TITLE:	**Treasury Management Strategy Report 2007/08**
TO/ON:	**Executive 12th March 2007**
BY:	**Director of Finance**
STATUS:	**Report**
PORTFOLIO:	**Learning**

STRATEGIC FACTOR CHECKLIST

The Council's Corporate Management Team has confirmed that the Strategic Factor Checklist has been applied to the development of this report, and there are no key issues, over and above those set out in the body of the report, that need to be brought to Members' attention.

1. SUBJECT MATTER AND PURPOSE OF REPORT

1.1. This report outlines the Council's prudential indicators for 2007/08–2009/10 and sets out the expected treasury operations for this period. It fulfils three key reports required by the Local Government Act 2003:

- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The treasury strategy in accordance with the CIPFA Code of Practice on Treasury Management;

- The investment strategy (in accordance with the DCLG investment guidance).

2. BACKGROUND

2.1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. This report revises the indicators for 2006/07, 2007/08 and 2008/09, and introduces new indicators for 2009/10. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the Council's underlying capital appraisal systems.

2.2. Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the treasury management strategy for 2007/08 is included to complement the indicators, and this report includes the prudential indicators relating to the treasury activity.

2.3. The successful completion of the Large Scale Voluntary Transfer (LSVT) of the housing stock to Derwentside Homes has had a significant effect on the debt and investment position of the Authority, and this has been factored into the report.

3. MATERIAL CONSIDERATIONS/AVAILABLE OPTIONS

3.1. Capital Expenditure and the Capital Financing Requirement

3.1.1. The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This expenditure can be paid for immediately (by resources such as capital receipts, capital grants etc.), but if resources are insufficient any residual expenditure will form a borrowing need.

3.1.2. A certain level of capital expenditure will be grant supported by the Government; anything above this level will be unsupported and will need to be paid for from the Council's own resources. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been required.

3.1.3. The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some of estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.

3.1.4. The Council is asked to approve the summary capital expenditure projections below, service details are at Appendix B This forms the first prudential indicator:

Table 1

	2006/07 Revised £000s	2007/08 Estimate £000s	2008/09 Estimate £000s	2009/10 Estimate £000s
Capital Expenditure				
Non-HRA	9,702	9,945	9,211	6,120
HRA	5,851	N/A	N/A	N/A
Financed by:				
Capital receipts	6,880	9,260	8,979	5,888
Capital grants	6,118	685	232	232
Capital reserves	2,471	0	0	0
Revenue	0	0	0	0
Net financing need for the year	84	0	0	0

3.2. The Council's Borrowing Need (the Capital Financing Requirement)

3.2.1. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

3.2.2. The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.

3.2.3. The Council is asked to approve the CFR projections below:

Table 2

	2006/07 Revised £000s	2007/08 Estimate £000s	2008/09 Estimate £000s	2009/10 Estimate £000s
Capital Financing Requirement				
CFR – Non Housing	376	361	346	332
CFR - Housing	0	0	0	0
Total CFR	**376**	**361**	**346**	**332**
Movement in CFR	**-42,837**	**-15**	**-15**	**-14**
Movement in CFR represented by				
Net financing need for the year (above)	84	0	0	0
MRP/VRP and other financing movements	-42,921	-15	-15	-14
Movement in CFR	**-42,837**	**-15**	**-15**	**-14**

3.3. Limits to Borrowing Activity

3.3.1. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits

3.3.2. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2007/08 and next two financial years. This allows some flexibility for limited early borrowing for future years.

Table 3

	2006/07 Revised £000s	2007/08 Estimated £000s	2008/09 Estimated £000s	2009/10 Estimated £000s
Gross Borrowing	10,910	10,910	10,910	10,910
Investments	(34,917)	(34,143)	(32,891)	(30,768)
Net Investments	(24,007)	(23,233)	(21,981)	(19,858)
CFR	376	361	346	332

3.3.3. The Executive is asked to approve the following statement by the Director of Finance.

The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.3.4. A further two prudential indicators control or anticipate the overall level of borrowing. These are:

- The **Authorised Limit for External Debt –** This represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

- **The Operational Boundary for External Debt –**This indicator is based on the expected maximum external debt during the course of the year; it is not a limit.

3.3.5. The Executive is asked to approve the following Authorised Limit and Operational Boundary:

Table 4

Authorised limit	2006/07 Revised £000s	2007/08 Estimate £000s	2008/09 Estimate £000s	2009/10 Estimate £000s
Borrowing	74,850	17,020	17,020	17,020
Other long term liabilities	1,500	2,000	2,000	2,000
Total	76,350	19,020	19,020	19,020
Operational Boundary	2006/07 Revised £000s	2007/08 Estimate £000s	2007/08 Estimate £000s	2007/08 Estimate £000s
Borrowing	62,375	13,090	13,090	13,090
Other long term liabilities	1,500	2,000	2,000	2,000
Total	63,875	15,090	15,090	15,090

3.4. Affordability Prudential Indicators

3.4.1. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council's finances. The Executive is asked to approve the following indicators:

- **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Table 5

%	2006/07 Revised	2007/08 Estimated	2008/09 Estimated	2009/10 Estimated
Non-HRA	- 2.87	- 4.36	- 4.16	- 4.14
HRA	8.34	N/A	N/A	N/A

The estimates of financing costs include current commitments and the proposals agreed in next year's budget.

- **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the revenue costs associated with the Authority's three year capital programme compared to the Council's existing approved commitments and current plans. The cost of financing the Capital Programme has been determined according to available resources which would have alternatively been allocated to fund revenue expenditure, therefore the incremental impact on council tax has been assumed to be zero.

Table 6

Incremental impact of capital investment decisions on the Band D Council Tax

£	Proposed Budget 2007/08	Forward Projection 2008/09	Forward Projection 2009/10
Council Tax - Band D	0	0	0

3.5. Treasury Management Strategy 2007/08 – 2009/10

3.5.1. The treasury management service is an important part of the overall financial management of the Council's affairs. The Following prudential indicators consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The treasury service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets balanced budget requirement under the Local Government Finance Act 1992. There are specific treasury prudential indicators included in this strategy which require approval.

3.5.2. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management on 03/11/03, and as a result adopted a Treasury Management Policy Statement. This adoption meets the requirements of the first of the treasury prudential indicators.

3.5.3. The policy requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. This will be brought back to Council as part of the Medium Term Financial Plan. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year.

3.5.4. This strategy covers:

- The Council's debt and investment projections;
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities;
- Any local treasury issues.

3.6. Debt and Investment Projections 2007/08 – 2009/10

3.6.1. The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next three years. It also highlights the expected change in investment balances and reflects the transfer of outstanding HRA debt as part of the LSVT process

Table 7

	2006/07 Revised £000s	2007/08 Estimated £000s	2008/09 Estimated £000s	2009/10 Estimated £000s
External Debt				
Debt at 1 April	42,810	10,910	10,910	10,910
Movement in CFR		-15	-15	-14
Maturing Debt Replacement		0	0	0
Adjustment for prior years*				
Debt at 31 March	10,910	10,910	10,910	10,910
Annual change in debt	31,900	0	0	0
Investments				
Total Investments at 31 March	34,917	34,143	32,891	30,768
Investment change		-774	-1,252	-2,123

3.6.2. The related impact of the above movements on the revenue budget are:

Table 8

	2006/07 Revised £000s	2007/08 Estimated £000s	2008/09 Estimated £000s	2009/10 Estimated £000s
Revenue Budgets				
Interest on Borrowing	1,984	477	540	540
Related HRA Charge	1,310	0	0	0
Net general Fund Borrowing Cost	674	477	540	540
Investment income	1,327	1,800	1,700	1,600

3.7. Expected Movement in Interest Rates

Table 9

	Base Rate	5-year Gilt	20-yr Gilt	50-yr Gilt
2006/07	4.8	4.9	4.4	4.0
2007/08	5.3	5.1	4.6	4.0
2008/09	5.0	4.8	4.5	3.9
2009/10	4.8	4.5	4.3	3.9

3.7.1. Interest rate uncertainty is set to persist in the year ahead. The threat of higher inflation is considered a real danger for the UK economy in the near term, not least the possibility that an annual increase in RPI of close to 4% in November 2006 could translate to a buoyant pay round.

3.7.2. The Bank of England remains concerned that domestically generated inflation could strengthen in the months ahead increase to unacceptably high levels. The key in this respect lies in a number of relationships within the economy:

- The buoyancy of the international economy and the effect upon UK growth.

- The strength of domestic activity and the extent of spare capacity.

- The state of the labour market and the outcome of the forthcoming pay round.

- The strength of domestic demand and the pricing power of companies.

3.7.3. UK growth has been stronger than expected. This has been driven mainly by domestic factors, in particular the buoyancy of consumer spending. While the recent rise in official interest rates may lead to some deceleration, the extent of this is expected to be comparatively modest.

3.7.4. Long-term interest rates have been underpinned by the twin effects of concerns about domestic inflation prospects and the unexpected buoyancy of the US and German economies. Uncertainties generated by these developments are likely to underpin yields in the months ahead, although market conditions will remain erratic and occasional phases of downbeat economic data should generate declines in interest rates.

3.7.5. However, these phases will prove temporary until the markets are convinced the US economy has unquestionably entered a weaker activity phase and a return to lower dollar interest rates is a near certainty. This, coupled with evidence of decelerating activity and moderating inflation on the domestic front should create conditions for a sustainable, yet moderate, decline in long-term yields.

3.8. Borrowing Strategy 2007/08 – 2009/10

3.8.1. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

3.8.2. Long-term fixed interest rates are expected to rise modestly and base rates are expected to peak at 5½ %. The Director of Finance, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that longer term fixed rates will be considered if borrowing levels remain relatively low.

3.8.3. With the likelihood of increasing interest rates, any debt restructuring is likely to take place later in the financial year or in future years, although the Director of Finance and treasury consultants will monitor prevailing rates for any opportunities during the year

3.9. Investment Counterparty and Liquidity Framework

3.9.1. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

3.9.2. It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

3.9.3. It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

3.9.4. The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it selects which counterparties the Council will choose rather than defining what its investments are.

- **Banks** – the Council will use banks which have at least the following Fitch or equivalent ratings:
- **Short Term – F1**
- **Long Term – A-**
- **Individual / Financial Strength – C**
- **Support – 3**
- **Bank Subsidiary and Treasury Operations –** the Council will use these where the parent bank has the necessary ratings outlined above.
- **Building Societies** – the Council will use all Societies with assets in excess of £1bn.
- **Money Market Funds – AAA**
- **UK Government** (including gilts and the DMO)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

3.9.5. The time limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

Table 10

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Upper Limit Category	F1+ / AA-	P-1 / A1	A-1+ / AA-	£7.5m	3yrs
Middle Limit Category	F1 / A-	P-2 / Baa2	A-1 / A	£5.0m	2yrs
Lower Limit Category	Unrated	Unrated	Unrated	£2.5m	3 months
Other Institution Limits	-	-	-	£7.5m	3yrs

3.9.6. The proposed criteria for Specified and Non-Specified investments are shown in Appendix A for approval.

3.9.7. In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

3.9.8. The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the investment prudential indicator below.

3.10. Investment Strategy 2007/08 – 2009/10

3.10.1. Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of peaking at 5½ % in early 2007. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts. It is likely that investment decisions will be made for longer periods with fixed investments rates to lock in good value and security of return if opportunities arise. The Director of Finance, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

3.11. Treasury Management Prudential Indicators and Limits on Activity

3.11.1. There are four further treasury prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs. The indicators are:

3.11.2. Upper limits on variable interest rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments

3.11.3. Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

3.11.4. Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

3.11.5. Total principal funds invested for greater than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

3.11.6. The Executive is asked to approve the following prudential indicators:

Table 11

£m	2007/08	2008/09	2009/10
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates	10.90	10.90	10.90
Limits on variable interest rates	0	0	0
Maturity Structure of fixed interest rate borrowing 2007/08			
		Lower	**Upper**
Under 12 months		0%	70%
12 months to 2 years		0%	100%
2 years to 5 years		0%	100%
5 years to 10 years		0%	100%
10 years and above		0%	100%
Maximum principal sums invested > 364 days			
Principal sums invested > 364 days	£30m	£30m	£30m

3.12. Performance Indicators

3.12.1. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate
- The results of these indicators will be reported in the Treasury Annual Report for 2006/07.

3.13. Local Issues

3.13.1. The major factor affecting the Prudential Indicators has been the full repayment of the Authority's PWLB debt as part of the LSVT process. However, market loans of £10.9m have been retained, as their early repayment would attract substantial premia.

3.13.2. The above transactions have had a major impact on both the amount of external interest payable by the Council, and the level of the Authority's investment income, which are included in the Prudential Indicators shown above.

4. RECOMMENDATIONS

4.1. The following recommendations are made for Members' approval:-

4.1.1. Adopt the Prudential Indicators and Limits for 2007/08 to 2009/10 contained within the report.

4.1.2. Approve the Treasury Management Strategy 2007/08, and the treasury Prudential Indicators.

4.1.3. Approve the Investment Strategy 2007/08 contained in the treasury management strategy, and the detailed criteria included in Appendix A

5. BACKGROUND PAPERS

5.1.1. Report to Executive on 3 November 2003 adopting the CIPFA Treasury Management in the Public Services Code of Practice

5.1.2. The CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes.

5.1.3. For further information regarding this report contact Aynsley Merritt, Accountant on ext 8375 (a.merritt@derwentside.gov.uk)

APPENDIX A

Treasury Management Practice (TMP) 1 (5) – Credit and Counterparty Risk Management

The Office of the Deputy Prime Minister (now DCLG) issued Investment Guidance on 12th March 2004, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 3rd November 2003 and will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced its treasury management practices. This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for decision making on investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society).

For category 4 this covers a pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

For category 5 this covers bodies with a minimum rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is……

	Fitch	**Moody's**	**Standard & Poors**	**Money Limit**
Upper Limit Category	F1+	P-1	A-1+	£7.5m
Middle Limit Category	F1	P-2	A-1	£5.0m
Lower Limit Category	Unrated	Unrated	Unrated	£2.5m
Other Institution Limits	-	-	-	£7.5m

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£)**
a.	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The	£5m £5m

	Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£5m
c.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The council may use such building societies which have a minimum asset size of £1bn, but will restrict this type of investment to £2.5m for 3 months.	£10m
d.	Any **bank or building society** that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£30m
e.	Any **non rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to guarantee from the parent company.	£5m
f.	**Share capital or loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	£5m

Within categories c, d and e, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. This criteria is:-

c) Building societies not meeting the basic security requirements under the specified investments

The council may use such building societies which have a minimum asset size of £1bn, but will restrict this type of investments to £2.5m for up to 3 months.

d) Bank or Building Society Longer Term Deposits

It is proposed that the Council will use banks and building societies that have at least the following Fitch ratings (or equivalent)

	Limit 2 Years	Limit 3 Years
	Rating	Rating
Short Term	F1	F1+
Long Term	A-	AA-
Individual / Financial Strength	C	B
Support	3	2

e) Non-Rated Subsidiary

Bank subsidiary limits will depend on the relationship between themselves and their parent bank. If there is some form of guarantee in place, similar time limits should be adopted for the subsidiary as for the bank, but if not, then the limit should be reduced. Monetary group limits including both parent bank and relevant subsidiaries would also be used to control risk.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is as follows: -

Short Term – F1+ (or equivalent from Moody's and Standard & Poors) total investment limit of £7.5m up to 3 years.

Short Term – F1 (or equivalent from Moody's and Standard & Poors) total investment limit of £5m up to 2 years.

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating advice from its advisers, Butlers, on a daily basis as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Finance, and if required new counterparties which meet the criteria will be added to the list.