DERBY CITY COUNCIL

COUNCIL CABINET
17 FEBRUARY 2009

Report of the Corporate Director of Resources

Treasury Management Strategy and Prudential Code Indicators 2009/10

SUMMARY

1.1 Every year, local authorities are required to adopt the prudential indicators set out in the Prudential Code for Capital Finance in Local Authorities, as determined by the Chartered Institute of Public Finance and Accountancy – CIPFA.

1.2 In addition, the Council must also approve a Treasury Management Strategy, which also incorporates the Annual Investment Strategy.

1.3 These requirements are set out under regulations introduced in the Local Government Act 2003.

1.4 Through its prudent investment policy, the Council has so far maintained a relatively low risk portfolio and a secure cashflow. However, world financial markets have continued to suffer from a liquidity shortage that first arose in 2007, and in the last 12 months a number of institutions worldwide have either collapsed, been nationalised, or have been forced to resort to emergency borrowing facilities offered by central banks.

1.5 Given the risks that exist in the markets, and the potential losses that have been experienced by other local authorities with investments in Icelandic institutions, we are recommending that the Council maintain its tightened counterparty lending criteria, which were approved in last year's strategy report and tightened again still further in November 2008. It is expected that this will result in lower returns on the Council's investments.

RECOMMENDATIONS

2.1 To recommend that Council approves the planned prudential indicators set out in Appendix 2 and summarised in Appendix 4.

2.2 To recommend that Council approves the Statement on the Minimum Revenue Provision as stated in Appendix 2, paragraph 4.5.

2.3 To recommend that Council adopts the Treasury Management Strategy for 2009/10 as set out in Appendix 3 to this report.

SUPPORTING INFORMATION

Prudential Indicators and the Treasury Management Strategy

3.1 The CIPFA Code of Practice for Treasury Management requires that all local authorities prepare a Treasury Management Strategy in advance of the new financial year. The Local Government Act 2003 introduced the prudential capital finance system, which requires the formal adoption of this code of practice and requires in addition, the preparation of an Annual Investment strategy.

3.2 A number of the required prudential indicators are determined within the Treasury Management Strategy, and therefore both are considered within the same report. The prudential indicators are also dependent upon the scale of the Council's capital programme to 2011/12, as detailed in a separate report on this agenda.

3.3 The overriding objective of the Prudential Code is to ensure that the capital investment plans of the Council are affordable, prudent and sustainable. This is delivered through the adoption of prudential indicators.

3.4 The Council sets the indicators itself, subject to the controls of Section 4 of the Act, which allow the Government to intervene in exceptional circumstances to set national, or individual limits for Councils. These powers are expected to remain latent so long as local authorities are able to demonstrate that they continue to act prudently when taking borrowing and investment decisions. However, the Government's Department for Communities and Local Government has recently indicated that it will be reviewing the Investment Guidelines in light of the potential losses of principal by some local authorities which invested in Icelandic banks.

3.5 This review could mean that stricter controls on borrowing and lending may be introduced by Government at a later date. Should this occur, access to funding for capital purposes might become more difficult to obtain in the future than is currently assumed. If it were indicated that a limit was likely to be introduced in the future, it might be necessary to urgently borrow funds to guard against such an action and protect the Council's investment plans. At the moment, there are no plans to borrow in the immediate future – see paragraph 3.16 below - unless this eventuality comes about.

3.6 The most important of the prudential indicators, in terms of constraining capital investment decisions, are those relating to 'affordability'. They set out the extent to which the Council's revenue budget is funding the capital cost of borrowing and also the marginal impact of capital expenditure decisions on future levels of council taxes and council house rents. The ratio of net financing costs to the net revenue stream shows that the relative costs of financing general fund debt is expected to rise from 6.82% in 2007/08 to 9.40% by the end of 2011/12.

3.7 The Council's capital programme continues to incorporate an element of unsupported borrowing met from the Treasury Management revenue budget. Previously it has been assumed that around £2m a year represented an affordable overall amount of unsupported borrowing, but from 2008/09 the amount has been determined by reference to the revenue cost of the particular investments, as new regulations relating to 'minimum revenue provision' – MRP - dictate that the revenue cost of borrowing be matched to the life of the asset being financed**.** In addition, we have a number of self-financing capital schemes funded from unsupported borrowing. Some of these are funded from the savings that they generate, and others are funded from previously approved service revenue budgets at no additional net cost.

3.8 Most of the proposed prudential indicators are explained in detail at Appendix 2. The exceptions are those prudential indicators that relate to treasury management, which are also referred to in Appendix 2 and explained in detail in the Treasury Management Strategy in Appendix 3. Appendix 4 provides a summary of all of the prudential indicators.

Recent Developments in the Financial Markets

3.9 The financial markets continued to suffer from a severe liquidity shortage in 2008 at an unprecedented scale, despite the US Federal Reserve, the European Central Bank and the Bank of England attempting to inject additional liquidity into their respective financial markets. In the wake of Northern Rock in the UK, a number of other institutions have been forced to rely on central banks, and – somewhat catastrophically for some local authorities – four Icelandic banks have been forced to call in administrators. Elsewhere around the globe the warning signs continue to show, and recently the credit ratings of all Irish and Spanish institutions have been downgraded, as have the Irish and Spanish governments' own credit ratings.

3.10 Initially, this shortage of credit meant that short-term interest rates increased and the Council was able to benefit from this. However, as security of investment is paramount in all of our investment decisions, since our revised strategy was approved by Cabinet in November 2008, we have restricted the institutions in which we invest to the safest possible (while still maintaining reasonable cashflow) and, as we would expect, this is resulting in lower returns on the Council's investments.

3.11 The Council's lending criteria are set out in Appendix 3. In particular, the Council has ceased to make new investments in foreign banks and foreign building societies and is winding down existing investments in such institutions as investments mature and our capital is repaid. The only country in which the Council retains any investments outside of the UK is now Ireland, and these investments are due to be repaid by August 2009.

Treasury Management Performance and Budget

3.12 Our proposed Treasury Management Strategy for 2009/10 reflects the changes to the financial markets that have emerged recently, further tightening our lending criteria and reducing the reliance on external borrowing at least in the medium term. It sets out details of investment and borrowing performance during 2008/09 where investment performance has compared favourably with the market, with returns over the year to date averaging 5.87%, some 1.56% higher than the weighted average Bank of England base rate for 2008/09 to date of 4.31%.

3.13 The Council undertook no new borrowing in 2008/09, since the amount borrowed in 2007/08 has been adequate to cover the capital programme this year. However, we did take advantage of low short-term borrowing rates offered by the Public Works

Loan Board – PWLB – and rescheduled £10.7m of existing borrowing. The average rate for new borrowing in the year to date is 2.075% compared with 4.50% for new borrowing in 2007/08. The Council’s entire debt portfolio is now held at an average rate of 4.478% compared to a rate of 5.4% assumed by the Government to be typical of local authorities for 2009/10.

3.14 This above-average performance in both investment and borrowing, together with a higher than expected level of cash balances, means that the Treasury Management budget is now forecasting a £3m under-spend for 2008/09.

3.15 However, our performance in investment and borrowing in 2008/09 has not been automatically assumed to hold for future years Treasury Management budgets, as the problems associated with instability within the financial markets persist, and interest being earned on new invested cash balances has reduced substantially of late and is now well below the level being charged for new long term debt.

3.16 Our strategy therefore aims to reduce the size of our investment portfolio to around £100m and to seek only the most secure investments, which usually means a lower rate of return. Our budget forecasts for the next three years - included in the Revenue Budget and Council Tax Setting Report also included on this agenda - have been adjusted accordingly and it is highly unlikely that the scale of our under-spend generated in 2008/09 will be repeated in future years.

3.17 Running down investment balances through the deferral of borrowing may provide additional security in the short-term, but eventually a point will be reached at which the borrowing - which is assumed in the Council’s capital programme - will be required. Currently, the Treasury Management budget does not assume that this point will be reached within the three-year budget period to 2011/12. However, from 2012/13 onwards the requirement to borrow up to £75m may arise, and the interest on this could form a significant ongoing budget pressure in future.

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Background papers:	The Prudential Code for Capital Finance in Local Authorities, CIPFA
List of appendices:	Appendix 1 - Implications Appendix 2 - Prudential Indicators Appendix 3 - Treasury Management Strategy 2009/10 Appendix 4 - Prudential Indicator Summary 2009/10

IMPLICATIONS

Financial

1. As detailed in the report.

Legal

2. The Council is obliged to set and review prudential indicators in order to comply with the Local Government Act 2003. Unless the Government uses its powers under Section 4 of that act, the Council is free to set any reasonable indicators consistent with its other policies.

Personnel

3. None.

Equalities impact

4. None.

Corporate objectives and priorities for change

5. The objectives of the Council's Treasury Management Strategy contribute to providing excellent and value-for-money services to the citizens of Derby.

APPENDIX 2

Prudential Indicators 2009/10

The required indicators are grouped as follows:

1. Plans for capital expenditure
2. Borrowing Limits
3. Prudence
4. Affordability
5. Treasury Management

They have to be set with regard to the following:

- Affordability – for example, the effect on the Council Tax for council taxpayers.
- Prudence and sustainability – for example, the implications for external borrowing of the plans.
- Value for money – for example, through option appraisal.
- Stewardship of assets – for example, through asset management planning.
- Service objectives – for example, through strategic planning processes.
- Practicality – for example, the achievability of the forward plan.

The proposed figures are summarised in Appendix 4.

1. Plans for Capital Expenditure

1.1 The plans for capital expenditure must be consistent with the Council's capital programme for 2009/10 to 2011/12, which the Council will be asked to approve on 17 February 2009. The figures included in this report are based on the recommendations to this Cabinet meeting. If Cabinet prior to 17 February approves any changes to the capital programme then the Treasury Management Strategy report will be further updated.

1.2 The first indicator is the plan for capital expenditure for the next three years:

	General Fund	HRA	Total
	£m	£m	£m
2008/09 (forecast)	81.7	11.0	92.7
2009/10	83.9	12.0	95.9
2010/11	81.8	11.0	92.8
2011/12	95.7	9.3	105.1

Rows may not sum due to rounding

1.3 Actual capital expenditure for 2008/09 will be recorded and reported after the end of the financial year. Latest estimates are total spend of £92.7m, of which £81.7m relates the GF and £11.0m to the HRA. The actual capital expenditure for 2007/08, as reported to Cabinet in July 2008 was £82.9m, of which, £72.7m related to the GF, and £10.2m to the HRA.

2. Borrowing

Capital Financing Requirement - CFR

2.1 The CFR uses balance sheet figures to indicate the maximum amount of capital financing that should be required by the Council to finance its assets, on the best information available at the time of setting the capital programme. This increases as more resources are spent on creating or enhancing capital assets, and reduces as debt is repaid, or capital grants, revenue or usable capital receipts are applied to finance capital expenditure. Technically, the CFR is the sum of the following items on the balance sheet:

- Fixed Assets
- Deferred Charges
- Fixed Asset Restatement Account
- Capital Financing Account
- Government Grants Deferred.

In addition, any forms of credit arrangements, including finance leases, are included in the total CFR.

2.2 The table below shows the actual and expected Capital Financing Requirements to 2011/12:

	General Fund	HRA	Total
CFR at the end of:	£m	£m	£m
2008/09 (forecast)	206.8	188.8	395.6
2009/10	215.7	188.8	404.5
2010/11	233.4	188.8	422.3
2011/12	256.1	188.8	444.9

Rows may not sum due to rounding

Authorised Limit and Operational Boundary

2.3 Section 3 of the 2003 Local Government Act imposes a duty on the Council to set a limit on how much money it can afford to borrow and to keep this under review. The *authorised limit* is an absolute limit on borrowing, and may not be exceeded. Additionally, the Council must set an *operational boundary* for borrowing. This is a level of borrowing that, if exceeded frequently, indicates a potential problem with the borrowing strategy. These targets are required to be set on a rolling three-year basis.

2.4 The Government may, under Section 4 of the 2003 Act, impose an overall limit on the borrowing of every local authority 'for national economic reasons', and/or on an individual authority 'for the purpose of ensuring that the authority does not borrow more than it can afford'. It is not anticipated that either of these provisions will be used in the immediate future. However, following the problems that have been experienced by some local authorities that had investments in Icelandic banks, the Government has instigated a review of the Prudential Code. We need to be aware that should the Government subsequently curtail the ability of councils to borrow further prudential funds, this could have detrimental impact on the Council's capital programme as well as reducing the investment income generated by the Council's cash balances.

2.5 The *operational boundary* for borrowing is set at the expected CFR for each year. As the Council aims not to borrow (including transferred debt) above the CFR this is deemed to be a sensible level.

2.6 The *authorised limit* on borrowing is also a matter for the Council to decide. For 2008/09 Cabinet approved an authorised limit of £70m above the CFR (excluding transferred debt) to provide enough headroom to accommodate additions to the capital programme relating to waste disposal or debt rescheduling exercises in which borrowing precedes repayment. As the waste disposal project has been delayed slightly, we propose maintaining this amount of £70m headroom above the initial expected operational boundary for 2009/10 onwards. The operational boundary will be increased at the time that a major proposal is approved, but the authorised limit cannot be changed without approval from full Council.

2.7 The proposed limits for 2009/10 onwards for approval are set out below:

Borrowing	Operational Boundary	Authorised Limit
End of financial year:	£m	£m
2008/09	425	495
2009/10	405	475
2010/11	423	493
2011/12	445	515

2.8 In addition to this limit, a separate limit is required for other long-term liabilities, for example finance leases or other forms of credit arrangements. It is the intention to minimise new long-term liabilities other than borrowing, and the limit is therefore set to reflect only existing liabilities of this type, or other such liabilities to cater for any exceptional needs.

Other long-term liabilities	Operational Boundary	Authorised Limit
End of financial year:	£m	£m
2008/09	1	1
2009/10	1	1
2010/11	1	1
2010/12	1	1

3. Prudence

3.1 The Prudential Code requires a statement that the total net external borrowing excluding any transferred debt is less than the Council's CFR. This is to ensure that overall external borrowing exposure is not excessive. The requirement of the code is that external borrowing for 2009/10 should not exceed the CFR at the end of the third year being reported, ie. 2011/12.

3.2 The figures for Derby shown below demonstrate that total net external borrowing is well below the CFR in the period to 2011/12, and that the gross position (including net transferred debt) is forecast to be below the CFR from 2009/10:

	CFR	Net External Debt	Gross External Debt
	£m	£m	£m
2008/09 (forecast)	395.6	365.6	402.9
2009/10	404.5	354.5	390.2
2010/11	422.3	347.4	381.7
2011/12	444.9	347.4	380.2

3.3 The impact of a shift in strategy can be seen in this table, as the previous policy until 2008/09 was to maintain borrowing at a level broadly consistent with gross external debt being around the CFR. The plan now in accordance with our latest approved strategy, is to run down investment balances by using current balances to fund capital expenditure rather than borrowing and investing at the CFR level. This means that the gross external debt is set to fall when compared with the CFR. This strategy will also reduce counterparty risk for investments and should lower costs overall.

4 Affordability

4.1 The affordability measures required can be regarded as the most important indicators to be used for judging whether borrowing is prudential.

4.2 Since the additional powers afforded under the 2003 Act, there has been a considerable reduction in the legal barriers to any increased level of borrowing. This has been balanced by a lack of any additional funding for any borrowing that does not fall within the levels approved by the government. This means that borrowing beyond government limits is not illegal, but has to be affordable and paid for by the Council from council tax income or housing rents income.

4.3 Since April 2006, only a small portion of the marginal cost of financing ‘supported’ capital expenditure has been funded from Formula Grant. This is due to the operation of the system of ‘floors’ within the grant system. For 2009/10 the Government has funded only 27% of the revenue cost of capital expenditure increases through the Formula Grant – the remaining 73% therefore falls on the council tax. The affordability indicators, showing the calculation of the marginal cost of the capital programme, are shown in Appendix 4. Capital expenditure within approved limits on Housing Revenue Account services continues to be fully funded from subsidy, but this source of funding has now ended as a result of achieving the Decent Homes standard and the consequent removal of funds towards this purpose.

4.4 The biggest impact from an affordability perspective stems from the Minimum Revenue Provision – MRP – which essentially is an amount of revenue funding that must be set aside for the future repayment of debt. In the past, the calculation of MRP has been stipulated in great detail by the government, although it has always been stipulated that this is a *minimum* provision. However, regulations introduced for 2008/09 require the Corporate Director of Resources to make ‘prudent provision’ for the repayment of debt, and to make a statement for member approval explaining how this provision shall be calculated. This is outlined in paragraph 4.5 below.

Statement on Minimum Revenue Provision

4.5 MRP on new unsupported borrowing from 2008/09 onwards shall be determined on an annuity basis over the life of the asset being financed on the basis of the exemplifications shown below:

Asset lives:		Examples
New Land and Buildings	50 years	Schools, offices, community centres
New Infrastructure	40 years	Highways, surface car parks
Refurbishment of buildings	25 years	Highly variable – depends on scheme
Community Assets	20 years	Parks, play areas, path renewal
Car Park renewal	15 years	Multi Storey Car parks
Furniture	10 years	Desks etc
Vehicles	7 years	Refuse vehicles
Contract related	– depends on contract length and nature	
ICT	3 years	Hardware and Software

For debt relating to all borrowing prior to 2008/09, and for new government-supported capital expenditure – SCE(R)s – a charge of 4% on the reducing balance of the debt shall be made – for as long as this continues to be the basis of the calculation of government support.

4.6 The MRP policy has impacted on the 'general' corporate unsupported borrowing that previously has been calculated at £2m a year. The annual financing cost of each item in the programme financed through borrowing now has to be calculated individually, and it is the derived revenue cost - not the initial capital cost - that determines the affordability of the corporate programme. These annual revenue costs are limited to £180,000.

Spending Plans

4.7 The current proposed capital spending plans include borrowing-funded schemes as follows:

	Supported Borrowing SCE(R)	Unsupported Borrowing (Corporate)	Unsupported Borrowing (Service Financed)	Unsupported Borrowing (Spend to Save)	Total Borrowing
	£m	£m	£m	£m	£m
2008/09	5.1	6.1	1.6	0.6	13.4
2009/10	8.9	5.9	1.5	0.9	17.1
2010/11	4.4	20.1	1.7	0.3	26.5
2011/12	3.9	27.8	0.3	0.1	32.0

Rows may not sum due to rounding

4.8 The first affordability indicator is the expected **ratio of financing costs to the net revenue stream.** The aim of this indicator is to measure the relative level of total debt costs in each authority. It is unaffected by the changes in Government support for capital schemes referred to above.

4.9 Direct comparisons between sectors or authorities are not very meaningful other than to measure the overall level of such debts that are held. The indicators for Derby, based on unsupported borrowing indicated above, are:

	General Fund	HRA
End of financial year:	%	%
2008/09 (forecast)	6.27	20.15
2009/10	8.00	19.82
2010/11	8.70	18.62
2011/12	9.40	17.85

4.10 The second affordability indicator is an estimate of the **incremental impact of capital investment decisions on the Council Tax**. This is defined in the Prudential Code as the incremental impact of the difference between the total budgetary requirement of the Council with no changes to the existing capital programme and the total budgetary requirement of the Council with the additional programme. The 'incremental impact' is defined as the gross budgetary impact of borrowing, before taking into account any Government funding. This overstates the budgetary impact, as some borrowing is partly funded by Formula Grant, but it is considered to be the method most consistent with the Prudential Code, as allocations of supported borrowing do not have to be spent, meaning that all borrowing has an impact on the Council's financial position.

4.11 This indicator is calculated using the total borrowing, supported and unsupported, that is added annually to the capital programme. 'Spend to Save' schemes are excluded from the calculation as their approval is dependent on realisation of equivalent revenue savings. For 2009/10 an interest rate of 4.5% has been assumed in the calculation of these costs, as this is the forecast average rate of interest for all of the Council's loans by the year end. All of these costs fall on council tax payers as there is no HRA unsupported borrowing planned.

4.12 In addition to financing capital expenditure from borrowing, the capital programme is also partly financed from useable capital receipts and direct charges to the revenue account. These methods also result in an impact on the revenue account. Use of capital receipts reduce the Council's balances available for investment and therefore will result in lower investment income. Capital funded by a revenue contribution has the direct impact of the amount funded.

4.13 The following table demonstrates the revenue impact of all schemes funded using these methods since the inception of prudential borrowing in 2003. The estimated cost by the end of 2011/12 is £204.90 on Band D.

	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m
Borrowing costs (principal+interest)	8.351	9.116	10.651	12.559
Reduced interest on investments	0.938	0.806	0.954	1.246
Direct use of revenue	3.248	3.135	1.922	0.649
Impact in year	**12.537**	**13.057**	**13.528**	**14.453**
Assumed tax base (Band D)	69,854	70,187	70,363	70,539
Band D impact (£)	**179.48**	**186.03**	**192.26**	**204.90**

4.14 Overall financing costs are taken into account in the Treasury Management budget within the revenue budget that will be recommended to Council on 17 February 2009.

4.15 The third affordability indicator is **the impact on council housing rents**. The Estates Pride programme includes an estimated element of capital spending, financed by the HRA, and it is this that is the main cause of the notional cost indicated below. The amount for 2011/12 is low because of no further expenditure on Estates Pride in that year, the remaining 21p being only the ongoing financing costs of HRA borrowing. However, the real impact on rents is nil as rent policy is governed by the need for rent convergence under rent restructuring. There has therefore been no direct impact on the level of individual rents as a result.

4.16 The notional impact on council rents is set out below:

	2008/09 £/wk	2009/10 £/wk	2010/11 £/wk	2011/12 £/wk
Notional impact on weekly rent	3.99	3.11	1.57	0.21

5. Treasury Management

5.1 The prudential indicators required for Treasury Management relate to the balance of borrowing and investments between fixed and variable interest rates and the maturity profile of borrowing. These are intended to spread risks between types of borrowing and investment, between types of interest charged, and across borrowing periods. As in previous years, the formal indicator has been supplemented by local indicators for borrowing and lending separately, in order to aid clarity. The following indicators are proposed for 2009/10:

Net exposure to interest rates:

	Upper Limit % of principal	Lower Limit % of principal
Fixed rate	120	80
Variable rate	20	-20

The figures of 120% to – 20% are to cater for a situation where the Council has no variable rate borrowing but holds some variable rate investments.

5.2 The supplementary local indicators are:

	Upper Limit % of principal	Lower Limit % of principal
Long-term borrowing**:**		
Fixed rate	100	80
Variable rate	20	0
Lending:		
Fixed rate	100	30
Variable rate	70	0

All these indicators are unchanged from 2008/09.

5.3 Overall maturity structure of long-term borrowing:

	Upper Limit %	Lower Limit %
Under a year	15	0
> 1 year and < 2 years	15	0
> 2 years and < 5 years	45	0
> 5 years and <10 years	75	0
> 10 years	100	25

5.4 These maturity structure indicators aim to spread the balance of the future maturity of loans as widely as possible, and avoid excessive repayments in any one year.

5.5 The Prudential Code also requires authorities to set a limit on non-specified investments. Non-specified investments tend to be of higher risk than specified investments, and are categorised as follows:

- Term deposits with a maturity of greater than 1 year
- Supranational bonds with a maturity of greater than 1 year
- Gilt-edged securities with a maturity of greater than 1 year
- Building Societies without a credit rating
- Any non-rated subsidiary of a credit-rated institution
- Share capital or loan capital in a corporate body

5.6 The only items on this list approved within the Treasury Management Strategy are:

- term deposits.
- non-credit-rated building societies.

The limits for term deposits greater than 1 year is currently £25m and greater than 2 years is £5m. As previously approved by Council, no investment will be made for a period of greater than 3 years.

5.7 All these indicators are discussed more fully in the Treasury Management Strategy at Appendix 3.

APPENDIX 3

Treasury Management Strategy 2009/10 - **Including Annual Investment Strategy**

1. SUMMARY

1.1 The Council is required to adopt a Treasury Management Strategy under the CIPFA Code of Practice for Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

1.2 The Council's plans are to finance the 2009/10 capital programme using existing cash balances currently held in short term investment accounts. Normally, we aim to borrow the required amount during the year at the most advantageous interest rates. However, due to the current risks attached to having high levels of cash balances, the Council has decided to run down its cash balances to around £100m rather than continuing to borrow at the projected Capital Finance Requirement – CFR – level in accordance with our previous strategy. This is a contingent situation and it may become desirable to borrow later in the year, depending on market conditions or any developments in terms of borrowing limits by the government.

1.3 The 2003 Act requires local authorities, as part of an annual investment strategy, to identify limits for specified and non-specified investments based on an assessment of risk minimisation, return on investments, required liquidity and expenditure commitments. The 'credit crunch' has made it even more essential than before to place security as the main priority, and it is proposed to maintain the Council's tight counterparty criteria. These criteria, together with some minor modifications, are outlined in Annex 1.

1.4 In January 2009, the Bank of England base rate was reduced to 1.50%, the lowest rate on record. Our treasury management advisers are currently forecasting that this could reduce to 1.00% by March 2009, then to as low as 0.5% by September 2009, bouncing back to 1.25% by March 2010. However, this forecast may change, depending on market conditions. This scenario reflects the severe economic slow down, moderating inflation. If inflation continues downwards this may stimulate consumer spending and generate growth, in which case interest rates could increase further in 2010. Either way, the position is volatile and market rates will inevitably move during the course of 2009/10, and the Council will react to such changes to optimise performance within the constraints of controlling risks.

1.5 PWLB borrowing of £11m has been taken this year at an average rate of 2.075% for a weighted average term of 1.55 years. This was undertaken in the context of a restructuring of debt from longer term to shorter term, reducing costs considerably in the short term. The average return of the investments to date of 5.87% has outperformed the weighted average Bank of England base rate of 4.31% for 2008/09 to date. However, such performance cannot be guaranteed each year, and it would not be prudent to budget on the assumption that the Council will continue to outperform the markets. Indeed, the warning about future performance not being guaranteed is even clearer this year with balances and interest rates both set to fall sharply and reduce investment income very considerably.

2. BACKGROUND

2.1 Treasury Management is defined in the Code of Practice as:

"The management of the organisation's cash flows, its banking, money market and capital market transactions; effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2.2 These functions are carried out within a framework set by legislation. Authorities are required, under the provisions of the Local Government Act 2003, to have regard to the CIPFA prudential code for Capital Finance for borrowing and the CIPFA Treasury Management Code for investments and for the wider exercise of treasury functions generally.

2.3 It is a requirement of the CIPFA Treasury Management Code of Practice to produce Treasury Management Practices, TMPs. The Cabinet approved Derby's TMPs in November 2002. A requirement of these approved practices, endorsed by the prudential code, is the production of an annual strategy for the financial year ahead. This report seeks to identify the Council's treasury management plans for the financial year 2009/10, which have been produced in consultation with its external treasury consultants.

3. BORROWING STRATEGY

3.1 In determining Derby's borrowing strategy for 2009/10, account has been taken of:

- the latest regulatory framework
- the existing borrowing structure
- potential borrowing requirement for the year
- sources of new borrowing
- external factors influencing borrowing decisions, for example interest rate movement.
- the risks associated with holding large cash balances.

3.2 Regulatory Framework

The following key factors influence the Council's borrowing strategy:

- the Treasury Management Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which took effect from April 2002.
- the Local Government Act 2003, introducing the Prudential Code.
- the Council's Treasury Management Practices .
- the Council's planned borrowing limit, described as its Capital Financing Requirement (CFR), and determined in accordance with the Prudential Code.

3.3 Existing Borrowing Structure

As at 31 March 2009, the Council's expected level of external debt is £365.6m against an expected capital financing requirement for the same date of £399.7m. This debt consists entirely of loans from the Public Works Loan Board at a weighted average rate of 4.48%.

3.4 Borrowing during 2008/09

Date	Amount £m	Weighted Average yrs	Interest Rate %
Rescheduling 21 November 08	11.0	1.55	2.075
New Borrowing	Nil	N/A	N/A
Totals/Weighted Averages	**11.0**	**1.55**	**2.075**

The table above shows details of the replacement loans in respect of the rescheduling exercise undertaken in 2008/09. The Council took limited advantage of relatively low rates during the year, and borrowed at the short end of the market with the specific intention of creating an opportunity to redeem debt and thereby reduce its cash balances by £5m in 2009/10 and by a further £6m in 2010/11. The annual savings made from this rescheduling exercise are estimated to be approximately £130,000.

Prudential Indicators for Treasury Management

3.5 The prudential code requires the formalisation of an indicator detailing net exposure to interest rates, which is borrowing net of investments. It is proposed to retain the indicator as set for previous years, as follows:

	Upper Limit % of principal	Lower Limit % of principal
Fixed rate	120	80
Variable rate	20	-20

The figures of 120% and –20% are to cater for a situation where the Council had no variable rate borrowing, but held some variable rate investments.

3.6 To aid clarity, the official indicator is supplemented with separate local indicators for long-term borrowing. This local indicator is shown below:

	Upper Limit % of principal	Lower Limit % of principal
Long term borrowing:		
Fixed rate	100	80
Variable rate	20	0

This indicator states that no more than 20% of long-term borrowing can be taken at variable rates.

3.7 Additionally, we are required to state, in compliance with the prudential code, the planned maturity structure for long-term borrowing. The following, which follows guidance in the code and existing best practice principles of restricting any one year to 15% of the portfolio, is proposed for 2008/09:

	Upper Limit %	Lower Limit %
Under 1 year	15	0
> 1 year and < 2 years	15	0
> 2 years and < 5 years	45	0
> 5 years and < 10 years	75	0
> 10 years	100	25

This structure gives the Council considerable flexibility to pursue the best value borrowing rates depending on market. It also allows sufficient flexibility to take advantage of potential restructuring opportunities.

Borrowing Requirement

3.8 The *maximum* amount the authority could expect to borrow over the next three years to fund planned and previous capital expenditure is currently £74.9m. This has been calculated as follows:

	08/09 £m	09/10 £m	10/11 £m	11/12 £m
New borrowing using central government SCE(R) allocations for year	5.1	8.9	4.4	3.9
Unsupported Borrowing and Spend to Save schemes	8.3	8.3	22.1	28.2
Under/(Over) Borrowing b/f	-16.2	7.0	27.0	52.0
Repayment of Debt	29.1	11.1	7.1	0.0
PFI adjustment	-0.3	-0.3	-0.3	-0.3
Less: earmarked for repayment of debt	-7.9	-7.9	-8.3	-8.8
Potential borrowing requirement	**18.0**	**27.0**	**52.0**	**74.9**

Columns may not sum due to rounding

Sources of Borrowing

3.9 The authority can meet its financing requirement by a combination of borrowing from external sources and/or use of funds generated internally. If the authority chooses to borrow externally, it can use either the money market or the PWLB. Historically, PWLB loan interest rates have been lower than other forms of long-term borrowing, and the authority has therefore tended to borrow from this source.

3.10 Funds created internally come primarily from the amount the authority must set aside from the revenue account to meet debt repayments, known as the minimum revenue provision, or MRP. The timing of the use of these funds is left for the authority to manage. In addition, funds that are required for future capital schemes or for specific purposes can be utilised until borrowing is undertaken for the underlying requirement at a later date. In effect, the costs of borrowing can be deferred until later, which makes financial sense when the cost of borrowing is substantially above the cost of interest being generated on investments.

Factors influencing borrowing decisions

3.11 Over the course of 2009/10 and 2010/11 the Council does not intend to borrow externally, and instead will employ some of its cash balances – in effect, borrowing 'internally' - to fund the capital programme, with the intention of reducing these balances to around the £100m mark. This decision is a contingent one, based on the current risk attending high investment balances and the scale of difference between investment income and borrowing costs, and will be subject to fortnightly review over the course of the period. If the level of investment risk falls relative to interest rates then it may become appropriate to once again borrow externally, within the prudential limits determined by the capital programme. The treasury budget, however, is based on no further borrowing for the period under consideration and a considerable reduction in cash balances as a result. New borrowing at present rates would be at a considerable cost and risk while the cost of borrowing continues to exceed the returns on investments by current margins.

3.12 If borrowing does become a practical consideration, any reliance on variable debt should also be avoided whilst fixed rates are low, as it would leave the Council exposed to interest rate increases. The Council is in the financial position of not currently having any variable debt borrowing and it is planned to continue this policy in 2009/10. For similar reasons, there is also a need to achieve a debt maturity profile that reduces exposure to market changes in any one year. Recommended limits are that no more than 15% of the debt portfolio should mature in any one year, which limits the use of short-dated borrowing. We are well within this limit - our highest maturity year is 2052/53. £26.5m matures in that year and this represents 7.2% of our overall debt.

3.13 The Council monitors PWLB new borrowing and rescheduling rates on a daily basis, and, while new borrowing may not be an immediate option, rescheduling could be a viable option to make savings and restructure our debt profile, provided that the rates are advantageous. The Council's external treasury advisers continue to provide rescheduling forecast models to determine the financial implications of repaying or replacing specific loans, and these may be acted upon under delegated powers.

4. ANNUAL INVESTMENT STRATEGY

4.1 The Council, in devising its annual Investment Strategy, must have regard to Government guidance on Local Government Investments issued in 2004, which introduced the then new prudential capital finance system. Prudent investment practices are still encouraged, but without the same detailed prescriptive regulation.

4.2 This strategy satisfies the requirements of both the CIPFA Code of Practice on Treasury Management as well as Government guidance, which states that local authorities must identify the types of investment they are to use during a financial year under the headings:

- *'Specified Investments'* and
- *'Non-specified investments'*.

4.3 Specified investments refer to those investments offering higher security. The security of these deposits allows local authorities the freedom to rely on them with minimal or no procedural formalities. Non-specified investments refer to those investments that carry either a higher risk, possibly in a facility with no formal credit rating, but, often, higher liquidity, or for periods of one year or more.

4.4 This strategy sets out:

- the maximum periods for which funds should be committed.
- minimum and maximum limits (%) to be invested in each investment type.
- which investments will be classified as non-specified.
- degree of prior advice to be sought before use of non-specified investments.
- any limits on the split of fixed and variable interest rates for investments.

4.5 The Council's investment policy in previous years has been to maintain a positive short term cash flow by using capital receipts and revenue reserves and balances to avoid the need to borrow externally for short-term purposes. It has, however, reserved the right to do so should any cash shortages arise on a day-to-day basis. This policy has worked effectively and it is proposed that this continues, albeit with the total being invested gradually being reduced.

4.6 The Bank of England base rate has sharply fallen over the course of the past year, from 5.25% in April 2008 to 1.5% in January 2009, giving a weighted average base rate of 4.31% to date. During this period, the Council has secured an average return on external investments of 5.87%, 156 basis points higher than the base rate weighted average. This substantial differential between the investment rates achieved by the Council and the interest rate offered by the Bank of England largely reflects the fact that, whilst there remains a shortage of credit in financial markets, institutions will continue to offer rates much higher than the Bank of England base rate. It also stems from the investments made by the Council before the sudden change in the financial markets when rates generally fell - some of these investments will continue to generate higher returns during 2009/10, and this additional income has helped offset the fall in investment income generally.

4.7 The Council's ability to secure a good rate of return has depended on our ability to act flexibly when market conditions suggest a particular investment is good value. The general strategy is therefore to continue to take either short or long-dated investments with the aim of maximising the rate of return, informed by the view of our treasury advisers, and within the investment limits approved by Council.

4.8 Short-term cash available for investment has fluctuated between £156.5m and £198.5m so far during 2008/09 and has averaged £183.7m. It has been invested only with institutions on the Council's approved list with restrictions on overall amounts for particular institutions and sectors. These levels of available cash are likely to reduce in 2009/10, as we anticipate spending capital and revenue reserves.

4.9 Government investment guidance allows for flexibility in which investment facilities can be used. However, the Council's prime concern must still be the security of the authority's funds. When setting a limit for non-specified investments, this, together with the expected level of balances, the need for liquidity, and spending commitments over the next 3 years must be taken into account. Based on these factors, it is recommended to maintain the current maximum of £25m for the amount of the Council's investment portfolio that can be prudently committed to beyond 12 months, and £5m for the amount that can be invested beyond 2 years. These limits have been reduced since last year and represent a tightened position.

4.10 The Council continues applying a lowest common denominator, LCD, approach to assessing the credit ratings of its counterparties. This means that for a counterparty to be given a certain rating it must achieve that rating with all three credit rating agencies, not just with one of them. This again was brought in last year as a means of tightening lending criteria, and has reduced the number of counterparties with which we can invest funds only to those with the highest ratings. In addition, the authority's lending list for specified and non-specified investments will be continually reviewed during the year to make sure that – as far as possible:

- sufficient lending capacity exists to comply with limits set for fixed and variable interest rate investments.
- the authority is taking maximum advantage of all investment opportunities.
- credit rating changes are accounted for.
- liquidity is maintained.
- sufficient spread on investment counterparties and financial sectors is maintained.

4.11 Consideration will also be given to the overall level of investments when applying such limits, to ensure that the reliance on any one institution or financial sector remains in proportion to the overall portfolio.

4.12 Those investment opportunities that will be classified as Non-Specified Investments under government guidance are shown at Annex 2. It is necessary to specify in this strategy those investments that the authority feels comfortable investing in. Based on information from our treasury consultants, the following criteria should be taken into account in making a decision on which instruments to include in the strategy:

- Certainty of no loss in the capital value of the investment
- Level of Liquidity
- Certainty of rate of return on investment
- Quality of credit rating

4.13 In the interests of minimising risk and maximising prudence, it is proposed in this investment strategy to include the following as non-specified investment counterparties:

- Term deposits over 364 days

These facilities are secure and can be subject to stringent credit ratings. They are however rigid, once any investment is made as deposits must run their term. In addition, no investment of a period greater than 12 months will be carried out without the express consent of the Corporate Director of Resources.

- Deposits with unrated building societies

Investments with building societies that do not have an official credit rating from each of the three main credit-rating agencies are non-specified. It should be noted that it is not usual for all building societies to seek ratings from all three agencies.

4.14 The following are the limits that we propose maintaining for the council’s lending for 2009/10:

	Upper Limit % of principal	Lower Limit % of principal
Fixed rate	100	30
Variable rate	70	0

This is a local indicator under the Prudential Code and means that at least 30% of the Council’s investments must be placed in fixed rate investments.

4.15 When Treasury Management was last reported to Cabinet, it was recommended that the list of building societies with which the Council can invest be restricted to the top ten only, ordered according to asset base. A number of building society mergers since then have meant that some building societies lower down the list have therefore been promoted on to our list by ‘default’. It is therefore recommended that this limit be re-defined in terms of the asset base of the building society and that the Council invest in no building society with assets of less than £4bn. In practice this will limit the Council to the top 11 building societies, but will ensure that no smaller building societies enter our investment list through any future mergers or demutualization.

4.16 When placing money with counterparties, the CIPFA Code of Practice for Treasury Management states that it is best practice to spread investments between brokers and direct dealing counterparties, subject to the rates offered. The Council currently uses 6 brokers:

- Tullett Prebon
- Tradition
- Sterling
- London Currency Brokers
- ICAP
- Martins

4.17 The Council also invests directly in Money Market Funds, as these are AAA rated and offer a reasonable rate of return. There are currently five Money Market Funds on our list of approved counterparties. These are:

- Barclays Global Investors (BGI)
- Standard Life
- Invesco AIM (previously AIM Global)
- Gartmore
- Royal Bank of Scotland

The use of these five is subject to ongoing review to ensure that they continue to offer security and a reasonable rate of return.

4.18 The Council has used two direct counterparties for Business Reserve Accounts:

- Abbey National
- Bank of Scotland

In January 2009 the Bank of Scotland had its long-term credit rating downgraded by Fitch, which resulted in it being removed from the Council’s list. We will continue to use Abbey National.

SPECIFIED INVESTMENTS

APPROVED ORGANISATIONS FOR INVESTMENT

No overall limit has been placed on the total level of funds placed in specified investments as a proportion of the Council's total investment portfolio, due to the low risk associated with the counterparties within this asset class. In assessing the approved organisations to be included as specified investments, the following criteria have been used:

- the security of the Council's investment with particular reference to:
    - the rating of the institution for short-term investment risk (local authorities only lend for up to 364 days for specified investments).
    - the rating of the institution as a 'standalone' organisation without reliance from state authorities or its owners.
- having a sufficient spread of institutions to ensure that funds can be invested without practical difficulty.
- the rate of return available.

Individual Institution Limits

It is proposed, in order to determine a better understanding of an institution's creditworthiness, to continue to base the selection of institutions on the 3 industry approved credit rating services, subscribed to by our treasury management consultants and widely used by many local authorities. They are Fitch, Moody's, and Standard & Poor's. These agencies rate investment counterparties according to the following criteria:

Short-term: This relates to the expectation of investment risk and the timely repayment of principal and interest for periods up to 12 months - Top rating F1+

Long term: This relates to investment risk and the timely payment of financial commitments of 365 days or over - Top rating AAA

Individual: This assesses the question "if the bank were entirely independent and could not rely on support from state authorities or its owners, how would it be viewed?" - Top rating A, lowest rating E

Support: This relates to the support that an institution might receive should it get into financial difficulty. The rating does not indicate the quality of the organisation - Top rating 1, lowest rating 5

The minimum criteria (Fitch ratings or the equivalent ratings from Moody's and Standard & Poor's) required for all institutions by Derby City Council are proposed as follows:

Short Term	Long term	Individual	Support	Max period	Limit
	AAA			3 years	£15m
F1+	AA	A/B	3	2 years	£12m
F1	A	A/B	3	1 year	£8m
F1	A	C+	3	1 year	£5m
• "AAA" rated Money market Funds				n/a	£15m
• UK Government guaranteed institutions				Period of guarantee	£12m
• Unrated building societies with assets in excess of £4bn • Derby City Council's current bankers				3 months	£3m

In the table above, the short and long term ratings, which indicate the counterparty's ability to continue as a going concern, are the most critical in determining the security of our investments. If the individual or the support ratings were ever substantially downgraded then it would likely have a 'knock on' effect on the short and long term ratings.

Money Market Funds are able to spread their investments in a wide range of secure counterparties, and only for short periods, which makes them secure, liquid investments, in which local authorities are able to invest. The Council currently has five MMFs on its counterparty list and the security and rates of return these offer are continuously reviewed, and so other AAA-rated MMFs may be brought onto the list as circumstances dictate. Monies invested in Money Market Funds are not placed for a set period and so no time limit is given.

Other AAA rated investments include:

- Debt Management Account, DMA, Facility. This is a Government run facility that carries AAA rating and a Council-agreed maximum investment of £25m. This was increased from £15m in November 2008 to reflect the increased security of investments held with the Debt Management Office.

- Other UK local authorities. Local authorities do not have a credit rating but are considered to have a 'notional' AAA rating and, hence, a maximum investment of £15m.

Building societies that do not satisfy the minimum criteria, but which have assets in excess of £4bn, are included on the counterparty list, albeit with a reduced limit of £3m.

Sector Limits

2008/09 sector limits, based on the existing criteria above are as follows:

Sector	Max limit
UK Banks	70% of portfolio
UK Building Societies	70% of portfolio
Money Market Funds	The higher of £20 million or 30% of portfolio

It is proposed to maintain these sector limits in 2009/10.

NON-SPECIFIED INVESTMENTS

POTENTIAL INVESTMENT OPTIONS & ASSOCIATED RISK

In practice the Council has two kinds of non-specified investment:

- Investments with non-rated building societies.
- Investments in any institution that financially commit the Council for a period of greater than 12 months.

Occasionally, investments may fall into both these categories.

Investments with building societies that do not have an official credit rating from each of the three main agencies are non-specified. To reflect this increased risk, a counterparty limit of £3m will apply to every non-fully rated building society, but with asset size in excess of £4bn. Higher limits apply to those with a rating as set out in Annex A. Non-fully rated building societies, however, are in every other way as secure as a specified investment.

The maximum limit for investments of greater than 12 months, and therefore non-specified, is £25m. The maximum term for any investment is 3 years. No new investments will be made with building societies without a rating over 3 months.

The following non-specified investments are considered to be in keeping with the Council's wider Treasury Management strategy of maintaining effective control of risks whilst pursuing optimum performance consistent with those risks.

Type	Credit rated?	Benefits/Risks
Term deposits over 364 days	Yes	- Certainty of rate of return - No movement in capital Value - Illiquid - Credit risk i.e. if credit rating changes
Unrated building societies	No	- Certainty of rate of return - Certainty of capital value - Potentially higher rate of return than banks

The following non-specified investments, whilst allowable under the Government's investment guidance, are not currently considered in keeping with the Council's strategy, and will be kept under review.

Type	Credit rated?	Benefits/Risks
Forward Deposits	Yes	- Certainty of rate of return - Certainty of capital value - Credit risk i.e. if credit rating changes - Cannot renege on investment - Interest rate risk
Subsidiaries	No	- Certainty of rate of return - Certainty of capital value

Certificate of Deposit (CD) over 364 days	Yes	- Relatively liquid -Yield subject to movement during life of CD which could negatively impact on value
Callable Deposits over 364 days	Yes	- Enhanced returns compared to term deposits - Illiquid as only borrower has right to repay - Interest Rate risk if rates rise - No control over term of investment
UK Government Gilts	Govt. backed Credit quality	- Certainty of return if held to maturity - Very liquid - Potential for capital gain/loss - Redeemable within 12 months
Supranational Bonds	AAA or govt. backed	- Relatively liquid - Certainty of return if held to maturity - Potential for capital gain/loss - Redeemable within 12 months

Prudential Code Indicators Summary 2007/08 - 2011/12

APPENDIX 4

Prudential Code		Actual	Estimated	Estimated	Estimated	Estimated
Reference	Indicator	2007/08	2008/09	2009/10	2010/11	2011/12
Affordability						
35-38	**Financing cost to Net Revenue Stream Ratio**					
	- General Fund %	6.82%	6.27%	8.00%	8.70%	9.40%
	- HRA %	20.92%	20.15%	19.82%	18.62%	17.85%
39	**Incremental Impact on Council Tax: Band D £/year cumulative since start of PB**	139.10	179.48	186.03	192.26	204.90
39	**Incremental Impact on Council Tax: Band D £/year year's programme**	70.40	75.76	53.05	50.89	39.95
40-41	**Incremental Impact on Housing Rents £/week - year's programme**	2.80	3.99	3.11	1.57	0.21
Prudence						
45	**Actual / Forecast Borrowing compared to CFR**					
	- Net External Debt £m	211.9	226.2	280.4	273.3	312.1
	- CFR £m	390.5	395.6	404.5	422.3	444.9
Local	- Gross External Debt £m	368.4	350.3	339.2	332.1	332.1
	- CFR £m	390.5	395.6	404.5	422.3	444.9
Local	- Gross External Debt £m plus net Transferred debt	407.3	387.6	375.0	366.4	365.0
	- CFR £m	390.5	395.6	404.5	422.3	444.9
Capital Expenditure						
51-52	**Total Capital Expenditure**					
	- General Fund £m	72.7	81.7	83.9	81.8	95.7
	- HRA £m	10.2	11.0	12.0	11.0	9.3
	- Total £m	82.9	92.7	95.9	92.8	105.1
53-54	**Estimated Capital Financing Requirement**					
	- General Fund £m	201.7	206.8	215.7	233.4	256.1
	- HRA £m	188.8	188.8	188.8	188.8	188.8
	- Total £m	390.5	395.6	404.5	422.3	444.9
External Debt						
59	Authorised Limit for borrowing £m	489	495	475	493	515
	Authorised Limit for other long term liabilities £m	1	1	1	1	1
	Authorised Limit £m	490	496	476	494	516
60	Operational Boundary for borrowing £m	408	425	405	423	445
	Operational Boundary for other long term liabilities £m	1	1	1	1	1
	Operational Boundary £m	409	426	406	424	446
Treasury Management						
66	**Adopted CIPFA Treasury Management Code of Practice**	Yes	Yes	Yes	Yes	Yes
67-70	**Interest Rate Exposure - Fixed**					
	Upper limit %	120	120	120	120	120
	Actual %	111.52				
	Lower limit %	80	80	80	80	80
67-70	**Interest Rate Exposure - Variable**					
	Upper limit %	20	20	20	20	20
	Actual %	-11.52				
	Lower limit %	-20	-20	-20	-20	-20
Local	**Long term Borrowing - Fixed rate**					
	Upper limit %	100	100	100	100	100
	Actual %	100.00				
	Lower limit %	80	80	80	80	80
Local	**Long term Borrowing - Variable rate**					
	Upper limit %	20	20	20	20	20
	Actual %	0.00				
	Lower limit %	0	0	0	0	0
Local	**Investments - Fixed rate**					
	Upper limit %	100	100	100	100	100
	Actual %	81.14				
	Lower limit %	30	30	30	30	30
Local	**Investments - Variable rate**					
	Upper limit %	70	70	70	70	70
	Actual %	18.86				
	Lower limit %	0	0	0	0	0
74	**Maturity Structure of Debt - % of all debt**					
	Under a year	0.82				
	Between 1 and 2 years	0.82				
	Between 2 and 5 years	1.16				
	Between 5 and 10 years	0.01				
	Over 10 years	97.19				
77	**Investments over a year - limit £m**	£45m	£25m	£25m	£25m	£25m
Local	**Investments over two years - limit £m**	£25m	£5m	£5m	£5m	£5m
Local	**Investments with approved unrated institutions limit £m over 1 year < 2 yr**	£20m	£20m	£20m	£20m	£20m