

## CABINET

16 APRIL 2007

### REPORT OF THE DIRECTOR OF FINANCE AND ICT (STRATEGY AND RESOURCES)

#### TREASURY MANAGEMENT STRATEGY STATEMENT

##### **1. PURPOSE OF THIS REPORT**

- 1.1 Each year the Council sets its annual capital and revenue programmes. The revenue budget for spending on services, principally staff pay and consumable goods and services, is funded from Government grant and Council Tax raised locally. The capital programme, however, is largely funded from borrowing, although Government Grants and Capital receipts provide some funds.
- 1.2 The Council, has traditionally borrowed to invest in capital assets such as schools, council housing, leisure and recreation facilities. Therefore, just as an individual will often have debt funded by a loan, so does the Council. The difference is the size of the loan. On average the Council sustains average borrowings of over £350m. This is matched by assets that the Council owns. Just like an individual would borrow money to finance their house, i.e. a mortgage, similarly, the Council borrows money to finance its assets.
- 1.3 It must be noted that borrowing and investment decisions have a direct effect on the setting of the revenue budget and thus Council Tax. This is because the annual repayment of debt (principal and interest) or Minimum Revenue Provision (MRP) is funded from revenue resources.
- 1.4 Each year the Council seeks to repay or reschedule its debt (principal and interest). At the same time it must borrow to meet the new requirements of its Capital Programme. In order to ensure financial stewardship and minimise the risk when entering into such transactions, The Chartered Institute of Public Finance and Accountancy (CIPFA) and regulations require that the Authority approves an annual Treasury Management Strategy to dictate and guide how the Council should make decision around borrowing and investing money. This paper sets out this strategy and seeks Cabinet's approval to delegate Authority to officers to act within the framework set out.

##### **2. EXECUTIVE SUMMARY**

- 2.1 The report sets out in detail, recommended levels of borrowing and practices the Council should adhere to in its borrowing and investment decisions in 2007/08. The following are the key areas to note:
  - The 'Authorised Borrowing Limit' which is the cap on borrowing, will be set at £461.110m per Appendix B.

- The expected borrowing is £35m less than the Authorised Borrowing Limit. This reflects the Council's prudent and risk assessed approach to managing the risk of borrowing by maintaining a focus on the majority of our borrowing being placed in fixed rate Public Works Loan Board (PWLB) borrowing.
- Up to £15m of investments will continue to be placed with organisations with 'high' credit rating assessments, which will be continually monitored. Whilst investment in 'lower' rated bodies and institutions will be restricted to a maximum of £5m for a period of up to twelve months only.
- The Council's policy remains to seek a prudent maximisation of its cost resources. As such we will continually review our debt portfolios to look at rescheduling options and expect to make a rate of return on investments in 2007/08 of 5.00% as suggested by the Authority's external treasury management advisor.

### **3. CURRENT PORTFOLIO POSITION**

- 3.1 The Council's treasury portfolio consists of long term and temporary borrowings, less its temporary investments. These combine to give a net borrowing position.
- 3.2 The strategy for 2006/7 anticipated that the net borrowings at 31/3/07 would be £382m. The situation at the end of January is £341m and, assuming that capital expenditure targets are met, the year-end figure is projected to be £386m.
- 3.3 Support for these figures, and a fuller analysis, is given in **Appendix A (3)**.

### **4. TREASURY LIMITS FOR 2007/8 TO 2009/10**

- 4.1 The "Prudential Code" as set out by CIPFA (Local Authority Capital Financing regulations 2003 reg. (2) requires each authority to determine how much money it can afford to borrow.
- 4.2 The Prudential Code requires the Council to set an Operational Boundary (realistic, but not worst case) for its borrowings for each of the next three years, and an Authorised Limit. The Authorised Limit represents the outer boundary of likely events. It should "reflect a level of borrowing which, whilst not be desirable, could be afforded but may not be sustainable" [*prudential code guidance*].
- 4.3 Whilst the Authority may chose to exceed its Operational Boundary, in order to achieve its capital programme, if it nears the Authorised limit, it is a more serious matter that should serve as a warning to the Authority that action is required. The Authorised Limit would only be revised in exceptional circumstances.
- 4.4 The limit is set at a Gross level (i.e. it excludes investments) and includes all external debt such as finance leases and capital creditors.
- 4.5 The proposed Operational and Authorised limits for 2007/08 to 2009/10 are in Appendix B(1) and B(2). For the financial year 2007/08, an Operational limit of £451.110m and an Authorised limit of £461.110m.

## 5. PROSPECTS FOR INTEREST RATES

### 5.1 Short term rates

Contrary to suggestions that the Bank of England (BoE) Base Rate would continue to fall during 2006, with expectations of it reaching 4% by quarter 4, the BoE base rate rose to 4.75% in August 2006, 5.00% in November 2006, and 5.25% in January 2007 in an attempt to curb inflation. The Authority's external advisors, Sector, have suggested that there might be a further ¼% rise in quarter 1 of 2007 to 5.50%, which they believe will be the peak in the cycle. They further predict that the BoE base rate will then remain unchanged until quarter 3 2007, at which point the cycle is expected to reverse. A reduction to 5.25% is expected in quarter 3 2007 and a further reduction to 5.00% in quarter 4 2007. Further reductions are predicted in the quarter 3 of 2008 and quarter 1 of 2009 This would take the BoE base rate to 4.50%, which they believe will be the trough.

Other institutions including UBS have predicted that rates will stay flat throughout 2007 and 2008, at 5.25%, whilst Capital Economics have predicted rates in 2007 rising to 5.50% and falling to 5.00% by the end of 2008. The main influencing economic factors are:

- Gross Domestic Product – Robust growth is expected to cool off
- House Price Inflation – may now stabilise following 8% house price inflation in 2006
- General inflation – significantly higher than target since June 2006, hence 3 recent rate rises
- The level of Public Sector Deficit

### 5.2 Long Term Rates

#### *Public Works Loan Board (PWLB)*

During the course of 2006/07, PWLB rates have continued to remain at a relatively low level, but increased on last years 'historically' low rates, particularly at the longer end (i.e. loans above 40 years). Rates on loans at 45-50 years have ranged between 4.05% and 4.45% and are currently at 4.30%. The PWLB 45-50 year rate is expected to remain at levels around 4.25% through 2007/08 as per the Authority's advisors. The rates at the shorter end (ie loans below 5 years) have seen greater fluctuations as they are more closely linked to the BoE base Rate. They have ranged between 4.80% and 5.65%, and are currently at 5.40%. The PWLB 5 year rate is expected to fall to around 4.50% in 2007/08.

In 2006/07, the rates presented a favourable 'yield curve', given the Authority's PWLB debt, of which a significant amount was at the shorter end. If this was repaid at a higher rate and then re-borrowed at the longer end at significantly lower rates, opportunities existed to reduce the Authority's interest rate on the long term borrowing, and fix favourable rates for a long period. The Authority took advantage of this in January after monitoring the rates for several months.

#### *Money Market*

Money market borrowings can be structured in a variety of ways mainly by offering rate reviews at fixed periods. As the loan approaches its renewal date the Council faces the downside of both rate reductions **and** of rate rises (ie the worst aspect of variable rates and the worst aspect of fixed rates), however the rates offered on LOBOs (Lenders Option Borrowers Option) have become increasingly competitive in response to lower PWLB rates; the latest deal done by our Treasury Manager was fixed at 3.45% for ten years, with five yearly option periods, again at 3.45%, over the remainder of the instruments' 60 year life.

- 5.3 Because of the risk attached to these rate reviews options, it is sensible to limit such borrowings in our portfolio, however it is felt that the proportion of LOBOS in relation to overall debt could be prudently taken to 25% (In 2006/07, the proportion was 25%).
- 5.4 Members should be aware, however, that the Audit Commission is still considering the appropriateness of the current accounting treatment of LOBOs. That may ultimately have an adverse impact on the Authority of up to £0.3m on a worst case scenario. Given this, options are being considered to eliminate step up LOBO's by replacing them with Vanilla LOBO's (none stepping up) before the 31<sup>st</sup> March 2007.
- 5.5 A sample of interest rate forecasts is attached at Appendix C.

## **5. BORROWING STRATEGY**

- 5.1 The factors that shape the borrowing strategy are:-
- The need to achieve the budgeted interest position on new borrowing (4.25%).
  - A willingness to take advantage of new longer term (40-50years) PWLB debt at 4%+ on the twin grounds that this affords long-term certainty and, almost certainly, future opportunities to take discounts for early repayment.
  - A desire to take advantage of market loans at below 4%, whilst ensuring that volatile market debt (LOBOs with maturing options + variable + temporary debt) does not exceed 10% of the total debt.
  - To consider the use of short term borrowing to take advantage of lower rates and in anticipation of future rate reductions where necessary. Subject to the variable debt rule above.
  - Impending option dates on £20m of LOBOS in 2007/08 and £10m in 2008/09.
- 5.2 Assuming additional borrowing of £15m, as per Appendix A(2), in 2007/08, this could result in £104m of Money Market debt.
- 5.3 The illustration provided in Appendix A(2) actually assumes new debt in 07/08 will consist of £5m money market debt and £10m PWLB. The overall average rate of such borrowing should be very near the budget target.
- 5.4 During 2007/08, £20m of LOBO debt will reach the option renewal date. At renewal date the loans will either:
1. Move to the option rate of interest, which in all cases will be the same as the current rate or
  2. Be offered at a rate above the option rate, in which case the Authority has the option to repay, this would then require re-financing at market rates.
- 5.5 The likelihood of an increase above the option rates on LOBOS with option dates in 2007/08, effectively exposes the loans to prevailing market rates.

5.6 The prevailing opinion about interest movements in 2008/09 suggest a strategy to secure advance deals that fix interest rates for not only 2007/08 but 2008/09 and Treasury will continue to take advice from market specialists on this during 2007/08.

## 6. Annual Investment Strategy

### Policy Issues

6.1 The Council has to comply with the Guidance on Local Government Investments issued, under Section 15(1)(a) of the Local Government Act 2003. The Council's investment priority is the security of its capital. The borrowing of money purely to invest or on-lend is unlawful and the Council will not engage in such activity, though timings will seek to take advantage of interest rate volatility (see below).

6.2 The Guidance distinguishes investments by their risk and complexity (specified and non specified). The types of investment in each group are defined in Appendix D.

6.3 Specified investments can only be made to institutions with a "high" credit rating. This strategy has to state how this is defined, and also how that is to be monitored and what action will be taken if a rating changes. For non-specified investments this strategy has to set out the procedures for determining which will be used, define which types are currently being used, and fix any limits on their use.

### 6.4 **Credit Rating**

Credit ratings are issued by three agencies. They evaluate up to four measures of an institution's strength. These are its ability to meet its short term obligations (i.e. up to 1 year), and its long term obligations (up to 5 years), its financial strength, and finally the likelihood that it would be supported if it was in financial difficulty.

The Council distinguishes between two prudent levels of credit rating, "Higher" and "Lower" using the Fitch/IBCA and Support Ratings.

**Higher** combines the following elements,:-

Short Term Rating – it must have the best, F1+, rating or the second best F1, (on Fitch/IBCA)

Long Term rating – This scale runs from AAA to D by numerous gradations. The Council includes up to an A rating

Individual Rating – it must have a rating of A, B or C within the scale A to E (Fitch/IBCA)

Support Rating – it must have a rating of 1, 2 or 3 within the scale 1 to 5

The assessment is done via a matrix which requires a weaker C individual rating or 3 support rating to be balanced by a very strong short and long term rating

**The Council will deposit up to £15m with institutions meeting these criteria.**

**Lower** combines:

Short Term – this is retained at a minimum of F1

Individual rating – minimum rating of C

Support rating – minimum rating of 3

Long Term rating – minimum of A

**The Council will deposit up to £5m for 12 months with institutions meeting these criteria**

## 6.5 **Monitoring**

The Council is notified when any rating changes or if one is placed “on alert”. Each month a comprehensive updated list is supplied. If a rating changes then the Council would immediately implement that change in making future investments, but it could not cancel an investment already made.

## 6.6 **Use of Non Specified Investments**

It is recommended that term deposits be allowed, as they are at present, for a period of up to 2 years.

It is also recommended that limited use of a specific un-rated investment be used, details are provided in Appendix D.

A maximum of £15m is recommended in total for all non specified investments. The credit rating criteria for non specified institutions are the same as that applying to specified investments.

## 7. **STRATEGY**

7.1 The Council’s policy is to maintain sufficient cash reserves to give it necessary liquidity. However balances are generally considerably greater than this minimum, because borrowings are made at opportune times to take advantage of market movements. This means that it has resources which require judicious investment.

7.2 Not surprisingly, long term investments (over one year) are usually at a premium to short term and occasionally the Treasurer will place money for a longer period where this fits in with cashflow projections. There are currently no non specified investments.

## 8. **DEBT RESCHEDULING**

8.1.1 Debt rescheduling opportunities occur because different rates of interest are charged for different borrowing periods, the table of rates on any given date is referred to as the yield curve, due to its appearance when plotted on a graph. The “yield curve” is constantly reviewed to identify whether there is advantage in moving from one borrowing period to another, or whether surplus cash can best be used to redeem debt rather than for investment. Key to this strategy is the treatment of the premia that can arise when debt with a high interest rate is repaid. The draft accounting Statement of Recommended Practice (SORP) for 2007/08 places some radical changes to current accounting treatment of premia before Authorities, the implications of which are significant for Oldham as they could lead to large write offs in the Revenue account. It has created short term uncertainty and a general reluctance to engage in any rescheduling that might result in a premium (a charge) on the repaid loan.

Representations have being made to CIPFA about the proposals and the strategy will be formulated around the outcome of the consultations, and it is unlikely that the SORP 2007/08 rules will apply retrospectively to debt rescheduled prior to 31 March 2007.

However, following a review of our consolidated rate of interest (CRI) by The Audit Commission in 2006/07, it was recommended that some of the Authority’s debt, which was taken out when long term interest rates were high in the 1990’s, be replaced with loans at current rates of 4.25% to bring the Authority’s CRI in line with the national average. Subsequently, this was done and the resulting premium will be written off to revenue over the life of the replacement loans.

## **9. Prudential Borrowing**

9.1 A Managers Guide to Investment Decisions has been released by Senior Management Team. This covers prudential borrowing policy and procedures. The latest forecasts for 2007/08 incorporate £1.5m of prudential borrowing and the treasury strategy will thus incorporate borrowing for prudential purposes. There will be no difference from mainstream borrowing in the manner in which prudential finance is secured, though the additional borrowing which Prudential Borrowing represents will only be undertaken once the Prudential Indicator tests which the code requires have been satisfied.

## **10. Implications**

10.1. Legal – none.

10.2. Financial – the financial implications have been built into the 2007/08 budget.

10.3. Environmental – none.

10.4. Community Cohesion – none.

10.5. Crime and Disorder – none.

## **11. Recommendations**

11.1 Cabinet is recommended to:

- 1) Approve the Operational Limits, the Authorised Limits, the Upper Limits on Interest rate exposure, the Upper and Lower Limits on the Maturity Structure of its Borrowings, and the Upper Limit on Investments Exceeding 365 days for 2007/08, as set out in Appendix B.
- 2) Approve the overall Treasury Management Strategy for 2007/08

The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100D(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information, as defined by that Act.

This report. Treasury and Taxation Accountant (Tel: 0161 911 4928)

Managers Guide to Investment Decisions : Treasury and Taxation Accountant (Tel: 0161 911 4928)

Medium Term Financial Plan: EDRS 6090173 (11/10/2006)

**APPENDIX A****1. Estimated debt portfolio as at 31/3/2007**

Period of Borrowing	Fixed rate PWLB and Stock debt	Fixed rate Market debt (LOBO's)	Total Fixed Rate debt	Variable Rate debt	Temporary debt	Total debt	% of <u>fixed rate</u> debt in each Period
	£'000	£'000	£'000	£'000	£'000	£'000	%
Within 1 Year	2,200	20,000	22,200	-	3,000	25,200	5.43%
1 – 2 Years	7,000	5,000	12,000	-	-	12,000	2.94%
2 - 5 years	301	49,000	49,301	-	-	49,301	12.06%
5 – 10 years	27,127	25,000	52,127	-	-	52,127	12.75%
Over 10 yrs	273,169	-	273,169	-	-	273,169	66.82%
Total Debt	309,797	99,000	408,797	-	3,000	411,797	100%
% of Total	75.23%	24.04%	99.27%	0.00%	0.73%	100%	

**2. Estimated debt portfolio 31/3/2008 assuming:**

Based on illustrative, but realistic, borrowings of £15m (£10m long term PWLB, £5m market loans)

Period of Borrowing	Fixed rate PWLB and Stock debt	Fixed rate Market debt (LOBO's)	Total Fixed Rate debt	Variable Rate debt	Temporary Debt	Total debt	% of <u>fixed rate</u> debt in each Period
	£'000	£'000	£'000	£'000	£'000	£'000	%
Within 1 Year	7,000	25,000	32,000	-	3,000	35,000	7.55%
1 – 2 Years	68	4,000	4,068	-	-	4,068	0.96%
2 – 5 years	1,200	55,000	56,200	-	-	56,200	13.26%
5 – 10 years	36,522	20,000	56,522	-	-	56,522	13.33%
Over 10 yrs	275,072	-	275,072	-	-	275,072	64.90%
Total Debt	319,861	104,000	423,861	-	3,000	426,861	100%
% of Total	74.93%	24.36%	99.30%	0.00%	0.70%	100%	

The market debt included in the above table has a life of 50+ years, but there are regular “option” dates when the loan could be repaid if rates increased. The option dates have been used in the tables above.

## APPENDIX A (continued)

### **3 Net Borrowing at 31/3/07**

This table shows that the estimated net borrowing at 31/3/07 (£385.584m) is higher than that assumed in our strategy for 2006/7 (£381.799m). The reasons behind this are due to increased prudential borrowing to fund schemes such as Adults and Community Services accommodation strategy and Highways. Also, the Council has been allowed to capitalise the Equal Pay claims to the amount of £8.6m which again has been financed through long term borrowing.

	Assumed in 2006/07 strategy	As at date of report	Estimated at 31/3/07
	£'000	£'000	£'000
Long Term Borrowing	395,267	409,124	408,797
Temporary Borrowing	6,600	773	3,000
<b>Total Borrowing</b>	<b>401,867</b>	<b>409,897</b>	<b>411,797</b>
Less Temporary Investments	(20,068)	(68,756)	(26,213)
<b>Net Borrowings</b>	<b>381,799</b>	<b>341,140</b>	<b>385,584</b>

**Prudential Indicators****1. Operational Limit for External Debt**

This is the expected, or most likely, figure for external borrowings and other long term liabilities for each of the next three years. The figures shown in the following table are consistent with the revenue budget.

	2007/08	2008/09	2009/10
	£'000	£'000	£'000
Expected borrowings	431,110	430,850	434,850
Other long term liabilities (insurance reserve, other)	25,000	25,000	25,000
<b>OPERATIONAL LIMIT</b>	<b>451,110</b>	<b>455,850</b>	<b>459,850</b>

**2. Authorised Limit for external debt**

The authorised limit is the operational limit plus an allowance to give headroom for unusual cash movements.

	2006/07	2007/08	2008/09
	£'000	£'000	£'000
Operational limit	451,110	455,850	459,850
Headroom	10,000	10,000	10,000
<b>AUTHORISED LIMIT</b>	<b>461,110</b>	<b>465,850</b>	<b>469,850</b>

**3. Adoption of the CIPFA code of Practice for Treasury Management**

The code was adopted by the Executive on 18<sup>th</sup> March 2002 (EDRS ref: 2030031).

**4. Total principal sums invested for periods longer than 364 days**

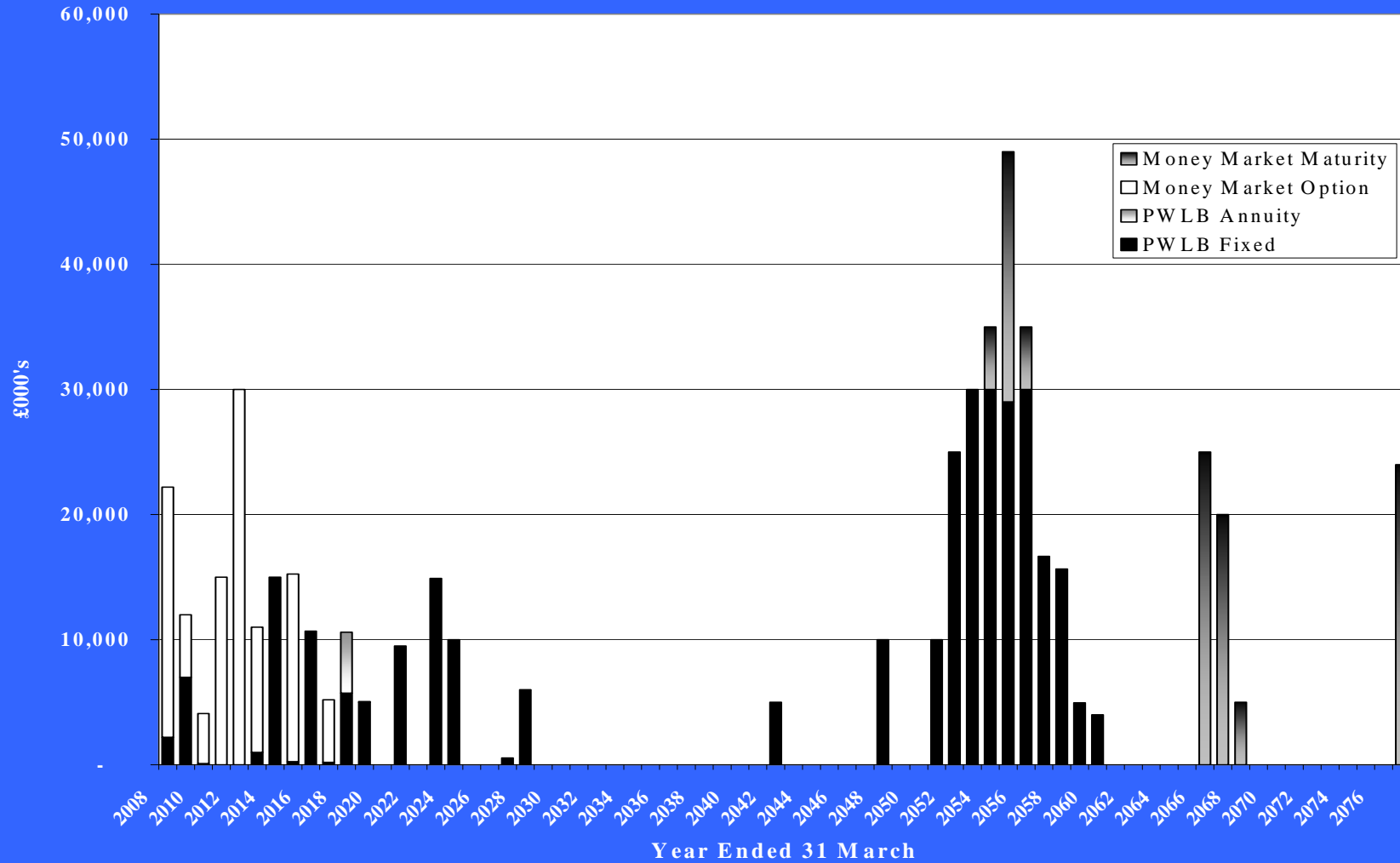
As discussed in paragraph 6, a limit of £15m is recommended on investments made for periods in excess of 365 days. (The maximum period of an investment would be 2 years, per paragraph 6).

## 5. Maturity structure of the Council's borrowing

The Council is required to set upper and lower limits for the maturity structure of its fixed rate debt for the forthcoming year. The following table shows these limits, and for comparison, the expected percentages at 1/4/07 and 1/4/08 (as calculated in Appendix A). The table also shows (in parenthesis) the equated £m value of these percentages based on £400m of total borrowings:

Period Of Borrowing	Expected Fixed Debt At 1/4/07 %	Expected Fixed Debt At 1/4/08 %	Proposed Lower Limit In 2007/8 %/(£m)	Proposed Upper Limit In 2007/8 %/(£m)
Under 12 months	5.43	7.55	0.5 (£2.5m)	15.0 (£60m)
12 – 24 months	2.94	0.96	0.5 (£2.5m)	15.0 (£60m)
2 - 5 years	12.06	13.26	10.0 (£40m)	20.0 (£ 80m)
5 – 10 years	12.75	13.33	10.0 (£40m)	40.0 (£170m)
Greater than 10 yrs	66.82	64.90	40.0 (£170m)	70.0 (£300M)
Total Debt	100.0	100.0	-	-

### OMBC Debt Maturity Profile March 2007



## 6. Upper limits on fixed and variable interest rate exposure

The Council is required for each of the next three years to calculate its exposure to interest rate movements and set upper limits for these. Effectively exposed debt is that which matures within the year, or debt the rate on which could be increased by a lender exercising an option. To complete the following table assumptions have been made about potential future borrowing strategies. The Council's temporary investments are netted off, since they too are "exposed" to rate movements.

<b>Table Of Exposed Debt:</b>	1/4/07 £'000	1/4/08 £'000	1/4/09 £'000	1/4/10 £'000
Fixed rate exposed debt	22,200	32,200	24,102	39,000
- The above figure as a % of outstanding debt	5.39%	7.50%	5.59%	8.91%
Maximum variable rate exposed debt	23,601	35,191	55,191	60,191
Less temporary investments	(26,213)	(25,953)	(30,693)	(20,000)
Net exposed variable debt	(2,612)	9,238	24,498	40,191
- The above figure as a % of outstanding debt	(0.63)%	2.16%	5.69%	9.18%

The fixed rate exposed debt is market borrowings which enter their option period.

Variable debt is currently negligible, but the above figures allow for extensive use of this form of borrowing if market conditions make this advisable.

**Interest rate forecasts**

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of Sector (our treasury advisors), UBS and Capital Economics (an independent forecasting consultancy). The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

**1. Individual Forecasts****Sector View interest rate forecast – February 2006**

(%)	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Base Rate	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%	4.75%	4.75%	4.50%
5yr PWLB	5.50%	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%
10yr PWLB	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%
25yr PWLB	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
50yr PWLB	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

**UBS Economic interest rate forecast (for quarter ends) - January 2006**

(%)	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Base Rate	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
10yr PWLB	5.05%	5.00%	5.05%	5.15%	5.25%	5.25%	5.25%	5.25%
25yr PWLB	4.55%	4.55%	4.55%	4.70%	4.80%	4.85%	4.90%	5.00%
50Yr PWLB	4.20%	4.25%	4.40%	4.40%	4.45%	4.50%	4.55%	4.65%

**Capital Economics interest rate forecast – January 2006**

(%)	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Base Rate	5.25%	5.50%	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%
10yr PWLB	5.15%	5.05%	4.95%	4.85%	4.75%	4.65%	4.75%	4.85%
25yr PWLB	4.45%	4.35%	4.45%	4.45%	4.45%	4.55%	4.55%	4.65%
50 Yr PWLB	4.35%	4.35%	4.35%	4.35%	4.35%	4.45%	4.45%	4.55%

## 2. Surveys of Economic Forecasts

**HM Treasury** - summary of 18 independent forecasters views of **base rate** – as at February 2006

(%)	2007 Year end	2008 Average	2009 Average	2010 Average
Average	4.97%	4.86%	4.88%	4.85%
Highest	5.80%	5.90%	5.60%	6.10%
Lowest	4.50%	3.75%	4.00%	4.00%

## APPENDIX D

### Specified Investments

By definition these must be sterling denominated, for a maximum period of one year, and made with a body which has a high credit rating awarded by one of the three credit rating agencies. The potential investments of this type are listed below:

<b>Type of investment</b>	<b>Use by OMBC</b>
Debt management Agency Deposit Facility	OMBC has this facility
Term Deposits – UK Government	Rarely used
Term Deposits – Other LA's	Occasionally used
Term Deposits – banks and building societies	Extensively used
Certificates of Deposit issued by banks and building societies	Not used
Money Market Funds	Not used
UK Government Gilts	Not used
Gilt Funds and Bond Funds	Not used
Treasury Bills	Not used

### Non-Specified Investment

These are investment other than those listed above, i.e..

<b>Type of investment</b>	<b>Recommended use by OMBC</b>
Term Deposits in excess of one year	Retain current maximum period of 2 years
Callable Deposit's with maturity beyond 1 year	Not used
UK Government Gilts with maturity beyond 1 year	Not used
Bonds issued by multilateral dev. Banks	Not used
Bonds issued by institutions guaranteed by govt.	Not used
Sovereign bond issues other than the UK govt.	Not used
Unrated accounts Alliance and Leicester Commercial Bank Liquidity Account	Maximum £3m for 3months

The maximum total recommended level for **all** non-specified investments is £15m.

The credit rating criteria for non-specified investments is the same as that applying to specified investments