Cabinet - 11th February, 2009

Capital Programme 2009/2010 including Prudential Indicators and Treasury Management Strategy

Report of the Chief Executive and City Treasurer

1. Purpose of Report:

1.1 To update Members of the level of capital resources and commitments for the forthcoming financial year and seek a recommendation to Council to the overall Capital Programme 2009/2010, the Prudential Indicators and the Treasury Management Strategy for 2009/2010.

2. Description of Decision:

2.1 Cabinet is requested to:

- recommend to Council approval of:
    - the proposed Capital Programme for 2009/2010;
    - the prudential indicators;
    - the Annual Minimum Revenue Provision statement;
    - the Annual Treasury Management Strategy including specifically the Annual Borrowing and Investment Strategies.
- note the Treasury Management Policy.

3. Capital Programme 2009/2010

3.1 As reported to Cabinet in January 2009 and in accordance with the Council's Capital Strategy, resources for the main programme areas of Children's Services, Social Services, Highways and Housing have been allocated on the basis of their Supported Capital Expenditure (SCE (R)) approvals and other service specific resources. In addition any capital receipts that may arise from the sale of assets specific to Children's Services and Adult Services will be earmarked for use by those services.

3.2 Any further SCE (R) or grant approvals which are received will be reported to Cabinet as part of the regular capital programme reviews during the year.

3.3 Due to the current economic downturn and depressed state of the housing market it has not been possible to generate the level of capital receipts anticipated to be received in 2008/2009 and it will be necessary to use temporary funding from the Strategic Investment Reserve to fund capital programme plans and commitments.

In assessing the overall resources position an assessment has been made of the savings which will accrue as a result of additional interest and debt charge savings for 2008/2009. At this stage it is anticipated that £8.150m savings will accrue to the end of 2008/2009. In the light of the above, it is proposed that:

- £4.000 million of this sum is earmarked within the Strategic Investment Reserve to support the Children's Services capital programme commitments thus increasing this provision from £6.000 million, originally provided temporarily to assist in funding the Building Schools for the Future project, to £10.000 million.

- £1.538 million is earmarked to support the other services capital programme existing commitments funded by capital receipts.

It is proposed that the remaining £2.612m will be used to support the capital programme for 2009/2010.

3.4 Since the January 2009 Cabinet meeting, consultation with the appropriate Cabinet Portfolio Holders has been undertaken on the proposals to utilise the resources available for new starts. In considering proposals for new starts regard has been had to relevant factors to be taken into account in determining priorities set out in the Council's Capital Strategy.

3.5 The recommended Capital Programme is included in full in the Corporate Improvement Plan. A summary of proposed new starts for the Environmental Protective and Cultural Services (Other Services) Block is set out at Appendix A. Proposed new starts for Children's Services, Adult Services, Housing, and Highways are detailed within Appendix B.

3.6 In accordance with the Council's Constitution, prior to commencement of projects, details of all new schemes with an estimated cost in excess of £250,000 will be reported for approval to Cabinet utilising the capital investment appraisal documentation which outlines the detail of the scheme, and outputs and outcomes expected together with funding sources and consequential revenue implications.

3.7 For schemes / projects below £250,000, full capital investment appraisal documentation will be prepared and consultation will take place with the relevant Cabinet Portfolio Holder in advance of delegated decisions being taken to implement these schemes / projects.

3.8 It is recognised that in the economic and financial climate, the scale and direction of public sector investment programmes can have a positive impact in addressing the economic downturn. The contribution that the Council's capital programme is making to addressing the economic downturn, both through specific schemes and more generally is detailed in the report elsewhere on the agenda entitled 'Revenue Budget 2009/2010'.

4. Prudential Framework for Local Authority Capital Expenditure

4.1 One of the principal features of the Local Government Act 2003 was to provide the primary legislative framework to introduce a prudential regime for the control of Local Authority capital expenditure. The regime relies upon both secondary legislation in the form of regulations, and a prudential code issued and maintained by the Chartered Institute of Public Finance and Accountancy (CIPFA).

4.2 Under the prudential framework local authorities are free to borrow without specific government consent if they can afford to service the debt without extra government support. The basic principle is that authorities will be free to invest as long as their capital spending plans are affordable, sustainable and prudent. As a control mechanism to ensure this occurs, all authorities must follow the prudential code published by CIPFA. This involves setting various prudential limits and indicators that must be approved by the Council before the start of the relevant financial year as part of their budget setting process. The prudential indicators have been prepared and all matters specified in the code have been taken into account. Regular monitoring will take place during the year and reports made to Cabinet on the indicators as part of the quarterly capital review reports where appropriate.

4.3 Government provide support for capital expenditure in one of two ways:

- Supported Capital Expenditure (Revenue);
- Supported Capital Expenditure (Capital).

The Supported Capital Expenditure (Revenue) (SCE (R)) is in effect revenue support through the Revenue Support Grant System to finance borrowing. The Supported Capital Expenditure (Capital) (SCE (C)) is a capital grant given by government.

Under the Prudential Framework, the facility to undertake what is known as 'unsupported borrowing' is available. However, in deciding upon whether to undertake unsupported borrowing regard is required to be had to:

- the prudential indicators which are designed to assess whether capital investment needs are affordable, sustainable and prudent;

- the effect on the revenue budget of any additional costs incurred.

5. The Annual Minimum Revenue Provision Statement

5.1 Regulations came into force on 31st March 2008 revoking secondary legislation relating to the requirement to make a Minimum Revenue Provision (MRP) to repay borrowing over time, and replacing it with a new regulation containing a duty for local authorities, each year, to determine for the current financial year, an amount of MRP that it considers prudent. The Department for Communities and Local Government (DCLG) have provided statutory guidance on the methodology to use, which local authorities 'must have regard to'.

The guidance recommends that authorities must submit to full Council an annual statement of its policy on making a MRP in respect of the following financial year and highlight which of the various options set out in their guidance will be followed.

5.2 Provision for the repayment of debt is considered to be prudent where the period of repayment is either reasonably commensurate with that over which the capital expenditure to which it relates provides benefits, or in the case of borrowing supported by government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

5.3 The four options for calculating MRP which were set out in the guidance can be summarised as follows:

- Option 1 – Regulatory Method: applying the statutory formula set out in the 2003 Regulations before it was revoked in 2008.
- Option 2 – Capital Financing Requirement (CFR) Method: multiplying the CFR at the end of the preceding financial year by 4%.
- Option 3 – Asset Life Method: amortising expenditure over an estimated useful life for the relevant assets created. An assessment must be made of the asset life at the outset of the capital scheme and MRP is charged to revenue in either equal annual instalments or by an annuity method over the estimated life of the asset.
- Option 4 – Depreciation Method: making charges to revenue in accordance with the standard rules for depreciation accounting for the particular asset being created or enhanced.

5.4 For 2009/2010, having considered all of the options available to the council, it is proposed that the council use Option 1 (the regulatory method) for government supported borrowing. This is a continuation of the method currently used by the council (under the existing regulations 28 and 29 of the Capital Finance Regulations and the Local Government Act 2003) where MRP is calculated with regard to the ‘credit ceiling’ of the authority. This takes into account all loan advances and repayments through the Council’s consolidated advances and borrowing pool with MRP being calculated at 4% of the opening ‘credit ceiling’ balance.

Option 1 is preferred as this option takes the formulae used by the government in calculating revenue support grant as its basis and better reflects the actual funding provided by government.

5.5 Neither of the two options recommended for future borrowing, for which no government support is being given and is therefore self-financed (options 3 and 4), reflect current council policy to accelerate debt repayments on unsupported borrowing through an increased voluntary MRP. The depreciation method for calculating MRP is also likely to be subject to volatility when asset lives are reassessed.

5.6 The council currently follows the criteria set out below for all unsupported borrowing and provides an increased voluntary MRP:

- In the case of invest to save schemes MRP is based on the payback period for any borrowing taken out up to a maximum of 7 years;
- In cases where a full option appraisal shows borrowing to offer better value for money than leasing, MRP is based on the payment period that would have arisen had a lease been taken out instead of a loan;
- In the case of any form of grants for capital purposes that have been given in earlier years and any new grants given for which borrowing is taken out, MRP is based on the actual principal repayment schedule relating to the grant provided. This option is used for existing loans provided to Wearside College, mortgages provided in earlier years to householders under Right to Buy regulations, and loans to industry to support economic regeneration.

5.7 Given budget pressures it is proposed that, as in 2008/2009, opportunities for utilising the above framework be restricted to invest to save schemes, where a limited provision has been made within the budget and also where option appraisal of funding through borrowing instead of leasing is appropriate.

For the purposes of the proposed regulations Option 3 is recommended for self-financed borrowing as this method is subject to less potential variation than Option 4.

However, it is recommended to continue existing practice so that any unsupported borrowing schemes will be subject to an additional voluntary MRP repayment as shown in the criteria detailed in 5.6 above. For any unsupported borrowing taken out in support of trading services which are subject to market pressures it is recommended that discretion be afforded in relation to relaxing the additional voluntary MRP requirement and that MRP is calculated using Option 3 where this is deemed to be appropriate. This will mean that trading services would not be put at an unfair disadvantage in comparison to any potential competitors.

5.8 In summary, it is therefore recommended that the Council approves the following Annual Minimum Revenue Provision Statement for 2009/2010:

a) For all government supported borrowing the Council will adopt Option 1 as set out in the government's guidance which is a continuation of the basis upon which the Council currently calculates MRP as set out in paragraph 5.4 above.

b) For all unsupported borrowing the Council will adopt Option 3 and make MRP repayments using the equal instalment method.

   The Council will also make additional voluntary MRP payments to that indicated by the adoption of Option 3, with reference to the Council's existing framework as detailed in 5.6 above, in order to make any increased voluntary MRP it considers prudent. This requirement may be relaxed for any unsupported borrowing taken out on behalf of trading services, which are subject to market pressures.

6. The Prudential Code and Prudential Indicators

6.1 The Local Government Act 2003 gives statutory backing to the CIPFA Prudential Code for Capital Finance. The regulations specify that it is this Code to which authorities must have regard when setting and reviewing their affordable borrowing limits. The Prudential Code was reported to Council in March 2004.

6.2 The actual indicators arising from the Code, together with background to the indicators and what they are seeking to assess, are detailed in Appendix C.

7. Treasury Management

7.1 Treasury Management Policy

The Treasury Management Policy is set out in Appendix D. Cabinet is asked to note that no changes are proposed to the Policy.

7.2 Treasury Management Strategy

The Treasury Management Strategy comprises a Borrowing and an Investment Strategy. These are set out in Appendix E.

7.3 Treasury Limits for 2009/2010 to 2011/2012

It is a statutory duty under Section 3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". This is the prudential indicator P5 at Appendix C and is otherwise known as the Authorised External Borrowing Limit.

The Council must have regard to 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 its future council tax levels is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital 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 is set, on a rolling basis, for the forthcoming financial year and two successive financial years.

8. Alternative Options

8.1 No alternatives are submitted for Cabinet consideration.

9. Background Papers

Various Notifications regarding Capital Resources for 2009/2010 from Government Departments
Sector City Watch (Monthly)

Appendix A

Capital Programme 2009/2010

Other Services

1. Introduction

1.1 Consideration has been given to the overall resource position facing the Council in respect of the Environmental, Protective and Cultural Services (Other Services Block), after taking account of the need to fund one off revenue spending pressures and also:

- the budget position of the Council following the Revenue Support Grant settlement for 2009/2010 and the outlook for the medium term;
- the need to provide for commitments arising from the 2008/2009 capital programme and variations thereto; and
- the requirement to provide resources to address various spending pressures linked to strategic priorities;

resources have been identified for proposed new starts in the 2009/2010 capital programme.

2. Resources

2.1 Capital Receipts

Due to the current economic downturn and depressed state of the housing market it has not been possible to generate the level of capital receipts anticipated to be received in 2008/2009. Accordingly, £1.538 million is earmarked to support the other services capital programme existing commitments previously intended to be funded by capital receipts.

2.2 Revenue Budget Savings

In assessing the overall resources position an assessment has been made of the savings which will accrue as a result of additional interest and debt charge savings for 2008/2009. After allowing for earmarked allocations to support the capital programme due to the delay in realising planned capital receipts, a sum £2.612m will be used to support the capital programme for 2009/2010.

3. Proposed New Starts

3.1 After taking account of the commitments arising from the 2008/2009 and previous year's capital programmes, the resources are available to earmark capital programme resources for the following main schemes / projects at this stage. Schemes / projects are at various stages of development and subject to other processes e.g. external funding and will therefore be brought forward for approval when appropriate.

3.2 **Cultural Quarter - £1,555,000**
Investment in Sunderland City Library and related facilities will enhance the city centre's cultural and visitor attractiveness. There are a number of proposed phases to the development, with the overall aim being to develop Sunderland city centre into an area with a distinct identity. The project involves building on Sunderland city centre's existing character and enhancing what it has to offer by providing facilities and experiences which support the City Council's strategic objectives. Taking this allocation of resources into account, the total council provision for scheme is £3.0m.

3.3 **Central Car Park - £1,500,000**
The Central Car park has recently been closed due to health and safety issues. Given the age and condition of the car park temporary emergency propping up was erected at the end of December 2008 pending deconstruction. Whilst a structural condition survey analysis is being undertaken which will inform the estimated cost, at this stage it is proposed to earmark a sum of £1.5m to allow the scheme to proceed in 2009/2010.

3.4 **City Centre Improvements – £1,000,000**
A development budget is proposed which will enable the Council to consider and implement high priority works within the city centre including physical infrastructure improvements, better signage to assist in a more legible city, and other initiatives. It is proposed to seek matched funding through the Single Programme Investment Plan from ONE.

3.5 **World Heritage Site – Action Plan – £584,000**
A programme of improvements is planned to support the Wearmouth / Jarrow bid for World Heritage Site status.

On the basis of matched funding of £100,000 from the council a scheme jointly funded by ONE North East amounting to £584,000 capital finding and £93,000 revenue funding has been secured. This programme will also bring in additional match funding from other project partners, including English Heritage and South Tyneside Council. Works will include finalising the Nomination Documentation required for submission to UNESCO, running a required public consultation exercise on the Nomination, investment in staffing for the candidate World Heritage Site for the next three years, and capital improvements to the tourism product, improving the way the Wearmouth-Jarrow story is presented across the candidate World Heritage Site venues.

3.6 **Subway Improvements Review - 2009/2010 - £90,000**

The Community Spirit Priority Issues survey 2008 indicated that although there was a low response rate to the invitation to comment, which was probably due to only those people who live near to or use subways taking the opportunity, there was a significant level of dissatisfaction with subways. It is therefore proposed to undertake a review of all subways in Sunderland and identify future action, including further consultation, works and remedial measures e.g. closure, changing access, lighting upgrades, and refurbishment. The budget of £90,000 will allow for the review to be completed and a rolling programme of works to be started.

3.7 **ICT Infrastructure Investment – £240,000**

This includes three separate proposed investments as follows:

- replacement of the F12 server infrastructure, estimated to cost £100,000, to support SAP within the council to mitigate increasing maintenance costs. This will generate efficiency savings of £139,000 per annum which have been taken into account in setting the 2009/2010 Revenue Budget. Given the efficiency savings that will result from this scheme it is proposed that this scheme is completed using unsupported borrowing.
- Upgrading the ICT helpdesk, estimated to cost £60,000, to allow staff to raise requests online, track progress of requests and reduce the number of avoidable contacts into ICT. In addition, remote access tools will reduce travel costs for second line analysts needing to visit locations. This will generate efficiency savings of £56,000 per annum which have been taken into account in setting the 2009/2010 Revenue Budget. Given the efficiency savings that will result from this scheme it is proposed that this scheme is completed using unsupported borrowing.
- Increase Power Supply to Data Centre, estimated to cost £80,000. Whilst there is a sufficiently large power supply coming into Moorside, the distribution of power within the data centre is limited by the number of circuit breakers currently installed in the Power Distribution Unit (PDU). This proposal is to allow for the installation of an additional PDU to increase the number of distribution points available to cope with the projected increased requirement to power the additional equipment which will provide the technical functionality to allow the sale of additional racks which provide rental income. The additional income generated will be taken into account in future year's Revenue Budgets and given the efficiency savings that will result from this scheme it is proposed that this scheme is completed using unsupported borrowing.

3.8 **Revenue and Benefits - Phase 2 £444,000**

Phase 2 of the Revenue and Benefits system upgrade will deliver:

- public access via the web allowing customers to access account information without contacting the council;
- a homeworking pilot to establish potential efficiencies that may be gained, and the functionality for future wider roll out of homeworking;
- intelligent e-form enabling efficiencies through customers being able to complete benefit applications on line;

Significant efficiency savings, estimated to amount to a minimum of £150,000 per annum, will be taken into account in future year's Revenue Budgets.

3.9 **Economic Development Provision - £800,000**

The proposal seeks to continue funding for a range of capital projects and initiatives that support business investment and job creation activities in the city. The fund provides a resource to deal with unforeseen demands on budgets and covers both strategic investments in infrastructure and facilities for business and direct support to business growth and investment activities.

3.10 **Software City – £2,0000,000**

Business, academia and the public sector are combining forces to create and deliver a vision for Sunderland as a leading 21st century software city. The plan is to commence a programme of developments which will provide world-class telecommunications infrastructure and business premises.

3.11 **Crematorium – £750,000**

The crematorium is required to comply with regulations governing the emissions of mercury before the end of 2012. The provision of appropriate filtration equipment to two of the cremator units will satisfy the Council's obligations. Procurement will commence in 2009/2010 with installation and completion in 2010/2011.

3.12 **Recycling - Replacement Kerb-it Scheme - £2,400,000**

Existing contractual arrangements for the treatment of recycled materials come to an end in March 2010 and provide an opportunity to change collection systems. Longer term requirements to meet recycling targets within the South Tyne and Wear Joint Waste Strategy, to provide a system which is more easily used and understood by customers and address efficiencies, will result in the provision of a further wheeled-bin to replace the black box. This change accords with wishes expressed by residents through a range of consultation feedback over recent years. The distribution of those wheeled bins to all conventional domestic properties will commence in late 2009/2010 and continue into 2010/2011 on a phased basis. The change in the type of container will also necessitate changes to collection vehicles as they reach the end of their economic life. The phasing of expenditure is anticipated to be £0.750 million in 2009/2010 and £1.650 million in 2010/2011. Leasing costs associated with the necessary changes to the refuse collection fleet have been included in the Revenue Budget 2009/2010.

3.13 **Free Swim Initiative - £85,000**

In November 2008, Cabinet endorsed acceptance of Central Government's two year funding grant offer to deliver free swimming to the target group of 60 years and over' and 16 years and under. It is proposed to utilise Central Government's allocated £0.085 million funding to refurbish and upgrade swimming pool changing accommodation at Washington Leisure Centre. It is recognised that Washington Leisure Centre is an aging facility and in need of investment and in the short term this work will enhance the experience of customers using the facility.

3.14 **Travellers Site - £100,000**
A new Travellers Transit Site will assist in dealing with unauthorised encampments more efficiently and effectively. The provision will ensure that statutory regulations are met.

3.15 **Business Improvement Programme / SAP Developments - £500,000**
The Council has previously earmarked a sum of £2.5m to enable approved projects which fall within the Business Improvement Programme to be progressed. To date a sum of £1.498m has been allocated to approved projects leaving a balance of £1.002m available to support future projects. It is clear that the Programme has added value to the work of the Council thus far and has potential to add significant value to the work of the Council in the future.

Separately, the Council has steadily increased its investment in the SAP product to realise business benefits. One of the key aims of the Business Improvement Programme is to seek to utilise ICT to improve customer service either in terms of efficiency of effectiveness, or both. It is therefore proposed to align the funding provided for investment in SAP with that of the Business Improvement Programme.

With regard to the SAP Programme, there is a need to upgrade and consolidate the Human Capital Management module. This will require some reconfiguration of both the FMS and HCM SAP products. A provisional estimate of £500,000 for this development is proposed. A full report will be made to Cabinet in due course.

Appendix B

Capital Programme 2009/2010
Children's Services, Adult Services, Highways and Housing

1. Introduction

1.1 Consideration has been given to the overall resource position facing the Council in respect of the Children's, Adults, Highways and Housing elements of the Capital Programme.

2. Resources

Children's Services

2.1 In 2008/2009 no receipts have been received for Children's Services. As highlighted in the second capital review 2008/2009 due to the nationwide downturn in the housing property market it is anticipated that it will be necessary to earmark unallocated resources from within the Strategic Investment Reserve to fund the capital programme pending realisation of capital receipts. A sum of £6.0m has already been earmarked within the Strategic Investment Reserve and it is proposed to increase this by £4.0m at this stage

It is intended to keep the capital programme resourcing position under review so that no undue reliance is placed on temporary funding.

Adult Services

2.2 In 2008/2009 no receipts have been received for Adult Services. As highlighted in the second capital review 2008/2009 due to the nationwide downturn in the housing property market it is anticipated that it will be necessary to earmark resources temporarily from within the Strategic Investment Reserve to fund the capital programme pending realisation of capital receipts. It is estimated that £0.698m in 2008/2009 and £1.900m in 2009/2010 will need to be earmarked from the Strategic Investment Reserve.

It is intended to keep the capital programme resourcing position under review so that no undue reliance is placed on temporary funding.

Housing

2.3 Approval was given by Cabinet on 14th January 2009 to authorise the execution of a funding agreement in the sum of £7.150 million between the Homes and Communities Agency (HCA) - (formerly English Partnerships) and the Council to enable the Council to acquire properties at Hetton Downs in accordance with neighbourhood renewal plans. To continue with the momentum of the renewal programme properties have continued to be purchased until the funding is received from HCA. It is estimated that spend to the end of 2008/2009 will be £2.5m. The actual timing of the grant payment is likely to be in 2009/2010 which means that there may be a need for temporary funding in 2008/2009.

3. Proposed Capital Programme New Starts

Children's Services

Primary Strategy for Change (PSfC)

3.1 The PSfC Programme for Sunderland was approved by Government on 12th November 2008, subject to conditions. Consultation on this is ongoing and will continue until 31st March 2009. Final approval will guarantee capital funding of £4,092,393, in 2009/2010 and £6,470,393 in 2010/2011, with further funding beyond this date yet to be announced.

3.2 Following approval of the Primary Strategy for Change (PSfC), the replacement of St Joseph's Primary School is included within the Programme. It is anticipated that construction will begin towards the end of 2009/2010, after allowing the necessary time to undertake statutory processes and consultation with the Diocese and other stakeholders. This school was identified during the PSfC consultation process as an initial priority.

Subject to funding being approved through the PSfC, Maplewood Special School will be replaced in 2010/2011.

3.3 The future capital programme for Children's Services is very much influenced by the outcome of the PSfC Programme and the School Place Planning Review. As a consequence, future available resources are being allocated / redirected as appropriate to support these initiatives.

Modernisation Programme

3.4 A key medium term priority for Children's Services continues to be that of addressing the most urgent condition priorities, health and safety work, and major capital repairs as identified through the asset management process. This is funded through Supported Borrowing.

Children's Centres

3.5 There will be no new builds under Phase III funding, as per DSCF guidelines. It is anticipated that there will be maintenance work on current buildings in the 8 areas where services need to be developed. Plans are still being developed.

4. Adult Services

4.1 The following projects are included in the 2009/2010 capital programme:

IT Infrastructure - £329,000

4.2 Government IT grants are specific grants that will be used to deliver the Directorate ICT roadmap, which feeds into the Directorate's 3 year plans. It is proposed that the grants are used to support:

4.2.1 The Mobile and lone worker solution is estimated to cost £100,000 and will link into the property rationalisation agenda which will ensure workers are safe and can access council systems.

4.2.2 It is proposed to update the Adults Integrated Solution, the Practitioner Portal and Document Management System in order to upgrade the SWIFT system and ensure that the council complies with DOH requirements. These developments are estimated to cost £209,000 and will avoid the need for a complete replacement of the SWIFT system in approximately 2 years at a much greater cost and will ensure SWIFT is a viable solution for 5-7 years.

4.2.3 Investment in Telecare is proposed at an estimated cost of £20,000. This will allow people to remain in their own homes for longer and prevent more costly form of support such as residential and nursing care. Telehealth is installing health monitoring equipment within client homes allowing the TPCT to monitor any changes in the health of the client. Saferwalking is a device that is fitted to the client allowing the individual to be tracked.

Mental Health - £251,000

4.3 A range of schemes are proposed to be funded from the Mental Health Grant. These schemes are aimed at improving service provision, rationalising office accommodation, enabling mobile and flexible working.

Minor Works - £456,000

4.4 Minor Works are funded from a capital grant of £0.146m from Department of Health and £0.310 million from the Adults Revenue Budget in the form of a Revenue Contribution to Capital. The proposed programme of works for 2009/2010 is detailed below:

	£'000
Redevelopment of facilities at Fulwell Day Centre	276
Upgrade bathroom facilities at 5 residential premises	100
Kitchen upgrades at 4/5 premises	50
Cycle storage facilities at Leechmere Training Centre	10
210 Grindon Lane upgrade of bedrooms (including specialist equipment)	20
Total minor works 2009/2010	**456**

5. Highways

5.1 The following projects are proposed for inclusion in the 2009/2010 capital programme:

Sunderland Strategic Transport Corridor (SSTC)

5.2 Following programme entry approval from the Department for Transport (DfT) for the first phase of the transport corridor comprising a new bridge and approach roads, the design and preparation works of the scheme are underway. Expenditure of £2.9 million is planned for 2009/2010 funded from One North East.

Central Route

5.3 The development of the scheme and progress on land issues prior to programme entry approval from the DfT will continue in 2009/2010 of which expenditure of £0.250 million is planned.

Local Transport Plan (LTP)

5.4 The DfT allocation for 2009/2010 amounting to £8.080 million is year 4 of the 5 year LTP2 programme. It includes an integrated transport element of £3.327 million in the form of a capital grant, an amount of £4.503 million in the form of SCE(R) for maintenance and £0.250 million capital grant for bridge maintenance schemes at the A1018 Panns Bank and A1231 Pallion Road / Trimdon Street Bridge.

The following use of funding is proposed for 2009/2010:

- Structural Maintenance of the Four Lane Ends Bridge on the A690 and Grange Road Bridge on the A1231;
- continue with the Structural Maintenance of Highways across the city;
- carry out a programme of works to improve road safety and access;
- reduce congestion and improve cycling facilities across the city;
- continue the bus corridor improvements feasibility study and commence the first phase of this programme at the Wheatsheaf and Stadium Way junctions;
- contribution to funding for the Southern Radial Route;

- contribution to the development costs of the Central Route.

6. Housing

6.1 Housing funding is allocated through the Regional Housing Board. It is anticipated that £1.850 million will be available to support new schemes in 2009/2010. In addition further grant funding of £1.006million has been approved by the CLG specifically for Disabled Facilities Grants.

6.2 The following projects are proposed for inclusion in the 2009/2010 capital programme:

Disabled Facilities Grant

6.2.1 Disabled Facilities Grants have specific allocations through SHIP and DFG grant amounting to £1.482 million.

Homelessness and Advice Service – Set Up Costs

6.2.2 Supported capital expenditure is required to develop a Choice Based Lettings system which is statutorily required by 2010.

Regional Loans Scheme

6.2.3 The Regional Loans Scheme is funded via SHIP under objective 3 for decent homes. The purpose of the fund is to set up a regional loans scheme, and will be used to employ a project manager and possibly employ consultants to explore the feasibility of a scheme. The aim is to have a Regional Loans scheme by 2010.

Warm Homes Initiative

6.2.4 A sum of £0.100 million is proposed to be allocated to energy efficiency measures, such as loft insulation and cavity wall insulation, enabling those in need of support to maintain their independence in their chosen home for the foreseeable future. The funding is used to help lever in external funding.

Area Renewal and Private Sector Renewal

6.2.5 Use of SHIP resources and HCA grants are used to support decent homes and market rejuvenation initiatives. Area renewal supported by SHIP is taking place in the Eppleton, Castletown and Hendon areas of the city and specific grants from English Partnerships are being used to purchase properties as part of the Hetton Downs renewal scheme.

Appendix C

Prudential Indicators 2009/2010

Local Authorities are required to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. The key objectives of the code are to ensure that the capital investment plans of Local Authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice. The indicators that must be taken into account are shown below:

P1 Actual capital expenditure incurred in 2007/2008 was £73.442m and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Estimated Capital Expenditure			
	2008/09 £000	**2009/10 £000**	**2010/11 £000**	**2011/12 £000**
Children's Services	82,305	59,692	25,618	8,477
Adult Services	3,094	3,616	729	609
Neighbourhood and Street Services	164	770	2,400	0
Housing and Public Health	9,487	11,436	3,334	3,199
Planning and Transportation				
Culture and Leisure	10,021	11,889	8,848	8,533
Leader / Deputy Leader	8,563	11,070	1,605	0
Regeneration and Community Cohesion	2,587	5,315	0	500
Resources	3,089	3,623	2	0
Capital Contingency	3,506	2,285	0	0
Unallocated	912	2,670	0	0
	0	0	7,464	28,682
Total	123,728	112,366	50,000	50,000

An estimate has been made of future spend on the basis of grants expected to be received in 2009/2010 onwards. Where no indication has been received as to whether a grant application will be approved, it is thought to be prudent to exclude these capital schemes from the above estimates. In particular there is no provision included for Wave 2 of the BSF programme, the Sunderland Strategic Transport Corridor or the Central Route Highways scheme, which are subject to approval. The profile of expenditure will be updated in the quarterly capital reviews to Cabinet as further projects are approved.

P2 Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2007/2008 are:

Ratio of financing costs to net revenue stream

2007/2008 Actual	2008/2009 Estimate	2009/2010 Estimate	2010/2011 Estimate	2011/2012 Estimate
2.70%	3.32%	4.83%	6.38%	5.99%

The estimates of financing costs include current commitments and the proposals in this budget report. The forecasts show an anticipated decrease in the ratios of financing costs to net revenue stream than those previously reported in 2007/2008 and 2008/2009 due to an increase in the anticipated rate of return on investments and higher than anticipated investments. They also show an increase in anticipated ratios for 2009/2010 onwards as a result of the current economic downturn leading to lower interest rates on investments than originally forecast. It should be noted that ratios will vary depending on the interest rate obtained on investments and the level of investment. If there is slippage in the use of grant funding in the capital programme then the ratios shown in the table above will decrease, whilst any reduction in the interest rate obtained on investments, beyond that estimated, will lead to an increase in the reported ratios.

The ratio is expected to increase in future years reflecting the fact that significant amounts of expenditure are planned to be financed from earmarked reserves which will lead to investment levels decreasing over time and forecast anticipated low levels of interest rates as a result of the current economic downturn, the end of which is uncertain. As detailed in section 5.8 of the main report, there are planned voluntary increases to the statutory Minimum Revenue Provision in order that, in relation to non trading areas, unsupported borrowing taken out and used to fund invest to save schemes is repaid over a shorter time period relating to the savings profile of the particular invest to save scheme. This will lead to a higher ratio in early years but lower ratios over the medium to long term.

The level of financing costs is considered to be affordable and has been taken into account when assessing the Medium Term Financial Strategy. Please see the report on the Revenue Budget and Proposed Council Tax for 2009/2010.

P3 Estimates of the end of year capital financing requirement for the Council for the current and future years and the actual capital financing requirement at 31 March 2008 are:

Capital Financing Requirement

31/03/08 £000 Actual	**31/03/09 £000 Estimate**	**31/03/10 £000 Estimate**	**31/03/11 £000 Estimate**	**31/03/12 £000 Estimate**
204,723	206,487	218,972	224,979	229,497

The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, Sunderland City Council does not associate individual borrowing taken out with particular items or types of expenditure. The Authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The City Council has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

P4 CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

> "In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

The Authority had no difficulty meeting this requirement in 2007/2008, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this report and the report elsewhere on today's agenda on the Revenue Budget and Proposed Council Tax 2009/2010.

P5 In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. These limits separately identify borrowing from other long-term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the City Treasurer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for the authority. Any such changes made will be reported to the Council at its next meeting following the change.

	Authorised Limit for External Debt			
	2008/2009	**2009/2010**	**2010/2011**	**2011/2012**
	£000	**£000**	**£000**	**£000**
Borrowing	300,134	331,759	313,957	315,023
Other long term liabilities	1,568	1,563	3,058	4,553
Total	**301,702**	**333,322**	**317,015**	**319,576**

The City Treasurer reports that these authorised limits are consistent with the Authority's current commitments, existing plans and the proposals in this report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The City Treasurer confirms that they are based on the estimate of most likely, prudent, but not worst case scenario, with, in addition, sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes. It should be noted that the Council undertakes investment and borrowing on behalf of external bodies such as Tyne and Wear Fire and Rescue Authority. Treasury Management undertaken on behalf of other authorities is included in Sunderland's borrowing limits, however it is excluded when considering financing costs and when calculating net borrowing. A specific element for risk has also been taken into account for these bodies.

In taking its decisions on the Revenue Budget and Capital Programme for 2009/2010, the Council is asked to note that the authorised limit determined for 2009/2010, (see P5 above), will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

P6 The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit, but reflects directly the estimate of the most likely, prudent but not worst case scenario level, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is also asked to delegate authority to the City Treasurer, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit.

The operational boundary limit will be closely monitored and will be reported to Council if it is exceeded at any point. In any financial year, it is only expected that the actual debt outstanding will approach the operational boundary when all of the long-term borrowing has been undertaken for that particular year and will only be broken temporarily as a result of the timing of debt rescheduling.

	Operational Boundary for External Debt			
	2008/09	**2009/10**	**2010/11**	**2011/12**
	£000	**£000**	**£000**	**£000**
Borrowing	221,710	225,649	231,933	238,416
Other long term liabilities	1,568	1,563	3,058	4,553
	223,278	**227,212**	**234,991**	**242,969**

P7 The Council's actual external debt at 31 March 2008 was £201.451 million. The Council does not plan to take out any long-term liabilities but has included an element for this in its calculation of the operational and authorised boundaries to allow flexibility over future financing. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time and allowance needs to be made for cash flow variations.

The estimate of the incremental impact of new capital decisions proposed in this report, over and above capital investment decisions that have previously been taken by the Council are:

	For Band D Council Tax	
2009/2010	**2010/2011**	**2011/2012**
£1.06	£4.92	£7.42

The estimates show the net revenue effect of all capital expenditure from all schemes commencing in 2009/2010 and the following two financial years. The impact on the Band D Council Tax detailed above takes account of estimated government grant funding through Formula Grant.

These forward estimates are not fixed and do not commit the Council. They are based on the Council's existing commitments, current plans and the capital plans detailed in this report. The cumulative effect of full year debt charges will have an additional impact of £8.75 in 2012/2013. There are no known significant variations beyond the above timeframe that would result from past events and decisions or the proposals in the budget report.

P9 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

P10 It is recommended that the Council sets an upper limit on its fixed interest rate exposures of £70 million in 2009/2010, £100 million in 2010/2011 and £100 million in 2011/2012.

P11 It is further recommended that the Council sets an upper limit on its variable interest rate exposures of £30 million in 2009/2010, £30 million in 2010/2011 and £30 million in 2011/2012.

P12 It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate at the start of the period:

	Upper limit	**Lower limit**
Under 12 months	40%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

P13 A maximum maturity limit of £100 million is set for each financial year (2009/2010, 2010/2011 and 2011/2012) for long term investments, (those over 364 days), made by the authority. This gives additional flexibility to the Council in undertaking its Treasury Management function. Should the Council appoint any external fund managers during the year, these limits will be apportioned accordingly. The type of investments to be allowed are detailed in the Annual Investment Strategy (Appendix E).

At present the Council has £75.630 million of long-term investments. The main element of this is £63.000 million in term deposits, of which £28.000 million matures in the current financial year, £5.000 million matures in 2009/2010 and £30.000 million matures in 2010/2011. The remaining £12.609 million is the value of share capital held in NIAL Holdings PLC. This equates to a 9.41% share in Newcastle International Airport. The Council also holds £0.021 million in government securities, other shares and unit trusts.

The objective of the Code is to provide a framework for local authority capital finance that will ensure for individual local authorities that:

(a) capital expenditure plans are affordable;

(b) all external borrowing and other long term liabilities are within prudent and sustainable levels;

(c) treasury management decisions are taken in accordance with professional good practice;

and that in taking decisions in relation to (a) to (c) above the local authority is

(d) accountable, by providing a clear and transparent framework.

Further, the framework established by the Code should be consistent with and support:

(e) local strategic planning;

(f) local asset management planning;

(g) proper option appraisal.

In exceptional circumstances the objective of the Code is to provide a framework that will demonstrate that there is a danger of not ensuring the above, so that the Authority can take timely remedial action.

Treasury Management Policy Statement

1. The Council adopted the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services on 20 November 2002. A major requirement of this Code relates to the need to have in place a Treasury Management Policy Statement (TMPS).

2. Under the TMPS the policies and objectives of treasury management activities are as follows:

   Treasury Management activities are defined as

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

   The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

   Effective treasury management supports the achievement of the council's business and service objectives. Consequently, there must be commitment to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

3. No change is proposed to the Council's TMPS.

Appendix E

Treasury Management Strategy Statement

1. Introduction

1.1 The council has customarily considered an Annual Treasury Strategy Statement under the requirement of the CIPFA Code of Practice on Treasury Management, which was adopted by the Council on 20th November 2002. The 2003 Prudential Code for Capital Finance in Local Authorities introduced new requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of an integrated Treasury Management Strategy.

1.2 The Prudential Code requires due regard to be had to the Prudential Indicators set out in Appendix C, when determining the Council's Treasury Management Strategy.

Borrowing Strategy

1.3 The suggested borrowing strategy for 2009/2010 in respect of the following aspects of the treasury management function is based upon the City Treasurer's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser. The strategy covers:

- the past and current treasury position including interest rates;
- the borrowing requirement for 2009/2010;
- the outlook for interest rates;
- capital borrowings and borrowing strategy for 2009/2010;
- debt rescheduling.

The Borrowing Strategy is set out in paragraphs 2 to 6 inclusive.

Investment Strategy

1.4 The Investment Strategy comprises:

- investment objectives;
- security of capital: the use of credit ratings and other market intelligence;
- investments defined as capital expenditure;
- provision for credit related losses;
- past performance and current position;
- outlook and proposed investment strategy for 2009/2010;
- end of year report.

The Investment Strategy is set out at paragraphs 7 to 13.

BORROWING STRATEGY

2. The Past and Current Treasury Position including Interest Rates

2.1 Interest Rates 2008/2009

2.1.1 Interest rates have varied significantly during the current financial year, particularly at the shorter end of the market, as illustrated in the following table:

Loan Type	March 2008 %	January 2009 %	Difference %
7 Day Notice	5.25	1.20	(4.05)
1 Month	5.66	1.55	(4.11)
PWLB - 1 Year	4.21	0.91	(3.30)
5 Year	4.21	2.91	(1.30)
10 Years	4.56	3.94	(0.62)
25 Years	4.64	4.69	0.05
50 Years	4.42	4.65	0.23

The Bank of England Base Rate moved as follows:

		%	
February	2008	5.25	(previous change)
April	2008	5.00	
October	2008	4.50	
November	2008	3.00	
December	2008	2.00	
January	2009	1.50	(latest change)

2.1.2 Shorter-term rates – the Base Rate began the financial year at 5.25%. Apart from a small reduction in April, the base rate remained at 5.00 until October when a series of significant reductions occurred in successive months. Whilst the small change in April can be attributed to seeking to combat a gradual slow down in the economy without risking an increase in inflationary pressures, the changes during the latter part of the financial year were prompted by the realisation that inflationary pressures had subsided and more significant reductions were necessary to help combat the unprecedented economic downturn in the economy and to help stimulate lending by the banking sector. Accordingly, the Monetary Policy Committee took the unprecedented step of reducing rates by 1.50% to 3.00% in November, and quickly followed this action by a further cut of 1.00% in December 2008 and a further cut of 0.50% in January 2009 to leave the Base Rate at 1.50%.

2.1.3 Longer-term interest rates – Public Works Loan Board (PWLB) rates steadily increased to peak in June 2008, with the 1 to 10 year periods being approximately 1.00% to 1.50% higher than at the beginning of the financial year. Rates then steadily reduced during the year, with the greatest reductions being at the shorter end of the range (particularly 1 to 10 years). The longer PWLB rates (25 and 50 year) remained relatively constant during the year ending marginally higher.

2.2 **Long-term Borrowing 2008/2009**

2.2.1 As part of the Treasury Management Policy and Strategy Statement which was included in the March 2008 Capital Programme Council report, a benchmark rate of 4.50% was set for all long-term borrowing to be undertaken in 2008/2009.

2.2.2 Borrowing required of £5.600 million for 2008/2009 was the result of the 11.75% redeemable stock maturing in November 2008. As PWLB rates are forecast to fall during 2009/2010, a decision was taken not to replace this borrowing at the present time, (see paragraph 4.2 below), as cheaper replacement borrowing is forecast to be available especially in the later periods of 2009/2010.

The Council had a further possible borrowing requirement of £19.500 million due to three Lenders Option Borrowers Option loans (LOBO's) that were due to rollover in 2009/2010 (details shown below). With a LOBO the lender has the option to vary the rate on the rollover date and the Council can either accept the new rate or repay the loan. The lenders have not exercised their option to vary the rate in respect of these loans, so they will continue for the next rollover period.

Start Date	Lender	Amount £m	Period (Years)	Rate %	Rollover Date	Rollover Period
21/10/03	Barclays	5.000	40	4.50	23/10/08	Every 6 Months
12/06/06	Barclays	9.500	60	4.37	10/12/08	Every 3 Years
27/01/06	Dexia	5.000	60	4.45	27/01/09	Every 3 Years

2.2.3 The Treasury Management Strategy for 2008/2009 included provision for debt rescheduling as follows: "to secure further early debt redemption when (and if) appropriate opportunities arise. Consequently market conditions will be closely monitored to identify and take advantage of any such opportunities".

Advantage was taken of recent favourable market conditions in January 2009 which enabled a debt rescheduling exercise to be started by the council. As a result £30.000 million of PWLB loans, with rates ranging from 4.15% to 4.30% (as shown in the table below), have been prematurely repaid. This was considered opportune as investment rates were averaging 1.80% (and are projected to fall even further over the coming year) and the average rate payable on the PWLB loans was on average 4.20%, it was therefore considered appropriate to repay certain PWLB loans using investments to temporarily finance this transaction as the net premium involved was very advantageous, being almost cost neutral. The debt was replaced temporarily with a loan of £20m at a rate of 1.05%, to assist with temporary cash flow needs. The aim is then to replace the loans in 2009/2010 either:

- when the longer term PWLB is forecast to dip below 4.0%, (see paragraph 4.2 Survey of Economic Forecasts below); or if this does not happen,
- replacing the debt on a lower term or with variable rate debt prior to locking in at low long term rates at some point in the future depending upon the market outlook.

Date	**Lender**	**Loan No**	**Amount £m**	**Period (Years)**	**Rate %**	**Premium / (Discount) £**
23/01/09	PWLB	491437	6.0	40.5	4.20	(44,804)
23/01/09	PWLB	491438	5.0	41.5	4.20	(28,346)
23/01/09	PWLB	490874	4.0	47.0	4.15	(16,049)
23/01/09	PWLB	490875	4.0	48.0	4.15	(8,101)
23/01/09	PWLB	491673	4.0	45.5	4.20	15,823
23/01/09	PWLB	492604	2.0	46.5	4.20	7,953
23/01/09	PWLB	491874	4.0	45.5	4.25	55,671
23/01/09	PWLB	491694	1.0	47.0	4.30	26,179
Total Repaid			**30.0**			**8,326**

The Treasury Management team will continue to monitor market conditions and will secure further early debt redemption when and if appropriate opportunities arise. Any rescheduling undertaken will be reported to Cabinet as part of the current treasury management reporting procedure.

2.2.4 The Council also has nine market Lender's Option / Borrower's Option (LOBO) loans totalling £39.500 million. Of these £34.500 million were converted from stepped rate loans (i.e. loans where the interest rate was fixed for an initial period, and then rose to an agreed higher rate) to flat rate loans (sometimes known as vanilla LOBO's) where the interest rate remains the same throughout the period of the loan. The rescheduling of these LOBO's had the following effects:

- Lengthening the period of the loan resulting in a lower interest rate;
- Reducing the Council's volatility levels by lengthening the 'roll-over' period from every six months to every three years.

The one unchanged LOBO detailed below, stepped up to the higher rate of 4.50% from the initial rate of 2.55% on 23rd April 2007.

Start Date	**Lender**	**Amount £m**	**Period (Years)**	**Rate %**	**Fixed Period**	**Roll Over Period**
21/10/03	Barclays	5.0	40	4.50	23/04/07	Every 6 Months

The last 'roll-over' date (23rd October 2008), unsurprisingly, has now passed without the lender requesting a change in the rate of interest. The Lender still has the option at the end of each 'roll-over' period to vary the interest rate and the Council has the option to accept the new rate or repay the loan at that point.

The Treasury Management team will continue to monitor this loan for an opportunity to renegotiate the loan in a similar manner to the other LOBO's.

2.3 Current Portfolio Position

The Council's treasury portfolio position at 23rd January 2009 is:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	98.5		
	Market	34.5		
	Other	0.5	133.5	4.16
Variable Rate Funding	PWLB	0.0		
	Market	5.0		
	Temporary/ Other	47.4	52.4	2.75
Total Borrowing			**185.9**	**3.76**
Total Investments	In House		**199.6**	**5.23**

3. Borrowing Requirement 2009/2010

3.1 Future Borrowing Requirement

		2009/10 £m	2010/11 £m	2011/12 £m
1.	Unsupported Capital Borrowing (potential)	10.0	10.0	10.0
2.	Replacement borrowing (PWLB)	35.0	0.0	0.0
3.	Replacement borrowing (Market)	0.0	0.0	0.0
4.	Market LOBO replacement (potential)	20.0	5.0	24.5
TOTAL – KNOWN (2+3)		**35.0**	**0.0**	**0.0**
TOTAL – POTENTIAL (1+4)		**30.0**	**15.0**	**34.5**

4. The Outlook for Interest Rates

4.1 The Council appointed Sector Treasury Services as treasury advisers to the Council and part of their service is to assist the Council to formulate a view on interest rates.

4.2 Economic Forecasts

Set out below, are a number of current City forecasts for short term or variable (the Bank of England Base Rate) and longer fixed interest rates.

4.2.1 Survey of Economic Forecasts

The table below shows the HM Treasury – December 2008 summary of forecasts of 23 City and 12 academic analysts for Q4 2008 and Q4 2009 and the average 2010 to 2012 are based on 21 forecasts provided:

Bank Rate Forecasts		Quarter ended		Annual Average Bank Rate		
	Actual %	Q4 2008 %	Q4 2009 %	Average 2010 %	Average 2011 %	Average 2012 %
Median	2.00	2.00	1.00	3.11	3.97	4.49
Highest	2.00	4.50	4.00	4.70	5.00	5.25
Lowest	2.00	2.00	0.50	1.00	2.25	3.00

4.2.2 **Sector's** interest rate forecasts provided on 5th January 2009 are set out in the table below:

	2008/09	2009/10				2010/11				2011/12			
	Q1 2009 %	Q2 2009 %	Q3 2009 %	Q4 2009 %	Q1 2010 %	Q2 2010 %	Q3 2010 %	Q4 2010 %	Q1 2011 %	Q2 2011 %	Q3 2011 %	Q4 2011 %	Q1 2012 %
Bank Rate	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.75	2.50	3.25	3.75	4.00
PWLB 5yr	2.50	2.25	2.15	2.15	2.15	2.45	2.80	3.15	3.65	3.95	4.20	4.45	4.60
PWLB 10 yr	3.10	2.75	2.55	2.55	2.55	2.85	3.25	3.65	4.15	4.40	4.70	4.75	4.85
PWLB 25y	4.00	3.95	3.95	3.95	4.00	4.15	4.35	4.45	4.60	4.85	4.95	5.00	5.05
PWLB 50yr	3.85	3.80	3.80	3.80	3.85	3.90	4.00	4.25	4.40	4.70	4.80	4.95	5.00

4.2.3 **Capital Economics** interest rate forecast -19th January 2009

	2008/09	2009/10				2010/11		
	Q1 2009 %	Q2 2009 %	Q3 2009 %	Q4 2009 %	Q1 2010 %	Q2 2010 %	Q3 2010 %	Q4 2010 %
Bank Rate	0.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PWLB 5yr	1.65	1.45	1.45	1.45	1.45	1.45	1.45	1.45
PWLB 10 yr	2.65	2.15	2.15	2.15	2.15	2.15	2.15	2.15
PWLB 25y	4.15	4.00	3.80	3.65	3.65	3.65	3.65	3.65
PWLB 50yr	4.05	3.95	3.85	3.75	3.75	3.75	3.75	3.75

4.3 Economic Background

4.3.1 Introduction

- The sub prime crisis of early 2008 was superceded by the banking crisis of autumn 2008. The world banking system came near to collapse and governments around the world were forced to recapitalise and rescue their major banks. The resulting shortage of lending from banks anxious to preserve capital led to economic forecasts being sharply reduced and the effect of a recession was priced into the markets. This in turn led to sharp falls in oil and other commodity prices with the result that inflation, which in the UK was running at over 5%, dramatically reduced and recession fears drove interest rate sentiment and policy. A co-ordinated global interest rate cut of 50bp took place on 8th October 2008 and further cuts were effected in the UK as the country was heading for recession.

4.3.2 International

- Early in 2008 the US economy was being badly affected by the housing market slump. Interest rates were at 2% and inflation was being dragged higher by the uncontrollable rise in commodity prices. The ECB was very concerned about rising inflation and less about the state of the economy at that time.
- The second quarter of 2008/2009 was torn between inflation worries on the one hand, with oil rising towards $150 per barrel, and the deteriorating economic outlook on the other.
- In the second and third quarters of the financial year the financial crisis erupted and escalated as the world became aware of the extent of the sub-prime position and the impact it was having on institutions that had invested in them.
- In September Fannie Mae/Freddie Mac (the mortgage banks) and AIG, the insurance giant, had to be bailed out by the US Federal Government.
- Then in mid September, Lehman Bros., the investment bank, was allowed to fail. This triggered a domino effect with other banks and financial institutions having to be rescued or supported by governments around the world.
- After the collapse into receivership of the Icelandic banks in early October, other countries then started to feel the strain and a number had to approach the IMF for support.
- Eventually the Asian economies were affected, including India and China, and it became clear that the crisis had become fully global one and no country was insulated from it.
- The financial crisis had developed into an economic crisis and there was a co-ordinated global interest rate cut with the Fed, ECB and MPC all cutting rates by 50bp on 8th October, 2008. The Fed subsequently cut rates again by 50bp to 1% on 29th October and again on 16th December to a band of 0.00% to 0.25% in an attempt to stave off the oncoming recession.
- The ECB reduced rates again on 6th November by 50bp and also by its biggest ever cut of 75bp on 4 December to reach 2.5%. Rates were also reduced by a further 50bp on 14th January 2009 and the rate is now currently 2.00%.

4.3.3 United Kingdom (UK)

- GDP: growth was already slowing in 2008 from 2007 before the full impact of the credit crunch was felt. Earlier in 2008 GDP was 2.3% whereas in the autumn the figure fell back to -0.3% and was then expected to continue this negative trend into 2009.
- Wage inflation remained relatively subdued as the Government kept a firm control on public sector pay. Private sector wage growth was kept in check by the slowing economy.
- Growth slowed across the economy and unemployment rose throughout the year with forecasts of 2 million unemployed by the end of the financial year and continuing to increase thereafter through 2010.
- Notwithstanding the pressures on household finances consumer spending still continued at a reasonable pace although the trend was slowing as the year progressed.
- Bank lending came to a virtual standstill in the autumn as the credit crunch tightened its grip and a number of banks had to be rescued, or supported, by the government.
- The Government and Bank of England supplied massive amounts of liquidity to the banking market in an attempt to re-ignite interbank lending.
- The Government took action in September to either supply finance itself to recapitalise some of the major clearing banks or to require the others to strengthen their capital ratios by their own capital raising efforts. This was so that these banks would be seen to have sufficient reserves to last through the coming recession with its inevitable increase in bad loans etc.
- The housing market also came to a virtual standstill as lenders demanded larger deposits and higher fees. House sales and prices both dropped sharply.
- Government finances deteriorated as income from taxation dropped as the economy slowed and the cost of the bailout of the banks was added to the deficit.
- U.K. equity prices declined sharply in the 3rd and 4th quarters as the impending recession was priced into the markets. Prices hit five year lows and volatility was extremely high.
- After the initial concerns about the impact of the credit crunch in the earlier part of 2008 it appeared as though the storm had been weathered. The MPC had been very concerned about CPI inflation, which had been rising sharply on the back of higher commodity and food prices. The Bank Rate reached a peak of 5.75% in July 2007 after which cuts of 0.25% occurred in December 2007 and February and April 2008 before the major cuts made in the autumn. The economic data had been indicating a slowing economy for some while but it was not sufficiently weak to force the MPC into another cut, however it was the strength of the banking crisis, pre-empted by the collapse of Lehmans in New York that eventually drove the MPC to cut interest rates by 50bp on 8th October 2008 in conjunction with the Federal Reserve, the ECB and other central banks. It was then appreciated that the economic downturn would be much more severe than previously thought and interest rates were subsequently reduced by

150bps on 6th November and by a further 100bps on 4th December and the base rate currently stands at 1.5%.

- The LIBOR spread over Bank Rate has also been a feature, and a concern, of 2008/2009. Because of credit fears and the reluctance of lenders to place cash for long periods, 3 month LIBOR (this is the London Inter Bank Offer Rate – the rate at which banks will lend to one another), has been substantially higher than the Base Rate. This has meant that the MPC's power over monetary policy has been eroded by the widening of this spread between LIBOR and Base Rate and it has therefore had a limited ability to bring relief to hard pressed borrowers through lower interest rates. However, the power of the Government over the semi nationalised clearing banks had considerable impact in enforcing pro rata reductions to the 150 bps Base Rate cut in November on some borrowing rates.
- The pre Budget Report on 14th November revealed the Government's plans for a significant increase in Government borrowing over coming years as a result of falling tax revenues and also due to tax cuts and increases in Government expenditure in the short term designed to help stimulate economic growth to counter the recession.

4.4 Base Rate Forecast

Sector has advised that they expect the Bank Base Rate to be cut by a further 1.00% in the first quarter of 2009 which will mean that the Base Rate will be 0.50%, where it is expected to remain for the rest of 2009/2010. From April 2010 the Base Rate is expected to steadily rise again until it reaches 4.00% by March 2012. However, there is a downside risk to this forecast if the recession proves to be deeper and more prolonged than is currently anticipated.

4.5 Long-term PWLB Rates

With regard to the PWLB interest rates, the shorter periods are more influenced by the Base Rate whereas the longer periods are more sensitive to inflation, both actual and expected. Sector is forecasting the PWLB rates to be at their lowest in Q4 2009 (5 year being 2.15% and 50 year being 3.80% to 3.90%), and are then projected to slowly increase over the following two years.

5. Capital Borrowings and Borrowing Strategy for 2009/2010

5.1 Variable rate borrowing is expected to become cheaper with the Base Rate being forecast to fall to 0.50% in Q1 2009. Thereafter variable rate borrowing is expected to remain at this level until Q2 2010 before rising to 4.0% over the following two years.

The forecast for the long-term PWLB rates is to fall in Q2 2009 (i.e. 25 year – 3.95% and 50 year – 3.80% to 3.90%) and remain around these levels until Q1 2010 before slowly increasing to 5.05% for 25 year and 5.00% for 50 year by the end of 2011/2012.

The City Treasurer will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances, reporting any decisions to Cabinet as part of established reporting procedures for Treasury Management.

5.2 Sensitivities of the Forecast

The main sensitivities of the forecast are likely to be the two scenarios below. Council officers, in conjunction with treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- If it was felt that there was a significant risk of a sharp rise in long and short term borrowing rates, perhaps arising from a greater than expected increase in world economic activity, then the portfolio position will be re-appraised with the likely action that further fixed rate funding would be drawn whilst interest rates were still relatively cheap.

- If it was felt that there was a significant risk of a sharp fall in long and short term borrowing rates, for example if growth rates remained low or were weakening, then long term borrowings would be postponed, and any rescheduling from fixed rate funding into variable or short rate funding would be considered.

The City Treasurer in conjunction with treasury adviser's guidance considers a benchmark financing rate of 4.00% for any further long-term borrowing for 2009/2010 to be appropriate. With long-term interest rate forecasts set to remain around their current levels that level is considered appropriate as the long-term borrowing rate benchmark limit for 2009/2010.

It is possible that if long term rates do not fall then some investment balances may be considered to fund the borrowing requirement in 2009/2010. In addition, the Council may not need to borrow further depending upon the completion of various capital schemes. However the need to adapt to changing circumstances will be required, and flexibility will be retained to adapt to such changes.

The City Treasurer, in conjunction with treasury advisers will continue to monitor rates closely, and whilst implementing the borrowing strategy, will adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow.

6. Debt Rescheduling

6.1 The reasons for any rescheduling to take place will include:

- The generation of cash savings at minimum risk;
- In order to help fulfil the strategy; and
- In order to enhance the balance of the long-term portfolio (by amending the maturity profile and/or the balance of volatility).

In previous years debt rescheduling has achieved significant savings in interest charges and discounts and these interest savings have been secured for many years to come. However, changes to the PWLB rules in 2007, in respect of replacement loans largely removed the potential for debt rescheduling unless dramatic changes in interest rates are forecast or occur. Such has been the case in the latter part of 2008 and is forecast for the next period.

The latest interest rate projections for 2009/2010 would indicate that it seems likely that there may be some debt rescheduling opportunities in 2009/2010. The PWLB longer term rates are projected to fall to their lowest rate, (below 4%), for some time and consequently the council is keeping a watching brief on market conditions in order to secure further early debt redemption when, and if, appropriate opportunities arise. The timing of all debt repayment is crucial. The timing of all borrowing and investment decisions inevitably includes an element of risk, as those decisions are based upon expectations of future interest rates. The policy to date has been very firmly one of risk spread and this will be continued.

Any rescheduling undertaken will be reported to Cabinet, as part of the current treasury management reporting procedure.

Investment Strategy

7. Introduction

7.1 This Council has regard to the Government Guidance on Local Government Investments and the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA TM Code).

7.2 This Investment Strategy is a requirement under the Government's Guidance on Local Government Investments. The Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the headings of 'Specified Investments' and 'Non-Specified Investments'. Under the prudential code and Government Guidance of Local Government Investments it is possible to use non-specified investments as approved investments. Non-specified investments, (which are for greater than one year – up to a maximum of 5 years), clearly can present a higher risk than the previous 364 day investment limit.

7.3 This Strategy sets out:

- the procedures for determining the use of each asset class, (advantages and associated risk), particularly if the investment falls under the category of “non-specified investments”;
- the maximum periods for which funds may be prudently committed in each asset class;
- the amount or percentage limit to be invested in each asset class;
- whether the investment instrument is to be used by the Council’s in-house officers and/or by the Council’s appointed external fund managers, (if used); and, if non-specified investments are to be used in-house, whether prior professional advice is to be sought from the Council’s treasury advisers;
- the minimum amount to be held in short-term investments (i.e. one which the Council may require to be repaid or redeemed within 12 months of making the Investment).

8. Investment Objectives

8.1 All investments will be in pounds sterling. The general policy objective for the Council is the prudent investment of its treasury balances. The Council’s investment priorities are in order of importance:

(A) The **security** of capital;
(B) The **liquidity** of its investments and then
(C) The council aims to achieve the **optimum return** on its investments but this is commensurate with the proper levels of security and liquidity.

9. Security of Capital: The Use of Credit Ratings

9.1 The Council uses credit ratings published by Fitch IBCA to inform the credit quality of counterparties, and where a counterparty does not have a Fitch rating, the equivalent Moody’s or Standard and Poor’s rating will be used. The credit rating criteria used to identify “Approved Organisations for Investments” and their Authorised Investment Limits are consistent with those previously approved by Cabinet and are set out in Appendix G for information.

9.2 Monitoring of credit ratings:

- All credit ratings are monitored on a daily basis. The Council has access to both Fitch and Moody’s credit ratings and is alerted to changes through its use of the Sector Treasury Services credit worthiness service.

- If a counterparty’s rating is downgraded with the result that it no longer meets the Council’s minimum criteria, the counterparty will be withdrawn from the Council’s Approved Lending List. The Council will also immediately inform its external fund manager(s), if used, of the withdrawal of the same.

- If a counterparty's rating is downgraded with the result that, that rating is still sufficient for it to remain on the Approved Lending List, the counterparty's authorised investment limit will be reviewed accordingly. The downgraded credit rating may result in the lowering of the counterparty's investment limit. The Council will also immediately inform its external fund manager(s), if used, of the change(s).

- If fund managers are employed by the Council, the Council will establish with its fund manager(s) their credit criteria and the frequency of their monitoring of credit ratings so as to be satisfied as to their adherence to the Council's policy.

9.3 Since the credit crunch crisis there have been a number of developments which require separate consideration and will also inform the investment strategy.

9.3.1 Nationalised Banks

In the UK, nationalised banks have credit ratings which do not conform to the credit criteria usually used by local authorities to identify banks which are of high credit worthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, Fitch have assigned an 'F' rating which means that at a historical point of time, this bank 'failed' and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating and as such they have effectively taken on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. They also have a support rating of 1; as they are being actively supported by the government. In other words, on both counts, they have the highest ratings possible, although their individual credit rating will not meet the Council's criteria. It is proposed that the Council adopts these institutions on the basis that they are appropriately supported by the government.

9.3.2 Blanket Guarantees on all Deposits

Some countries have supported their banking system by giving a blanket guarantee on all deposits e.g. Ireland. The view could be taken that the sovereign credit rating of a particular country then takes precedence over the individual credit ratings for the banks covered by that guarantee. However a judgement is necessary as to whether to rely on the blanket guarantees to authorise lending to these banks and for which countries they are prepared to do so. The Council's Treasury Advisers have indicated that only AAA sovereign credit ratings for a particular country are considered appropriate in these circumstances. In addition, consideration will be given to the outlook and other information available at the time of making individual deposits.

9.3.3 UK Banking System - Support Package - 8th October, 2008

The UK Government has not given a blanket guarantee on all deposits but has underlined its determination to ensure the security of the UK banking system by supporting eight named banks with a £500bn support package. Whilst no blanket guarantee is in place this represents a very significant financial commitment which has been accompanied by further statements of intent should a worsening scenario emerge. It is proposed to continue to lend to banks and building societies within the UK, subject to the lending list criteria set out at Appendix F.

9.3.4 Other Countries

Other countries have also signalled their support for their domestic banks through the provision of very significant financial support and guarantees similar to those provided by the UK Government in relation to its banks. This factor has also been considered in framing the lending list.

9.3.5 UK Banking System - Additional Support Package

On 13th October 2008, the UK Government announced a further measure known as the Credit Guarantee Scheme. This scheme forms part of the Government's measures announced on 8th October 2008 to ensure the stability of the financial system and to protect savers, depositors, businesses and borrowers. In summary these measures are intended to:

- provide sufficient liquidity in the short term;
- make available new capital to UK banks and building societies to strengthen their resources, permitting them to restructure their finances, while maintaining their support for the real economy; and,
- ensure that the banking system has the funds necessary to maintain lending in the medium term.

As previously stated this Credit Guarantee Scheme is not a blanket guarantee by the UK Government on all deposits but it has underlined the Government's determination to ensure the security of the UK banking system by supporting the banking system with a £500bn support package.

9.3.6 The Irish Government Guarantee

The Irish Government has guaranteed all retail and corporate deposits, interbank deposits, senior unsecured debt, covered bonds (including asset covered securities); and dated subordinated debt (Lower Tier 2) until 29th September 2010. The country presently has a sovereign credit rating of AAA.

10. Investments Defined as Capital Expenditure

10.1 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments have to be funded out of capital or revenue resources and are classified as ‘non-specified investments’.

10.2 A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by the Council. It is therefore important for the Council to clearly identify if the loan has been made for policy reasons or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Council for ‘specified’ and ‘non-specified’ investments.

10.3 The Council will not use or allow any external fund managers it may appoint to use, any investment, which will be deemed as capital expenditure.

11. Provisions for Credit related losses

11.1 If any of the Council’s investments appear at risk of loss due to default, (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates), then the Council will make revenue provision of an appropriate amount in accordance with proper accounting practice or any prevailing government regulations, if applicable.

12. Past Performance and Current Position

12.1 During 2008/2009 the Council did not employ any external fund managers, all funds being managed by the Council’s in-house team.

The performance of the fund by the in-house team is shown below and compares this with the previous years performance:

	2007/08 Return %	2007/08 Benchmark %	2008/09 Return % Year to date	2008/09 Benchmark % Year to date
Council	5.70	5.57	5.23	4.22

12.2 During 2008/2009 the Council will continue to review the optimum arrangements for the investment of its funds.

13. Outlook and Proposed Investment Strategy 2009/2010

13.1 Based on its cash flow forecasts, the Council anticipates its fund balances in 2009/2010 are likely to range between £160m and £220m which represents a cautious approach and provides for unanticipated levels of advanced funding through grants and for unexpected and unplanned levels of slippage and underspending. However in 2009/2010, if short-term interest rates fall materially below long-term rates, it is possible that some investment balances may be used to fund some long-term borrowing. Such funding is wholly dependent upon market conditions and will be assessed and reported to Cabinet if and when the appropriate conditions arise.

13.2 The Council is not committed to any investments, which are due to commence in 2009/2010, (i.e. it has not agreed any forward deals).

13.3 Activities likely to have a significant effect on investment balances are:

- Capital expenditure during the financial year, (dependent upon timing), will affect cash flow and short term investment balances;
- Any slippage in capital expenditure from, and to, other financial years will also affect cash flow, (no slippage has been taken into account in current estimates);
- Any unexpected capital receipts or income;
- Timing of new long-term borrowing to fund capital expenditure;
- Possible funding of long-term borrowing from investment balances (dependent upon appropriate market conditions).

13.4 The minimum amount of overall investments that the Council will hold in short-term investments (less than one year) is £50m. As the Council has decided to restrict most of its investments to term deposits, it will maintain liquidity by having a minimum of 50% of these short-term investments maturing within 6 months.

13.5 A maximum of £100m is to be set for in-house non-specified investments over 364 days up to a maximum period of 2 years. The City Treasurer will monitor long-term investment rates and identify any investment opportunities if market conditions change. This will enable the Council to invest balances available from sources such as the Strategic Investment Reserve, Schools, the Insurance Reserve and balances from any slippage of the capital programme.

13.6 The type of investments to be used by the in-house team will be limited to term deposits and will follow the criteria as set out in Appendix F.

13.7 The City Treasurer, in conjunction with the Council's treasury adviser Sector Treasury Services, and taking into account the minimum amount to be maintained in short-term investments has, and will continue to, look to lengthen the average investment periods to lock in at the better investment returns as appropriate. The strategy will continue to monitor investment rates closely and to identify any appropriate investment opportunities that may arise.

13.8 The Council will also agree strict investment limits and investment criteria with any external fund managers it may appoint. These external fund managers will work to the following parameters:

- The institutions on the Approved Lending list of the external manager must correspond to those agreed with Sunderland City Council (i.e. only institutions on Sunderland City Council's Approved Lending List to be included as shown in Appendix G);
- they will be allowed to invest in term deposits, Certificates of
- Deposit (CD's) and government gilt securities;
- An investment limit of £3m per institution (per manager);
- A maximum limit of 50% fund exposure to government gilts;
- A maximum limit of 10% fund exposure to supranational investments;
- A maximum proportion of the fund invested in instruments carrying rates of interest for periods longer than 364 days shall not exceed 50%. Again, it is proposed to only recommend the use of fixed term deposits up to a maximum of 2 years.

13.9 The details regarding the types of investment and the time periods to be permitted for investments are detailed in the Council's Approved Lending List (Appendix G) and also with reference to the Lending List Criteria set out in (Appendix F).

13.10 It is further proposed that:

- UK nationalised banks (or banks where the government have taken a substantial stake) will be included in the Lending List and that the criteria applied will be the Government's AAA rating, however, as they will only have a short term F1+ rating - this in effect means that the maximum period funding can be placed with these institutions is up to a maximum of 364 days, unless a lesser period of guarantee has been stated by the government;
- The main 8 UK institutions benefiting from the Government's Credit Guarantee Scheme should have the AAA credit rating applied to them provided that:
  - the government's guarantee scheme is still in place
  - the UK continues to have a sovereign credit rating of AAA; and
  - that market intelligence and professional advice is taken into account
- Investments be limited to UK institutions only at this stage and that the position is kept under review;
- Delegated authority be given to the City Treasurer, in consultation with the Cabinet Portfolio holder for Resources, to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively, in accordance with normal Treasury Management reporting procedures.

14. End of Year Report

14.1 At the end of the financial year, the Council will prepare a report on its investment activity as part of its Annual Treasury Report.

Appendix F

LENDING LIST CRITERIA

UK Institutions only

<u>Fitch IBCA Long-term Credit Ratings</u>

Long-term Credit Ratings generally cover periods of investment up to a maximum of 5 years.

		£m	Maximum Investment Period
AAA, or AA+	Maximum Investment Limit	30	2 Years
AA	Maximum Investment Limit	25	2 Years
AA-	Maximum Investment Limit	20	364 Days
A+ or A	Maximum Investment Limit	10	364 Days
A-	Maximum Investment Limit	5	6 months

Where nationalisation or part nationalisation has occurred, the AAA rating for the UK will be used.

<u>Fitch IBCA / Moody's Short-term Ratings</u>

Short-term Credit Ratings cover periods up to 1 year.

Investment periods can be determined by Fitch IBCA/Moody's short-term ratings.

Fitch IBCA / Moody's		
F1 or F1+/ P-1	Max.Period	364 Days
Fitch IBCA / Moody's		
F2 or P-2	Max.Period	6 Months

	£m	Maximum Investment Period
Local Authorities (limit for each local authority)	30	364 Days

APPENDIX G

Sunderland City Council

Approved Lending List

This list reflects the changes made since the previous submission to Cabinet on 8th October 2008 to date.

Institution	Country	Fitch IBCA Long Term	Fitch IBCA Short Term	Moody's Long Term	Moody's Short Term	Total Limit £m	Max. Deposit Period
Abbey National plc	UK	AA-	F1+	Aa3	P-1	20	364 Days
Alliance & Leicester plc	UK	AA-	F1+	Aa3	P-1	20	364 Days
Bank of Scotland (HBOS)	UK	AA-	F1+	Aa1	P-1	20	364 Days
Barclays Bank plc	UK	AA	F1+	Aa1	P-1	25	2 Years
HSBC Bank plc	UK	AA	F1+	Aa1	P-1	25	2 Years
Lloyds TSB Bank plc	UK	AA-	F1+	Aaa	P-1	20	364 Days
National Westminster Bank / Royal Bank of Scotland/Ulster Bank	UK	AA-	F1+	Aa3	P-1	20	364 Days
Northern Rock plc *	UK	A-	F1+	A2	P-1	5	364 Days
* Nationalised - Government guarantee is in place on a rolling 3 month basis							
Top 10 Building Societies							
Nationwide B.S.	UK	AA-	F1+	Aa2	P-1	20	364 Days
Britannia B.S.	UK	A-	F2	A2	P-1	5	6 Months
Yorkshire B.S.	UK	A	F1	A2	P-1	10	364 Days
Coventry B.S.	UK	A	F1	A2	P-1	10	364 Days
Chelsea B.S.	UK	A-	F1	A2	P-1	5	364 Days
Leeds B.S.	UK	A	F1	A2	P-1	10	364 Days
West Bromwich B.S.	UK	A-	F2	A2	P-1	5	6 Months
Skipton B.S.	UK	A	F1	A2	P-1	10	364 Days
Principality B.S.	UK	A-	F2	A2	P-1	5	6 Months
Newcastle Building Society	UK	A-	F1	A2	P-1	5	364 Days