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Meeting	Cabinet Resources
Date	30 March 2006
Subject	**Treasury Management Business Strategy**
Report of	Cabinet Member for Resources
Summary	To approve the Business Strategy for 2006/07.

Officer Contributors	Deputy Director of Resources & Chief Finance Officer
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A: Treasury Management Strategy Statement and Annual Investment Strategy Appendix B: Interest Rate Forecasts
For decision by	Cabinet Resources Committee
Function of	Executive
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Patrick Towey, 0208 359 7119

1. RECOMMENDATIONS

1.1 That the Treasury Management and Annual Investment Strategy for 2006/07 be approved.

2. RELEVANT PREVIOUS DECISIONS

2.1 Cabinet Resources 22 April 2004.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 In order for the Council to be able to deliver effective services within the Council's policy framework to members of the public it is necessary to have a sound financial base.

4. RISK MANAGEMENT ISSUES

4.1 Not Applicable.

5. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

5.1 One of the prime objectives of The Chartered Institute of Public Finance and Accountancy's (CIPFA) code of Practice on Treasury Management and subsequent Treasury Policy Statements is to ensure that, by using prudent and proper practices, the financial resources of local authorities are protected and best used.

6. LEGAL ISSUES

6.1 Referred to elsewhere in the report.

7. CONSTITUTIONAL POWERS

7.1 Financial Regulations (Part 1, Section 6) within the Council Constitution state the following:-

(1) The Council adopts the key recommendations contained in "The Prudential Code for Capital Finance in Local Authorities – Interim Guidance & Notes Supplement" (CIPFA, February 2004), "Treasury Management in the Public services: Code of Practice" (CIPFA,2001) and any subsequent recommended good practice by CIPFA.

(2) Cabinet Resources Committee will create and maintain a Treasury Management policy Statement (TMPs), stating the policies and objectives of its treasury management activities.

(3) The Borough Treasurer will create and maintain suitable Treasury Management Practices (TMPs), setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control these activities.

(4) Cabinet Resources Committee will receive reports on its treasury management activities, including an annual strategy and plan in advance of the year, and an annual report after its close in the form prescribed in the TMPs. These reports will incorporate the prudential borrowing limits and performance indicators.

7.2 The report contained in Appendix A fulfils the requirement outlined in the financial regulations of the Constitution (4 above).

8 BACKGROUND INFORMATION

8.1 Treasury Management in Local Government is regulated by the 2001 revision of the CIPFA Code of Practice on Treasury Management in the Public Services. The Council has adopted the code and complies with its requirements.

8.2 The primary requirement of the Code is the formulation and agreement of a Treasury Policy Statement and practices which sets out Council, committee and officer responsibilities and delegation and reporting arrangements. This statement and accompanying practices was approved by Council on 7 January 2003.

8.3 A requirement of the Council's Treasury Policy Statement is the reporting to Cabinet Resources 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 (the annual treasury out turn report).

8.4 The report attached at appendix A represents the Council's annual treasury strategy statement and investment strategy for 2006/07.

8.5 This report differs from previous treasury strategy statements in that it now includes a new forward plan section, covered in part. 10 of the report, and also includes a change to the annual investment strategy of the Council in that it allows the Council to invest for periods greater than 364 days.

9 LIST OF BACKGROUND PAPERS

9.1 Treasury Management in the Public Services – CIPFA's Code of Practice and Cross-Sectoral notes.

9.2 Anyone wishing to inspect the background papers should telephone 020 8359 7119.

Legal: JEL
CFO: CM

APPENDIX A

Treasury Strategy Statement

1 Introduction

1.1 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.

1.2 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.

1.3 The suggested strategy for 2006/07 in respect of the following aspects of the treasury management function is based upon the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Sector Treasury Services Limited. The strategy covers:-

- 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;
- debt rescheduling;
- the borrowing strategy;
- the investment strategy;
- further discussions on the Primary School Capital Investment Programme (PSCIP) which may alter the borrowing strategy for 2007/08 and later years.

2 Treasury Limits for 2006/07 to 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. In England and Wales the authorised limit is the legislative limit for borrowing as designated by the aforementioned act.

2.2 The Council must have regard to the Prudential Code when setting the Authorised 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/rent levels is 'acceptable'.

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

3 Prudential Indicators for 2006/07 – 2008/09

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

The Council is also required to indicate if it has adopted the CIPFA code of Practice on Treasury Management. This was adopted on 7 January 2003 by the full Council.

PRUDENTIAL INDICATOR	2004/05	2005/06	2006/07	2007/08	2008/09
(1). EXTRACT FROM BUDGET AND RENT SETTING REPORT	**Actual**	**probable outturn**	**estimate**	**estimate**	**estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Capital Expenditure					
Non - HRA	41,824	58,630	40,530	36,040	9,656
HRA (applies only to housing authorities)	19,797	27,705	30,151	30,246	29,121
TOTAL	61,081	86,335	70,681	66,286	38,777
Ratio of financing costs to net revenue stream					
Non - HRA	0.36%	0.80%	1.31%	1.44%	1.54%
HRA (applies only to housing authorities)	39.00%	40.00%	41.00%	46.00%	52.00%
Net borrowing requirement	£'000	£'000	£'000	£'000	£'000
brought forward 1 April	-8,891	-10,895	15,566	38,903	58,605
carried forward 31 March	-10,895	15,566	38,903	58,605	72,059
in year borrowing requirement	-2,004	26,461	23,337	19,702	13,454
In year Capital Financing Requirement					
Non - HRA	10,856	31,295	9,566	7,144	-910
HRA (applies only to housing authorities)	6,678	17,977	18,202	16,344	16,200
TOTAL	17,234	49,272	27,768	23,488	15,290
Capital Financing Requirement as at 31 March					
Non - HRA	59,404	90,699	100,265	107,409	106,499
HRA (applies only to housing authorities)	6,678	24,655	42,857	59,201	75,401
TOTAL	66,082	115,354	143,122	166,610	181,900

PRUDENTIAL INDICATOR	2004/05	2005/06	2006/07	2007/08	2008/09
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	actual	probable outturn	estimate	estimate	estimate
Authorised limit for external debt -					
borrowing	98,497	148,777	144,481	162,503	182,296
other long term liabilities	15,000	25,000	31,000	29,500	22,500
TOTAL	**113,497**	**173,777**	**175,481**	**192,003**	**204,796**
Operational boundary for external debt -					
borrowing	62,000	110,000	148,122	166,610	186,900
other long term liabilities	5,000	10,000	0	5,000	0
TOTAL	**67,000**	**120,000**	**148,122**	**171,610**	**186,900**
Upper limit for fixed interest rate exposure					
Net principal re fixed rate borrowing / investments:-	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net principal re variable rate borrowing / investments:-	30%	30%	30%	30%	30%

Maturity structure of fixed rate borrowing during 2005/06	upper limit	lower limit
under 12 months	70%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	50%	5%
10 years and above	95%	25%

4. Current Portfolio Position

The Council's treasury portfolio position at 31/01/06 comprised:

		Principal		Ave. rate
		£m		%
Fixed rate funding	PWLB	81		
	Market	24.5	105.5	4.12
Variable rate funding	PWLB	0		
	Market	0	0	0
Other long term liabilities			0	
TOTAL DEBT			**105.5**	**4.12**
TOTAL INVESTMENTS			**126.15**	**4.56**

5. Long-term Borrowing Requirement

	2004/05	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000	£'000
	Actual	Probable	Estimate	Estimate	Estimate
New borrowing	66,082	49,272	27,768	23,488	15,290
Alternative financing arrangements					
Replacement borrowing					
TOTAL	**66,082**	**49,272**	**27,768**	**23,488**	**15,290**

The borrowing requirement is the underlying need to borrow for capital purposes, the capital financing requirement, and is not the actual level of borrowing the Council has on its books.

6. Prospects for Interest Rates

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

Sector View: Interest rate forecast – 21.2.06

	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
Base Rate	4.50%	4.25%	4.25%	4.00%	4.25%	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%
5 yr Gilt Yield	4.25%	4.00%	4.00%	4.25%	4.25%	4.50%	4.75%	4.75%	4.75%	4.75%	4.75%
10 yr PWLB Rate	4.25%	4.25%	4.25%	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%	4.75%
25 yr PWLB Rate	4.25%	4.25%	4.25%	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%	4.75%
50 yr PWLB Rate	4.00%	4.00%	4.25%	4.25%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.75%

6.2 Sector's current interest rate view is that the repo[1] (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 Q4 of 2007 to end the year at 4.75%**

6.3 Economic background

The Council's treasury advisors, in addition to assisting the Council in formulating a view on interest rates, provide the Council's officers with commentary on the current and future economic climate. This advice is drawn from a number of sources such as UBS and Capital Economics.

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.

[1] **The repo (base) rate is the rate at which the Bank of England lends to other financial institutions and is set by the Monetary Policy Committee (MPC) in response to economic conditions**

- Inflation forecast to stay around target despite increase in oil prices. MPC on alert for pipeline cost pressures, primarily from oil price increases, feeding through into factory output prices and then into retail prices.
- The public sector deficit should decline steadily over the next few years as the Government cuts the rate of growth of its expenditure.

International

- Boom in world commodity prices driven by strong growth in China and India; potential for further increase in prices but supply side increase and technology improvements are likely to reduce prices in the medium term..
- Oil producers inability 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 rising. Fed rate may now peak at 4.5%.
- US GDP growth expected to weaken from 4.2% in 2004 to 3.5 in 2005 and 3.0% in 2006.
- ECB repo rate has risen 0.5% since December 2005 and is now 2.5%, further increases are expected as the economic outlook improves in the Eurozone.
- Eurozone GDP growth expected to rise weakly and to continue to under perform the UK and US economies.

7. Borrowing Strategy

7.1 **The Council's treasury advisors, Sector, provide the following forecasts for interest rates for this forthcoming financial year: -**

- **The new 50 year PWLB rate will remain flat at 4% until Q3 2006 when it will rise to 4.25% with a further increase to 4.5% in Q1 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 Q3 2007.**

- **The 10 year PWLB rate will stay at 4.25% in the first three quarters of 2006 but will then rise to reach 4.5% in Q4 2006 and then 4.75% in Q3 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 Q2 2007 and to 4.75% in Q3 2007 as the interest rate cycle turns up again.**

7.2 Based upon the prospects for interest rates outlined above, the recommended borrowing strategy for 2006/07 is to take long dated borrowings <u>before</u> the third quarter of the calendar year when 50 year PWLB rates are forecast to start to rise. Variable rate borrowing and borrowing in the 5 year area will also be attractive in the second and third quarter of the calendar year while the base rate is on falling trend.

7.3 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 of the calendar year. Doesn't this contradict what you have said in the last paragraph?(No, as the recommendation was to borrow 50 year money before the third qtr of the FY; recommendation to borrow variable rate and 5 year money is to ensure a smooth maturity profile even though these rates may be slightly higher). 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 would be 4.00%. However, to maintain a suitable maturity profile in line with the prudential indicator, short term fixed and variable borrowing should be considered as well and this should be undertaken in the second and third quarters of the financial year as base rate declines.

If 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 then the Chief Financial Officer (CFO) will consider borrowing longer term fixed funding.

7.4 Against this background caution will be adopted with the 2006/07 treasury operations. A bench mark rate of 4.25% or better has been set for the Council's budgeted borrowing for 2006/07 and the Chief Financial Officer, along with the Council's treasury advisors Sector, will monitor the interest rate market and adopt a pragmatic approach to changing circumstances. Any new borrowing decisions will be reported to cabinet at the next available opportunity.

7.5 The Council may use a mix of Public Works Loan Board debt (PWLB) and market debt in the form of LOBOs[2] to fund its borrowing requirements for the year. LOBOs are loans that are at a fixed rate for an initial period. The lender can, at the end of this fixed period change the interest rate, or exercise the option to require the council to repay the loan if the rate is changed. The initial period for some of these loans can vary from 3 to 10 years. The Council, as part of its borrowing strategy, proposes to hold no more than 30% of its total loan portfolio in LOBOs.

7.6 The Chief Finance Officer has delegated powers to take the most appropriate form of borrowing from the approved sources as outlined in the TMPs. This delegated authority allows the CFO to react quickly to market conditions and borrow money at favourable interest rates. Furthermore, the CFO may take action not outlined in the annual strategy, to borrow money for future needs as identified in the capital programme, if prevailing market conditions continue to be favourable. All borrowing decisions will be reported at the time through a delegated powers report (DPR).

Sensitivity of the forecast - The main sensitivities of the forecast are likely to be the two scenarios below. 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

[2] Lenders Option, Borrowers Option.

activity, 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.

8. Debt Rescheduling

8.1 Opportunities may exist for restructuring long term debt into short term variable rate debt to produce savings later in the year, particularly once base rate has fallen to 4.25%. With variable rate borrowing rates likely to fall significantly during 2006/07, it will be best to avoid restructuring into fixed borrowing for short periods (e.g. one year). Long term fixed rates, 25 to 30 years, are not expected to rise back above 4.75% during 2006 and 2007. Consequently long term debt rates (25 to 30 years) at or around 4.75% may warrant reviewing in respect to the potential for undertaking debt restructuring, as was done in March 2004 to the council's advantage. Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 7 above.

8.2 The reasons for any rescheduling to take place will include:
- the generation of cash savings at minimum risk;
- in order to help fulfil the strategy outlined in paragraph 7 above; and
- In order to enhance the balance of the long term portfolio (amend the maturity profile and/or the balance of volatility).

8.3 All rescheduling and borrowing will be reported via a CFO delegated powers report (DPR).

9. ANNUAL INVESTMENT STRATEGY

9.1 Investment Policy

The Council will have regard to the ODPM 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 the security of capital and 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 categorised as 'Specified' and 'Non-Specified'. The Council will only use 'Non-Specified' Investments, investments with maturities greater than a year, for core cash. This type of investment will allow the Council to earn greater returns than it does at present using investment instruments with maturities less than a year. These investments will only be used subject to an analysis of the Council's cash flow, this exercise to be undertaken during the financial year, and the identification of this type of cash. Counter-party limits will be as set through the Council's Treasury Management Practices – Schedules.

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	Government backed	In-house
Term deposits – UK government	Government backed	In-house
Term deposits – other LAs	High Security although Las not credit rated.	In-house
Term deposits – banks and building societies	Short-term F1, Long-term AAA to A, Individual A/B, Support 3 Top 20 Building Societies (as defined by Butlers Building Society Guide).	In-house and fund managers
Certificates of deposits issued by banks and building societies	Short-term F1, Long-term AAA to A, Individual A/B, Support 3 Top 20 Building Societies (As defined by Butlers Building Society Guide).	fund managers
Money Market Funds	AAA	
UK Government Gilts	AAA	Fund Managers
Gilt Funds and Bond Funds	Government backed	Fund Managers
Treasury Bills	Government backed	Fund Managers

Non-Specified Investments

A maximum of 20% will be held in aggregate in non-specified investments

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – UK government (with maturities in excess of 1 year)	Government backed	In-house	20%	Up to 5 Years
Term deposits – other LAs (with maturities in excess of 1 year)	Government backed	In-house	20%	Up to 5 Years
Term deposits – banks and building societies (with maturities in excess of 1 year)	Short-term F1, Long-term AAA to A, Individual A/B, Support 3 Top 10 Building Societies (as defined by Butlers Building Society Guide).	In-house	20%	Up to 5 Years
Certificates of deposits issued by banks and building societies with maturities in excess of 1 year	Short-term F1, Long-term AAA to A, Individual A/B, Support 3 Top 10 Building Societies (as defined by Butlers Building Society Guide).	In house on a 'buy and hold' basis.	20%	Up to 5 Years
UK Government Gilts with maturities in excess of 1 year	AAA	In house on a 'buy and hold' basis.	20%	Up to 5 Years
Bonds issued by multilateral development banks with maturities in excess of 1 year	AAA	In-house on a 'buy-and-hold' basis.	20%	Up to 5 Years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities in excess of 1 year	AAA	In-house on a 'buy-and-hold' basis.	20%	Up to 5 Years
Sovereign bond issues (i.e. other than the UK govt) with maturities in excess of 1 year	AAA	In house on a 'buy and hold' basis.	20%	Up to 5 Years

The Council uses Fitch ratings to derive its criteria. Where a counter-party does not have a Fitch rating, the equivalent Moody's *(or other rating agency if applicable)* rating will be used. We use Fitch because our arrangement with Sector provides the Council with an online link that enables us to set up our counter-party criteria and monitor the ratings – any changes in the rating of a counter-party is updated on this link. All credit ratings will be monitored monthly; the Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service. If a downgrade results in the counter-party/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

The Council's in-house funds are mainly cash flow derived. Investments will accordingly be made with reference to cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Any core cash the Council has identified, referred to in 9.1, will be invested over a 2 to 5 year period. Call accounts will also be used for short term investment purposes as the rates on these accounts tend to tract the base rate. In order to spread risk and actively manage its investments the Council uses a matrix to set an upper limit on the amount of funds which may be invested with any one authorised counter-party.

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 part of their investment portfolio that represents core balances in longer period investments at higher rates before this fall in base rate starts. 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 the Council to lock into higher yielding investments with their maturing deposits. The Council has budgeted for a cautious return of 4.00% for 2006/07.

9.3 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. Future Years

10.1 LOBOs

The Council has LOBOs totalling £7.5m coming to the end of their fixed rate periods in the next 3 years; the first loan of £5m will end its fixed rate term on 2 April 2007. The lender, in this case the bank, will have the option to alter the interest rate on this loan on 2 April 2007 and every 6 months thereafter. However, the Council also has the option to repay the loan if the rate is altered. The Council over the next year, with advice from its treasury advisors, will explore alternative borrowing strategies if these loans are repaid. A number of options will be considered in advance of the due date so that the Council will be able to react to the interest rate market prevailing at the time of repayment.

10.2 Primary School Capital Investment Programme (PSCIP)

Cabinet approved The Primary School Capital Investment Programme (PSCIP) on the 5 December 2005 including ongoing project costs in 2006/07. It determined that the full cost of wave one will be reflected in the capital programme once estimates of expenditure and capital receipts have been firmed up. The funding of this programme may change and this could affect the Council's overall borrowing requirement and strategy in the next few years once PSCIP is added to the capital programme in 2007/08. The CFO may take short-term borrowing to cover any delays in capital receipts that are part of the funding for PSCIP. In addition, if the Council's capital programme anticipates a higher capital financing requirement (CFR) for future years due to PSCIP, then the CFO may take borrowing in advance of the PSCIP spending requirement as outlined in 7.4.

Appendix B

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 – 21.2.06

	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%
5yr 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%
10yr 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%
25yr 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%
50yr 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%
5yr 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 rate		
		Q4 2005	Q4 2006	ave.2007	ave.2008	ave.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%