Item No:	Classification:	Date:	Meeting Name:
5.3	**Open**	**22 February 2006**	**Council Assembly**
Report title:		**Prudential Indicators 2006/07 to 2008/09 and Annual Investment Strategy 2006/07**	
Wards or Groups affected:		**All**	
From:		**Finance Director**	

RECOMMENDATIONS

1. That the Council Assembly agree:

   (i) the prudential indicators for 2006/07 to 2008/09 and the annual investment strategy for 2006/07 as set out in Appendices A and B respectively, enabling the Council to carry out normal capital financing, borrowing and investment activities.

   (ii) a net capital allowance requirement of £159 million, as set out in paragraph 20 of this report, enabling the Council to carry on retaining capital receipts for affordable housing and regeneration that would otherwise have to be passed on to the Government under pooling arrangements.

BACKGROUND INFORMATION

2. This report sets out the prudential indicators and investment strategy that require Council Assembly approval. The indicators and strategy enable the Finance Director to carry out his normal capital financing borrowing and investment responsibilities that are delegated to him under Council Financial Regulations.

3. The indicators bring together capital finance, borrowing and investment arrangements in a series of prudential indicators and limits to give a general picture of the affordability and prudence of financing activities. The indicators represent estimates and projections of financing activities and the authorised borrowing limit represents the debt ceiling that the Council must by law remain within. The regime for the indicators was brought in by the Local Government Act 2003, supporting regulations and the Prudential Code for Capital Finance in Local Authorities, published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

4. The report also asks for formal decisions concerning capital allowances to enable the Council to carry on retaining receipts for affordable housing and regeneration that would otherwise have to be passed on to the Government under pooling arrangements. Council spending relies on securing these exemptions from pooling.

KEY ISSUES FOR CONSIDERATION

CAPITAL FINANCE, BORROWING AND INVESTMENTS

5. A detailed review of each indicator that requires approval is set out in Appendix A and key points of interest are drawn out below. The annual investment strategy that also requires approval is set out in Appendix B.

6. The Council's cash balance averaged £289 million over the course of 2004/05 and as at the end of December 2005 stood at £305.7 million. The cash is invested across a number of counterparties which can include the Government, local authorities, and large high rated banks and building societies. Investment risk is further contained by placing limits on maturities that exceed one year.

7. Day to day investment management is carried out by an inhouse operation and Invesco Asset Management Ltd, part of the large UK investment group AMVESCAP. Invesco are used largely to gain exposure to liquid instruments or periods beyond one year. Investment returns reflect short term money market rates, which in turn follow base rates. In 2004/05 the overall annual return was 4.7% and for the nine months to December 2005 the part year return was 3.7%.

8. Investments in 2005/06 to date have mostly been in deposits of up to one year. The counterparty exposure as at 31 December 2005, including the £25.6 million managed by Invesco is set out in the table below. All the exposure was under one year.

CASH INVESTMENTS as at 31 December 2005	
Counterparty	**£m**
Abbey National Plc	5.0
Allied Irish Bank	25.0
Bank of America	7.1
Barclays Bank	15.2
Deutsche Bank	25.0
HBOS (Halifax Bank of Scotland)	8.3
HSBC Plc	0.6
JPMorgan Chase	2.0
KBC Bank	25.0
Landesbank BadenWurtberg.	12.8
LloydsTSB	15.0
National Australia Bank	26.6
Nationwide Building Society	10.0
RBOS (Royal Bk of Scotland/NatWest)	6.0
Rabobank	20.0
Societe Generale	25.0
Svenska Handelsbanken	25.0
UBS (Union Bank Switzerland)	27.1
Unicredito Italiano	25.0
Total £m	**305.7**

9. Council cash balances have grown following an expansion in Right to Buy sales and working capital. Average balances over the whole of 2005/06 are expected to be around £305 million, but will fall over time as receipts slow down and spend picks up.

10. Having fallen to a historical low of 3.5% in 2003, base rates gradually climbed to peak at 4.75% in the second half of 2005, where they remained until July 2005, before falling to 4.5% in the following month. The markets do not currently expect rates to move in either direction in the near term, but many commentators expect the next move in UK rates to be lower rather than higher, as the economy slows. However, still strong consumer spending and continued rate tightening in the United States may well temper the need for a rate reduction. Against this background it is expected that investment exposure beyond one year will continue to be cautious.

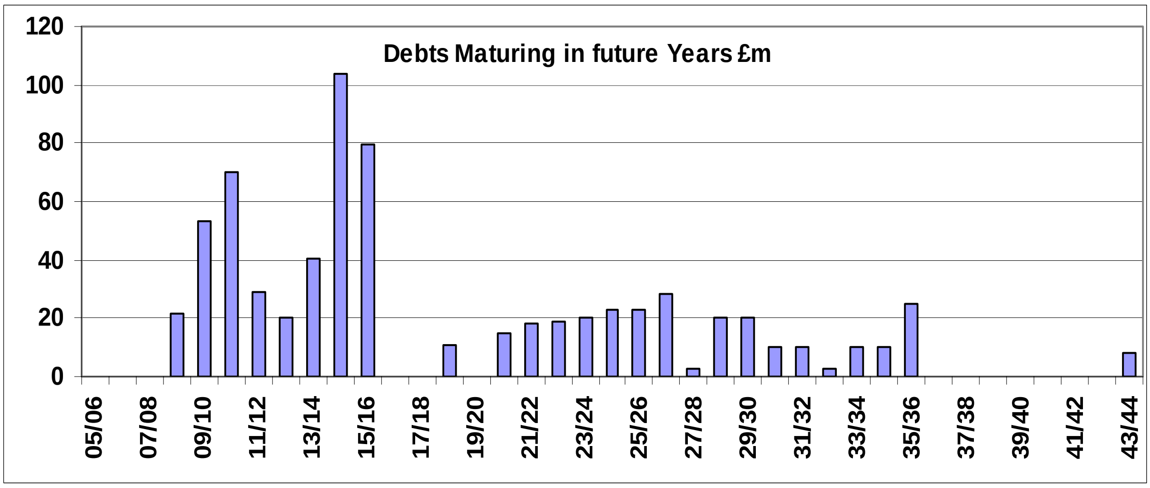
11. The investment strategy placing priority on capital preservation and liquidity of funds recommended for approval is set out in appendix B. It is set out according to guidelines produced by the Office of the Deputy Prime Minister (ODPM). The limits for money markets funds have been expanded to enable greater flexibility and widen diversification, whilst still placing a high priority on capital preservation.

12. The Finance Director proposes increasing the sums managed externally to widen investment choices available to the Council and raise average returns over the long run, whilst still placing a high priority on capital preservation. The Director has initiated a tendering process with a view to taking on additional cash managers.

13. In 2005/06, £36.5 million of the £182 million projected capital spend is expected to be met from Government supported capital borrowing approvals. In 2006/07 supported approvals are estimated to be £22.8 million. In addition it is proposed to supplement these with locally funded borrowing of £27.3 million to purchase land and carry out related capital works on developing waste management facilities on the Old Kent Road Gasworks.

14. In relation to 2005/06 borrowing activity to date, £45 million in new loans were taken on to meet this and the following years' supported borrowing approvals. The loans were at an average interest rate of 4.41% per annum for 28 to 30 years from the Public Works Loans Board (PWLB), a division of the Government and the cheapest source of long term fixed rate funds. These loans raise the cumulative historical debt outstanding to finance current and past housing and General Fund capital expenditure to £694 million, against an opening position of £649 million at the start of the current financial year. The level of debt is well within the Council Assembly agreed 2005/06 authorised debt limit (£780 million).

15. The debt is at fixed rates and virtually all from the Public Works Loans Board. There are no short term or variable rate loans and existing loans do not fall for repayment and refinance for some years - refer chart below.



16. The average rate of interest paid on Council debt is still around 9% in spite of historically low bases rates, currently at 4.5%. The high average reflects a long period between the 1970's and early 1990's, unlike now, when high capital spending and debt funding coincided with years of high inflation and high interest rates. However, as most of the interest payable on debt is reimbursed in support by the Government, the impact on Council finances from the high rate is minimal. Housing Revenue Account (HRA) Subsidy is currently paid on 85% of debt at the Council's own average rate, and an allowance is included in Formulae Grant for the General Fund element.

CAPITAL ALLOWANCES - RETENTION OF CAPITAL RECEIPTS FOR AFFORDABLE HOUSING AND REGENERATION

17. As part of the Local Government Act 2003, a proportion of the proceeds from HRA asset sales are paid over to a Government 'pool'. The percentage paid over differs according to the type of receipt, see table below.

Receipt source	% Paid due to Government pool
Right to buy sales	75%
Social homebuy (from April 2006)	75%
Non right to buy dwellings sales	75%
Bare land, shop and other asset sales	50%
Large or small scale voluntary transfer (exempt from pooling, but receipts taken a/c in calculating support HRA support)	exempt

18. Receipts from social homebuy, non right to buy dwellings, land, shops and other assets can be exempt from pooling provided the money is used in the Council's own affordable housing or regeneration programmes. This exemption does not apply to right to buy sales. The amount which may be exempt from pooling is known as the capital allowance. Council spending relies on securing these exemptions from pooling.

19. Capital allowances determined to date for affordable housing and regeneration projects total £120 million, detailed in Appendix C. Out of this, £31 million has been drawn down, leaving £89 million in allowances still available. Additional projects relying on capital receipts are now expected. The capital allowances for these are estimated as £70 million (detailed in Appendix C). Together this produces a net capital allowance requirement of £159 million (£89 million+£70 million).

20. Council Assembly is recommended to agree a net capital allowance requirement of £159 million to enable the Council to carry on retaining capital receipts for affordable housing and regeneration that would otherwise have to be passed on to the Government under the pooling arrangements. The level of allowances needed in the future will be kept under review in the light of developments in the capital programme.

COMMENTS OF THE BOROUGH SOLICITOR

21. The Local Government Act 2003 and supporting regulations require local authorities to determine annual borrowing limits and have regard to the Prudential Code for Capital Finance, and the Code of Practice on Treasury Management, both published by the Chartered Institute of Public Finance and Accountancy, when determining or changing borrowing limits or prudential indicators. Reference should also be made to the ODPM Guidance on Local Authority Investments. The Council Assembly should determine borrowing limits annually before the start of the year the limits relate to and approve the prudential indicators and investment strategy proposed provided they are happy with the report.

22. Further regulations under the 2003 Act specify that the Council may retain certain capital receipts provided they are used in affordable housing or regeneration. Council Assembly is being asked to agree the capital allowances to enable receipts to be retained by the Council.

REASON FOR LATENESS AND URGENCY

23. The prudential indicators should be approved by the start of 2006/07, and this report was dependant on capital financing and budget considerations being considered elsewhere on the Council Assembly agenda.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
Prudential Code for Capital Finance in Local Authorities. Code of Practice on Treasury Management. ODPM Investment Guidelines.	Financial Management Services, Strategic Services Department	Dennis Callaghan, Chief Accountant (020 7525 4375)

Lead Officer	**Duncan Whitfield**, Finance Director	
Report Author	**Simon Hughes**, Assistant Finance Director	
Version	**Final**	
Version Date	15/02/06	
Key Decision	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	**Comments Sought**	**Comments Included**
Borough Solicitor & Secretary	Yes	Yes
Final Report Sent to Constitutional Support Services		15/02/06

Appendix A
Prudential Indicators Detailed Analysis

PRUDENTIAL INDICATORS

1. Capital finance, borrowing and investment arrangements are brought together in a series of prudential indicators and limits to give a general picture of the affordability and prudence of financing activities. The indicators and limits are grouped into three broad areas: affordability, prudence and treasury management.

2. This Appendix provides a detailed explanation of each indicator needing approval. A description of the indicators, extracted from the Prudential Code on Capital Finance for Local Authorities published by Chartered Institute of Public Finance and Accountancy, is also included.

3. The indicators needing Council Assembly approval are those for the years 2006/07 to 2008/09. (The 2004/05 indicators are shown as actuals using audited accounts, and latest projections are indicated for 2005/06.)

CRITERIA ONE: AFFORDABILIY AND PRUDENTIAL INDICATORS ON AFFORDABILITY

Extract from Prudential Code:

The fundamental objective in the consideration of the authority's capital plan is to ensure that the level of investment in capital assets proposed means that the total capital investment of the authority remains within sustainable limits, and in particular to consider the impact on the local authority's "bottom line", Council Tax. Affordability is ultimately determined by a judgement on Council Tax levels and, in the case of the Housing Revenue Account, acceptable Rent levels.

In considering the affordability of its capital plans, the authority is required to consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and expenditure forecasts for the forthcoming year and the following 2 years. The authority is required to consider known significant variations beyond this timeframe.

The local authority shall set and monitor against the following prudential indicators as key indicators of affordability.

INDICATOR ONE: ESTIMATES OF RATIO OF FINANCING COSTS TO NET REVENUE STREAM

Extract from Prudential Code:

The authority will estimate for the forthcoming financial year and the following 2 years the ratio of financing costs to net revenue stream. At the year end, the ratio of financing costs to net revenue stream will be calculated directly from the local authority's consolidated revenue account

Comment and Recommended Indicator

The financing ratio reflects financing costs arising from capital expenditure after income from working balances. The GF ratio has been able to benefit from growth in working capital following expansion in Right to Buy Receipts, However, this benefit will over time erode as receipts slow down and spend picks up. The GF ratio will also go up as the Government moves from funding schools through Formulae Grant to funding them through earmarked grants from 2006/07. The different pattern of the HRA and GF ratios reflects the different way the two services are organised under law.

Financing Ratios	2004/05 Actual	2005/06 Previous Estimate	2005/06 Latest Projection	**2006/07 Estimate**	**2006/07 Estimate**	**2007/08 Estimate**
HRA	32.7%	34.1%	35.4%	**35.0%**	**35.0%**	**35.0%**
GF	-0.5%	0.3%	-0.7%	**1.1%**	**2.5%**	**2.9%**

INDICATOR TWO: ESTIMATES OF THE INCREMENTAL IMPACT OF CAPITAL INVESTMENT ON THE COUNCIL TAX AND HOUSING RENTS

Extract from Prudential Code:

The local authority will forecast the total budgetary requirements for the authority based on no changes to the existing capital programme; forecast the total budgetary requirement with the changes proposed to the capital programme included in the calculation; and take the difference between these two and calculate the addition or reduction to Council Tax that would result. This calculation shall be undertaken for the forthcoming year and the following two financial years or longer timeframe to capture the full effect of capital programme decisions.

Comment and Recommended Indicator

Additional budgetary requirements for the capital programme may arise from locally funded borrowing, which unlike supported borrowing is entirely funded from the Council's revenue budget. No locally funded borrowing is expected to be sought in respect of the HRA, but in the case of the General Fund it is planned to fund £27.3 million waste management facilities on the Old Kent Road Gasworks site out of such borrowing, the cost of which will be met from the existing base budget for prudential borrowing and additional interest earnings – see Policy and Resourcing report elsewhere on the agenda of this meeting. No additional notional rent or council tax increase is implied by the borrowing arrangements set out above and the relevant indicators are marked as nil.

Notional Rent or Council Tax Increases	**2006/07**	**2007/08**	**2008/09**
Weekly Housing Rent increase	**Nil**	**Nil**	**Nil**
Council Tax Band D increase	**Nil**	**Nil**	**Nil**

CRITERIA TWO: PRUDENCE AND PRUDENTAIL INDICATORS FOR PRUDENCE

Extract from the Code

The prudential indicators in respect of external debt must be set and revised taking into account their affordability. It is through this means that the objective of ensuring that external debt is kept within sustainable, prudent levels is addressed year on year. 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 capital financing requirements in the preceding year plus the estimates of any additional capital financial years. Ensuring that treasury management is carried out in accordance with good professional practice is an essential feature of prudence.*

INDICATOR THREE: ESTIMATES OF CAPITAL EXPENDITURE

Extract from Prudential Code

The local authority will make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years. After the year end the actual expenditure incurred during the financial year will be recorded.

Comment and Recommended Indicator

The actual capital expenditure for 2004/05 was £132 million. Future estimates reflect spend profiles and further approvals through the Council's Capital Working Group, subject to resources being available. The 2006/07 to 2008/09 capital expenditure estimates recommended for approval are set out below.

Capital Expenditure	2004/05 Actual £m	2005/06 Previous Estimate £m	2005/06 Latest Projection £m	**2006/07 Estimate £m**	**2007/08 Estimate £m**	**2008/09 Estimate £m**
HRA	82	90	100	**82**	**101**	**88**
GF	50	85	82	**79**	**45**	**40**
Total	132	175	182	**161**	**146**	**128**

INDICATOR FOUR: ACTUAL AND ESTIMATES OF CAPITAL FINANCING REQUIREMENTS.

Extract from Prudential Code

The local authority will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years. After the year end, the actual capital financing requirement will be calculated directly from the local authority's balance sheet.

Comment and Recommended Indicator

Both the HRA and the GF capital financing requirements (CFR) reflect the use of borrowing to pay for past and current capital expenditure. The latest projection for March 2006 assumes capital borrowing of £36.5 million (all supported: £24.3 million HRA, £12.2 million GF). The corresponding estimate for March 2007 is £50.1 million (supported £22.8 million: £12.5 million HRA, £10.3 million GF; + locally funded £27.3 million all GF).

Appendix A
Prudential Indicators Detailed Analysis

CFR	31/3/05 Actual £m	31/3/06 Previous Estimate £m	31/3/06 Latest Projection £m	**31/3/07 Estimate £m**	**31/3/08 Estimate £m**	**31/3/09 Estimate £m**
HRA	562	586	586	**599**	**611**	**624**
General Fund	91	105	101	**137**	**145**	**151**
Total	653	691	687	**736**	**756**	**775**

INDICATOR FIVE: ACTUAL DEBT- THE AUTHORISED AND OPERATIONAL LIMITS

Extract from Prudential Code

> *The local authority will set for the forthcoming financial year and the following two financial years an authorised limit and an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long-term liabilities.*

Comment and Recommended Indicator

These two limits are the limit on debt and long term liabilities outstanding on any one day. The lower limit is the operational boundary and takes account of ordinary activity. The authorised limit is the higher limit to accommodate unexpected borrowing that may be needed for very short periods. The total authorised limit is the limit councils have to determine under the Local Government Act 2003.

The average level of borrowing in any one year is usually close to the capital financing requirement. However on any one day borrowing may be higher or lower depending on cash flow movements and timing of borrowing decisions. When rates are expected to rise it is generally more attractive to borrow ahead of capital spending. There may also, in the future, be a benefit from borrowing additional funds over a short period to restructure debt by “changing” high rate loans for lower rate ones. At the end of 2004/05 the Council had £649 million in outstanding borrowing. Since then £45 million in new loans were taken on to meet this and the following years’ supported borrowing approvals. The loans were at an average interest rate of 4.41% per annum for 28 to 30 years from the Public Works Loans Board, a division of the Government and the cheapest source of long term fixed rate funds. These loans raise the cumulative historical debt outstanding to finance current and past Housing and General Fund capital expenditure to £694 million, which is well within the Council Assembly agreed 2005/06 limit (£780 million).

The following limits are recommended for approval for 2006/07 to 2008/09. They are based on percentages added to capital financing requirements and should:

- accommodate existing borrowing,
- permit new investment, reflecting growth in capital financing and
- take on temporary borrowing for short period in a prudent and risk controlled framework without having the delay of a fresh re-determination (and risk compromising potential benefits in volatile markets)

Appendix A
Prudential Indicators Detailed Analysis

Operational Boundary and Authorised Limits for External debt -	2004/05 Actual £m	2005/06 Previous Boundary/ Limit £m	2005/06 Latest Projection £m	**2006/07 Limit £m**	**2007/08 Limit £m**	**2008/09 Limit £m**
Operational Boundary for Debt						
Borrowing	652	750	694	806	830	850
Other long term liabilities	0	14	0	16	16	16
Total Operational	652	764	694	**822**	**846**	**866**
Authorised Limit for Debt -						
Borrowing	652	780	694	843	868	888
Other long term liabilities	0	15	0	17	17	17
Total Authorised	652	795	694	**860**	**885**	**905**

The Council has no long term liabilities at the moment, but the limit accommodates liabilities that may be taken in place of borrowing to finance assets.

Under existing arrangements, the Finance Director is responsible for all executive, strategic and operational borrowing decisions and has discretion to allow activity to go outside the operational boundary, should it be prudent and justified, but nevertheless remain within the overall authorised limit. The Finance Director may also vary the mix between long term liabilities and debt should it to be prudent to do so.

CRITERIA THREE: TREASURY MANAGEMENT

INDICATOR SIX: ADOPTION OF THE CIPFA TREASURY MANAGEMENT CODE OF PRACTICE.

Extract from Prudential Code

That the local authority has adopted the Treasury Management Code.

Comment and Recommended Indicator

This indicator confirms that the Council has adopted the code of practice for Treasury Management in the Public Sector issued by CIPFA and updated in 2002. At Southwark, the original code was adopted when it was first produced in 1992 and the latest version was adopted by the Council in February 2003. The Council Assembly is asked to confirm the continued adoption of the Code through the recommendations contained in this report.

INDICATOR SEVEN: INTEREST RATE EXPOSURES – FIXED
INDICATOR EIGHT: INTEREST RATE EXPOSURES - VARIABLE
INDICATOR NINE: MATURITIES

Extract from Prudential Code

The local authority will set for the forthcoming year and the following two financial years upper limits to its exposures to the effects of changes in interest rates. These prudential indicators will relate to both fixed and variable interest rates. The local authority will set for the forthcoming year both upper and lower limits with respect to the maturity of its borrowing.

Appendix A
Prudential Indicators Detailed Analysis

Comment and Recommended Indicator

Council debt currently consists entirely of fixed rate loans, with very little falling for repayment over the next few years. All cash investments are currently at fixed rates for periods of under 2 years.

This is expected to continue given the cost currently of altering maturities or the mix between fixed and variable debt. However should conditions, relating to existing debt and cash positions become favourable in the future, the fixed, variable and maturity limits recommended are set out below. The fixed and variable rate limits reflect growth in capital financing requirement and the related authorised debt limit. The limits have been presented as amounts rather than percentages for ease of reference.

LIMITS ON FIXED AND VARIABLE RATES	2004/05 Actual £m	2005/06 Previous Limit £m	2005/06 Latest Projection £m	**2006/07 Limit £m**	**2007/08 Limit £m**	**2008/09 Limit £m**
Upper limit for fixed interest rate exposure	652	795	694	**843**	**868**	**888**
Upper limit for variable rate exposure	0	200	0	**210**	**210**	**220**

Maturity structure of fixed rate borrowing	2004/05 Actual	2005/06 Upper Limit	2005/06 Lower Limit	2005/06 Latest Projection	**2006/07 Upper Limit**	**2006/06 Lower Limit**
under 12 months	0%	25%	0%	0%	**25%**	**0%**
12 months and within 24 months	0%	25%	0%	0%	**25%**	**0%**
24 months and within 5 years	4%	60%	0%	10%	**60%**	**0%**
5 years and within 10 years	33%	80%	0%	38%	**80%**	**0%**
10 years and above	63%	80%	0%	52%	**80%**	**0%**

INDICATOR TEN: TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS.

Extract from Prudential Code

Where a local authority invests, for periods longer than 364 days, the local authority will set an upper limit for each forward financial year period for the maturing of such investments.

Comment and Recommended Indicator

The Council's cash balances averaged £289 million over the course of 2004/05 and as at the end of December 2005 stood at £305.7 million. The cash is invested across a number of counterparties which can include the Government, local authorities, and large high rated banks and building societies. Investment risk is further contained by placing limits on maturities that exceed one year. To capitalise on the benefits of generally stable base rates, investments in 2005/06 to date have mostly all been in deposits of up to one year. However it could be attractive to allow longer exposure should financial conditions prove favourable. The upper limit on exposure from 1 year and beyond recommended for approval is set out in the table below. These limits will help the Council take advantage of favourable movements in rates whilst maintaining security.

Appendix A
Prudential Indicators Detailed Analysis

Upper limit on investments greater than 1 yr	2004/05	2005/06	2005/06	**2006/07**
Upper limit / Actual	Actual max exposure 1-5 years: £1m 5-10 years: £0 m	Limits 1-5 years: £50m 5-10 years: £20m	Latest Projection 1-5 years £10 m 5-10 years £0 m	**Limits** **1-5 years: £50m** **5-10 years: £20m**

Appendix B
Annual Investment Strategy 2006/07 Recommended for Approval

ANNUAL INVESTMENT STRATEGY 2006/07

1. The Council will invest surplus cash to secure the best returns, giving a high priority to capital preservation and liquidity. Investments shall only be in Sterling and be limited to specified and non specified investments in the UK Government, local authorities, specified European Union bodies, banks and building societies meeting the minimum credit criteria or money market funds meeting the minimum credit criteria.

2. The specified European Union bodies are:
European Investment Bank.

3. The minimum credit criteria for banks and building societies is set out below, together with maximum exposure and maturity limits. The high rating demanded reflect the Council's preference for capital preservation.

Support Rating	Long Rating	Individual Rating	Short Rating	Max Exposure Up to 1 Yr £m	Max Exposure 1-3 Yrs £m	Max Overall Exposure £m
2	A+	C	F1+	30	20	30
3	AA+	B	F1+	10	0	10

Fitch Ratings used:-
Support rating: 1- extremely high probability of external support, should it be needed
2- high probability of external support, should it be needed
3- moderate probability of external support, should it be needed

Long rating: AA – very high credit quality, very low expectation of credit risk.
A – high credit quality, a low expectation of credit risk.
(a + or - is added to donate status within rating category)

Individual rating: A – a very strong bank
B – a strong bank
C – an adequate bank

Short rating: F1 - the best credit risk for timely payments of financial commitments
(a + is added if particularly strong)

4. The minimum credit criteria for money market funds is set out below, together with maximum exposure and maturity limits.

Fund Rating	Minimum Fund Value £m	Maximum Exposure £m
AAA	1000	50
AA	300	20

(Standard and Poors ratings used or Moody's equivalent)

5. Ratings shall be reviewed at least every quarter and where there is exposure to a counterparty or an investment that has been downgraded since the investment was made, the investment may be maintained, unless circumstances demand otherwise. In the interest of operational efficiency, the Finance Director will have discretion to vary the minimum rating or limits as appropriate to market conditions or developments and may request recall of investments prior to maturity should that be prudent.

6. Investments shall be diversified as much as is consistent with securing a reasonable return.

7. Exposure to the Royal Bank of Scotland or National Westminster Bank may exceed limits set out above should it be necessary to be fully invested. Exposure to any one local authority or specified European Body may not

exceed £30 million and there shall be no upper limit on exposure to the UK Government.

8. Specified investments shall consist of investments up to one year with:

- the UK Government or local authorities or a specified European Body
- deposits or certificates of deposits with a bank or building society meeting the minimum rating criteria
- money market funds meeting the minimum rating requirement

9. Non specified investments shall consist of:

- investments of more than 1 year but not more than 15 years in the UK Government or a specified European Union body,
- fixed maturity deposits or certificate of deposits of more than 1 year but not exceeding 3 years with a local authority, or a bank or building society meeting the minimum credit criteria.

The non specified investments shall exclude any investment involving the acquisition of share or loan capital in any body corporate.

10. To contain interest rate risk, whilst being able to participate in favourable rate movements, exposure to investments between 1 and 5 years shall not exceed £50 million and that from 5 years to 15 years not exceed £20 million. Day to day exposure to these investments will be subject to market conditions and be under the discretion of the Finance Director. At least £50 million of all investments shall be held in specified investments.

11. Any addition to the list of non specified investments shall require Council Assembly or appropriate committee approval and follow advice from the Finance Director.

24. The Finance Director is responsible for managing all investments and operations, including use of suitably qualified and experienced external firms of investment managers. Currently only £26 million out of some £305m in cash balances is managed by an external investment firm, Invesco Asset Management Ltd, part of the large UK quoted AMVESCAP Group. The Director proposes increasing the sums managed by external firms to widen investment choices available to the Council and raise average returns over the long run, whilst still placing a high priority on capital preservation. Additional managers will be needed. The Director will initiate a tendering process in the future with a view to taking on additional cash managers.

APPENDIX C

CAPITAL ALLOWANCES - RETENTION OF CAPITAL RECEIPTS FOR AFFORDABLE HOUSING AND REGENERATION

CAPITAL ALLOWANCES – Already Agreed to Date by Executive

Existing Programme Area	Allowance as at 6 July 2004	Receipts used against the Allowance	Allowance Balance Remaining
	£m	£m	£m
Provision of affordable housing	50	11	39
Bermondsey Spa regeneration project	40	14	26
Peckham regeneration project	30	6	24
Total £ million	*120*	*31*	***89***

CAPITAL ALLOWANCES – Additional Capital Allowances Required

Additional Affordable Housing & Regeneration Projects 2005/06 onwards	£m
East Dulwich Estate	10
Elmington	5
Coopers Road	5
Giles, Carlton & Darnay/George	10
Silwood	10
Canada Water	10
Wooddene	10
Social homebuy (from April 2006)	10
Total Additional Capital Allowances Sought £ million	***70***

NET CAPITAL ALLOWANCES REQUIRED

Allowances Remaining from July 2004 Approval	89
Allowances for Additional Regeneration Projects	70
Total Net Additional Capital Allowances Required £ million	***159***