REPORT TO: Executive Board Sub-Committee

DATE: 6th September 2007

REPORTING OFFICER: Operational Director – Financial Services

SUBJECT: Treasury Management 2006/07

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To review treasury management during 2006/07 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 2006/07

1.0 INTRODUCTION AND BACKGROUND

1.1 Treasury management in local government is regulated by the 1996 revision of the 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 new 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 2006/07;
- the borrowing outturn for 2006/07;
- compliance with treasury limits;
- investments strategy for 2006/07;
- investments outturn for 2006/07;
- 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 2007				31st March 2006		
	Principal £m	£m	Rate %	Life Yrs	Principal	Rate %	Life Yrs
Fixed Rate Funding							
– PWLB	10.00		3.70	49	10.00	3.70	50
– Market	10.00	20.00	4.42	0-59	10.00	4.42	2-60
Variable Rate Funding							
– PWLB	0.00				0.00	0.00	
– Market	2.00	2.00	5.34		4.00	4.46	
Total Debt		**22.00**	**4.18**		**24.00**	**4.13**	
Investments							
– In-house	27.30		5.15		33.40	4.66	
– With Managers	0.00				0.00		
Total Investments		**27.30**	**5.15**		**33.40**	**4.66**	

3.0 PERFORMANCE MEASUREMENT

3.1 One of the key changes in the revision of the Code in 1996 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 2006/07

Sections 4.0 and 5.0 are reproduced from the Treasury Management Strategy approved by the Executive Board Sub-Committee on 13th March 2006.

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 A 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 – 13.1.06.

	Q/E1 2006	Q/E2 2006	Q/E3 2006	Q/E4 2006	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
	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Base Rate	4.50	4.25	4.25	4.00	4.25	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
5 yr Gilt Yield	4.00	4.00	4.00	4.25	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
10 yr PWLB Rate	4.25	4.25	4.50	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75	5.00	4.75	4.50
25 yr PWLB Rate	4.25	4.25	4.25	4.50	4.50	4.75	4.75	4.75	4.75	5.00	5.00	5.00	4.75	4.50
50 yr PWLB Rate	4.00	4.00	4.00	4.25	4.25	4.50	4.50	4.50	4.75	4.75	4.75	4.75	4.50	4.25

Sector’s current interest rate view is that the repo (base) rate will:

- remain on hold at 4.5% until the end of Q1 2006;
- fall to 4% by the end of Q4 2006;
- edge up by 0.25% in Q1, Q2 and Q3 of 2007 to end the year at 4.75%.

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

UK

- GDP growth weakened from 3.2% in 2004 to 1.7% in 2005 under the impact of monetary and fiscal tightening and the oil price shock depressing household spending. Growth expected to recover weakly to about 2.0% in 2006 and then return to the long term trend rate of 2.5% in 2007;

- House price inflation has fallen to low levels and may now stabilise;

- Inflation forecast to stay around target despite hike in oil prices. MPC on alert for pipeline cost pressures, primarily from oil price increases, feeding through into output prices and then into retail prices;

- Public sector deficit to decline steadily over next few years as the Government cuts back on the rate of growth of its expenditure.

International

- Boom in world commodity prices driven by strong growth in China and India; potential for further increases in prices but supply side increases and improvements in technology are likely to reduce prices in the medium term;

- Inability of oil producers to spend their huge cash surpluses and reluctance of Asian economies to run current account deficits will suppress world demand and dampen world growth;

- US – Fed nearing the end of its phase of measured rate raising. Fed rate may now peak at 4.5%;

- US GDP growth expected to weaken from 4.2% 2004 to 3.5% 2005 and 3.0% 2006;

- ECB had held repo rate at 2.00% since June 2003; increase in December to 2.25% and further increases expected as the economic outlook has improved;

- Eurozone GDP growth expected to rise weakly and to continue to under perform the UK and US economies.

5.0 CAPITAL BORROWINGS AND THE BORROWING PORTFOLIO STRATEGY

5.1 The Sector forecast is as follows:

- The new 50 year PWLB rate will remain flat at 4% until Q4 2006 when it will rise to 4.25% with a further increase to 4.5% in Q2 2007. As the Sector forecast is in 25bp segments there is obviously scope for the rate to move away slightly from 4.0% without affecting this overall forecast.

- Similarly the 25-30 year PWLB rate will remain flat at 4.25% until Q4 2006 when it will rise to 4.50% with a further increase to 4.75% in Q2 2007.

- The 10 year PWLB rate will stay at 4.25% in the first two quarters of 2006 but will then rise to reach 4.50% in Q3 2006 and then 4.75% in Q1 2007.

- 5 year gilt yields will follow base rate down and trough by the end of Q3 2006 at 4.00%. Yields will then rise to 4.25% in Q4 2006, 4.5% in Q1 2007 and to 4.75% in Q2 2007 as the interest rate cycle turns up again.

5.2 This forecast indicates, therefore, that the borrowing strategy for 2006/07 should be set to take long dated borrowings in the second and third quarters of the calendar year before PWLB rates rise. This applies particularly to the 50 year area where Sector forecast the rate to remain at 4.00% until Q3 2006. Variable rate borrowing and borrowing in the five year area will also be attractive in the second and third quarter of the calendar year while the repo rate is on a falling trend.

5.3 These interest rate expectations provide a variety of options:

- With 50 year PWLB rates at 4% borrowing should be made in this area of the market in Q2 and Q3 of the calendar 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 4.0%. However, to maintain a suitable maturity profile, authorities should consider borrowing short term fixed and variable borrowing as well and this should be undertaken in the second and third quarters of the financial year as the repo rate declines;

- Councils should consider borrowing longer term fixed funding if they believe that there is a risk that the average variable rate over the budget forecast period is going to be higher than the longer term fixed rate. However, over the longer term there may be periods where short term/variable rates are lower than longer term fixed rates.

5.4 Against this background caution will be adopted with the 2006/07 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 in 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 remaining low or weakening, then long term borrowings will be postponed, and any rescheduling from fixed rate funding into variable or short rate funding will be exercised

6.0 OUTTURN FOR 2006/07

6.1 Shorter-term interest rates

Bank Rate started 2006/07 at 4.5%, having been unchanged at this level since August 2005. The start of the year was dominated by concerns for the impact of large price rises in gas and electricity on consumers and during quarter 2, oil rose to over $70 per barrel again. These increases were expected to depress consumer expenditure; they also caused CPI (Consumer Price Inflation) to jump from 1.8% in March to 2.2% in May. The housing market around this time was quite subdued and house price inflation fell right back during quarter 3 2005 – Q1 2006. There were also concerns about the impact of reduced levels of increases in public sector expenditure on economic growth, this having been one of the main supports in recent years. In addition, the continuing series of interest rate increases in the US were expected to dampen the US economy during 2006 with annual growth forecast to fall from 3.4% in 2005 to 2.5% in 2006. The EU growth rate was not expected to increase significantly from mediocre levels. Overall, this led to forecasts for the UK economy for 2006 of only a weak recovery from 1.7% GDP growth expected in 2005 to about 2.0% in 2006 i.e. below the trend rate of about 2.5 – 2.75%. The general expectation in the markets was therefore that there would need to be cuts in Bank Rate in 2006 in order to stimulate the economy to higher rates of growth.

The Bank of England Inflation Report of May 2006 marked a watershed in as much as the MPC switched from a loosening bias on interest rates to a tightening bias. MPC suspicions that official data had been under recording the strength of economic growth were vindicated by retrospective adjustments (increases) to annual growth figures extending back as far as 2001 in the quarter 1 2006 GDP figures. These revisions also increased the Q4 2005 and Q1 2006 GDP growth figures up from 0.6% to 0.7% q/q. This tipped previous expectations of an underperforming UK economy over into one that was running at or above its trend rate of growth. Previous expectations of cuts in Bank Rate in 2006 evaporated and were replaced by the reverse expectation i.e. at least one, if not two increases of 0.25% by the end of 2006. Bank Rate accordingly rose to 4.75% in August 2006 and then to 5.0% in November as the MPC also became concerned about the possible second round impact of price increases on pay increases and so on overall inflation. CPI had risen further to 2.5% in June and hit 2.5% again in August. Money supply growth also hit a fourteen year high of 14.4% in September although the strength of correlation between money supply growth and inflation has been hotly debated by economists for many years. More gas and electricity price rises followed in Q3 and added to inflationary concerns. CPI duly reached 2.7% in November. Another increase in Bank Rate to 5.25% followed in January; this was a huge shock (in terms of its timing) to both the financial markets and forecasters and immediately sparked deductions that the MPC had had access to some even worse news on the inflation front which was not available to the markets at that time, before it took that decision. These deductions were confirmed soon after by the news that CPI had jumped to 3.0% in December (the highest rate for eleven years), a whisker away from the MPC having to write a letter of explanation to the Chancellor (if it had gone over 3.0%). The annualised GDP growth rate also hit 3.0%, the highest in two years, in Q4 2006, adding to confirmation that the recent increases in Bank Rate had done little to dampen the economy and stoking expectations that Bank Rate would have to rise even further. The housing market had also staged a major recovery during 2006 with house price inflation getting back into double figures again in Q1 2007 while consumers had not cut back on expenditure during 2006 but had maintained expenditure levels by reducing their savings rate. Pay inflation, though, did not become a major concern in 2006/07, thanks mainly to immigration boosting the labour supply but also due to an increased participation level which together kept pay inflation subdued. The final result was that GDP growth recovered strongly from 1.9% in 2005 to 2.8% in 2006.

In the US, initial expectations that the Fed. would not need to raise the Fed. rate above 4.5% were confounded by the continuing robustness of economic growth and concerns over rising inflationary pressures which resulted in the peak in rates not occurring until 5.25% was reached in August 2006. The gathering housing market slowdown during 2006 eventually started to dampen the economy in the latter half of 2006. This was compounded by the sub-prime mortgage crisis in Q1 2007 which rocked financial markets as 30 US sub-prime mortgage lenders went bust. In March 2007 the Fed dropped its tightening bias but by then, the US economy had turned in a robust growth rate for 2006 of 3.3%.

In the Euro zone, the ECB raised its rate to 2.5% in March 2006 with further 0.25% increases following in June, August, October, December and March 2007 to reach 3.75% due to a near doubling in the GDP growth rate from 1.5% in 2005 to 2.8% in 2006 and a rise in inflationary pressures.

6.2 12-month bid rates

During early April, the 12 month LIBID rate hit a low of 4.63%. It then climbed steadily towards 5.0% until Bank Rate was increased to 4.75% on 3 August, when it jumped up nearly another 20 basis points. Growing expectations of the imminence of another Bank Rate increase saw the rate continue to climb to hit 5.4% when expectations were realised on 9 November when Bank Rate rose to 5.0%. This rising trend continued and the surprise Bank Rate increase on 11 January saw 12 month LIBID jump nearly another 20 basis points to 5.76%. It then ended the year at 5.81%.

6.3 5 and 10 year gilt yields

These yields also started off with lows for the year in early April of 4.43% (10 year 4.38%). They hit a high in early February of 5.37% (10 year 5.02% in late January) before ending the year at 5.21% (10 year 4.94%).

6.4 Longer-term interest rates

The PWLB 45-50 year rate started the year at 4.20% and then rose to 4.45% around the end of Q2. It then fell back to a year low of 4.05% on a number of occasions in late September to early November. However, it then climbed back again to 4.45% on a number of occasions in late January – March and finished on a year high of 4.50% near the year end. (The 25-30 year rate started the year at 4.30% and hit a low of 4.20% in September and November before reaching a high at the end of the year of 4.65%).

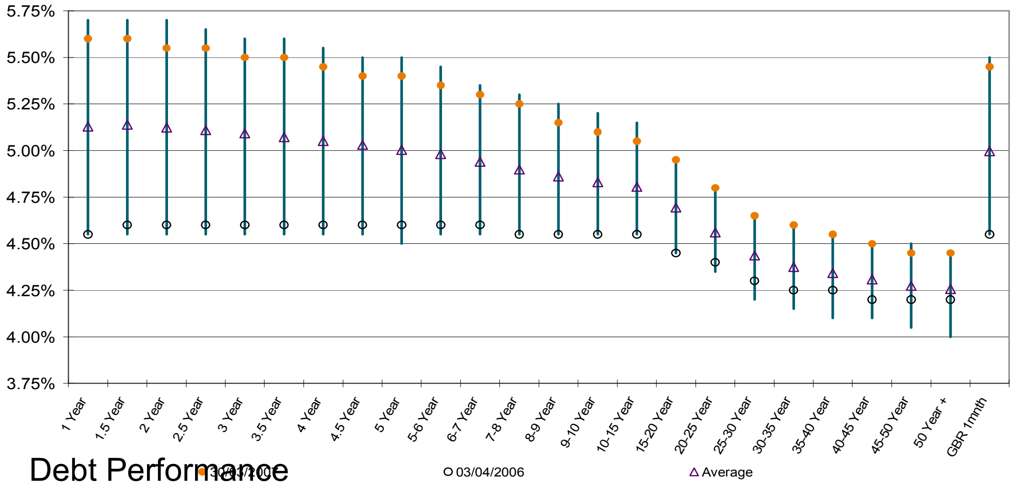
7.0 BORROWING OUTTURN FOR 2006/07

7.1 As comparative performance indicators, average PWLB maturity loan interest rates for 2006/07 were:

1 year	5.13%
9 - 10 year	4.83%
25 - 30 year	4.44%
45 – 50 year	4.27%
1 month GBR variable	5.00%

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 2006/07



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 4.13% to 4.18%. 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 some borrowing in advance of the year's requirement was looked at in November when rates were at the low point of the year, but decided against as at the time a sizeable capital receipt was imminent.

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 13th March 2006.

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% 60%	2-3 years 1-2 years
Term deposits – other LAs (with maturities in excess of 1 year)		In-house	30% 50%	2-3 years 1-2 years
Term deposits – banks and building societies (with maturities in excess of 1 year)	On Approved List	In-house	30% 60%	2-3 years 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 £23m to £38m with a core balance of around £18m 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
Leeds & Holbeck BS	2.50m	18.12.06.	4.67
Cheshire BS	5.00m	04.06.06.	5.00
Norwich & Peterborough BS	2.50m	02.10.06.	4.50
Nottingham BS	2.50m	29.09.06.	4.52
Scarborough BS	2.50m	05.12.06.	4.56
Chelsea BS	2.50m	22.01.08.	4.75
Chelsea BS	2.50m	22.07.07.	4.63
Stroud & Swindon BS	2.50m	23.07.07.	4.63
Lambeth BS	2.50m	22.01.07.	4.55

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

Interest Rate Outlook: Sector is forecasting base rates to be on a falling trend from 4.50% to reach 4.00% in Q4 2006 but to rise again to end Q1 2007 at 4.25%. 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. Some investments should be aimed to mature during Q1 2007 when the interest rate cycle turns up and the market yield curve should have turned positive. This will enable councils to lock into higher yielding investments with their maturing deposits. For 2006/7 clients should budget for a cautious investment return of 4.0%.

The Council has identified 4.60% as an attractive trigger rate for 1-year lending and 4.55% 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.

10.0 INVESTMENTS OUTTURN FOR 2006/07

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	£38.730m	4.80%	4.80%	4.84%

*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 4.99%.

The outturn is below the benchmark for the first time in quite a few years and reflects the volatile upturn experienced in interest rates last year. The return was better than the Sector model portfolio which returned 4.72%.

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 Euro Entry

The Chancellor made a statement in Parliament on 9 June 2003 on the outcome of the five tests that needed to be passed prior to UK entry into the Euro. The conclusion reached was that the UK was not yet ready to enter into the Euro; most commentators and the foreign currency exchanges, considered that the UK would be unlikely to meet those tests for at least several years although the Government announced it was keeping the door open.

12.2 Housing Stock Transfer

The post transfer scenario is still looking very good and no residual issues have arisen.

APPENDIX A

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of 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 View interest rate forecast – 13.1.06.

	Q/E1 2006	Q/E2 2006	Q/E3 2006	Q/E4 2006	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
Base Rate	4.50%	4.25%	4.25%	4.00%	4.25%	4.50%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
5 yr Gilt Yield	4.00%	4.00%	4.00%	4.25%	4.50%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%
10 yr PWLB Rate	4.25%	4.25%	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	5.00%	4.75%	4.50%
25 yr PWLB Rate	4.25%	4.25%	4.25%	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	4.75%	4.50%
50 yr PWLB Rate	4.00%	4.00%	4.00%	4.25%	4.25%	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%	4.50%	4.25%

Capital Economics interest rate forecast – 13.1.06.

	Q/E1 2006	Q/E2 2006	Q/E3 2006	Q/E4 2006	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007
Base Rate	4.25%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
5 yr Gilt Yield	4.10%	4.00%	3.90%	3.80%	4.00%	4.10%	4.30%	4.40%
10 yr PWLB Rate	4.25%	4.15%	4.25%	4.35%	4.55%	4.75%	4.85%	4.75%
25 yr PWLB Rate	4.25%	4.25%	4.35%	4.45%	4.45%	4.55%	4.65%	4.65%
50 yr PWLB Rate	3.95%	3.95%	4.05%	4.15%	4.15%	4.25%	4.35%	4.35%

UBS Economic interest rate forecast (for quarter ends) - 13.1.06.

	Q/E1 2006	Q/E2 2006	Q/E3 2006	Q/E4 2006	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007
Base Rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
10 yr PWLB Rate	4.25%	4.35%	4.45%	4.55%	4.60%	4.60%	4.65%	4.65%
25 yr PWLB Rate	4.15%	4.45%	4.55%	4.65%	4.70%	4.75%	4.80%	4.85%
50 yr PWLB Rate	4.05%	4.45%	4.61%	4.74%	4.80%	4.86%	4.91%	4.97%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury – December 2005 summary of forecasts of 26 City and 14 academic analysts for Q4 2005 and 2006. (2007 – 2009 are as at November 2005 but are based on 18 forecasts)

	Repo	Quarter Ended		Annual Average Repo		
		Q4 2005	Q4 2006	Average 2007	Average 2008	Average 2009
Indep. Forecasters BoE Base Rate	4.50%	4.49%	4.29%	4.39%	4.54%	4.60%
Highest Base Rate	4.50%	4.55%	5.00%	5.40%	5.90%	6.20%
Lowest Base Rate	4.50%	4.20%	3.50%	3.75%	3.75%	3.75%

APPENDIX B

Date	Base Rate	7 Day Libid	1 Year	9-10 Year	20-25 Year	50 Year
	%	%	%	%	%	%
April 7, 2006	4.50	4.46	4.66	4.55	4.40	4.20
April 14, 2006	4.50	4.42	4.71	4.60	4.45	4.30
April 21, 2006	4.50	4.45	4.69	4.65	4.50	4.30
April 28, 2006	4.50	4.47	4.79	4.80	4.60	4.40
May 5, 2006	4.50	4.52	4.91	4.85	4.60	4.40
May 12, 2006	4.50	4.48	4.94	4.90	4.65	4.40
May 19, 2006	4.50	4.53	4.92	4.75	4.45	4.20
May 26, 2006	4.50	4.56	4.88	4.70	4.50	4.30
June 2, 2006	4.50	4.57	4.91	4.80	4.60	4.35
June 9, 2006	4.50	4.57	4.88	4.75	4.60	4.40
June 16, 2006	4.50	4.57	4.94	4.80	4.55	4.35
June 23, 2006	4.50	4.54	4.97	4.90	4.65	4.45
June 30, 2006	4.50	4.58	4.93	4.85	4.65	4.45
July 7, 2006	4.50	4.54	4.92	4.85	4.65	4.35
July 14, 2006	4.50	4.52	4.87	4.80	4.60	4.30
July 21, 2006	4.50	4.53	4.95	4.80	4.55	4.30
July 28, 2006	4.50	4.54	4.95	4.75	4.55	4.30
August 4, 2006	4.75	4.80	5.18	4.90	4.65	4.35
August 11, 2006	4.75	4.80	5.20	4.85	4.60	4.35
August 18, 2006	4.75	4.81	5.17	4.80	4.60	4.35
August 25, 2006	4.75	4.84	5.15	4.70	4.50	4.25
September 1, 2006	4.75	4.81	5.18	4.65	4.45	4.20
September 8, 2006	4.75	4.80	5.17	4.70	4.50	4.20
September 15, 2006	4.75	4.79	5.24	4.75	4.50	4.20
September 22, 2006	4.75	4.78	5.27	4.75	4.45	4.15
September 29, 2006	4.75	4.83	5.21	4.65	4.40	4.10
October 6, 2006	4.75	4.80	5.29	4.70	4.40	4.10
October 13, 2006	4.75	4.81	5.32	4.80	4.50	4.15
October 20, 2006	4.75	4.80	5.32	4.85	4.55	4.20
October 27, 2006	4.75	4.84	5.38	4.85	4.50	4.15
November 3, 2006	4.75	4.82	5.34	4.70	4.35	4.05
November 10, 2006	5.00	5.07	5.37	4.70	4.40	4.05
November 17, 2006	5.00	5.00	5.36	4.75	4.45	4.10
November 24, 2006	5.00	5.00	5.36	4.75	4.45	4.15
December 1, 2006	5.00	5.00	5.36	4.70	4.40	4.10
December 8, 2006	5.00	5.00	5.34	4.70	4.45	4.15
December 15, 2006	5.00	5.00	5.46	4.80	4.50	4.20
December 22, 2006	5.00	5.00	5.50	4.90	4.60	4.25
December 29, 2006	5.00	5.00	5.51	4.95	4.65	4.30

Date	Base Rate	7 Day Libid	1 Year	9-10 Year	20-25 Year	50 Year
	%	%	%	%	%	%
January 5, 2007	5.00	5.00	5.52	4.95	4.60	4.25
January 12, 2007	5.25	5.30	5.75	5.05	4.65	4.25
January 19, 2007	5.25	5.30	5.84	5.10	4.70	4.30
January 26, 2007	5.25	5.30	5.83	5.15	4.75	4.35
February 2, 2007	5.25	5.20	5.85	5.20	4.80	4.40
February 9, 2007	5.25	5.30	5.79	5.10	4.75	4.35
February 16, 2007	5.25	5.30	5.70	5.05	4.70	4.35
February 23, 2007	5.25	5.30	5.74	5.10	4.75	4.40
March 2, 2007	5.25	5.30	5.70	4.95	4.60	4.30
March 9, 2007	5.25	5.30	5.64	4.95	4.60	4.30
March 16, 2007	5.25	5.30	5.65	4.95	4.60	4.30
March 23, 2007	5.25	5.20	5.72	5.05	4.70	4.35
March 30, 2007	5.25	5.32	5.80	5.10	4.80	4.45

Maximum	5.25	5.32	5.84	5.20	4.80	4.45
Minimum	4.50	4.42	4.66	4.55	4.35	4.05
Spread	0.75	0.90	1.18	0.65	0.45	0.40
Average	4.83	4.86	5.27	4.84	4.57	4.27

APPENDIX C

PRUENTIAL INDICATORS FOR 2006/07

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

No.	Prudential Indicator	2006/07 £	2007/08 £	2008/09 £
	(1) Extract from Budget			
	Affordable Borrowing			
3	Increase in Council Tax B7 (Band D, per annum)	4.33	4.33	Nil
7	Capital Financing Requirement (as at 31 March)	£m	£m	£m
	Non-HRA	61.040	66.902	70.500

No.	Prudential Indicator	2006/07 £m	2007/08 £m	2008/09 £m
	(2) Treasury Management Prudential Indicators			
9	Authorised Limit for External Debt			
	Borrowing	46.01	49.39	52.77
	Other Long Term Liabilities	0.00	0.00	0.00
	TOTAL	46.01	49.39	52.77
10	Operational Boundary for External Debt			
	Borrowing	36.01	39.39	42.77
	Other Long Term Liabilities	0.00	0.00	0.00
	TOTAL	36.01	39.39	42.77
12	Upper Limit for Fixed Interest Rate Exposure			
	Expressed as	27.01	29.54	32.08
	Net Principal re Fixed Borrowing/ Investments	(75%)	(75%)	(75%)
13	Upper Limit for Variable Rate Exposure			
	Expressed as			
	Net Principal re Variable Borrowing/ Investments	27.01	29.54	32.08
	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	2006/07 £m	2007/08 £m	2008/09 £m
15	Upper Limit for Total Principal Sums invested for over			
	Up to 1 year (per maturity date)	44.30	37.50	37.50
	Up to 2 years (per maturity date)	26.88	22.50	22.50
	2 Years+ (per maturity date)	13.44	11.25	11.25