| | |
|---|---|
| **REPORT TO:** | Executive Board Sub-Committee |
| **DATE:** | 11th September 2008 |
| **REPORTING OFFICER:** | Operational Director – Financial Services |
| **SUBJECT:** | Treasury Management 2007/08 |
| **WARD(S):** | Borough-wide |

**1.0 PURPOSE OF REPORT**

1.1 To review treasury management during 2007/08 in accordance with the Council's Treasury Management Policy Statement.

**2.0 RECOMMENDED: That the report be noted.**

**3.0 SUPPORTING INFORMATION**

3.1 The annual review is attached in the Appendix.

**4.0 POLICY IMPLICATIONS**

4.1 None.

**5.0 OTHER IMPLICATIONS**

5.1 None.

**6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

6.1 **Children and Young People in Halton**

None.

6.2 **Employment, Learning and Skills in Halton**

None.

6.3 **A Healthy Halton**

None.

6.4 **A Safer Halton**

None.

6.5 **Halton's Urban Renewal**

None.

## 7.0 RISK ANALYSIS

7.1 The main risks associated with Treasury Management are security of investment and volatility of return. To combat this, the Authority operates within a clearly defined Treasury Management Policy and an annual borrowing and investment strategy which sets out the control framework.

## 8.0 EQUALITY AND DIVERSITY ISSUES

8.1 There are no issues under this heading.

## 9.0 REASON(S) FOR DECISION

9.1 Requirement of the Treasury Management function.

## 10.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

10.1 None.

## 11.0 IMPLEMENTATION DATE

11.1 Not applicable.

## 12.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

| Document | Place of Inspection | Contact Officer |
|---|---|---|
| Working papers | Accountancy Office | J. Viggers |

**APPENDIX**

## TREASURY MANAGEMENT – ANNUAL REVIEW 2007/08

## 1.0 INTRODUCTION AND BACKGROUND

1.1 Treasury management in local government is regulated by the 1996 CIPFA Code of Practice on Treasury Management in Local Authorities (the Code). This Council has adopted the Code and fully complies with its requirements. The primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement which sets out Council, Committee and Operational Director – Financial Services' responsibilities, and delegation and reporting arrangements. (A revision of the Code was published in December 2001 which was adopted in March 2002 for the 2002/03 year onwards.)

1.2 A requirement of the Council's Treasury Policy Statement is the reporting to the Executive Board Sub-Committee of both the expected treasury activity for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report). Treasury management in this context is defined as:

"The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".

1.3 This annual report covers:

- the Council's current treasury position;
- performance measurement;
- the borrowing strategy for 2007/08 (Appendix A & B);
- the borrowing outturn for 2007/08;
- compliance with treasury limits;
- investments strategy for 2007/08 (Appendix C);
- investments outturn for 2007/08;
- debt rescheduling;
- other issues.

## 2.0 CURRENT PORTFOLIO POSITION

2.1 The Council's debt position at the beginning and end of year was as follows:

| | 31st March 2008 | | | | 31st March 2007 | | |
|---|---|---|---|---|---|---|---|
| | Principal £m | £m | Rate % | Life Yrs | Principal | Rate % | Life Yrs |
| Fixed Rate Funding | | | | | | | |
| – PWLB | 10.00 | | 3.70 | 48 | 10.00 | 3.70 | 49 |
| – Market | 10.00 | 20.00 | 4.42 | 0-58 | 10.00 | 4.42 | 0-59 |
| Variable Rate Funding | | | | | | | |
| – PWLB | 0.00 | | | | 0.00 | 0.00 | |
| – Market | 6.00 | 6.00 | 5.48 | | 2.00 | 5.34 | |
| **Total Debt** | | **26.00** | **4.38** | | **22.000** | **4.18** | |
| Investments | | | | | | | |
| – In-house | 41.00 | | 5.93 | | 27.30 | 5.15 | |
| – With Managers | 0.00 | | | | 0.00 | | |
| **Total Investments** | | **41.00** | **5.93** | | **27.30** | **5.15** | |

## 3.0 PERFORMANCE MEASUREMENT

3.1 One of the key changes in the revision of the Code was the formal introduction of performance measurement relating to investments, debt and capital financing activities. Whilst investment performance criteria have been well developed and universally accepted, debt performance indicators continue to be a more problematic area with the traditional average portfolio rate of interest acting as the main guide (as incorporated in the table in section 2). CIPFA has however issued draft indicators, although accompanied by a cautionary note. In effect these represent a potential range of statistics which will not give a definitive set of indicators, but will rather aid comparison with neighbouring authorities treasury structures.

The use of benchmarks for investments may be inappropriate for those Local Authorities with small cash balances as they may only be able to put money out for short periods and often at weaker rates.

## 4.0 THE STRATEGY FOR 2007/08

Section 4.0 is reproduced from the Treasury Management Strategy approved by the Executive Board Sub-Committee on 15th March 2007.

See Appendix A

## 5.0 CAPITAL BORROWINGS AND THE BORROWING PORTFOLIO STRATEGY

Section 5.0 is reproduced from the Treasury Management Strategy approved by the Executive Board Sub-Committee on 15th March 2007.

See Appendix B

## 6.0 OUTTURN FOR 2007/08

**Shorter-term interest rates** – Bank Rate started 2007/08 at 5.25% with expectations that there would be further increases in rates. This was reflected in a positive interbank money market curve. A further increase in rates to 5.5% duly occurred on 10th May 2007 but not before the Governor of the Bank of England had written a letter to the Chancellor in April explaining why CPI had risen to 1% or more above the official CPI inflation target of 2%. The Bank of England's Inflation Report issued in May showed inflation would be above target at the two year horizon. Another rise was delivered on 5th July when Bank Rate rose to 5.75% and the markets, including Sector, fully expected Bank Rate to increase again. One year interbank was priced at over 6%, GDP growth was continuing to strengthen and the housing market was still robust. The August Inflation Report showed Bank Rate needed to rise to 6% to keep inflation at target in two years time.

August, as it turned out, was the peak of interest rates as what has become known as 'the credit crunch' hit the markets and the global economy. The crunch originated in the US through the sub-prime housing market. Although originating in the US, world wide investors, particularly banks, had invested in packages of sub-prime loans, attracted by the higher yields offered. Fears arose that a large number of these investments would turn out to be worthless and this in turn would lead to bankruptcies amongst the banking sector. As a result of these fears, and the ensuing reluctance of banks to lend to each other, the Federal Reserve Bank injected $38bn of liquidity into the markets on 9th August. The ECB followed suit but the Bank of England stood on the sidelines only making cash available at a penal rate of 1% above Bank Rate. On 17th August the Federal Reserve cut interest rates by 50 bp to 5.25%. On 20th August Sector revised its interest rate view to reflect a downside risk to its forecast. The dislocation in the markets continued throughout the summer until on 14th September it was announced that the Bank of England had provided billions of pounds of financial support to Northern Rock. Northern Rock had been affected by the drying up of the wholesale money markets which provided 80% of its funding. On 17th September the Chancellor announced a Government guarantee for all deposits held at the stricken bank. A day later the Federal Reserve cut US rates by a further 50bp although oil rose to $80 a barrel and continued to climb reaching a peak, briefly, of $100pb in November. On 24th September Sector revised its interest rate forecast with 5.75% now the peak in rates. At its October meeting the MPC declined to cut Bank Rate, being concerned about the inflation outlook. UK data continued to be robust during the autumn although CPI dropped to 1.8% in September. 3 month LIBID still remained well above Bank Rate. On 31st October the Federal Reserve cut rates yet again to 4.50% and the following day they added $41bn of reserves in an attempt to free up the markets. The MPC eventually cut Bank Rate on 6th December to 5.50% as concerns about the economy and the credit crunch mounted. On 10th December both UBS and Capital Economics revised their interest rate forecasts down sharply. A day later the Federal Reserve cut rates again, this time by 25 bp.

2008 was ushered in with major fears about the global economy. Stock markets fell sharply and government bond yields fell. On 22nd January the Federal Reserve cut rates, this time by a massive 0.75bp to 3.5%, and once more on 30th January to 3%. The MPC followed suit in February cutting Bank Rate by 25 bp to 5.25%. On 18th February it was announced that the Government would nationalize Northern Rock. In late February and March the markets seized up again, forcing concerted liquidity intervention by the world's central banks, initially to little avail. The UK budget brought increased debt issuance, but little else, pushing gilt yields up sharply at the front end and driving PWLB rates up. On 14th March US investment bank Bear Stearns had to be bailed out by the Federal Reserve, culminating in a takeover by JP Morgan. The year ended with the money markets anxious and nervous and 3 month cash 75bp above bank rate.

**Longer-term interest rates –** The PWLB 45-50 year rate started the year at 4.45 and fell to a low of 4.38% in March 2008. The high point, of which there were several, for 45-50 year was 4.90% before finishing the year at 4.42%. The volatility in yields was a direct reflection of the massive turnaround in interest rate sentiment brought about by the sub-prime crisis in the US. A radical change to the PWLB rate structure was introduced by the DMO on 1st November when they moved to single basis point moves in their rates and introduced a separate repayment rate at the same time, at a level significantly below the rate at which they would lend new money.

## 7.0 BORROWING OUTTURN FOR 2007/08

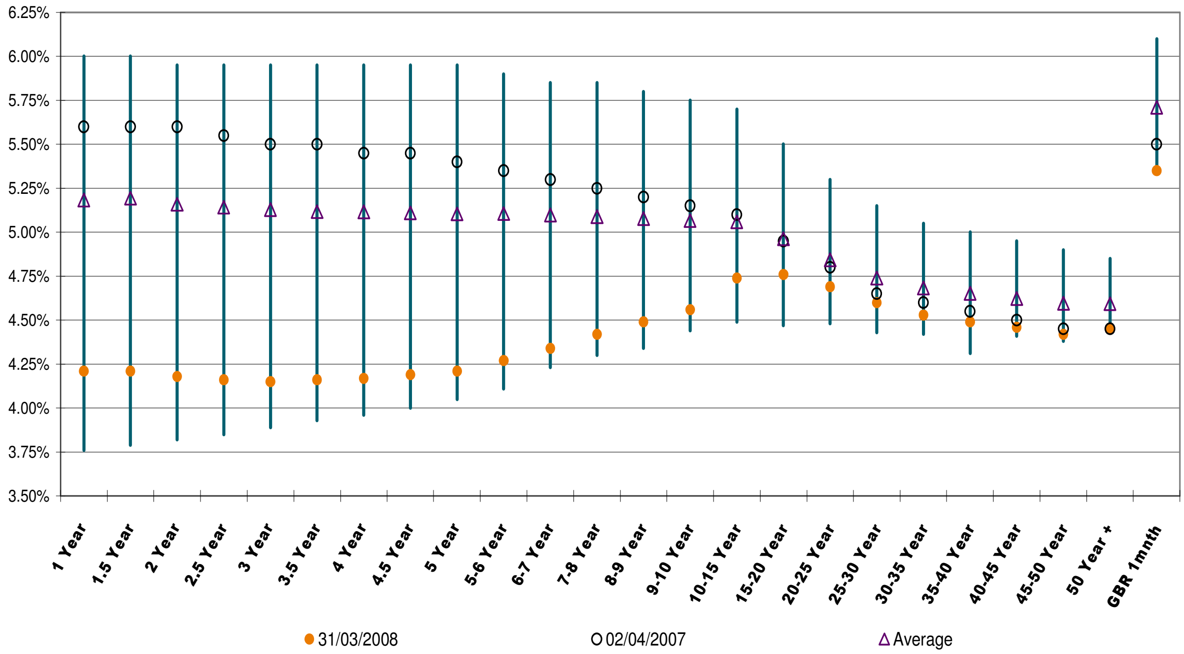
7.1 As comparative performance indicators, average PWLB maturity loan interest rates for 2007/08 were:

| | |
|---|---|
| 1 year | 5.18% |
| 9.5 - 10 year | 5.07%* |
| 25 - 30 year | 4.74%* |
| 49.5 - 50 year | 4.60%* |
| 1 month GBR variable | 5.71% |

* due to the change in banding of PWLB rates as from 1.11.07, some interpolation has had to be used to calculate some average figures for 2007/08 and to produce the graph on the next page.

7.2 The graph below shows the range (high and low points) in rates for each maturity period during the year, and individual rates at the start and end of the financial year:

## PWLB Rates 2007-8




7.3 Debt Performance

As highlighted in section 2.1, above the average debt portfolio interest rate has moved over the course of the year from 4.18% to 4.38% (although the long term core rate stayed the same at 4.06%). The approach during the year was to fund borrowing from surplus cash unless rates were particularly attractive when the Council would draw longer term fixed rate debt to take advantage of low long term rates and reduce exposure to fluctuations in short term interest rates.

7.4 There was no new long term borrowing transactions in the year. The possibility of undertaking new long term borrowing was looked at several times during the year, but a combination of relatively high interest rates and the arrival of a major capital receipt producing a higher than usual level of investments, meant that the increased exposure to interest rate movements created by further borrowing had the potential to introduce too high a risk if interest rates fell unexpectantly.

### 8.0 COMPLIANCE WITH TREASURY LIMITS

8.1 During the financial year the Council operated within the treasury limits set out in the Council’s Treasury Policy Statement and Treasury Strategy Statement.

## 9.0 TEMPORARY INVESTMENTS STRATEGY

Section 9.0 is reproduced from the Treasury Management Strategy approved by the Executive Board Sub-Committee on 15th March 2007.

See Appendix C

## 10.0 INVESTMENTS OUTTURN FOR 2007/08

10.1 Internally Managed Investments – The authority manages its investments in-house and invests within the institutions listed in the authority's approved lending list. The authority invests for a range of periods from overnight to 3 years, dependent on the authority's cash flows and the interest rates on offer.

10.2 Investment Outturn – Detailed below is the result of the investment strategy undertaken by the Council.

| | Average Investment Level | Rate of Return (gross of fees) | Rate of Return (net of fees) | Benchmark Return* |
|---|---|---|---|---|
| Internally Managed | £43.346m | 5.72% | 5.72% | 5.58% |

*The benchmark for internally managed funds is the average 7-day LIBID rate (uncompounded) sourced from the Financial Times. The benchmark for externally managed funds is the 7 day LIBID rate, averaged for the week, and compounded weekly.

NB: The 3 month LIBID benchmark rate was 5.92%.

10.3 No institutions in which investments were made showed any difficulty in repaying investments and interest in full during the year.

## 11.0 DEBT RESCHEDULING

11.1 The post housing stock transfer debt situation has left the council in a unique situation. It has a low level of external debt at £20m, £10m of which is locked into an excellent rate of 3.70% for a long period. It is unlikely that this debt would be rescheduled as it provides a cornerstone of the debt portfolio for future years.

## 12.0 OTHER ISSUES

12.1 There were no other significant issues.

**Appendix A**

## 4.0 THE STRATEGY FOR 2007/08

4.1 The Council appointed Sector Treasury Services as a treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Appendix D draws together a number of current City forecasts for short term or variable (the base rate or repo rate) and longer fixed interest rates.

4.2 Sector View: Interest rate forecast – January 2007

| | Q/E1 2007 | Q/E2 2007 | Q/E3 2007 | Q/E4 2007 | Q/E1 2008 | Q/E2 2008 | Q/E3 2008 | Q/E4 2008 | Q/E1 2009 | Q/E2 2009 | Q/E3 2009 | Q/E4 2009 | Q/E1 2010 | Q/E2 2010 | Q/E3 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | % | % | % | % | % | % | % | % | % | % |
| Bank Rate | 5.50 | 5.50 | 5.25 | 5.00 | 5.00 | 4.75 | 4.75 | 4.75 | 4.75 | 4.75 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| 5 yr Gilt Yield | 5.25 | 5.25 | 5.00 | 4.75 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| 10 yr PWLB Rate | 5.00 | 5.00 | 4.75 | 4.75 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| 25 yr PWLB Rate | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| 50 yr PWLB Rate | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 |

Sector's current interest rate view is that the Bank Rate will:

- peak at 5.50% in Q1 2007;
- fall to 5.00% in Q4 2007 and then to 4.75% in Q2 2008;
- before rising back to 5.00% in Q3 2009.

The risk to this forecast is to the downside in as much as the cuts in rates could occur earlier than our forecast suggests, although this will not necessarily affect the timing of the first upward move in Q1 2007.

4.3 Economic background

International

- The US, UK and EU economies have all been on the upswing of the economic cycle in 2005 and 2006 and so have been raising interest rates in order to cool their economies and to counter inflationary pressures stimulated by high oil, gas and electricity prices which could feed through into increases in wage inflation, producer prices etc.;

- The US is ahead of the UK and EU in the business cycle and it looks as if the Fed. rate has probably already peaked at 5.25% whereas there is still an expectation in the financial markets of further increases in the EU and UK;

- The major feature of the US economy is a still steepening downturn in the housing market which is likely to drag consumer spending, and so the wider economy, down with it (e.g. house building, employment etc.). Falling house prices will also undermine household wealth and so lead to an increase in savings (which fell while house prices were rising healthily) and so conversely will lead to a fall in consumer expenditure;

- The Fed. may be reluctant and tardy to respond to the aforementioned downturn in the economy if inflationary pressures remain stubbornly high. This could exacerbate the downturn both in the US and the world economies;

- EU growth picked up strongly in the first half of 2006 and remained healthy in the second half. Growth to slow moderately in 2007 due to weaker US and global demand;

- Despite sharply increased energy prices, disinflationary pressures from falls in prices of manufactured goods from China and India have helped to keep headline inflation in the advanced economies to an average of around 3% and will fall as the energy effects go into reverse.

United Kingdom

- GDP: the UK is on the upswing of the economic cycle from a low point reached in June 2005. Robust growth is expected to continue for a little longer but a modest cooling is expected in 2007 (2006 2.7%, 2007 2.2%) and to continue at below the trend rate of 2.5% thereafter;

- Recovery in consumer spending and retail sales has underpinned this upswing in GDP;

- The housing market has proved more robust than expected; house price inflation over 8% p.a.;

- Higher than expected immigration from Eastern Europe has strengthened growth and dampened wage inflation;

- The MPC's decision to raise Bank Rate in November 2006 and January 2007 were needed to bring CPI inflation down to the 2% target level two years ahead. The MPC has been concerned that short term price increases (CPI has been significantly above target since June 2006) could feed through into wage settlements in the current pay round and anchor inflation expectations at a higher level;

- Household income growth to recover in 2007 as inflation falls and pay rises. But extra income likely to go into a recovery of the savings rate, pension saving and servicing debt costs (as rates rise) rather than consumer expenditure;

- Public sector real increase in expenditure per annum to weaken to 2.5% over the next few years from 3% average over 2000-2005;

- The three increases in Bank Rate in August and November 2006 and then January 2007, are expected to dampen the housing market and increases in unsecured borrowing although one more increase in Bank Rate is forecast;

- World slowdown in growth in 2007 will dampen UK exports;

- OUTLOOK: Once inflation is back under control, Bank Rate will switch to a falling trend in late 2007 to counter above negative effects on the economy and growth.

**Appendix B**

## 5.0 CAPITAL BORROWINGS AND THE BORROWING PORTFOLIO STRATEGY

5.1 The Sector forecast is as follows:

- The 50 year PWLB rate is expected to remain flat at 4.25%. As the Sector forecast is in 25bp segments there is obviously scope for the rate to move around the central forecast by +/- 25bp without affecting this overall forecast;

- The 25-30 year PWLB rate is expected to stay at 4.50%. for the foreseeable future;

- The 10 year PWLB rate will fall from 5.00% to 4.75.% in Q3 2007 and then fall again to 4.50% in Q1 2008 and remain at that rate for the foreseeable future;

- 5 year PWLB rate will fall from 5.25% to 5.0% in Q3 2007 and continue falling until reaching 4.5% in Q1 2008 when it will remain at that rate for the foreseeable future.

5.2 This forecast indicates, therefore, that the borrowing strategy for 2007/08 should be set to take very long dated borrowing at any time in the financial year. Variable rate borrowing and borrowing in the five year area are expected to be more expensive than long term borrowing and will therefore be unattractive throughout the financial year compared to taking long term borrowing.

5.3 For authorities wishing to minimise their debt interest costs, the main strategy is therefore as follows:

- With 50 year PWLB rate at 4.25%, borrowing should be made in this area of the market at any time in the financial year. This rate will be lower than the forecast rates for shorter maturities in the 5 year and 10 year area. A suitable trigger point for considering new fixed rate long term borrowing, therefore, would be 4.25%.

5.4 Against this background caution will be adopted with the 2007/08 treasury operations. The Operational Director – Financial Services will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Executive Board Sub-Committee at the next available opportunity.

5.5 Sensitivity of the forecast – The main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the 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 were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap;

- if it were felt that there was a significant risk of a sharp fall in long and short term rates, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

Appendix C

## 9.0 TEMPORARY INVESTMENTS STRATEGY

### 9.1 Investment Policy

The Council will have regard to the ODPM's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:

(a) the security of capital; and

(b) the liquidity of its investments.

The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the approved lending list.

Specified Investments:

(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable)

| | Minimum 'High' Credit Criteria | Use |
|---|---|---|
| Debt Management Agency Deposit Facility | -- | In-house |
| Term Deposits – UK Government | -- | In-house |
| Term Deposits – Other LAs | -- | In-house |
| Term Deposits – Banks and Building Societies | On Approved List | In-house |

If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

Non-Specified Investments:

A maximum of 30% will be held in aggregate in non-specified investments for 2-3 years and 60% in 1 to 2 years.

| | Minimum Credit Criteria | Use | Max % of Total Investments | Max. Maturity Period |
|---|---|---|---|---|
| Term deposits – UK government (with maturities in excess of 1 year) | | In-house | 30%<br>60% | 2-3 years<br>1-2 years |
| Term deposits – other LAs (with maturities in excess of 1 year) | | In-house | 30%<br>50% | 2-3 years<br>1-2 years |
| Term deposits – banks and building societies (with maturities in excess of 1 year) | On Approved List | In-house | 30%<br>60% | 2-3 years<br>1-2 years |

The Council uses Moody's ratings to derive its criteria. Where a counterparty does not have a Moody's rating, the equivalent Fitch rating will be used. All credit ratings will be monitored on a regular basis. The Council is alerted to changes in credit ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

9.2 Investment Strategy

In-house funds: The Council's in-house managed funds have during the past twelve months been in the value range of £32.5m to £49.1m with a core balance of around £20m which is available for investment over a longer (say) 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

The Council already has investments that span the financial year e.g. longer-dated deposits including callable deposits, which were taken out at various peaks of the last rate cycles as shown below.

| | Amount | Maturity | Rate |
|---|---|---|---|
| Chelsea BS | £2,500 | 22.07.07. | 4.63 |
| Stroud & Swindon BS | £2,500 | 23.07.07. | 4.63 |
| Northern Rock BS | £2,500 | 15.10.07. | 5.33 |
| Nationwide BS | £5,000 | 26.10.07. | 5.30 |
| Bristol & West BS | £2,500 | 05.12.07. | 5.35 |
| Nottingham BS | £2,000 | 21.01.08. | 5.87 |
| Chelsea BS | £2,500 | 22.01.08. | 4.75 |
| Newcastle BS | £2,500 | 05.06.08. | 5.00 |
| Northern Rock BS | £2,500 | 05.06.08. | 5.13 |
| Kent Reliance BS | £2,500 | 18.12.08. | 5.53 |

It is unlikely therefore that further long dated investments will be undertaken until these investments mature.

Interest rate outlook: Sector is forecasting Bank Rate to peak at 5.5% in Q1 2007 before falling to 5.00% in Q4 2007 and then to trough at 4.75% in Q2 2008, remaining at that level before rising again to 5.00% in Q3 2009. Councils should, therefore, seek to lock in longer period investments at higher rates before this fall starts for some element of their investment portfolio which represents their core balances. For 2007/8 clients should budget for an investment return of 5.00%. The 'trigger points' will be kept under review and discussed with Sector so that investments can be made at the appropriate time.

The Council has identified 5.75% as an attractive trigger rate for 1-year lending and 5.65% for *2-3* year lending. The 'trigger points' will be kept under review and discussed with Sector so that investments can be made at the appropriate time.

For its cash flow generated balances, the Council will seek to utilise its business reserve accounts and short-dated deposits (1-3 months) in order to benefit from the compounding of interest.

End of year Investment Report

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

**Appendix D**

## INTEREST RATE FORECASTS 2007/8

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

## 1. INDIVIDUAL FORECASTS

**Sector** interest rate forecast – 15.1.07.

| | Q/E1 2007 | Q/E2 2007 | Q/E3 2007 | Q/E4 2007 | Q/E1 2008 | Q/E2 2008 | Q/E3 2008 | Q/E4 2008 | Q/E1 2009 | Q/E2 2009 | Q/E3 2009 | Q/E4 2009 | Q/E1 2010 | Q/E2 2010 | Q/E3 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | % | % | % | % | % | % | % | % | % | % | % | % | % | % | % |
| Bank Rate | 5.50 | 5.50 | 5.25 | 5.00 | 5.00 | 4.75 | 4.75 | 4.75 | 4.75 | 4.75 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| 5 yr Gilt Yield | 5.25 | 5.25 | 5.00 | 4.75 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| 10 yr PWLB Rate | 5.00 | 5.00 | 4.75 | 4.75 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| 25 yr PWLB Rate | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| 50 yr PWLB Rate | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 | 4.25 |

**Capital Economics** interest rate forecast – 15.1.07.

| | Q/E1 2007 | Q/E2 2007 | Q/E3 2007 | Q/E4 2007 | Q/E1 2008 | Q/E2 2008 | Q/E3 2008 | Q/E4 2008 |
|---|---|---|---|---|---|---|---|---|
| Base Rate | 5.25% | 5.50% | 5.50% | 5.25% | 4.75% | 4.50% | 4.50% | 4.50% |
| 5 yr Gilt Yield | 5.35% | 5.05% | 4.85% | 4.65% | 4.45% | 4.55% | 4.65% | 4.75% |
| 10 yr PWLB Rate | 4.95% | 4.75% | 4.45% | 4.45% | 4.55% | 4.65% | 4.75% | 4.85% |
| 25 yr PWLB Rate | 4.45% | 4.35% | 4.25% | 4.25% | 4.25% | 4.35% | 4.45% | 4.55% |
| 30 yr PWLB Rate | 4.25% | 4.15% | 3.95% | 4.05% | 4.05% | 4.15% | 4.25% | 4.35% |
| 50 yr PWLB Rate | 4.05% | 3.95% | 3.95% | 4.05% | 4.05% | 4.15% | 4.15% | 4.25% |

**UBS** Economic interest rate forecast (for quarter ends) - 12.2.07.

| | Q/E1 2007 | Q/E2 2007 | Q/E3 2007 | Q/E4 2007 | Q/E1 2008 | Q/E2 2008 | Q/E3 2008 | Q/E4 2008 |
|---|---|---|---|---|---|---|---|---|
| Base Rate | 5.25% | 5.25% | 5.25% | 5.25% | 5.25% | 5.25% | 5.25% | 5.25% |
| 10 yr PWLB Rate | 5.05% | 5.00% | 5.05% | 5.15% | 5.25% | 5.25% | 5.25% | 5.30% |
| 25 yr PWLB Rate | 4.55% | 4.55% | 4.55% | 4.70% | 4.80% | 4.85% | 4.90% | 5.00% |
| 50 yr PWLB Rate | 4.20% | 4.25% | 4.40% | 4.40% | 4.45% | 4.50% | 4.55% | 4.65% |

## 2. SURVEY OF ECONOMIC FORECASTS

HM Treasury – January 2007 (pre Bank Rate increase 15.1.07) summary of forecasts of 26 City and 14 academic analysts for Q4 2006 and 2007. (2008-2010 are as at November 2006 but are based on 18 forecasts)

| | Bank Rate Actual | Quarter Ended | | Annual Average Bank Rate | | |
|---|---|---|---|---|---|---|
| | | Q4 2006 | Q4 2007 | Average 2008 | Average 2009 | Average 2010 |
| Indep. Forecasters BoE Base Rate | 5.00% | 4.96% | 4.89% | 4.86% | 4.88% | 4.85% |
| Highest Base Rate | 5.00% | 5.00% | 6.00% | 5.90% | 5.60% | 6.10% |
| Lowest Base Rate | 5.00% | 4.50% | 4.00% | 3.75% | 4.00% | 4.00% |

Appendix E

## INTEREST RATE MOVEMENTS DURING 2007/8

| Date | Base Rate | 7 Day Libid | 1 Year | 9-10 Year | 20-25 Year | 50 Year |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| April 6, 2007 | 5.25 | 5.40 | 5.85 | 5.15 | 4.85 | 4.50 |
| April 13, 2007 | 5.25 | 5.30 | 5.81 | 5.20 | 4.90 | 4.55 |
| April 20, 2007 | 5.25 | 5.20 | 5.90 | 5.25 | 4.90 | 4.55 |
| April 27, 2007 | 5.25 | 5.20 | 5.92 | 5.25 | 4.95 | 4.60 |
| May 4, 2007 | 5.25 | 5.20 | 5.97 | 5.30 | 4.95 | 4.65 |
| May 11, 2007 | 5.50 | 5.50 | 5.95 | 5.25 | 4.95 | 4.60 |
| May 18, 2007 | 5.50 | 5.50 | 5.99 | 5.30 | 4.95 | 4.60 |
| May 25, 2007 | 5.50 | 5.50 | 6.10 | 5.35 | 5.00 | 4.60 |
| June 1, 2007 | 5.50 | 5.50 | 6.12 | 5.40 | 5.00 | 4.65 |
| June 8, 2007 | 5.50 | 5.50 | 6.13 | 5.50 | 5.15 | 4.75 |
| June 15, 2007 | 5.50 | 5.50 | 6.16 | 5.65 | 5.25 | 4.85 |
| June 22, 2007 | 5.50 | 5.50 | 6.26 | 5.70 | 5.25 | 4.85 |
| June 29, 2007 | 5.50 | 5.80 | 6.28 | 5.60 | 5.20 | 4.80 |
| July 6, 2007 | 5.75 | 5.80 | 6.32 | 5.70 | 5.25 | 4.85 |
| July 13, 2007 | 5.75 | 5.80 | 6.30 | 5.65 | 5.20 | 4.80 |
| July 20, 2007 | 5.75 | 5.80 | 6.32 | 5.60 | 5.15 | 4.75 |
| July 27, 2007 | 5.75 | 5.78 | 6.23 | 5.40 | 5.00 | 4.60 |
| August 3, 2007 | 5.75 | 5.80 | 6.26 | 5.40 | 5.00 | 4.60 |
| August 10, 2007 | 5.75 | 6.09 | 6.35 | 5.45 | 5.05 | 4.65 |
| August 17, 2007 | 5.75 | 6.15 | 6.40 | 5.30 | 4.95 | 4.55 |
| August 24, 2007 | 5.75 | 5.85 | 6.45 | 5.25 | 4.90 | 4.55 |
| August 31, 2007 | 5.75 | 6.10 | 6.45 | 5.20 | 4.85 | 4.55 |
| September 7, 2007 | 5.75 | 5.95 | 6.64 | 5.15 | 4.85 | 4.55 |
| September 14, 2007 | 5.75 | 5.85 | 6.45 | 5.10 | 4.85 | 4.60 |
| September 21, 2007 | 5.75 | 5.70 | 6.10 | 5.20 | 4.95 | 4.70 |
| September 28, 2007 | 5.75 | 5.90 | 6.10 | 5.20 | 5.00 | 4.75 |
| October 5, 2007 | 5.75 | 5.78 | 6.00 | 5.10 | 4.90 | 4.65 |
| October 12, 2007 | 5.75 | 5.65 | 6.14 | 5.20 | 4.90 | 4.65 |
| October 19, 2007 | 5.75 | 5.65 | 6.50 | 5.15 | 4.90 | 4.70 |
| October 26, 2007 | 5.75 | 5.66 | 6.05 | 5.00 | 4.80 | 4.60 |
| November 2, 2007 | 5.75 | 5.66 | 6.07 | 5.05 | 4.74 | 4.58 |
| November 9, 2007 | 5.75 | 5.66 | 6.00 | 4.92 | 4.68 | 4.55 |
| November 16, 2007 | 5.75 | 5.66 | 5.90 | 4.82 | 4.62 | 4.51 |
| November 23, 2007 | 5.75 | 5.66 | 6.00 | 4.68 | 4.53 | 4.49 |
| November 30, 2007 | 5.75 | 5.67 | 6.00 | 4.73 | 4.60 | 4.55 |
| December 7, 2007 | 5.50 | 5.66 | 5.95 | 4.72 | 4.59 | 4.54 |
| December 14, 2007 | 5.50 | 5.67 | 5.90 | 4.93 | 4.72 | 4.61 |
| December 21, 2007 | 5.50 | 5.66 | 5.75 | 4.75 | 4.58 | 4.48 |
| December 28, 2007 | 5.50 | 5.66 | 5.70 | 4.79 | 4.63 | 4.54 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **January 4, 2008** | **5.50** | **5.66** | **5.50** | **4.62** | **4.50** | **4.42** |
| **January 11, 2008** | **5.50** | **5.66** | **5.35** | **4.56** | **4.49** | **4.46** |
| **January 18, 2008** | **5.50** | **5.65** | **5.34** | **4.57** | **4.49** | **4.45** |
| **January 25, 2008** | **5.50** | **5.65** | **5.20** | **4.69** | **4.60** | **4.56** |
| **February 1, 2008** | **5.50** | **5.64** | **5.29** | **4.63** | **4.53** | **4.45** |
| **February 8, 2008** | **5.25** | **5.63** | **5.28** | **4.59** | **4.54** | **4.47** |
| **February 15, 2008** | **5.25** | **5.63** | **5.40** | **4.79** | **4.73** | **4.62** |
| **February 22, 2008** | **5.25** | **5.62** | **5.48** | **4.84** | **4.75** | **4.58** |
| **February 29, 2008** | **5.25** | **5.61** | **5.52** | **4.76** | **4.70** | **4.54** |
| **March 7, 2008** | **5.25** | **5.60** | **5.55** | **4.56** | **4.56** | **4.44** |
| **March 14, 2008** | **5.25** | **5.59** | **5.65** | **4.53** | **4.58** | **4.45** |
| **March 21, 2008** | **5.25** | **5.59** | **5.75** | **4.47** | **4.58** | **4.43** |
| **March 28, 2008** | **5.25** | **5.59** | **5.80** | **4.56** | **4.64** | **4.42** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Maximum** | 5.75 | 6.15 | 6.64 | 5.70 | 5.25 | 4.85 |
| **Minimum** | 5.25 | 5.20 | 5.20 | 4.47 | 4.49 | 4.42 |
| **Spread** | 0.50 | 0.95 | 1.44 | 1.23 | 0.76 | 0.43 |
| **Average** | 5.54 | 5.65 | 5.96 | 5.07 | 4.83 | 4.59 |

# Appendix F

## PRUENTIAL INDICATORS FOR 2007/08

The following prudential indicators were set for the purposes of an integrated treasury management strategy.

| No. | Prudential Indicator | 2007/08 £ | 2008/09 £ | 2009/10 £ |
|---|---|---|---|---|
| | (1) Extract from Budget | | | |
| | Affordable Borrowing | | | |
| 3 | Increase in Council Tax B7 (Band D, per annum) | 3.42 | 2.78 | 0.17 |
| 7 | Capital Financing Requirement (as at 31 March) | £m | £m | £m |
| | Non-HRA | 54.407 | 64.181 | 72.048 |

| No. | Prudential Indicator | 2007/08 £m | 2008/09 £m | 2009/10 £m |
|---|---|---|---|---|
| | (2) Treasury Management Prudential Indicators | | | |
| 9 | Authorised Limit for External Debt | | | |
| | Borrowing | 55.06 | 65.43 | 74.93 |
| | Other Long Term Liabilities | 0.00 | 0.00 | 0.00 |
| | TOTAL | 55.06 | 65.43 | 74.93 |
| 10 | Operational Boundary for External Debt | | | |
| | Borrowing | 50.06 | 60.43 | 69.93 |
| | Other Long Term Liabilities | 0.00 | 0.00 | 0.00 |
| | TOTAL | 50.06 | 60.43 | 69.93 |
| 12 | Upper Limit for Fixed Interest Rate Exposure | | | |
| | Expressed as | | | |
| | Net Principal re Fixed Borrowing/ Investments | 37.54 | 45.32 | 52.44 |
| | | (75%) | (75%) | (75%) |
| 13 | Upper Limit for Variable Rate Exposure | | | |
| | Expressed as | | | |
| | Net Principal re Variable Borrowing/ Investments | 37.54 | 45.32 | 52.44 |
| | Net Interest re Variable Rate Borrowing/ Investments | (75%) | (75%) | (75%) |
| 14 | Maturity Structure of New Fixed Rate Borrowing during 2006/07 | | Upper | Lower |
| | Under 12 months | | 50 | 0 |
| | 12 months and within 24 months | | 75 | 0 |
| | 24 months and within 5 years | | 50 | 0 |
| | 5 years and within 10 years | | 50 | 0 |
| | 10 years and above | | 75 | 0 |

| No. | Prudential Indicator | 2007/08 | | 2008/09 | | 2009/10 | |
|---|---|---|---|---|---|---|---|
| | | £m | % | £m | % | £m | % |
| 15 | Upper Limit for Total Principal Sums invested for over | | | | | | |
| | Up to 1 year (per maturity date) | 39.41 | 100 | 31.68 | 100 | 21.90 | 100 |
| | Up to 2 years (per maturity date) | 23.64 | 60 | 19.01 | 60 | 13.14 | 60 |
| | 2 Years+ (per maturity date) | 21.90 | 30 | 13.14 | 30 | 6.57 | 30 |