REPORT TO:	Executive Board Sub-Committee
DATE:	20th March 2008
REPORTING OFFICER:	Operational Director – Financial Services
SUBJECT:	Treasury Management and Investment Strategy 2008/09
WARD(S):	Borough-wide

1.0 PURPOSE OF REPORT

1.1 To agree a Treasury Management and Investment Strategy for 2008/09.

2.0 RECOMMENDATION TO COUNCIL: That the Council adopt the policies and strategies outlined in the report.

3.0 SUPPORTING INFORMATION

3.1 This Treasury Strategy Statement details the expected activities of the Treasury function in the forthcoming financial year (2008/09). Its production and submission to the Executive Board Sub-Committee is a requirement of the CIPFA Code of Practice on Treasury Management.

3.2 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.3 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.4 The ODPM's guidance notes state that Authorities can combine the Treasury Strategy Statement and Annual Investment Strategy into one report. The Council has adopted this approach and the Annual Investment Strategy is therefore included as paragraph 8.

4.0 POLICY IMPLICATIONS

4.1 The successful delivery of the strategy will assist the Council in meeting its budget commitments.

5.0 OTHER IMPLICATIONS

5.1 None.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 **Children and Young People in Halton**

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

6.3 **A Healthy Halton**

6.4 **A Safer Halton**

6.5 **Halton's Urban Renewal**

7.0 RISK ANALYSIS

7.1 The Authority operates its treasury management activity within the approved code of practice and supporting documents.

7.2 The aim at all times is to operate in an environment where risk is clearly identified and managed.

7.3 This strategy sets out clear objectives within these guidelines.

7.4 Regular monitoring is undertaken during the year and reported on a quarterly basis to the Executive Board Sub-Committee.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 REASON(S) FOR DECISION

9.1 The Authority must have an approved annual strategy in place before the year commences.

10.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

10.1 None.

11.0 IMPLEMENTATION DATE

11.1 1st April 2008.

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

Document	**Place of Inspection**	**Contact Officer**
Working papers	Accountancy Section	J. Viggers

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2008/09

1.0 INTRODUCTION

1.1 The suggested Treasury Management and Investment Strategy for 2008/09 covers the following aspects of the treasury management function and is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor.

- treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy;
- any extraordinary treasury issues.

2.0 TREASURY LIMITS FOR 2008/09

2.1 It is a statutory duty under S.3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit".

2.2 The Council must have regard to the Prudential Code when setting their Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax is 'acceptable'.

2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The affordable borrowing limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

3.0 PRUDENTIAL INDICATORS FOR 2008/09-2010/11

3.1 The following prudential indicators are relevant for the purposes of setting an integrated treasury management strategy.

No.	Prudential Indicator	2008/09	2009/10	2010/11
		£	£	£
	(1) Extract from Budget			
	Affordable Borrowing			
3	Increase in Council Tax B7 (Band D, per annum)	5.18	0.74	1.69
7	Capital Financing Requirement (as at 31 March)	£m	£m	£m
	Non-HRA	70.30	75.00	77.64

No.	Prudential Indicator	2008/09	2009/10	2010/11
		£m	£m	£m
	(2) Treasury Management Prudential Indicators			
10	Authorised Limit for External Debt			
	Borrowing	58.10	68.00	70.80
	Other Long Term Liabilities	0.00	0.00	0.00
	TOTAL	58.10	68.00	70.80
11	Operational Boundary for External Debt			
	Borrowing	53.10	63.00	65.80
	Other Long Term Liabilities	0.00	0.00	0.00
	TOTAL	53.10	63.00	65.80
12	Upper Limit for Fixed Interest Rate Exposure			
	Expressed as			
	Net Principal re Fixed Borrowing/ Investments	39.82	47.25	49.35
		(75%)	(75%)	(75%)
13	Upper Limit for Variable Rate Exposure			
	Expressed as			
	Net Principal re Variable Borrowing/ Investments	39.82	47.25	49.35
	Net Interest re Variable Rate Borrowing/ Investments	(75%)	(75%)	(75%)
14	Maturity Structure of New Fixed Rate Borrowing during 2008/09		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	2008/09		2009/10		2010/11	
		£m	%	£m	%	£m	%
15	Upper Limit for Total Principal Sums invested for over						
	Up to 1 year (per maturity date)	40.49	100	39.88	100	32.99	100
	Up to 2 years (per maturity date)	24.29	60	23.93	60	19.79	60
	2 Years+ (per maturity date)	12.15	30	11.96	30	9.90	30

No.	Prudential Indicator
16	Maturity Structure of New Fixed Rate Borrowing in Previous year
	None taken in 2006/07

4.0 CURRENT PORTFOLIO POSITION

4.1 The Council's treasury portfolio position at 28th January 2008 comprised:

		Principal		Average Rate
		£m	£m	%
Fixed Rate Funding	PWLB	10.00		3.70
	Market	10.00	20.00	4.42
Variable Rate Funding	PWLB	0.00		-
	Market	0.00	0.00	-
Total Borrowing			20.00	4.06
Other Long Term Liabilities			0.00	
Total Debt			20.00	
Total Investments			55.25	5.96

5.0 BORROWING REQUIREMENT

5.1 The table below summarises the net borrowing requirement for the authority for the next three years based on the current level of supported borrowing indicated by the government for 2007/08.

	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000
New Borrowing	10.666	13.336	4.624	2.675
Alternative Financing Arrangements	-	-	-	-
Replacement Borrowing*	-	-	-	-
TOTAL	10.666	13.336	4.624	2.675

*5.2 The £10m Lender's Option Borrower's Option (LOBO), currently with Euro Hypo bank is on 6 month options (shown as Fixed Rate market above). As such it could fall to be replaced in any of the years.

6.0 PROSPECTS FOR INTEREST RATES

6.1 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.

6.2 Sector View: Interest rate forecast – 1st February 2008

	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	Q4 2010	Q1 2011	Q2 2011
	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Bank Rate	5.25	5.00	4.75	4.75	4.75	4.75	4.75	5.00	5.00	5.00	5.00	5.00	5.00	5.00
5 yr Gilt Yield	4.55	4.55	4.50	4.50	4.55	4.65	4.70	4.75	4.80	4.85	4.85	4.85	4.85	4.85
10 yr PWLB Rate	4.60	4.55	4.50	4.55	4.55	4.55	4.65	4.70	4.75	4.80	4.85	4.85	4.85	4.80
25 yr PWLB Rate	4.55	4.50	4.50	4.50	4.50	4.55	4.60	4.65	4.70	4.70	4.75	4.75	4.75	4.75
50 yr PWLB Rate	4.50	4.45	4.45	4.45	4.45	4.50	4.55	4.60	4.60	4.65	4.65	4.65	4.65	4.60

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

- started on a downward trend from 5.75% to 5.50% in December 2007

- to be followed by further cuts in Q1 2008 to 5.25%, to 5.00% in Q2 2008 and to 4.75% in Q3 2008

- then unchanged until an increase in Q4 2009 to 5.0%

- unchanged then for the rest of the forecast period

- there is downside risk to this forecast if inflation concerns subside and therefore opens the way for the MPC to be able to make further cuts in the Bank Rate

6.3 Economic background

International

- The US, UK and EU economies have all been on the upswing of the economic cycle during 2005 and 2006 and so interest rates were successively raised in order to cool their economies and to counter the build up of inflationary pressures.

- The US is ahead of both the UK and EU in the business cycle and started on the downswing of the economic cycle during 2007. The Fed. rate peaked at 5.25% and was first cut in September by 0.5% to 4.75%. This was a response to the rapidly deteriorating prospects for the economy in the face of the downturn in the housing market, the sub prime mortgage crisis and the ensuing liquidity crisis which started in August 2007 and has subsequently resulted in banks making some major write offs of losses on debt instruments containing sub prime mortgages. Banks have also tightened their lending criteria which has hit hard those consumers with poor credit standing.

- The Fed cut its rate again, to 4.5% in October 2007 and to 4.25% in December. A steep plunge in equity markets around the world in January precipitated by widespread concerns as to recession in the US, the financial viability of bond insurers in the US as a result of the sub-prime crisis and the unwinding of huge unauthorised positions taken by a rogue trader at the French bank SocGen, triggered an emergency between meetings cut of 0.75% by the Fed followed by another cut of 0.50% at its regular meeting a few days later on 30 January.

- More cuts may be required to try to further stimulate the economy and to ameliorate the extent of the expected downturn. However, the speed and extent of these cuts may be inhibited by inflationary pressures arising from oil prices, the falling dollar increasing the costs of imports, etc. The US could be heading into stagflation in 2008 – a combination of inflation and a static economy (but the economy could even tip into recession if the housing downturn becomes severe enough).

- The major feature of the US economy is a steepening downturn in the housing market which is being undermined by an excess stock of unsold houses stoked by defaulting sub prime borrowers pushed into forced sales. 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. Petrol prices have trebled since 2003 and, with similar increases in the price of home heating oil, this will also depress consumer spending with knock on effects on house building, employment etc.

- The downturn in economic growth in the US in 2008 will depress world growth, (especially in the western economies), which will also suffer directly under the impact of high oil prices. However strong growth in China and India will partially counteract some of this negative pressure.

- EU growth has been strong during 2006 and 2007 but will be caught by the general downturn in world growth in 2008.

United Kingdom

- GDP: growth has been strong during 2007 and hit 3.3% year on year in Q3. Growth is expected to cool from 3.0% in 2007 as a whole to 2.0% in 2008.

- Higher than expected immigration from Eastern Europe has underpinned strong growth and dampened wage inflation.

- House prices started on the downswing in Q3 2007 and this is expected to continue into 2008.

- The combination of increases in Bank Rate and hence mortgage rates, short term mortgage fixes expiring and being renewed at higher rates, food prices rising at their fastest rate since 1993 and increases in petrol prices, have all put consumer spending power under major pressure.

- Banks have also tightened their lending criteria since the sub prime crisis started and that will also dampen consumer expenditure via credit cards and on buying houses through obtaining mortgages.

- Government expenditure will be held under a tight reign for the next few years, undermining one of the main props of strong growth during this decade.

- The MPC is very concerned at the build up of inflationary pressures, especially the rise in the oil price to reach $90 – 100 per barrel from time to time (was $30 in 2003) and the consequent likely knock on effects on general prices. The prices of UK manufactured goods have risen at the fastest rate in 16 years in December 2007 – 5.0%. Food prices have also risen at their fastest rate for fourteen years (7.4% annual increase) driven by strong demand from China and India. Consequently, the MPC is going to be much more cautious about cutting rates compared to the Fed in the face of these very visible inflationary pressures. In addition, UK growth was still strong in Q4 (despite expectations of a significant cooling off). The downward trend in Bank Rate is now expected to be faster than at first thought after the initial cut in December 2007 to 5.50% in view of the MPC minutes which showed a unanimous MPC vote for a cut and the consideration given to a half per cent cut. This demonstrated how concerned the MPC is at the potential impact of the credit crunch on the economies of the western world. However, the MPC's room for cutting rates is currently limited by concerns over inflationary pressures. If those pressures subside, then there is further downward risk to the Sector forecast which currently only allows for 0.25% cuts to reach 4.75% in Q3 2008.

7.0 CAPITAL BORROWINGS AND THE BORROWING PORTFOLIO STRATEGY

7.1 The Sector forecast is as follows:

(These forecasts are based around an expectation that there will normally be variations of +/- 25bp during each quarter around these average forecasts in normal economic and political circumstances. However, greater variations can occur if should there be any unexpected shocks to financial and/or political systems.) These forecasts are for the PWLB new borrowing rate: -

- The 50 year PWLB rate is expected to fall marginally from 4.50% in Q1 2008 to 4.45% in Q2 2008 before rising back again to 4.50% in Q2 2009 to eventually reach 4.65% in Q2 2010.

- The 25 year PWLB rate is expected to fall from 4.55% to 4.50% in Q2 2008 and then to rise in gradual steps from Q2 2009 to reach 4.75% in Q3 2010.

- The 10 year PWLB rate is expected to fall from 4.60% in Q1 2008 to 4.55% in Q2 and to 4.50% in Q3 2008 and to then gradually rise from Q1 2009 to reach 4.85% in Q3 2010.

- The 5 year PWLB rate is expected to fall from 4.55% in Q2 2008 to 4.50% in Q3 2008 and to then gradually rise starting in Q1 2009 to reach 4.85% in Q2 2010.

This forecast indicates, therefore, that the borrowing strategy for 2008/09 should be set to take 25 – 30 year borrowing towards the end of the financial year but in as much as little variation is expected in average quarterly rates, this is likely to mean that attractive rates could be available at any time in the year when there is a dip down in rates.

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.

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

- Focus on undertaking new borrowing in or near the 25 – 30 year period so as to minimise the spread between the PWLB new borrowing and early repayment rates as there is little, or no difference in the new borrowing rate between rates in these periods and the 50 year rate. This then maximises the potential for debt rescheduling at a later time by minimising the spread between these two rates.

- This strategy also means that after some years of focusing on borrowing at or near the 50 year period, local authorities will be able to undertake borrowing in a markedly different period and so achieve a better spread in their debt maturity profile.

- When the 25-30 year PWLB rates fall back to the central forecast rate of about 4.60%, borrowing should be made in this area of the market at any time in the financial year. This rate is likely to 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 4.60%. However, if shorter period loans become available around this rate, these will also be considered.

- The central forecast rate will be reviewed in the light of movements in the slope of the yield curve, spreads between PWLB new borrowing and early payment rates, and any further changes that the PWLB may introduce to their lending policy and operations.

- Consideration will also be given to borrowing fixed rate market loans at 25 – 50 basis points below the PWLB target rate.

7.4 Against this background caution will be adopted with the 2008/09 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.

7.5 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.

8.0 ANNUAL INVESTMENT STRATEGY

8.1 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 v non specified investments

There has been an increasing number of innovative investment products being marketed over the past few years. The have arisen due to the relatively low interest rate environment which has prevailed during this period. The initial guidance from the ODPM focused on high security and more particularly credit risk. This approach however does not deal with market risk, which is the sudden adverse movement in interest rates. In some products this could lead to a significant diminution of the maturity value below that of the original sum invested.

Because of this it has been suggested that if any investment other than a straight cash deposit is envisaged the following tests are applied ;-

1. the working of the product is fully understood;

2. the degree of risk exposure the product carries is identified;

3. the level of risk fits within the parameters set by the authority;

4. the product complies with the CIPFA Code of Practice on Treasury Management (prime focus on security and best value applied to optimise returns).

The Council has in the main used straightforward cash deposits, with both fixed and variable rates, but always with options to repay if the counterparty wanted to change the terms and agreement couldn't be reached. The issue therefore still boils down to credit risk and this is handled through the counterparty weighted rankings and prudential indicators which limit the amount that can be placed with non rated organisations at any one time.

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 (i.e. credit rated counterparties).

	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. This group is to include non credit rated organisations.

	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.

8.2 Investment Strategy

In-house funds: The Council's in-house managed funds have during the past twelve months (January to December) been in the value range of £27.30m to £51.35m with a core balance of around £20m which is available for investment over a longer (say) 2-3 year period. The current balance is £55.25m. 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 (%)
Derbyshire BS	2,500	25/04/2008	5.57
West Bromwich BS	2,500	30/04/2008	6.31
Cumberland BS	1,000	15/05/2008	6.36
Bank of Ireland Plc	2,500	23/05/2008	6.09
Newcastle BS	2,500	05/06/2008	5.00
Northern Rock	2,500	05/06/2008	5.13
Northern Rock	2,500	30/06/2008	5.96
Norwich & Peterborough BS	2,500	02/07/2008	6.25

Nottingham BS	2,500	25/07/2008	5.55
Coventry BS	2,500	14/08/2008	5.95
Derbyshire BS	2,500	30/09/2008	6.23
Stroud & Swindon BS	2,500	17/11/2008	6.15
Kent Reliance BS	2,500	18/12/2008	5.53
Coventry BS	2,500	23/01/2009	6.46
Progressive BS	2,500	26/02/2009	5.95
Cheshire BS	2,500	02/11/2009	6.15
Northern Rock	2,500	23/07/2010	6.41

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

The interest rate outlook is particularly relevant to the performance of the Council's investment portfolio. Appendix 'A' shows quite clearly that all economic forecasters are predicting further rate cuts in the next financial year. The timing and severity of the cuts may be different but the trend is the same. It is difficult to argue against this message as the pressure of a recession in the USA will impact on Europe and our own economy will come under pressure. The Council has already placed as much of it's current portfolio into fixed rate, fixed period deals as it feels it can do within it's current risk spread policy and will adopt a policy of running down it's investments as they mature during 2008/9 whilst waiting for the opportune time to borrow to fund it's long term capital projects. This policy should minimise the impact of falling investment rates.

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.

9.0 DEBT RESCHEDULING

9.1 The introduction of different PWLB rates on 1 November 2007 for new borrowing as opposed to early repayment of debt, and the setting of a spread between the two rates (of about 40 – 50 basis points for the longest period loans narrowing down to 25 – 30 basis points for the shortest loans), has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date. However, significant interest savings will still be achievable through using LOBOs (Lenders Option Borrowers Option) loans and other market loans.

9.2 As average PWLB rates are expected to be minimally higher at the start of the financial year than later on in the year, and as Bank Rate is expected to fall more than longer term borrowing rates during the year, this will mean that the differential between long and short rates will narrow during the year and that there should therefore be greater potential for making interest rate savings on debt by doing debt restructuring earlier on in the year. Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 7 above.

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

- the generation of cash savings and / or discounted cash flow savings;
- help fulfil the strategy outlined in paragraph 7 above; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

9.4 All rescheduling will be reported to the Executive Board Sub-Committee at the meeting following its action.

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.

Sector interest rate forecast – 1 February 2008

	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	Q/E4 2010	Q/E1 2011	Q/E2 2011
Bank Rate	5.25%	5.00%	4.75%	4.75%	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
5yr PWLB rate	4.55%	4.55%	4.50%	4.50%	4.55%	4.65%	4.70%	4.75%	4.80%	4.85%	4.85%	4.85%	4.85%	4.85%
10yr PWLB rate	4.60%	4.55%	4.50%	4.50%	4.55%	4.55%	4.65%	4.70%	4.75%	4.80%	4.85%	4.85%	4.85%	4.80%
25yr PWLB rate	4.55%	4.50%	4.50%	4.50%	4.50%	4.55%	4.60%	4.65%	4.70%	4.70%	4.75%	4.75%	4.75%	4.75%
50yr PWLB rate	4.50%	4.45%	4.45%	4.45%	4.45%	4.50%	4.55%	4.60%	4.60%	4.65%	4.65%	4.65%	4.65%	4.60%

Capital Economics interest rate forecast – 12 December 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
Bank rate	5.50%	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%	4.00%	4.00%
5yr PWLB rate	4.65%	4.45%	4.35%	4.05%	3.95%	4.05%	4.25%	4.35%	4.75%
10yr PWLB rate	4.65%	4.45%	4.25%	4.15%	4.15%	4.25%	4.45%	4.65%	4.85%
25yr PWLB rate	4.65%	4.55%	4.45%	4.45%	4.35%	4.45%	4.55%	4.75%	4.95%
50yr PWLB rate	4.55%	4.55%	4.45%	4.35%	4.25%	4.35%	4.55%	4.65%	4.75%

UBS interest rate forecast (for quarter ends) – 25 January 2008

	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009
Bank Rate	5.25%	5.00%	4.75%	4.25%	4.25%	4.25%	4.25%	4.25%
10yr PWLB rate	4.65%	4.60%	4.55%	4.55%	4.55%	4.55%	4.65%	4.75%
25yr PWLB rate	4.50%	4.50%	4.50%	4.45%	4.45%	4.45%	4.55%	4.65%
50yr PWLB rate	4.43%	4.40%	4.45%	4.45%	4.50%	4.55%	4.65%	4.75%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury – January 2008 summary of forecasts of 24 City and 13 academic analysts for Q4 2007 and 2008. (2009 – 2011 are based on 21 forecasts)

BANK RATE FORECASTS		quarter ended		annual average Bank Rate		
	actual	Q4 2007	Q4 2008	ave. 2009	ave. 2010	ave. 2011
Median	5.50%	5.50%	4.88%	5.20%	5.24%	5.27%
Highest	5.50%	5.75%	6.25%	6.25%	6.25%	6.25%
Lowest	5.50%	5.00%	4.25%	4.80%	4.50%	4.50%