

EAST AYRSHIRE COUNCIL

CABINET– 22 OCTOBER 2008

**TREASURY MANAGEMENT ANNUAL REPORT FOR 2007/2008 AND UPDATE ON
2008/09 STRATEGY**

Report by Executive Head of Finance and Asset Management

1 PURPOSE OF REPORT

- 1.1 To inform Cabinet of the treasury activity for the financial year ended 31 March 2008. The report also covers the actual Prudential Indicators for 2007/08 in accordance with the requirements of the Prudential Code, and provides an update on the 2008-09 treasury management strategy.

2 BACKGROUND INFORMATION

- 2.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance. The Council has adopted the CIPFA Treasury Management in the Public Services Code of Practice. The Code places importance on the overall management of risks, including liquidity; interest rate and credit and counterparty risk and requires that authorities have in place robust treasury policies and practices to address these.
- 2.2 The Local Government in Scotland Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits on this activity. The Act permits the Scottish Ministers to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken. No restrictions were made in 2007/08.
- 2.3 Statutory Instrument (SSI) 29 2004, requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities, and therefore to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.
- 2.4 The Council undertakes capital expenditure to create, improve or enhance the life of its assets. These activities can be funded from related income such as capital receipts, capital grants with any residue which cannot be immediately paid for giving rise to a borrowing need. This borrowing need will be charged to revenue over a number of years. This area of capital expenditure activity is regulated by the CIPFA Prudential Code, which requires actual outturn to be reported in the following areas:
- Capital expenditure;
 - Capital Financing Requirement;
 - Debt;
 - Ratio of financing costs to net revenue stream.

Additional indicators are included to ensure comprehensive annual reporting.

- 2.3** Part of the Council's treasury activities is to address any borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance in accordance with the CIPFA Code of Practice on Treasury Management.
- 2.4** The Code requires as a minimum the regular reporting of treasury management activities to: -
- (a)** Forecast the likely activity for the forthcoming year in this respect the annual strategy report was approved by the Policy & Resources committee at its meeting on 2 April 2008.
 - (b)** Review actual activity for the proceeding year and comment on interim performance in the current financial year which is the purpose of this report.

3 PERFORMANCE SUMMARY 2007/08

3.1 Capital Expenditure and Financing 2007/08

During 2007/08 the total capital investment undertaken by the Council was £54.961M. This forms one of the required prudential indicators, and the table below shows how this was financed with the resultant need to borrow of £27.906M.

	General Fund	HRA	Total
	£'M	£'M	£'M
Total capital expenditure	39.174	15.787	54.961
Resourced from:-			
Capital receipts	-	(7.246)	(7.246)
Capital grants	(15.739)	-	(15.739)
Revenue	(0.803)	(3.267)	(4.070)
Un-financed capital expenditure (additional need to borrow)	22.632	5.274	27.906

3.2 The Council's Overall Borrowing Need

3.2.1 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's external debt position and represents all 2007/08 expenditure plus all historic net capital expenditure which has not yet been charged to revenue. The following table summarises the movement in the Council's Capital Financing Requirement (CFR) during 2007-08.

	General Fund £'M	Housing £'M	Total £'M
Opening balance 1 April 2007	134.515	53.026	187.541
Add : Un-financed capital expenditure 2007/08 (3.1 above)	22.632	5.274	27.906
Less : Principal repayments due in 2007/08 on historic debt	(6.720)	(0.665)	(7.385)
Less : Capital Receipts used to reduce historic debt	(0.025)	-	(0.025)
Closing balance 31 March 2008	150.402	57.635	208.037

3.3 Treasury Position at 31 March 2008

3.3.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, authority is delegated to the Executive Head of Finance and Asset Management to manage the Council's actual borrowing position by either borrowing to finance the CFR, utilising some temporary cash flow funds or borrowing for future increases in the CFR (borrowing in advance of need).

3.3.2 The external debt portfolio position of the council of the Council at 31 March 2008 compared to the previous year is shown in the following table.

	O/S @ 1 April 2007 £'M	Net movement in Debt Level £'M	O/S @ 31 March 2008 £'M
Public Works Loan Board	123.342	(0.023)	123.319
Market Loans	67.100	(0.500)	66.600
Temporary Borrowings	-	-	-
European Investment Bank	0.140	(0.055)	0.085
Trusts & Bequests etc.	0.780	0.021	0.801
TOTAL BORROWING	191.362	(0.557)	190.805
Short Term Investments	(54.000)	12.800	(41.200)
NET EXTERNAL DEBT	137.362	12.243	149.605

3.3.3 There was no underlying need to borrow at 31 March 2008 as the CFR at 31 March 2007 is £208.037M (3.2 above) which exceeds the total external borrowing shown in the previous of £190.805M. During the year external borrowing was held effectively static with the net movement in the above table representing the council's existing obligations to meet external loan repayments during 2007/08.

3.3.4 In order to mitigate the risk as far as possible from interest rate movements, limits are in place which restrict the ratio of fixed to variable rate debt to 60:40. The table below analyses the external debt between fixed and variable rates of interest at 31 March 2008. The average interest rates shown are as at 31 March 2008.

Category	Principal	% of Total	Average Interest
	£'M		Rate %
Fixed Interest Rate Debt	164.104	86.01%	5.935%
Variable Interest Rate Debt	26.701	13.99%	4.936%
Total External Debt	190.805	100.00%	5.795%
Investments	(41.200)		5.850%
NET EXTERNAL DEBT	149.605		

3.3.5 The Treasury Management Strategy for 2007/08 identified an underlying borrowing requirement of £29.631M. The table at paragraph 3.2.1 highlights that the actual borrowing requirement was £20.496M with the reduction of £9.135M being primarily slippage across the capital programme. It was previously reported that in consultation with our Treasury Advisors the timing of planned borrowing was being closely monitored during the year in order to take advantage of favourable interest rate movements. As a result the actual in year borrowing requirement was funded by recalling short term investments rather than external borrowing.

3.3.6 The short term investments held at 31 March 2008 of £41.2M represent the general and specific reserves of the council combined with its working capital requirements as well as any difference between the councils need to borrow and its actual levels of external borrowing at any point in time. The level of these investments reduced by £12.800M during 2007-08 which was due to the net borrowing requirement which was funded from existing balances, offset by an increase in General Fund and other balances in 2007-08 together with a movement in working capital requirements.

3.3.7 Current investment regulations restrict the placement of surplus funds to a maximum period of 364 days. These are placed with institutions such as banks, building societies and other local authorities with the list of approved lenders being maintained and updated on a regular basis in consultation with the Treasury Advisors. The investments are managed on a daily basis and over the year the average investment balance held was £53.377M with an average return of 5.89%.

3.4 Performance Indicators

- 3.4.1 The headline performance indicator for treasury management is the average cost of servicing loans as reflected in the consolidated loans fund interest and expenses rate – the pool rate. The performance over the last 3 financial years calculated in accordance with LASAAC guidance is shown below.

Year	Opening Advances	Closing Advances	Average Advances	Interest & Expenses	Pool Rate
	£'M	£'M	£'M	£'M	%
2005/06	191.568	182.414	185.655	11.161	6.01%
2006/07	182.414	187.541	188.425	11.405	6.05%
2007/08	187.541	187.541	199.736	12.168	6.09%

- 3.4.2 The rate is effectively static between 2006/07 and 2007/08 as there has been no significant change in external debt held and the external investments rates have been relatively flat for much of the period in line with the interest base rate.

3.5 Prudential Indicators and Compliance Issues

- 3.5.1 The Prudential Code requires that the actual prudential indicators for the financial year 2007/08 are reported to members. A number of these indicators provide either an overview or a limit on treasury activity, and these are explained below:

3.6 Capital Financing Requirement

- 3.6.1 In order to ensure that borrowing levels are prudent, over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not therefore, except in the short term, exceed the CFR for 2007/08 plus the expected changes to the CFR over 2008/09 and 2009/10. The table below confirms that the Council has complied with this at 31 March 2008.

	Original	Actual	ACHIEVED
	£'M	£'M	
Net borrowing position	177.988	149.605	YES
Capital Financing Requirement (CFR)	223.613	208.063	YES

- 3.6.2 The actual levels of net borrowing and CFR are lower than the original indicator agreed in March 2007. This is a result of the overall level of capital expenditure being lower than originally anticipated due to slippage and reprofiling of individual schemes. The net borrowing position has also been reduced due to the short term funding of the borrowing requirement from internal resources as opposed to external markets.

3.7 Authorised Limit & Operational Boundary

- 3.7.1 The Authorised Limit is the “Affordable Borrowing Limit” required by Section 35 of the Local Government in Scotland Act 2003. This is the Council's maximum borrowing level and was originally set at £269.141M for 2007/08.
- 3.7.2 The Operational Boundary is the expected borrowing position of the Council during the year, and periods where the actual position is either below or above the Boundary are acceptable subject to the Authorised Limit not being breached. This was originally set at £263.551M for 2007/08.
- 3.7.3 During 2007/08 the maximum level of actual borrowing was £191.362M and did not exceed either limit.

3.8 Maturity Structure of Fixed Borrowing

- 3.8.1 The amount of fixed rate debt due to mature in 10 years or more is 96.67% which was within the maximum limit set for this indicator in 2007-08 of 100%. The remaining balance of 3.33% is due for periods less than 10 years and is well within the maximum levels set for those periods.

3.9 Investments Held by the Council

- 3.9.1 Local authority investment activity is regulated by statute. A regulatory framework has been under consideration by the Scottish Government for some time which would provide greater autonomy for local authorities in respect of investment activity and as such more detailed consideration of investment and treasury activity. At present local authorities are restricted in the range of investment products which they can use and investments are therefore placed with institutions such as banks, building societies and other local authorities. In accordance with Section 40 powers Scottish Ministers may specify the investments or kinds of investments which local authority may or may not make.
- 3.9.10 During 2007/08 the average interest rate achieved for investments made in the year was 5.89% which is comparable to the 7 day average LIBOR (London Inter Bank Offer Rate) offered by the market of 5.84% (31 Mar 08). The investments held at 31 March 2008 are included as Appendix 1 for information.

3.10 Operational Limits

- 3.10.1 The Council seeks to comply with best practice in all areas of treasury management. During 2007/08 the following limits were set and adhered to: -

LIMIT	PURPOSE	ACHIEVED
The maximum amount of debt maturing in 1 Year not to exceed 25%	To limit any exposure to high interest rates when renewing maturing debt	YES
No broker should handle more than 75% of annual treasury transactions	To prevent over reliance on one broker and ensure competition within market is utilised	YES
No more than 20% of total investments at any time should be placed with one counterparty.	To limit exposure with any one counterparty	YES

4 UPDATE ON 2008/09 STRATEGY

The following provides an update on the Council's Treasury Management Strategy for 2008/09.

4.1 Interest Rates

4.1.1 The treasury strategy for 2008/09 approved by Cabinet noted that interest rates were subject to a degree of fluctuation and at that time longer term (50 yr) rates were forecast to rise marginally during the year from 4.40% to 4.60%. As a result it was expected that cash reserves would be used to fund capital investment in the short term to allow borrowing to be undertaken when rates were assessed by our Treasury Advisors as being most favourable. Long term PWLB rates dipped below 4.40% in early September and the decision was taken to borrow £18.000M (approx 23%) of the expected borrowing requirement at that time.

4.2 Borrowing Strategy

4.2.1 The 2008/09 Treasury Strategy identified a combined borrowing requirement for the 4 year period to 2010/11 of £78.742M. As at 30 September 2008 long term PWLB rates were in the range of 4.65% to 4.70%. Given the level of short term investments currently held by the council it is unlikely that these funds will be borrowed in the immediate future and that rates will continue to be monitored and external advice taken to identify the optimum time to borrow these required funds plus any future year requirement as appropriate.

4.3 Investment Strategy

4.3.1 As a result of the existing reserves it is probable that Council will continue to hold significant levels of funds available for short term investment throughout the remainder of financial year. These funds will continue to be invested in an attempt to minimise the risk to the capital sum. The primary method of risk control will be through using an approved counter party list to identify institutions and recommended investments limits to ensure an adequate spread of risk is achieved.

4.3.2 The financial system in the UK has, in common with other world economies, experienced significant pressure in recent weeks which has seen a reduction in the overall liquidity and circulation of capital in the market which has placed further considerable strain on the capacity of financial institutions.

4.3.3 The current investment portfolio of the Council as at 10 October 2008 is attached as Appendix 1 to this report. The sums deposited with Heritable Bank Ltd and Kaupthing Singer and Friedlander are subject to the administration arrangements for these UK subsidiaries put in place by the UK Treasury on 8 October 2008. The repayment position will be monitored on a daily basis.

4.3.4 The credit rating criteria which require to be satisfied before a bank or other institution is included on the approved counterparty list were contained within the Treasury Management Annual Strategy for 2008/09 approved by Cabinet on 2 April 2008. The most recently revised list of approved counterparties is attached for information as Appendix 2 to this report. Notwithstanding that there are a number of European banks who still meet the criteria and as such would be available to place funds with, it is recommended that in the first instance surplus funds will be placed only with UK banks and other UK financial institutions who are participating in the government backed recovery plan together with central government, local authorities

and other public sector organisations. This approach is expected to minimise the possible exposure to any further instability in the financial markets whilst retaining a balanced investment portfolio with an acceptable spread of risk. Appendix 1 indicates that this was already happening naturally as a result of changes in bank ratings over the last 6 months. This policy will continue to be reviewed on a daily basis to respond to changes in the financial markets.

- 4.3.5** The Government backed plan provides immediate direct investment of up to £50billion in return for preference shares in the banks and institutions participating in the scheme; this would be further supported by a guarantee of £250billion of new bank debt along with an extension of £100billion to the existing Bank of England short term loan scheme. The Government anticipate that by introducing this additional source of capital into the economy it will help to raise confidence amongst the financial institutions and avert a severe economic slowdown.

5 FINANCIAL IMPLICATIONS

- 5.1** There are no immediate financial implications arising from the report. Members should however be aware that until the respective Administrators are able to clarify the position in relation to the investments held by Heritable Bank Ltd and Kaupthing Singer and Friedlander, as set out in paragraph 4.3.3 there remains an unquantifiable risk that these monies may not be fully repaid on the due dates.

6 LEGAL AND POLICY IMPLICATIONS

- 6.1** The treasury management policies and practices have been complied with during the year.

7 RECOMMENDATIONS

- 7.1** It is recommended that the Cabinet:-
- i) Note the contents of this report.

Alex McPhee
Executive Head of Finance and Asset Management

RB/
 11 October 2008

LIST OF BACKGROUND PAPERS NIL

Members wishing further information should contact
 Alex McPhee, Executive Head of Finance and Asset Management,
 Telephone (01563) 576331.

INVESTMENT PORTFOLIO AS AT 10 OCTOBER 2008

APPENDIX 1

	As at 31 March 2008		As at 10 October 2008		Rating		Limit		Maturity	
					Original	Current	Financial	Period	Date	
Deposits 100% Guaranteed										
Northern Rock			2.000		F1+	F1+	7.500	364 days	27-Oct-08	
UK Banks included in Government Scheme										
Abbey										
A&L	3.700		1.800		F1	F1	7.500	364 days	Instant Access	
Barclays			4.500		F1+	F1+	10.000	364 days	09-Sep-09	
HBOS			9.000		F1+	F1+	10.000	364 days	10-Feb-09	
HSBC										
Lloyds TSB										
RBS										
Standard Chartered										
Bradford and Bingley	5.000									
Nationwide BS										
Cheshire BS	2.000		1.000		P-2	P-2	5.000	6 months	30-Oct-08	
Derbyshire BS			1.500		P-2	P-2	5.000	6 months	20-Feb-09	
Derbyshire BS			1.000		P-2	P-2	5.000	6 months	14-May-09	
		10.700		20.800						
Republic of Ireland Banks included in Irish Government Scheme										
AIB	2.500		2.000		F1+	F1+	10.000	364 days	04-Nov-08	
Bank of Ireland	4.000		1.000		F1+	F1+	10.000	364 days	02-Dec-08	
Anglo Irish Bank										
Irish Life Permanent	1.000		2.000		P1	P1	10.000	364 days	22-Dec-08	
Irish Nationwide Building Society			2.000		F2	F1+	5.000	6 months	06-Apr-09	
EBS building society	4.000		2.000		F1+	F1+	7.500	364 days	17-Oct-08	
EBS building society			1.000		F1	F1+	7.500	364 days	02-Dec-08	
EBS building society			1.000		F1	F1+	7.500	364 days	15-Jul-09	
		11.500		11.000						
UK Building Societies										
Chelsea			2.000		F1	F1	7.500	364 days	02-Dec-08	
Cumberland	1.000									
West Bromwich	1.000									
Newcastle			2.000		F1	F1	7.500	364 days	03-Apr-09	
Norwich & Peterborough			2.000		P1	P1	7.500	364 days	20-Mar-09	
Norwich & Peterborough			2.000		P1	P1	7.500	364 days	10-Jun-09	
Nottingham			1.000		1b assets	1b assets	5.000	6 months	27-Nov-08	
Scarborough	2.000		1.000		P-2	P-2	5.000	6 months	02-Dec-08	
Stroud & Swindon	4.000		1.000		1b assets	1b assets	5.000	6 months	14-Nov-08	
Stroud & Swindon			1.000		1b assets	1b assets	5.000	6 months	27-Nov-08	
Kent Reliance			2.000		1b assets	1b assets	5.000	6 months	22-Dec-08	
		8.000		14.000						
Independent Banks										
Close Brothers				2.000	F1	F1	7.500	364 days	30-Oct-08	
Overseas Banks										
Depfa (Germany)			4.500		F1+	Rating Withdrawn	10.000	364 days	10-Jun-09	
Landsbanki Islands HF	1.000									
Kaupthing (UK Subsidiary of Iceland)	4.000		2.000		F1	Rating Withdrawn	7.500	364 days	27-Mar-09	
Heritable (UK Subsidiary of Iceland)	6.000		2.000		F1	Rating Withdrawn	7.500	364 days	09-Oct-08	
Heritable (UK Subsidiary of Iceland)			1.000		F1	Rating Withdrawn	7.500	364 days	14-Nov-08	
		11.000		9.500						
		41.200		57.300						

**Current Counterparty Report for
East Ayrshire Council (non-LCD) 08-09**

Report run on: 08/10/2008 13:14:43

BUTLERS

List of Approved Counterparties for Lending

	Fitch Ratings				Moody's Ratings			S&P Ratings			Limits							
	S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin.Stgth	S. Term	L. Term	Time	Money							
UK BANKS																		
United Kingdom																		
ALLIANCE & LEICESTER GROUP																		
Alliance & Leicester	F1	(P)	A+	(P)	B	3	(P)	P-1	A1	(P)	C+	A-1	(P)	A	(P)	364 DAYS	7.5	
BANCO SANTANDER CENTRAL HISPANO GROUP																		
Abbey National Plc	F1+		AA-		B	2		P-1	Aa3		C+	A-1+		AA		364 DAYS	10	
Cater Allen																6 MONTHS	5 (M)	
CITIGROUP																		
Citibank International Bank	F1+	(N)	AA-	(N)	NR	1		P-1	Aa3		B	(N)	A-1+	(N)	AA	(N)	364 DAYS	10
HBOS GROUP																		
Bank of Scotland (Ireland)																6 MONTHS	5 (M)	
Bank of Scotland Plc	F1+	(N)	AA	(N)	B	(N)	1	P-1	Aa1	(N)	B	(N)	A-1+		AA-	364 DAYS	10	
HSBC GROUP																		
HSBC Bank plc	F1+		AA		A/B	1		P-1	Aa1		B		A-1+		AA	364 DAYS	10	
LLOYDS TSB GROUP																		
Lloyds TSB Bank	F1+		AA+	(N)	A	(N)	1	P-1	Aaa	(N)	B+	(N)	A-1+		AA	(N)	364 DAYS	10
NATIONAL AUSTRALIA BANK GROUP																		
Clydesdale Bank	F1+		AA-		B/C	1		P-1	Aa3		B-		A-1+		AA-	364 DAYS	10	
ROYAL BANK OF SCOTLAND GROUP																		
Adam & Co.																6 MONTHS	5 (M)	
National Westminster Bank	F1+		AA		A/B	1		P-1	Aa1		B		A-1+		AA-	(D)	364 DAYS	10
Royal Bank of Scotland	F1+		AA		A/B	1		P-1	Aa1		B		A-1+		AA-	(D)	364 DAYS	10
Ulster Bank Ireland Limited	F1+		AA-		B	1		P-1	Aa2		C+		A-1+		AA-	(D)	364 DAYS	10
Ulster Bank Ltd	F1+		AA-		B	1		P-1	Aa2		C+		A-1+		AA-	(D)	364 DAYS	10

**Current Counterparty Report for
East Ayrshire Council (non-LCD) 08-09**

Report run on: 08/10/2008 13:14:43

BUTLERS

List of Approved Counterparties for Lending

Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin.Stgth	S. Term	L. Term	Time	Money

UK BANKS

United Kingdom

Allied Irish Bank (GB)	F1+	AA-	B	1				A-1	A+	364 DAYS	10
Bank of Butterfield (UK) Limited	F1	A-	C	1	P-1	Aa3	C	A-2	A-	364 DAYS	10
Barclays Bank	F1+	AA	A/B	1	P-1	Aa1 (N)	B (N)	A-1+	AA (N)	364 DAYS	10
Close Brothers	F1	A	A/B	5	P-1	A2	C+			364 DAYS	7.5
Co-operative Bank plc	F1	A	B/C	3	P-1	A2	C			364 DAYS	7.5
Credit Suisse First Boston International	F1+	AA-		1	P-1	Aa1		A-1+	AA-	364 DAYS	10
Merrill Lynch International Bank Ltd	F1	A+	B/C	1						364 DAYS	7.5
Northern Rock PLC	F1+	A- (P)	F	1	P-1	A2	E+	A-1	A	364 DAYS	7.5
Schroders Plc	F1	A+	B	5				A-1	A	364 DAYS	7.5

**Current Counterparty Report for
East Ayrshire Council (non-LCD) 08-09**

Report run on: 08/10/2008 13:14:43

BUTLERS

List of Approved Counterparties for Lending

		Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
		S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin.Stgth	S. Term	L. Term	Time	Money
UK BUILDING SOCIETIES												
United Kingdom												
1	Nationwide Building Society	F1+	AA-	A/B	2	P-1	Aa2	B	A-1	A+	364 DAYS	10
2	Britannia Building Society	F1	A	B/C	3	P-1	A2	C+	A-2	A-	364 DAYS	7.5
3	Yorkshire Building Society	F1	A	B	3	P-1	A2	C	A-1	A	364 DAYS	7.5
4	Coventry Building Society	F1	A	B	3	P-1	A2	C+			364 DAYS	7.5
5	Chelsea Building Society	F1	A	B	3	P-1	A2	C (D)			364 DAYS	7.5
6	Skipton Building Society	F1	A	B	3	P-1	A2	C+			364 DAYS	7.5
7	Leeds Building Society	F1	A	B	3	P-1	A2	C+			364 DAYS	7.5
8	West Bromwich Building Society	F1	A-	B/C	3	P-2	A3	C-			364 DAYS	7.5
9	Derbyshire Building Society				3 (P)	P-2 (P)	A3 (P)	C- (P)			6 MONTHS	5
10	Principality Building Society	F1	A-	B/C	3	P-1	A2	C (D)			364 DAYS	7.5
11	Cheshire Building Society				3 (P)	P-2 (P)	A3 (P)	C- (P)			6 MONTHS	5
12	Newcastle Building Society	F1	A	B	3	P-1	A2	C	A-2	BBB+	364 DAYS	7.5
13	Norwich & Peterborough Building Society				3	P-1	A2	C			364 DAYS	7.5
14	Dunfermline Building Society					P-2 (D)	A3 (D)	C- (D)			6 MONTHS	5
15	Stroud & Swindon Building Society										6 MONTHS	5
16	Nottingham Building Society										6 MONTHS	5
17	Scarborough Building Society					P-2	A3	C-			6 MONTHS	5
18	Kent Reliance Building Society										6 MONTHS	5
19	Progressive Building Society										6 MONTHS	5
20	Cumberland Building Society										6 MONTHS	5
21	National Counties Building Society										6 MONTHS	5

OVERSEAS BUILDING SOCIETIES

Ireland												
	EBS Building Society	F1+	A	B	3	P-1	A1	C+			364 DAYS	7.5
	IRISH NATIONWIDE BUILDING SOCIETY	F1+	BBB+	C	3	P-2 (N)	Baa1 (N)	C- (N)			6 MONTHS	5

**Current Counterparty Report for
East Ayrshire Council (non-LCD) 08-09**

Report run on: 08/10/2008 13:14:43

BUTLERS

List of Approved Counterparties for Lending

	Fitch Ratings				Moody's Ratings			S&P Ratings			Limits	
	S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin.Stgth	S. Term	L. Term	Time	Money	
OVERSEAS BANKS												
Australia												
NATIONAL AUSTRALIA BANK GROUP												
National Australia Bank	F1+	AA	A/B	2	P-1	Aa1	B	A-1+	AA	364 DAYS	10	
Australia & New Zealand Banking Group	F1+	AA-	B	2	P-1	Aa1	B	A-1+	AA	364 DAYS	10	
Commonwealth Bank of Australia	F1+	AA	A/B	2	P-1	Aa1	B	A-1+	AA	364 DAYS	10	
Westpac Banking Corporation	F1+	AA- (P)	B (P)	2 (P)	P-1	Aa1	B	A-1+	AA	364 DAYS	10	
Belgium												
KBC BANK GROUP												
KBC Bank	F1+	AA-	B	2	P-1	Aa2	B-	A-1+	AA-	364 DAYS	10	
Dexia Bank	F1+	AA-	C	1	P-1 (N)	Aa3 (D)	C- (D)	A-1 (D)	A+ (D)	364 DAYS	10	
Fortis Bank	F1+	A+ (P)	F (D)	1	P-1	A1 (N)	C- (N)	A-1 (P)	A (P)	364 DAYS	7.5	
Canada												
CANADIAN IMPERIAL BANK OF COMMERCE GROUP												
Canadian Imperial Bank of Commerce	F1+ (N)	AA- (N)	B (N)	1	P-1	Aa2	B-	A-1	A+	364 DAYS	10	
Bank of Montreal	F1+	AA-	B	1	P-1	Aa1	B	A-1	A+	364 DAYS	10	
Bank of Nova Scotia	F1+	AA-	B	1	P-1	Aa1	B	A-1+	AA-	364 DAYS	10	
National Bank of Canada	F1	A+	B	2	P-1	Aa2	B-	A-1	A	364 DAYS	10	
Royal Bank of Canada	F1+	AA	A/B	1	P-1	Aaa	B+	A-1+	AA-	364 DAYS	10	
Toronto-Dominion Bank	F1+	AA-	B	1	P-1	Aaa	B+	A-1+	AA-	364 DAYS	10	
Denmark												
Danske Bank	F1+	AA-	B	1	P-1	Aa1	B	A-1+	AA-	364 DAYS	10	

**Current Counterparty Report for
East Ayrshire Council (non-LCD) 08-09**

Report run on: 08/10/2008 13:14:43

BUTLERS

List of Approved Counterparties for Lending

	Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
	S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin.Stgth	S. Term	L. Term	Time	Money
OVERSEAS BANKS											
Finland											
NORDEA GROUP											
Nordea Bank Finland	F1+	AA-	B	1	P-1	Aa1	B	A-1+	AA-	364 DAYS	10
France											
CREDIT AGRICOLE GROUP											
Calyon	F1+	AA-	C	1	P-1	Aa1 (N)	C (N)	A-1+	AA-	364 DAYS	10
Credit Agricole	F1+	AA-	B	1	P-1	Aa1 (N)	B (N)	A-1+	AA-	364 DAYS	10
BNP Paribas	F1+	AA	A/B	1	P-1	Aa1	B	A-1+	AA+	364 DAYS	10
Credit Industriel et Commercial	F1+	AA-	B/C	1	P-1	Aa3	C-	A-1+ (N)	AA- (N)	364 DAYS	10
Credit Lyonnais	F1+	AA-	B/C	1	P-1	Aa1 (N)	B- (N)	A-1+	AA-	364 DAYS	10
Dexia Credit Local	F1+	AA-	C	1	P-1 (N)	Aa3 (D)	C- (D)	A-1 (D)	A+ (D)	364 DAYS	10
Societe Generale (SG)	F1+	AA-	B	1	P-1	Aa2	B-	A-1+	AA-	364 DAYS	10
Germany											
BHF-Bank	F1	A	B/C	1						364 DAYS	7.5
Bayerische Hypo- und Vereinsbank AG	F1	A	B/C	1	P-1	A1	C-	A-1	A+	364 DAYS	7.5
Bayerische Landesbank Girozentrale	F1+	A+	C	1	P-1	Aa2	C-	A-1	A	364 DAYS	7.5
Commerzbank	F1 (N)	A (N)	B/C	1	P-1	Aa3	C	A-1	A	364 DAYS	10
Deutsche Bank AG	F1+	AA-	B	1	P-1	Aa1	B	A-1+	AA-	364 DAYS	10
Dresdner Bank, AG	F1+ (N)	A+ (N)	C	1	P-1	Aa3	C	A-1	A	364 DAYS	10
HSH Nordbank AG	F1	A	C	1	P-1	Aa2	C	A-1	A	364 DAYS	10
Landesbank Baden-Wuerttemberg	F1+	A+	B/C	1	P-1	Aa1	C	A-1	A+	364 DAYS	10
Landesbank Hessen-Thuringen Girozentrale	F1+	A+		1	P-1	Aa2	C-	A-1	A	364 DAYS	7.5
Norddeutsche Landesbank Girozentrale	F1	A	C	1	P-1	Aa2	C-	A-1	A	364 DAYS	7.5

**Current Counterparty Report for
East Ayrshire Council (non-LCD) 08-09**

Report run on: 08/10/2008 13:14:43

BUTLERS

List of Approved Counterparties for Lending

	Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
	S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin.Stgth	S. Term	L. Term	Time	Money
OVERSEAS BANKS											
Ireland											
KBC BANK GROUP											
IIB Bank Limited	F1	A+	B	1	P-1	A1	C	A-1	A+	364 DAYS	7.5
Allied Irish Banks, p.l.c.	F1+	AA-	B	1	P-1	Aa2	B-	A-1	A+	364 DAYS	10
Anglo Irish Bank Corporation	F1+	A+	B	3	P-1	A1	C+	A-1	A	364 DAYS	7.5
Bank of Ireland	F1+	AA-	B	1	P-1	Aa2	B-	A-1	A+	364 DAYS	10
Irish Permanent Plc					P-1	Aa3	C+	A-1	A	364 DAYS	10
Italy											
Banca Monte dei Paschi di Siena	F1	A	B/C	2	P-1	Aa3	C	A-1	A	364 DAYS	10
Intesa Sanpaolo	F1+	AA-	B	1	P-1	Aa2	B-	A-1+	AA-	364 DAYS	10
Unicredito Italiano	F1	A+	B/C (D)	1	P-1	Aa2	C+ (D)	A-1	A+	364 DAYS	10
Japan											
MIZUHO CORPORATE BANK LTD	F1	A+	B	1	P-1	Aa2	C	A-1	A+	364 DAYS	10
Netherlands											
ING BANK GROUP											
Internationale Nederlanden Bank/ING Bank	F1+	AA	A/B	1	P-1	Aa1	B	A-1+	AA	364 DAYS	10
ABN AMRO Bank	F1+	AA- (P)	B	1	P-1	Aa2	B-	A-1+	AA-	364 DAYS	10
Rabobank	F1+	AA+	A	1	P-1	Aaa	B+	A-1+	AAA	364 DAYS	10
Portugal											
BANCO COMERCIAL PORTUGUES GROUP											
Banco Comercial Portugues	F1	A+	B	2	P-1	Aa3	C+	A-1	A	364 DAYS	10
Banco Espirito Santo	F1	A+	B	2	P-1	Aa3	C+	A-1	A	364 DAYS	10

**Current Counterparty Report for
East Ayrshire Council (non-LCD) 08-09**

Report run on: 08/10/2008 13:14:43

BUTLERS

List of Approved Counterparties for Lending

	Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
	S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin.Stgth	S. Term	L. Term	Time	Money
OVERSEAS BANKS											
Saudi Arabia											
RIYAD BANK	F1	A+	B	1	P-1	A1	C	A-1	A+	364 DAYS	7.5
Singapore											
Development Bank of Singapore	F1+	AA-	B	2	P-1	Aa1	B	A-1+	AA-	364 DAYS	10
OVERSEA CHINESE BANKING CORP	F1+	AA-	B	2	P-1	Aa1	B			364 DAYS	10
UNITED OVERSEAS BANK	F1+	AA-	B	2	P-1	Aa1	B	A-1	A	364 DAYS	10
Spain											
BANCO SANTANDER CENTRAL HISPANO GROUP											
Banco Santander Central Hispano	F1+	AA	A/B	1	P-1	Aa1	B	A-1+	AA	364 DAYS	10
Banco Bilbao Vizcaya Argentaria	F1+	AA-	A/B	1	P-1	Aa1	B	A-1+	AA	364 DAYS	10
Sweden											
ForeningsSparBanken (Swedbank)	F1	A+	B/C (D)	1	P-1	Aa2	B-	A-1	A (D)	364 DAYS	10
Skandinaviska Enskilda Banken	F1	A+	B	1	P-1	Aa2	B-	A-1	A+	364 DAYS	10
Svenska Handelsbanken	F1+	AA-	B	1	P-1	Aa1	B	A-1+	AA-	364 DAYS	10
Switzerland											
CREDIT SUISSE GROUP											
Credit Suisse First Boston	F1+	AA-			P-1	Aa3		A-1+	AA-	364 DAYS	10
UBS AG	F1+	AA-	B	1	P-1	Aa2	B-	A-1+	AA-	364 DAYS	10
United Arab Emirates											
Emirates Bank International PJSC	F1+	AA-	B/C	1	P-1	A1	C-	A-1	A	364 DAYS	10
NATIONAL BK OF ABU DHABI	F1+	AA-	B/C	1	P-1	Aa3	C	A-1	A+	364 DAYS	10

**Current Counterparty Report for
East Ayrshire Council (non-LCD) 08-09**

Report run on: 08/10/2008 13:14:43

BUTLERS

List of Approved Counterparties for Lending

Fitch Ratings				Moody's Ratings			S&P Ratings		Limits	
S. Term	L. Term	Indiv.	Support	S. Term	L. Term	Fin.Stgth	S. Term	L. Term	Time	Money

OVERSEAS BANKS

United States

BANK AMERICA CORPORATION

Bank of America, N.A.

F1+	AA-	B	1	P-1	Aaa	A- (N)	A-1+	AA (N)	364 DAYS	10
-----	-----	---	---	-----	-----	--------	------	--------	----------	----

BANK OF NEW YORK CO, INC GROUP

Bank of New York

F1+	AA-	A/B	2	P-1	Aaa	B+	A-1+	AA	364 DAYS	10
-----	-----	-----	---	-----	-----	----	------	----	----------	----

CITIGROUP

Citibank, N.A.

F1+ (N)	AA- (N)	B (N)	1	P-1	Aa1 (N)	B (N)	A-1+ (N)	AA (N)	364 DAYS	10
---------	---------	-------	---	-----	---------	-------	----------	--------	----------	----

JP Morgan Chase Bank

F1+	AA-	B	1	P-1	Aaa	B+	A-1+	AA	364 DAYS	10
-----	-----	---	---	-----	-----	----	------	----	----------	----

State Street Bank & Trust Company

F1+	AA-	B	2	P-1	Aa1	B+	A-1+	AA	364 DAYS	10
-----	-----	---	---	-----	-----	----	------	----	----------	----

Wachovia Bank International

									6 MONTHS	5 (M)
--	--	--	--	--	--	--	--	--	----------	-------

Wachovia Bank, N. A.

F1+	A+ (P)	B (P)	2	P-1	Aa2	B (N)	A-1+	AA-	364 DAYS	10
-----	--------	-------	---	-----	-----	-------	------	-----	----------	----

OTHERS

United Kingdom

Local Authorities

									364 DAYS	10 (M)
--	--	--	--	--	--	--	--	--	----------	--------

Key

Upgraded (U) Positive Rating Watch (P)

Downgraded (D) Negative Rating Watch (N)

**Current Counterparty Report for
East Ayrshire Council (non-LCD) 08-09**

Report run on: 08/10/2008 13:14:43

BUTLERS

This material (including information, data and analytics) has been produced or compiled by ICAP plc or one of its group companies (each and collectively "ICAP"). This material is for use by Market Counterparties and Intermediate Customers only; it is not intended for and must not be distributed to Private Customers (as such capitalised terms are defined by the rules of the Financial Services Authority).

ICAP may, to the extent permitted by applicable law or regulation, act upon or use the material or its conclusions or the research or analysis on which it is based before the material is published to ICAP's customers. Not all ICAP's customers may receive the above material at the same time. Information may be available to ICAP which is not reflected in the above material. ICAP may have a position in the investments or securities that are the subject of the material. This document is not, and should not be construed as, an offer or solicitation to sell or buy any investment or product.

The information and opinions contained in this document have been compiled or arrived at by ICAP from sources believed to be reliable and in good faith but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. All opinions and estimates contained in this document constitute ICAP's judgement as at the date of this document and are subject to change without notice. Any information contained in this material is not to be relied upon as authoritative or taken in substitution for the exercise of judgement.

ICAP accepts no liability whatsoever for any loss arising from any use of the material or its contents. The material may not be reproduced, distributed or published for any purpose. ICAP Securities Ltd and ICAP Europe Ltd are authorised and regulated by the Financial Services Authority. (2008, ICAP)