Agricole Indosuez	France	£ 5 m	3 months
Credit Suisse First Boston	UK	£ 5 m	3 months
Deutsche 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 Hessen Thuringen Girozentrale (Helaba)	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
Nordea Bank Norge ASA	Norway	£ 5 m	3 months
Northern Rock plc	UK	£ 5 m	3 months
San Paolo IMI SpA	Italy	£ 5 m	3 months
SwedBank (foreningsSparbanken AB (publ))	Sweden	£ 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	maximum period
Banco Commercial Portugues SA	Portugal	£ 3 m	1 month
Banco Espirito Santo a Comercial de Lisboa (BES)	Portugal	£ 3 m	1 month
Banco Santander Central Hispano	Spain	£ 3 m	1 month
Bristol & West plc	UK	£ 3 m	1 month
CIBC World Markets plc	UK	£ 3 m	1 month
Credit Lyonnais	France	£ 3 m	1 month
Den norske Bank ASA	Norway	£ 3 m	1 month
Irish Intercontinental Bank Ltd	Rep. Ireland	£ 3 m	1 month
NIB Capital Bank NV	Netherlands	£ 3 m	1 month
Raiffeisen Zentralbank Osterreich AG	Austria	£ 3 m	1 month
HSBC Bank USA	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

APPROVED INSTITUTIONS FOR DEPOSITS

Building Societies & Local Authorities – Page 1 of 1

Building Societies	**maximum amount**	**maximum 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
Cheshire	£ 3 m	7 days
Derbyshire	£ 3 m	7 days
Leeds & Holbeck	£ 3 m	7 days
Norwich & Peterborough	£ 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
International Finance Corporation	£ 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	10.375	22-Nov-04
European Investment Bank	5.000	07-Dec-06
International Bank for Reconstruction & Development	9.250	20-Jul-07
European Investment Bank *	4.500	23-Oct-08
Guaranteed Export Finance Corporation *	9.250	04-Mar-08

* In order to comply with the 5 year limit on the maturity of such bonds, these investment will not become authorised for use the maturity falls to 5 years, or less.