APPENDIX B

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2008/09

1.0 INTRODUCTION

1.1 The Local Government Act 2003, and supporting regulations, require the County Council to have regard to the Prudential Code and set Prudential Indicators for the next three years to ensure that the County Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act also requires the Council to set out its **Annual Treasury Management Strategy** for borrowing and to prepare an **Annual Investment Strategy** (as required by Investment Guidance issued subsequent to the Act) which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. For practical purposes these two strategies are combined in this document.

1.3 This Strategy document for 2008/09 therefore covers the following

- Treasury Limits in force which will limit the treasury risk and activities of the County Council (**paragraph 2**)
- Prudential Indicators (**paragraph 3**)
- current treasury position (**paragraph 4**)
- Borrowing Requirement and Borrowing Limits (**paragraph 5**)
- Borrowing Policy (**paragraph 6**)
- prospects for interest rates (**paragraph 7**)
- Borrowing Strategy (**paragraph 8**)
- Minimum Revenue Provision Policy (**paragraph 9**)
- capping of capital financing costs (**paragraph 10**)
- review of long term debt (**paragraph 11**)
- Annual Investment Strategy (**paragraph 12**)
- other treasury management issues (**paragraph 13**)
- summary of key elements of this Strategy (**paragraph 14**)

1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the County Council to produce a balanced Annual Revenue Budget. In particular, Section 32 requires a local authority to calculate its Budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means therefore that increases in capital expenditure must be limited to a level whereby additional charges to the Revenue Budget arising from:-

(a) increases in interest and principal charges caused by increased borrowing to finance additional capital expenditure, and/or

(b) any increases in running costs from new capital projects

are limited to a level which is affordable within the projected revenue income of the County Council for the foreseeable future.

1.5 This Strategy document was approved by the County Council on 20 February 2008.

2.0 TREASURY LIMITS FOR 2008/09 TO 2010/11

2.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the County Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the **Affordable Borrowing Limit**.

2.2 The County Council must have regard to the terms of the Prudential Code when setting the Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future Council Tax levels is acceptable. In practice, it is equivalent to the Authorised Limit as defined for the Prudential Indicators (therefore see **paragraph 3** below).

2.3 Whilst termed an Affordable Borrowing Limit, the spending plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Affordable Borrowing Limit has to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3.0 PRUDENTIAL INDICATORS FOR 2008/09 TO 2010/11

3.1 A separate Report incorporating an updated set of Prudential Indicators for the three year period to 31 March 2011, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities, was also approved by the County Council on 20 February 2008.

3.2 These Prudential Indicators include a number relating to external debt and treasury management that are incorporated into this Annual Treasury Management Strategy for 2008/09.

3.3 Full details of the Prudential Indicators listed below are therefore contained in the separate **Revision of Prudential Indicators** report referred to in **paragraph 3.1** above.

3.4 The following Prudential Indicators are relevant for the purposes of setting an integrated Annual Treasury Management Strategy.

(i) **Estimated ratio of capital financing costs to the net Revenue Budget**

2006/07 actual	8.8%
2007/08 probable	8.1%
2008/09 estimate	8.7%
2009/10 estimate	9.2%
2010/11 estimate	9.6%

(ii) **Estimates of the incremental impact of capital investment decisions on the Council Tax requirement**

For a Band D Council Tax	
	£ p
2008/09 estimate	+0.99
2009/10 estimate	+3.20
2010/11 estimate	+6.15

(iii) **Capital Expenditure - Actual and Forecasts**

	£m
2006/07 actual	95.4
2007/08 probable	108.3
2008/09 estimate	119.5
2009/10 estimate	111.1
2010/11 estimate	96.2

(iv) **Capital Financing Requirement (as at 31 March)**

	£m
31 March 2007 actual	317.8
31 March 2008 probable	340.9
31 March 2009 estimate	377.8
31 March 2010 estimate	419.0
31 March 2011 estimate	443.5

(v) **Authorised Limit for external debt**

	£m
2007/08	380.6
2008/09	410.7
2009/10	458.8
2010/11	485.2

(vi) **Operational Boundary for external debt**

	£m
2007/08	360.6
2008/09	390.7
2009/10	438.8
2010/11	465.2

(vii) **Actual External Debt**

	£m
at 31 March 2007 actual	299.0
at 31 March 2008 forecast	329.8
at 31 March 2009 forecast	364.3
at 31 March 2010 forecast	406.9
at 31 March 2011 forecast	432.6

(viii) **Adoption of CIPFA Code of Practice for Treasury Management in the Public Services**

The County Council agreed to adopt this Code at its meeting on 15 May 2002.

(ix) **Interest Rate exposures**

Borrowing	**%age of outstanding principal sums**
Limits on fixed interest rate exposures	60 to 100
Limits on variable interest rate exposures	0 to 40
Investing	
Limits on fixed interest rate exposures	0 to 30
Limits on variable interest rate exposures	70 to 100
Combined net borrowing/investment position	
Limits on fixed interest rate exposures	120 to 170
Limits on variable interest rate exposures	-20 to -70

(x) **Maturity Structure of borrowing**

The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Lower Limit %	**Upper Limit %**
under 12 months	0	50
12 months and within 24 months	0	15
24 months and within 5 years	0	45
5 years and within 10 years	0	75
10 years and above	20	100

(xi) **Total principal sums invested for periods longer than 364 days**

A maximum of 20% of funds available for investment will be held in aggregate in Non Specified Investments over 364 days. Based on estimated levels of funds and balances over the next three years, the need for liquidity and day to day cash flow requirements, it is forecast that £12m of the overall balances can be prudently committed to longer term investments over 364 days.

4.0 CURRENT TREASURY POSITION

4.1 The County Council's treasury portfolio position at 31 March 2007 consisted of:

Item	Principal £m	Average Rate at 31 March 2007 %
Debt Outstanding		
Fixed Rate funding		
PWLB	284.0	5.80
Variable Rate funding		
Market LOBO's	15.0	3.80
Total Debt Outstanding	299.0	5.70*
Investments		
Managed in house	91.7	4.97
Managed by external fund manager (up to July 2006)	0	3.61
Total Investments	91.7	4.87*

(Note - * weighted figures)

5.0 BORROWING REQUIREMENT AND BORROWING LIMITS

5.1 The Prudential Indicators laid out in **paragraph 3** above include an Authorised Limit and Operational Boundary for external debt for each of the three years to 2010/11. These figures are referenced at **paragraphs 3.4(v) and 3.4(vi)** respectively of this Strategy.

5.2 The **Operational Boundary** reflects an estimate of the most likely, prudent but not worst case scenario of external debt during the course of the financial year. The **Authorised Limit** is based on the same estimate as the **Operational Boundary** but allows sufficient headroom (£20m) over this figure to allow for unusual cash movements.

5.3 The **Authorised Limit** therefore represents the maximum amount of external debt which the County Council agrees can be incurred at any time during the financial

year and includes both capital and revenue requirements. It is not, however, expected that the County Council will have to borrow up to the limit agreed.

5.4 The agreed **Operational Boundary** and **Authorised Limits** for external debt up to 2010/11 are as follows:

	Item	2007/08 probable £m	2008/09 estimate £m	2009/10 estimate £m	2010/11 estimate £m
	Debt outstanding at start of year				
	PWLB	284.0	329.8	364.3	406.9
	Other Institutions	15.0			
	sub total (a)	299.0	329.8	364.3	406.9
+	**External borrowing requirements**				
	Capital financing requirement	35.8	50.7	56.7	41.7
	Replacement borrowing	10.8	6.4	11.9	12.6
	4% MRP charged to revenue etc	-12.9	-14.1	-15.7	-17.5
	Variations in internal capital borrowing	7.9	-2.1	1.6	1.5
	sub total (b)	41.6	40.9	54.5	38.3
-	**External debt repayment** (c)	-10.8	-6.4	-11.9	-12.6
=	**Forecast debt outstanding at end of year (a + b - c)**	**329.8**	**364.3**	**406.9**	**432.6**
+	**Provision for**				
	Debt rescheduling	15.0	15.0	15.0	15.0
	Potential capital receipts slippage	5.0	5.0	5.0	5.0
	New borrowing taking place before principal repayments made	10.8	6.4	11.9	12.6
=	**Operational Boundary for year**	**360.6**	**390.7**	**438.8**	**465.2**
+	**Provision to cover unusual cash movements**	20.0	20.0	20.0	20.0
=	**Authorised Limit for year**	**380.6**	**410.7**	**458.8**	**485.2**

5.5 **Therefore the 2008/09 Limits are as follows:**

	£m
Operational Boundary for external debt	390.7
+ provision to cover unusual cash movements during the year	20.0
= Authorised Limit for 2008/09	410.7

6.0 BORROWING POLICY

6.1 The policy of the County Council for the financing of capital expenditure is set out in Treasury Management Practice Note 3 which supports the Treasury Management Policy Statement.

6.2 In practical terms the policy is to finance capital expenditure by borrowing (from the Public Works Loan Board or the money markets) over periods up to 50 years which reflects the best possible value to the County Council. Individual loans are taken out over varying periods depending on the perceived relative value of interest rates at the time of borrowing need and to avoid a distorted loan repayment profile; individual loans are not linked to the cost of specific capital assets or their useful life span. Decisions to borrow are made in consultation with the County Council's Treasury Management Adviser.

6.3 Loans from the PWLB are usually very competitive with other forms of borrowing as they reflect prices on the gilt market for Government securities. Access to PWLB loans since 1 April 2004 is based on the Prudential Indicators and approved 'borrowing requirements' of individual authorities. In December 2005 the PWLB introduced borrowing up to 50 years to replace the previous maximum of 30 years. In response the County Council agreed, on 25 October 2006, that the Annual Treasury Management Strategy be amended so as to allow borrowing for capital purposes for periods up to, and including, 50 years.

6.4 In addition to the PWLB the County Council can borrow from the money market (principally banks and building societies) and the financial instrument generally used for this purpose is a LOBO (Lender Option, Borrower Option). Such loans feature an initial fixed interest period followed by a specified series of calls when the lender has the option to request an interest rate increase. The borrower then has the option of repaying the loan (at no penalty) or accepting the higher rate.

6.5 Borrowing from the money market for capital purposes is to be limited to 30% of the County Council's total external debt outstanding at any one point in time.

6.6 Following advice from the County Council's Treasury Management Adviser, approval to be able to borrow from the money markets using LOBO's, has now been extended from 50 to maximum period of 70 years. This is based on the fact that the market for these type of loans has recently offered more attractive interest rates for such longer period loans that the PWLB 50 year rates.

6.7 In reality borrowing for 70 years is little different to taking a 50 year loan. The risk of taking such long period loans is that the County Council could potentially be locked into paying current interest rates on a loan for up to 70 years which would be disadvantageous if medium/long term rates subsequently fell below current rates at some point in the future. There is also the psychological factor of borrowing for such a long period. In practice, however, it is highly unlikely that such loans would ever run the full period because at some point interest rates are likely to rise above the fixed rate agreed at which point the lender would request an increase and the County Council would have the option of repaying the loan.

6.8 The County Council will always look to borrow from the PWLB and money markets at the most advantageous rate. The Corporate Director – Finance and Central Services will monitor this situation closely throughout the year to determine whether at any stage, money market loans are more appropriate and advantageous to the County Council than PWLB loans.

6.9 At present all County Council long term borrowing is from the PWLB or via equally advantageous money market loans. However some short term money market

borrowing may take place during the financial year in order to take advantage of low interest rates or to facilitate any debt restructuring exercise (see **paragraph 11** below).

6.10 Depending on the relationship between short term variable interest rates and the fixed term PWLB or LOBO rates for longer periods, some capital expenditure may be financed by short term borrowing from either the County Council's revenue cash balances or outside sources.

7.0 PROSPECTS FOR INTEREST RATES

7.1 Whilst recognising the turbulence in the financial markets at the time of preparing this Strategy (January 2008) the following paragraphs represent a measured assessment of key economic factors as they are likely to impact on interest rates in the future three years.

7.2 City forecasts for interest rates do as usual vary considerably with a current consensus view being as follows:

	Bank Rate %	**5 year PWLB %**	**10 year PWLB %**	**25 year PWLB %**	**50 year PWLB %**
Q4 2007	5.50	4.80	4.80	4.65	4.55
Q1 2008	5.25	4.70	4.70	4.60	4.50
Q2 2008	5.20	4.65	4.60	4.55	4.45
Q3 2008	5.00	4.55	4.55	4.55	4.45
Q4 2008	5.00	4.55	4.55	4.50	4.45
Q1 2009	5.00	4.60	4.55	4.55	4.45
Q2 2009	5.00	4.70	4.55	4.55	4.45
Q3 2009	5.00	4.75	4.60	4.60	4.50
Q4 2009	5.00	4.80	4.70	4.65	4.50
Q1 2010	5.00	4.80	4.75	4.70	4.55
Q2 2010	5.00	4.80	4.75	4.70	4.55
Q3 2010	5.00	4.85	4.80	4.70	4.55
Q4 2010	5.00	4.85	4.80	4.70	4.55
Q1 2011	5.00	4.85	4.80	4.75	4.60

7.3 The key economic forecasts, the impact of which are reflected in the above interest rates table, include:-

UK

- GDP growth has been strong during 2007, hitting 3.3% but is expected to cool from 3% overall in 2007 to 2% in 2008
- higher than expected immigration from Eastern Europe has underpinned recent growth and dampened wage inflation
- house prices started to drop towards the end of 2007 and this is expected to continue into 2008
- the combination of Bank Rate increases and consequential mortgage rates, short term mortgage fixes ending and being renewed at higher rates, food prices rising at their fastest rate since 1993 and petrol price increases, have all put consumer sending power under major pressure
- banks have tightened their lending criteria since the Northern Rock crisis; dampen consumer expenditure via credit cards and on buying houses through obtaining mortgages has also dampened
- Government expenditure will be held under a tight rein for the next few years, undermining one of the main props of strong growth during this decade
- the MPC is very concerned at the build up of inflationary pressures, especially the rise in oil prices and the consequent knock on effects on general prices. The price of UK manufactured goods has risen at their fastest rate in 16 year in November 2007 (4.5%). Food prices have also risen at their fastest rate for 14 years (6.6%) driven by strong demand from China and India. Consequently the MPC is going to be much more cautious about cutting rates in the face of these very visible inflationary pressures. In addition, UK growth was still exceptionally strong in 2007, as has been the growth in the money supply
- the downward trend in Bank Rate is now expected to be faster than at first thought after the initial cut in December 2007 to 5.5% which reflected an unanimous MPC vote for a cut and the consideration given to half a % cut. This demonstrated how concerned the MPC is at the potential impact of the credit crunch on the economics of the western world. However, the MPC's room for cutting rates is currently limited by concerns over inflationary pressures. If those pressures subside however there is further downward risk to the current forecast which currently suggests a 0.25% cut early in 2008, a further 0.25% cut in mid 2008 before Bank Rate stabilises at 5% for the next two years

International

- the US, UK and EU economies have all been on the upswing of the economic cycle during 2005 and 2006 and so interest rates were successively raised in order to cool their economies and to counter the build up of inflationary pressures
- the US is ahead of both the UK and EU in the business cycle and started on the downswing of the economic cycle during 2007. US rates peaked at 5.25% and were first cut in September by 0.5% to 4.75%. This was a response to the rapidly deteriorating prospects for the economy in the face of the downturn in the housing market, the sub prime mortgage crisis and the ensuing liquidity

crisis which started in August 2007 and has subsequently resulted in banks making some major write offs of losses on debt instruments containing sub prime mortgages. Banks have also tightened their lending criteria which has hit hard those consumers with poor credit standing

- the US cut its rate again, to 4.5% in October 2007, to 4.25% in December and another 0.75% to 3.5% in January 2008 to try to stimulate the economy and to ameliorate the extent of the downturn. However, the speed and extent of these cuts will be inhibited by inflationary pressures arising from oil prices, the falling dollar increasing the costs of imports, etc. The US could well be heading into stagflation in 2008 – a combination of inflation and a static economy. The economy could even tip into recession if the housing downturn becomes severe enough
- the downturn in economic growth in the US in 2008 will depress world growth, (especially in the western economies), which will also suffer directly under the impact of high oil prices. However strong growth in China and India will partially counteract some of this negative pressure
- EU growth has been strong during 2006 and 2007 but will be caught by the general downturn in world growth in 2008

7.4 Based on the key economic forecasts referred to above the significant interest rate predictions are:

Bank Base Rate

- started on a downward trend from 5.75% to 5.5% in December 2007
- to be followed by further cuts in early 2008 to 5.25% and to 5% in mid 2008
- remain unchanged at 5% for the following two years
- the major influence on the above forecasts is future inflation levels

PWLB rates

- the 50 year PWLB rate is expected to fall marginally from 4.50% in Q1 2008 to 4.45% in Q2 2008 before rising back again to 4.50% in Q3 2009, 4.55% in Q1 2010 and to 4.6% in Q1 2011
- the 25 year PWLB rate is expected to fall progressively from 4.65% to reach 4.5% in Q4 2008 and to then be on the rise from Q1 2009 to reach 4.7% in Q1 2010 and 4.75% in Q1 2011
- the 10 year PWLB rate is expected to fall from 4.7% in Q1 2008 to 4.55% in Q3 2008 and to then gradually rise from Q3 2009 to reach 4.8% in Q3 2010
- the 5 year PWLB rate is expected to fall from 4.7% in Q1 2008 to 4.55% in Q3 2008 and to then gradually rise starting in Q1 2009 to reach 4.85% in Q3 2010

8.0 BORROWING STRATEGY

8.1 Based on the prospects for interest rates outlined above the Borrowing Strategy for 2008/09 will be to take advantage of the lowest borrowing rates anticipated towards the end of the financial year but in as much as little relative variation is expected

during the year, this is likely to mean that attractive rates could be available at any time in the year when there is a dip down in rates. Variable rate borrowing and borrowing in the 5 year range is expected to be more expensive than long term borrowing and is likely therefore, to be unattractive throughout the financial year compared to longer term borrowing.

8.2 The main Strategy for undertaking new borrowing will be to take advantage of the lowest borrowing rates available. However attention will be given to the new PWLB borrowing regulations (see **paragraphs 11.3 and 11.4**) so as to give consideration to minimising the spread between the PWLB new borrowing and early repayment rates; this then maximises the potential for debt rescheduling at a later time by minimising the spread between these two rates.

8.3 This Strategy will also focus on new borrowing being over periods where there is currently no concentration of debt so as to achieve a more balanced spread in the County Council's debt maturity profile.

8.4 Based on the forecast PWLB rates set out in **paragraphs 7.2 and 7.3**, borrowing will be made where rates are most favourable around 4.5% at any time in the financial year. This rate is likely to be lower than the forecast rates for shorter maturities in the 5 and 10 year range. **A suitable trigger point for considering new fixed term rate longer term borrowing in 2008/09, will therefore be 4.5%, although the aim will be to secure loans at rates below this level if available.** However if shorter period loans become available around this rate, these will also be considered, as well as market loans with lower rates out to 70 years.

8.5 The central forecast rate and trigger point for new borrowing will be reviewed in the light of movements in the slope of the yield curve, spreads between PWLB new borrowing and early payment rates, and any further changes that the PWLB may introduce to their lending policy and operations (see **paragraphs 11.3 and 11.4**).

8.6 Consideration will also be given to borrowing fixed rate market loans at 0.25% - 0.5% below the PWLB target rate.

8.7 Against this background, caution will be adopted with the County Council's 2008/09 Treasury Management operations. The Corporate Director – Finance and Central Services will monitor the interest market closely and adopt a pragmatic approach to changing circumstances – any key strategic decisions that deviate from the above Strategy will be reported to the Executive at the next available opportunity.

Sensitivity of the forecast

8.8 The main sensitivities of the forecast are likely to be the two scenarios below. The Corporate Director - Finance and Central Services will, in conjunction with the County Council's Treasury Management Adviser, continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a significant change of market view:

(a) *if it is felt that there was a significant risk of a sharp rise in both long and short term rates,* perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will

be re-appraised with the likely action that fixed rate funding will be drawn down whilst interest rates were still relatively cheaper

(b) *if it is felt that there was a significant risk of a sharp fall in both long and short term rates,* for example due to growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short rate funding will be considered.

9.0 NEW POLICY FOR MINIMUM REVENUE PROVISION

9.1 The statutory requirement for local authorities to charge to Revenue each year a specific sum for debt repayment is being replaced with more flexible statutory guidance.

9.2 The current Capital Finance Regulations, which are in the process of being replaced, require a Minimum Revenue Provision (MRP) of 4% of the County Council's Capital Financing Requirement (CFR). The CFR basically consists of external debt plus capital expenditure financed by borrowing from internal sources (surplus cash balances). The County Council's statutory 4% MRP in 2007/08 is £12.7m (CFR of £317.8m at 1 April 2007 @ 4%).

9.3 The amendments to the Capital Finance Regulations are currently still draft but are expected to be issued in the current financial year. They will replace the present detailed rules with a simple duty for an authority,each year, to charge an amount of MRP which it considers to be prudent.

9.4 The new Regulations will not in themselves define prudent provision, but MRP guidance to be issued by CLG will make recommendations to authorities on the interpretation of that term. Authorities will therefore be legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the CLG Guidance on Investments.

9.5 The new 'statutory guidance' will require authorities to prepare an Annual Statement of their policy on making MRP for submission to their full Council. This mirrors the existing requirements to report to the County Council on the Prudential Borrowing Limit and Investment Strategy. The aim is to give Members the opportunity to scrutinise the proposed use of the additional freedoms conferred under the new arrangements.

9.6 Based on the draft document that has been used for consultation the main part of the new statutory guidance will be concerned with the interpretation of the term 'prudent provision' and the principle that provision for borrowing to finance a capital asset should bear some relation to the period over which the asset continues to have a useful life. The present system of 4% MRP does not necessarily provide this link.

9.7 A number of options which the CLG say they consider would constitute prudent provision are detailed in the Guidance. CLG also state however that authorities are free to make additional MRP if they so require.

9.8 The County Council must therefore now approve an Annual MRP Policy Statement which will satisfy the ‘prudent provision’ requirement based on options provided by the CLG.

9.9 Having assessed the various options provided by the CLG, the following MRP policy has been adopted from 1 April 2008 -

(a) for all **capital expenditure incurred before 1 April 2008,** MRP will be based on 4% of the Capital Financing Requirement (CFR) at that date; this to include expenditure supported by Government borrowing approvals and locally agreed Prudential Borrowing up to 31 March 2008. This is in effect a continuation of the old MRP regulations for all capital expenditure up to 31 March 2008 that has been financed from borrowing

(b) for **capital expenditure incurred after 1 April 2008 which is supported by Government borrowing approvals,** MRP to be based on 4% of such sums reflected in subsequent CFR updates. This reflects the fact that the Revenue Support Grant formula for supported borrowing approvals will still be calculated on that basis

(c) for **locally agreed Prudential Borrowing on capital expenditure incurred after 1 April 2008**, MRP will be calculated based on equal annual instalments over the estimated life of the asset for which the borrowing is undertaken. This method is a simpler alternative to depreciation accounting. The estimated life of each asset will be assessed each year based on types of capital expenditure being incurred but in general will be 25 years for buildings, 50 years for land (as advised by CLG), and 5 to 7 years for vehicles/plant and equipment. This option also allows an authority to defer the introduction of an MRP charge for new capital projects/land purchase until the year after the new asset becomes operational rather than in the year borrowing is required to finance capital spending; this approach is beneficial for projects that take more than one year to complete and is therefore included in the proposed MRP Policy.

9.10 Therefore, with effect from 1 April 2008, total MRP provision will be the sum of (a) + (b) + (c) as defined above.

9.11 The change from the current 4% MRP calculated on a reducing balance to equal instalments over the assets life for Prudential Borrowing after 1 April 2008 (ie **(c) in paragraph 9.9** above) does potentially result in additional revenue provision being required compared to current arrangements. The forecast implications of this change are reflected in the 2008/09 Revenue Budget and MTFS although the overall effects are minimal after taking into account financing contributions from Directorate Revenue budgets in relation to Invest to Save capital schemes funded from Prudential Borrowing.

9.12 In terms of timing, the new Regulation is expected to come into force before 31 March 2008 and does therefore require a Policy Statement being approved before 31 March 2008 which would specify the policy for 2008/09. In terms of financial impact however, MRP has previously and continues to be calculated based on capital expenditure incurred to the previous 31 March. Thus the proposed new MRP policy as outlined in **paragraphs 9.9/9.10** above relates to capital expenditure

incurred after 1 April 2008 with the consequential impact first affecting the MRP charge for 2009/10.

9.13 An annual review of this new MRP policy will be undertaken and reported to Members as part of this annual Treasury Management report.

10.0 CAPPING OF CAPITAL FINANCING COSTS

10.1 During the preparation of the Revenue Budget/MTFS 2008/09 et seq concerns were expressed about the possible ongoing impact on the annual Revenue Budget of capital expenditure generated either by government borrowing approvals or approved locally under the Prudential Borrowing regime.

10.2 The relationship between levels of capital expenditure and the consequential capital financing costs that they generate is demonstrated in the following table.

Year	Net Budget Requirement (based on 4.75% Council Tax increase from 2008/09 £m	Budgeted Capital Financing Costs * £m	Costs as a %age of Budget %	1% of Budget £m	Potential Capital Spend from 1% on BR £m
	(a)	(b)	(c)	(d)	(e)
2007/08	295.8	30.5	10.3	3.0	35.3
2008/09	322.7	32.6	10.1	3.2	37.6
2009/10	339.7	35.4	10.4	3.4	40.0
2010/11	358.1	38.2	10.7	3.6	42.4
			(b÷a)	(a/100)	

* Based on Capital Plan to 2010/11 and includes interest on external debt plus lost interest earned on internally financed capital expenditure, together with a minimum revenue provision for debt repayment.

10.3 In addition to showing the direct link between the level of capital spend and impact on the Revenue Budget to date, the table also includes an estimate of the impact that planned levels of future capital expenditure (based on the current Capital Plan) will have on the proportion of the Revenue Budget that will be required to meet the consequential capital financing costs (see **column (c)**).

10.4 The table also shows, at **column (e)**, how much additional capital spend an 1% increase in the Budget requirement **(column (d)**) will support.

10.6 On the basis of the table above a cap has been set at 11% - this will accommodate existing Capital Plan requirements but will act as a regulator if Members are considering at a future date expanding the Capital Plan using Prudential Borrowing. Members would, of course have the ability, to review the % at any time but would now have to do so in the light of its explicit impact on the Revenue Budget/MTFS.

11.0 REVIEW OF LONG TERM DEBT

11.1 The long term debt of the County Council is under continuous review.

11.2 Discussions with the County Council's Treasury Management Adviser about the long term financing strategy are ongoing and any debt rescheduling opportunity will be fully explored.

11.3 Future debt restructuring opportunities however have become much less attractive following a number of changes unexpectedly made by the PWLB on 1 November 2007. The changes, which were made without any consultation with local authorities, include

(a) for all new loans the two main changes are narrower maturity brackets (all bands now have a length of six months compared to a range of six months to five years before 1 November) and rates are expressed in increments of one basis point (previously 5 basis points)

(b) in addition where a debt rescheduling exercise is undertaken there is a separate, differential rate for new borrowing and early repayment. This differential (or early repayment penalty) ranges between 0.25% and 0.5% and means that PWLB debt restructuring is now much less attractive.

11.4 Historically, the PWLB facility was created to facilitate cost effective borrowing by local authorities, and for many years achieved this objective. However with the growing sophistication of money markets in recent years borrowing from this source is now seen to be slightly more expensive than many market alternatives, such as LOBO's, although it still does provide stability and flexibility to debt portfolios. Undoubtedly the new early repayment rate differential will discourage local authorities from debt restructuring and indeed perhaps from taking new borrowing from the PWLB. The stability of PWLB fixed rates, compared to market loans, remains unchanged but the previous benefits of flexibility to manage debt portfolios through rescheduling has to a large extent, now been eroded.

11.5 Nevertheless debt rescheduling opportunities will continue to be actively monitored with the County Council's Treasury Management Adviser. In particular there may be opportunities to reschedule from PWLB debt into LOBO's or other market loans (as opposed to PWLB to PWLB). An immediate issue in relation to such PWLB/LOBO rescheduling however is that only a proportion of the County Council's debt portfolio should consist of money market LOBO loans (30% of total debt outstanding – see **paragraph 6.5**) which limits the extent to such rescheduling. Also unlike PWLB loans which can be rescheduled at regular intervals, once a LOBO loan has been taken, future rescheduling opportunities are more limited.

11.6 In terms of actual debt rescheduling opportunities during 2008/09 average PWLB rates are expected to be minimally higher at the start of the financial year than later on in the year. As Bank Rate is expected to fall more than longer term borrowing rates during the year, this will mean that the differential between long and short rates will narrow during the year and that there should therefore be greater potential for making interest rate savings on debt by doing debt restructuring earlier on in the year. Any debt rescheduling will be in accordance with the Borrowing Strategy position outlined in **paragraph 8** above.

11.7 The reasons for undertaking any rescheduling will include:

- the generation of cash savings at minimum risk
- in order to help fulfil the Strategy outlined in **paragraph 8** above, and
- in order to enhance the balance of the long term portfolio (ie amend the maturity profile and/or the balance of volatility)

11.8 Members will appreciate that with long term debt forecast to be £364.3m by the end of 2008/09 (see **paragraph 5.4**) and with an annual interest cost (net) to the Revenue Budget of about £18m the savings or additional costs, attached to even a small interest rate variation can be significant. To put this into context for every 0.1% that the interest rate can be reduced it saves £300k pa on interest charges in the Revenue Budget. Any proposals to restructure debt or change the policy laid out earlier in this Strategy, therefore demand careful attention.

11.9 Several opportunities to reschedule the County Council's long term debt were implemented during 2007/08 and have achieved a significant level of ongoing revenue savings. Full details of all debt rescheduling undertaken in the 2007/08 financial year will be reported to Members as part of the Annual Treasury Management Outturn report.

11.10 The rescheduling of debt involves the early repayment of existing debt and its replacement with new borrowing. This can result in one-off costs or benefits called premiums or discounts. These occur where the rate of the loan repaid varies from comparative current rates. Where the interest rate of the loan to be repaid is higher than current rates, a premium is charged by the PWLB for repayment. Where the interest rate of the loan to be repaid is lower than the current rate, a discount on repayment is paid by the PWLB. This principal continues even through the PWLB changes described in **paragraph 11.3** above impact on the attractiveness and likelihood of future debt rescheduling opportunities.

11.11 Another change from 2007/08 is that new accounting rules have been introduced in relation to how discounts and premiums arising from debt rescheduling have to be dealt with in local authority accounts. Although the County Council must apply these new rules and they will be fully taken into account when assessing future debt rescheduling opportunities, they do not necessitate a change to the Annual Treasury Management Strategy.

12.0 ANNUAL INVESTMENT STRATEGY

Background

12.1 Under the Local Government Act 2003 the County Council is required to have regard to Government Guidance issued in March 2004 in respect of the investment of its cash funds. This Guidance requires an Annual Investment Strategy to be approved by the County Council.

12.2 This Annual Investment Strategy must state the investments the County Council has approved for prudent management of its treasury balances during the financial year under the headings of **Specified Investments** and **Non Specified Investments**.

12.3 This section of the Strategy therefore sets out:

- the Investment Policy (**paragraph 12.4**)
- the policy regarding loans to companies in which the County Council has an interest (**paragraph 12.5**)
- Specified and Non Specified Investments (**paragraph 12.6**)
- security of capital and the use of credit ratings (**paragraph 12.7**)
- the Investment Strategy to be followed for 2008/09 (**paragraph 12.8**)
- the end of year Investment report (**paragraph 12.9**)

12.4 **Investment Policy**

The parameters of the Policy are as follows -

(a) the County Council will have regard to the Government's Guidance on Local Government Investments (the Guidance) issued in March 2004 and CIPFA's Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code)

(b) the County Council's investment priorities are:

- the security of capital, and
- the liquidity of its investments

(c) the County Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity

(d) the borrowing of monies purely to invest or on-lend and make a return is unlawful and the County Council will not engage in such activity

(e) investment instruments for use in the financial year are listed under **Specified** and **Non Specified Investment** categories (**see paragraph 12.6**)

(f) Counterparty Limits will be as set through the County Council's Treasury Management Practices Schedules

12.5 **Policy regarding loans to companies in which the County Council has an interest**

(a) the County Council's general investment powers under this Annual Treasury Management and Investment Strategy come from the Local Government Act 2003 (Section 12). Under this Act a local authority has the power to invest for any purpose relevant to its functions or for the purpose of the prudent management of its financial affairs

(b) in addition to investment, the County Council has the power to provide loans and financial assistance to Limited Companies under the Local Government Act 2000 which introduced general powers for local authorities to do anything which it considers likely to achieve the promotion or improvement of the economy, social or environmental well being of its area. This well being power includes a power for a local authority to incur expenditure, give financial assistance to any person and to enter into arrangements with any person

(c) any such loans to limited companies by the County Council, will therefore be made under these 'well being powers'. They will not however be classed as investments made by the County Council and will not impact on this Investment Strategy. Instead they will be classed as capital expenditure by the County Council under the Local Authorities (Capital Finance and Accounting) Regulations 2003, and will be approved, financed and accounted for accordingly.

12.6 **Specified and Non Specified Investments**

Based on Government Guidance -

(a) investment Instruments identified for use in the forthcoming financial year are listed in the Schedules attached to this Strategy under the **Specified** and **Non Specified** Investment categories

(b) all **Specified** investments are identified by the Government as "requiring minimal procedural formalities" (see **Schedule A**). In this context the County Council has defined specified investments as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit rating where appropriate

(c) for **Non Specified** investments (see **Schedule B**) a maximum of 20% of funds available for investment (both in house and externally managed) can be held in aggregate in such investments

(d) for both **Specified** and **Non Specified** investments, the attached Schedules indicate for each type of investment:-

- the investment category
- minimum credit rating criteria
- circumstances of use
- why use the investment and associated risks (Non Specified only)
- maximum %age of total investments (Non Specified only)
- maximum maturity period (Non Specified only)

(e) there are other instruments available as Specified or Non Specified Investments which the County Council will NOT currently use. Examples of such investments are:-

Specified Investments
- Commercial Paper
- Gilt funds and other Bond Funds
- Treasury Bills

Non Specified Investments
- Sovereign bond issues
- Corporate Bonds
- Floating Rate notes
- Equities
- Open Ended Investment Companies
- Derivatives

A proposal to use any of these instruments would require detailed assessment and be subject to approval by Members as part of this Strategy.

12.7 **Security of capital and the use of credit ratings**

The methodology and its application in practice will be as follows

(a) the County Council will rely on credit ratings published by the credit rating agency Fitch (one of the industry standards) to establish the credit quality (ability to meet financial commitments) of counterparties (to whom the County Council lends) and investment schemes

(b) where a counterparty does not have a Fitch rating, the equivalent Moody's rating will be used

(c) an institution's overall creditworthiness for the purpose of setting credit policy is based on a combination of -

- long term and short term ratings (the capacity to service and repay debt obligations punctually)
- financial strength/individual ratings (the intrinsic soundness of an institution evaluated on a stand alone basis)
- support rating (assessment of the presence of the lender of the last resort)

(d) it is paramount that the County Council's money is managed in a way that balances risk with return, but with the overriding consideration being given to the security of the invested capital sum.

The rationale and purpose of distinguishing Specified and Non Specified investments is detailed in **paragraph 12.6** above. Part of the definition for a Specified investment is that it is an investment made with a body

- which has been awarded a high credit rating
- with maturities of not longer than 364 days

It is therefore necessary to define what the County Council consider to be a “high” credit rating in order to maintain the security of the invested capital sum.

The “high” credit rating chosen is based on guidance provided by the County Council’s Treasury Management Adviser and is as follows:

Fitch Ratings		Moody's Ratings	
Long Term	Short Term	Long Term	Short Term
AA-	F1+	Aa3	P1

(e) in addition to identifying a “high” credit rating to safe guard the County Council’s funds, in light of the recent market conditions connected with the “credit crunch” in the US and as a result of the liquidity problems experienced by Northern Rock, it is considered necessary to identify a second slightly “lower” credit rating for maturities up to 1 year.

The purpose of a second level tier of credit rating is to ensure that the County Council will continue to be able to invest its surplus funds, with the overriding consideration being given to the security of the invested capital sum. The lower credit criteria increases the number of counterparties that will accept smaller investment amounts, so enabling more favourable return on investment whilst maintaining security. Building Societies fall into this category in addition to some banks.

The lower credit criteria has been chosen using guidance from the Treasury Management Adviser. Although no combination of ratings can be viewed as entirely fail-safe the following credit criteria has been selected based on Fitch and Moody’s long and short term ratings and Fitch’s individual and support ratings.

Fitch Ratings		Moody Ratings	
Long Term	Short Term	Long Term	Short Term
A	F1	A2	P1

(f) the table below shows the relationship between the two rating agencies and compares the Specified Investment “High” credit rating with the “lower” credit rating.

INVESTMENT GRADE RATINGS				
	Moody's		**Fitch**	
INCREASING FINANCIAL STRENGTH ↑	Short Term	Long Term	Short Term	Long Term
		Aaa		AAA
		Aa1	F1+	AA+
	P-1	Aa2		AA
		Aa3		AA-
		A1	F1	A+
		A2		A
		A3		A-
	P-2	---	F2	---
		Baa1		BBB+
	P-3	Baa2	F3	BBB
		Baa3		BBB-

-------------- Specified Investment "High" Credit Rating criteria
_________ Specified Investment "Lower" Credit Rating criteria

(g) the "high" financial rating will be set at a minimum of Fitch's: F1+ AA- and Moody's: P-1 Aa3. The lower rating will be set at Fitch's: F1 A and Moody's: P-1 A2.

In the markets and using Fitch, short term credit ratings (deposits of less than 1 year) range between F1+ (highest) to D (lowest) with F1 to F3 being low to moderate credit risk and B to D being higher level of credit risk or default has previously occurred.

Similarly long term credit risk (deposits of more than 1 year) range between AAA (highest) to D (Lowest) with AAA to BBB being low to moderate credit risk and BB to D being a higher level of credit risk or default has previously occurred.

(h) the change in the credit criteria detailed above, in accordance with the Treasury Management Adviser's credit matrix, results in a change to the Approved Lending List of counterparties for investment purposes.

All Counterparties that have a "high" credit criteria rating will be maintained on the list for 364 days and have a maximum investment limit of £15 million. Those counterparties that meet the lower defined rating will be subject to a more limited time and amount constraint to ensure the security of the County Council's funds is maintained.

(i) No combination of ratings can be viewed as entirely fail-safe and those with a lower rating have been allocated a time limit of 3 months, in line with the Treasury Management Adviser's credit matrix and a limit of £8 million.

Essentially if a counterparty was to get into trouble then they are likely to survive for 3 months after initial warnings have been announced.

(j) All credit ratings will be monitored on a regular basis. The County Council is alerted to changes in Fitch ratings through its use of the Treasury Management Adviser's credit worthiness service

(k) Therefore if a counterparty or investment scheme rating is subsequently downgraded with the result that it no longer meets the County Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately; if an investment is already held with a counterparty whose credit rating falls below the minimum, the County Council will seek to withdraw that investment as soon as possible within the terms and conditions of the investment made

(l) If a counterparty/investment scheme is subsequently upgraded so that it now fulfils the County Council's minimum criteria the Corporate Director – Finance and Central Services will have the discretion to include it on the County Council's Approved Lending List with immediate effect

(m) An updated list of the current counterparty lending list is attached at **Schedule C**.

12.8 **The Investment Strategy to be followed for 2008/09**

Recognising the categories of investment available and the rating criteria detailed above

(a) the County Council currently manages all its cash balances internally

(b) ongoing discussions will be held with the County Council's Treasury Management Adviser on whether to consider the appointment of a external fund manager(s) or continue investing in-house – any decision to appoint an external fund manager will be subject to Member approval

(c) the County Council's cash balances consist of two basic elements. The first element is **cash flow derived** (debtors/creditors/timing of income compared to expenditure profile). The second, **core element**, relates to specific funds (reserves, provisions, balances, capital receipts, funds held on behalf of other organisations etc)

(d) having given due consideration to the County Council's estimated level of funds and balances over the next three financial years, the need for liquidity and day to day cash flow requirements it is forecast that a maximum of £12m of the overall balances can be prudently committed to longer term investments (eg between 1 and 3 years)

(e) investments will accordingly be made with reference to this core element and the County Council's cash flow requirements and the outlook for short term interest rates (ie rates for investments up to 12 months)

(f) the County Council currently has two Non Specified investments over 365 days totalling £6m as follows:-

- ➔ £3m invested with the Royal Bank of Scotland on 30 November 2006 at a fixed interest rate of 5.45% for three years but the bank has the option of repaying at the end of each year (callable deposit)

- ➔ £3m invested with Barclays on 24 January 2008 at a fixed interest rate of 5.50% for 3½ years but the bank has the option of repaying at the end of the first year (callable deposit)

(g) following the Bank Rate reduction in December 2007 from 5.75% to 5%, the interest rate outlook is a downward trend with a further reduction to 5.25% in early 2008 and 5% in mid 2008 being forecast. It is then expected to remain unchanged for the next two years. The County Council will seek to lock in longer period investments at higher rates for some of its investment portfolio (which represents its core element) before the expected interest rate fall starts. **A rate in excess of 5.45% for one year deposits and in excess of 5.55% for two and three year deposits has been determined as an attractive investment trigger rate given current bank rate forecasts.** These trigger points will however be kept under review and discussed with the Treasury Management Adviser so that investments can be made at the appropriate time

(h) for its cash flow generated balances the County Council will seek to utilise 'business reserve accounts' (deposits with certain banks and building societies) and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

12.9 **End of Year Investment Report**

At the end of the financial year a report on the County Council's investment activity will be submitted to Members as part of the Annual Treasury Management Outturn Report.

13.0 OTHER TREASURY MANAGEMENT ISSUES

Operational leasing

13.1 Up to 2004/05 the County Council used operational leasing to acquire plant and vehicles. The main reason was that such financing did not impact on the level of capital resources (capital receipts and Government borrowing approvals) otherwise available to the County Council. However because this rationale no longer applies under the Prudential Code there is now the option of undertaking additional unsupported borrowing to finance such items.

13.2 There is of course still the option to finance by operational leasing and therefore the use of leasing for periods greater than one year is approved within the schedule of Treasury Management Practices which support the County Council's Treasury Management Policy Statement. Furthermore the Financial Procedure Rules of the County Council require that the Corporate Director – Finance and Central Services shall undertake the negotiation of all leasing arrangements.

13.3 A detailed option appraisal on whether to operationally lease, finance lease or fund from borrowing will therefore be undertaken each year as it may be the case that the best value option will change over time (eg as market conditions fluctuate). A recent in house option appraisal indicated that borrowing was the best value option for 2007/08 and therefore the purchase of plant, vehicles and equipment estimated at £0.5m for 2007/08 was financed from Prudential borrowing with consequential financing costs being recharged to Directorates in lieu of lease rentals.

13.4 The capital value of plant, equipment and vehicles to be purchased in 2008/09 is estimated to be £0.8m and a further option appraisal will be carried out during the year to determine whether financing should be through leasing or Prudential borrowing.

Other issues

13.5 The County Council continues to monitor potential PFI opportunities and assess other innovative methods of funding. Indeed a PFI scheme for Waste Disposal is currently underway with the tender stage scheduled for 2008/09. Depending on the way these initiatives progress, it may be necessary to review the overall financing/borrowing figures included in this Strategy. The Corporate Director - Finance and Central Services will monitor the position as it develops throughout the year and report as necessary to the Executive.

14.0 SUMMARY OF KEY ELEMENTS OF THIS STRATEGY

14.1 For the financial year 2008/09 the County Council approves the following:-

(a) an Authorised Limit for external debt of £410.7m in 2008/09

(b) an Operational Boundary for external debt of £390.7m in 2008/09

(c) a borrowing limit on fixed interest exposures of between 60% to 100% of outstanding principal sums and a limit on variable interest rate exposures of between 0 to 40% of outstanding principal sums

(d) an investment limit on fixed interest exposures of 0 to 30% of outstanding principal sums and a limit on variable interest rate exposure of between 70% to 100% of outstanding principal sums

(e) a limit of 20% (estimated at £12m) of the total cash sums available for investment (both in house and externally managed) to be invested in Non Specified investments over 364 days

(f) the Corporate Director - Finance and Central Services to report to the County Council if and when necessary during the year on any changes to this Strategy arising from the use of operational leasing, PFI or other innovative methods of funding

JOHN MOORE
Corporate Director – Finance and Central Services

28 January 2008

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL INVESTMENT STRATEGY 2008/09

SPECIFIED INVESTMENTS

All the specified Investments listed below must be sterling denominated, redeemable within 364 days, and represent share or loan capital.

Investment	***Security/ Minimum Credit Rating***	***Circumstances of use***
Term Deposits with the UK government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to one year	High security as Government backed.	In-house
Term Deposits with credit rated deposit takers (banks & building societies), including callable deposits with maturities less than one year	High Criteria Fitch's short term F1+, long term AA- Lower Criteria Fitch's short term F1, long term A	In-House
Certificates of Deposit issued by credit rated deposit takers (banks & building societies) up to 1 Year	High Criteria Fitch's short term F1+, long term AA- Lower Criteria Fitch's short term F1, long term A	Fund Manager or In-House buy & hold after advice from Sector Treasury Services
Money Market Funds i.e. a collective investment scheme as defined in SI 2004 No 534. *These funds do not have any maturity date*	Yes - AAA	In house – limited to £15m but as yet not used
Gilts (with maturities up to 1 year) *Custodial arrangements prior to purchase*	Govt backed	Fund Manager or In-House buy & hold after advice from Sector Treasury Services
Forward deals with credit rated banks and building societies less than 1 year (i.e. negotiated deal plus period of deposit)	High Criteria Fitch's short term F1+, long term AA- Lower Criteria Fitch's short term F1, long term A	In house via Brokers or direct
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months *Custodial arrangement required prior to purchase*	Govt backed	Only after consultation with Sector

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL INVESTMENT STRATEGY 2008/09

NON-SPECIFIED INVESTMENTS

Investment	*(A) Why use it?* *(B) Associated risks?*	*Security/ Minimum Credit Rating*	*Circumstances of use*	*Max % of overall investments or cash limits in each category*	*Maximum investment with any one counterparty*	*Maximum Maturity period*
Term Deposit with credit rated deposit takers (banks and building societies), UK Government and other Local Authorities with maturities greater than 1 year.	(A) Certainty of return over period invested which would be useful for budget purposes (B) (i) Not liquid, cannot be traded or repaid prior to maturity (ii) Return will be lower if interest rates rise after making the deposit (iii) Credit risk as potential for greater deterioration of credit quality over longer period	Fitch's short term F1+, long term AA or Fitch's short term F1+, Long term AA-	In-house via money market brokers or direct	100% of core cash balances (£12m based on estimate for 2008/09)	£5m	No longer than 5 years Or No longer than 2 years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year. *Custodial arrangement prior to purchase*	(A) Attractive rates of return over period invested and in theory tradable (B) Market or 'interest rate' risk; the yield is subject to movement during life of CD which could negatively impact on its price	Fitch's short term F1+, long term AA or Fitch's short term F1+, Long term AA-	Fund Manager or In-House buy & hold after advice from Sector Treasury Services	25% of core cash balances (£3m)	£3m	No longer than 5 years Or No longer than 2 years
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year.	(A) Enhanced Income – potentially higher return than using a term deposit with a similar maturity (B) (i) Not liquid – only borrower has the right to pay back the deposit; the lender does not have a similar call (ii) period over which the investment will actually be held is not known at the outset (iii) Interest rate risk; borrower will not pay back deposit if interest rates rise after the deposit is made	Fitch's short term F1+, long term AA or Fitch's short term F1+, Long term AA-	To be used in-house after consultation with Sector	50% of core cash balances (£6m)	£5m	No longer than 5 years Or No longer than 2 years

Investment	*A) Why use it?* *B) Associated risks?*	*Security/ Minimum Credit Rating*	*Circumstances of use*	*Max % of overall investments or cash limits in each category*	*Maximum investment with any one counterparty*	*Maximum Maturity period*
UK Government Gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality (ii) liquid (iii) If held to maturity, yield is known in advance (iv) If traded, potential for capital appreciation (B) (i) Market or 'interest rate' risk: yield subject to movement during life of the bond which could impact on price	Govt backed	Fund Manager	25% of core cash balances (£3m)	N/A	No longer than 5 Year
Forward Deposits with credit rated banks and building societies > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over the period the monies are invested – aids forward planning (B) (i) Credit risk is over the whole period not just when the monies are invested (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period	Fitch's short term F1+, long term AA or Fitch's short term F1+, Long term AA-	To be used in-house after consultation with Sector	25% of core cash balances (£3m)	£3m	No longer than 5 years Or No longer than 2
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality (ii) relatively liquid (iii) if held to maturity the yield is known in advance (iv) enhanced rate in comparison to gilts (B) (i) Market or 'interest rate' risk: yield subject to movement during life of bond which could impact on price	AA or govt backed	In house on a 'buy and hold' basis after consultation with Sector or use by Fund Managers	25% of core cash balances (£3m)	N/A	No longer than 5 Years
Bonds issued by multilateral development banks (as defined in SI 2004 No 534) with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(A) (i) Excellent credit quality (ii) relatively liquid (iii) if held to maturity the yield is known in advance (iv) enhanced rate in comparison to gilts (B) (i) Market or 'interest rate' risk: yield subject to movement during life of bond which could negatively impact on price	AA or govt backed	In house on a 'buy and hold' basis after consultation with Sector	25% of core cash balances (£3m)	£3m	No longer than 5 Years

Note: NYCC has a maximum limit on Non-Specified investments of 20% of its overall cash balances – estimated at £12m for 2008/09

SCHEDULE B

INVESTMENT COUNTERPARTY LIMITS FOR 2008/09

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)		Specified Investments (up to 1 year)		Non-Specified Investments Total Limit £12m (over 1 year)	
		Total Exposure £m	Time Limit	Total Exposure £m	Time Limit
Category 1 - Banks					
(a) UK Clearing Banks, and UK based banks approved by the Bank of England					
Abbey		15.0	364 days	5.0	2 years
Barclays Bank/Woolwich		15.0	364 days	5.0	5 years
Clydesdale Bank (trading as Yorkshire Bank)		15.0	364 days	5.0	2 years
Credit Suisse International		15.0	364 days	5.0	2 years
HBOS (Halifax, Bank of Scotland)		15.0	364 days	5.0	5 years
HSBC		15.0	364 days	5.0	5 years
Lloyds/TSB Group		15.0	364 days	5.0	5 years
Royal Bank of Scotland / Nat West Bank / Ulster Bank		15.0	364 days	5.0	5 years
Alliance and Leicester		8.0	3 months	-	-
Bradford & Bingley		8.0	3 months	-	-
Co-operative Bank		8.0	3 months	-	-
Kaupthing Singer and Friedlander Ltd		8.0	3 months	-	-
(b) High Quality Foreign Banks					
National Australia Bank	Australia	See above – Clydesdale Bank is a subsidiary of National Australia Bank			
Dexia Bank	Belgium	15.0	364 days	5.0	5 years
Fortis Bank	Belgium	15.0	364 days	5.0	2 years
KBC Bank	Belgium	15.0	364 days	5.0	2 years
Canadian Imperial Bank of Commerce	Canada	15.0	364 days	5.0	2 years
Nordea Bank Finland	Finland	15.0	364 days	5.0	2 years
CAYLON	France	15.0	364 days	5.0	5 years
Credit Industriel et Commercial	France	15.0	364 days	5.0	2 years
Credit Agricole	France	15.0	364 days	5.0	5 years
Societe Generale	France	15.0	364 days	5.0	2 years
Bayrische Landesbank	Germany	8.0	3 months	-	-
Deutsche Bank	Germany	15.0	364 days	5.0	2 years
Dresdner Bank	Germany	8.0	3 months	-	-
HSH Nordbank (AG)	Germany	8.0	3 months		
Landesbank Baden-Wurttemberg	Germany	8.0	3 months	-	-
Norddeutsche Landesbank Girozentrale	Germany	8.0	3 months	-	-
DBS Bank (Hong Kong)	Hong Kong	15.0	364 days	5.0	2 years
Glitner Banki	Iceland	8.0	3 months	-	-
Landsbanki Islands	Iceland	8.0	3 months	-	-
Intesa Sanpaolo Spa	Italy	15.0	364 days	5.0	2 years
Banco Espirito Santo SA	Portugal	8.0	3 months		
Allied Irish	Rep of Ireland	15.0	364 days	5.0	2 years
Anglo Irish	Rep of Ireland	8.0	3 months	-	-
Bank of Ireland (Bristol & West)	Rep of Ireland	15.0	364 days	5.0	2 years
Depfa	Rep of Ireland	15.0	364 days	5.0	2 years
Irish Life & Permanent	Rep of Ireland	8.0	3 months	-	-
Irish Intercontinental Bank (IIB)	Rep of Ireland	8.0	3 months	-	-
Nordea Bank AB	Sweden	15.0	364 days	5.0	2 years

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)	Specified Investments (up to 1 year)		Non-Specified Investments Total Limit £12m (over 1 year)	
Category 2 – Building Societies				
(a) Group 1 – Rated F1/AA or equivalent	**Total Exposure £m**	**Time Limit**	**Total Exposure £m**	**Time Limit**
Britannia	8.0	3 months	-	-
Chelsea	8.0	3 months	-	-
Cheshire	8.0	3 months	-	-
Coventry	8.0	3 months	-	-
Derbyshire	8.0	3 months	-	-
Dunfermline	8.0	3 months	-	-
EBS	8.0	3 months	-	-
Leeds	8.0	3 months	-	-
Nationwide	15.0	364 days	5.0	2 years
Newcastle	8.0	3 months	-	-
Norwich & Peterborough	8.0	3 months	-	-
Principality	8.0	3 months	-	-
Scarborough	8.0	3 months	-	-
Skipton	8.0	3 months	-	-
Yorkshire	8.0	3 months	-	-
West Bromwich	8.0	3 months	-	-
Category 3 - Local Authorities				
(a) *Group 1*				
County Councils	15.0	364 days	5.0	5 years
English Unitary Councils	15.0	364 days	5.0	5 years
Metropolitan District Councils	15.0	364 days	5.0	5 years
(b) *Group 2*				
District Councils	15.0	364 days	5.0	5 years
Police Authorities	15.0	364 days	5.0	5 years
Fire Authorities	15.0	364 days	5.0	5 years
National Park Authorities	15.0	364 days	5.0	5 years
Category 4 - Other Deposit Takers				
(a) Money Market Funds with highest possible rating (AAA) for that fund type, by at least one of the three major credit rating agencies (Moody's, Standard and Poor, Fitch)	15.0	364 days	5.0	5 years
(b) UK Government Debt Management Account Deposit Facility ('AAA' rated)	15.0	364 days	2.5	5 years