CANNOCK CHASE COUNCIL

CABINET

21 FEBRUARY 2008

REPORT OF DIRECTOR OF GOVERNANCE

RESPONSIBLE PORTFOLIO LEADER: LEADER OF THE COUNCIL

TREASURY MANAGEMENT

1. Purpose of Report

1.1 To submit for Members' approval a Treasury Management Strategy Statement and Annual Investment Strategy for 2008-09.

2. Recommendations

2.1 That Members approve the Treasury Management and Annual Investment Strategy for 2008-09 and recommend the following control framework to Council:-

(a) That the Council will maintain for effective treasury management:-

- A Treasury Management Policy Statement (TMPS) stating the policies and objectives of its Treasury Management activities.
- Suitable Treasury Management Policies (TMP) setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.

(b) The Council will receive as a minimum an annual strategy and plan in advance of the year and an annual report after the close of the year in the form prescribed in its TMPs.

(c) The Council delegates responsibility for the implementation and monitoring of its Treasury Management Policies and Practice to the Cabinet and for the execution and administration of Treasury Management decisions to the Head of Financial Management who will act in accordance with the Council's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

2.2 That Members approve the draft Treasury Prudential limits under Section 3 of the Local Government Act 2003 to apply in 2008-09 as set out in Annex 1.

3. Key Issues

3.1 The suggested strategy for 2008-09 in respect of the following aspects of the treasury management function is based upon the Treasury Officer's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser. 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;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy;
- any extraordinary treasury issues (such as the implications of a LSVT or ALMO).

REPORT INDEX

Section 1

Background

The CIPFA Code of Practice on Treasury Management in Local Authorities updated in 1996 and revised in 2001, requires that reports be submitted as follows:-

(a) Annual Strategy and Plan in advance of the year.

(b) Annual Report after the year end close.

Treasury Management in this context is defined as "The management of the Authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".

The 2003 Prudential Code of Capital Finance in Local Government requires the Council to set a number of Prudential Indicators which have been incorporated into the Treasury Management Strategy Statement for 2008-09 attached as Annex 1. In addition, the Council is now required to prepare an Annual Investment Strategy. This sets out the Council's policies for making its investments and for giving priority to the security and liquidity of these investments. The Investment Strategy has now been consolidated into the Treasury Management Report.

The Strategy therefore contains two sets of prudential indicators which represent the key control mechanism for Treasury Management.

Section 2

Details of Matters to be Considered

The details to be considered are included in Annex 1 of this report and include treasury limits 2008-2011, Prudential Indicators, current portfolio position, borrowing requirement and the prospect for interest rates for both lending and borrowing.

Section 3

Contributions to CHASE

This service contributes to CHASE as part of the corporate management of the Council. These can encompass all the objectives in CHASE either in whole or in part.

Section 4

Section 17 Implications

There are no identified Section 17 implications in this report.

Section 5

Human Rights Act Implications

There are no identified implications in respect of the Human Rights Act 1996.

Section 6

Data Protection Act Implications

There are no identified implications in respect of the Data Protection Act arising from this report.

Section 7

Risk Management Implications

Risks associated with the Treasury Management process have been assessed and adequate controls found to be in place. Risks can be managed to an acceptable level.

Section 8

Legal Implications

The legal implications have been set out throughout this report, particularly in Annex 1.

Section 9

Financial Implications

The draft Financial Prudential indicators now represent a fundamental part of the budget process and at this stage represent draft indicators pending determination of the budget for 2008-09.

The indicators also ensure that an integrated Treasury Management Strategy is determined.

There are no direct financial implications arising from this report.

Section 10

Human Resource Implications

There are no Human Resource implications as a result of this report.

Section 11

Conclusions

That the recommendations at paragraph 2 be approved.

Background Papers

Code of Practice on Treasury Management
Treasury Management Practices
2003 Prudential Code for Capital Finance in Local Government

Annexes

Annex 1: Treasury Management Strategy and Annual Investment Strategy

ANNEX 1

CANNOCK CHASE DISTRICT COUNCIL

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2008-09

1. Introduction

The Local Government Act 2003 and supporting regulations 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.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included as paragraph 9); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2008/09 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. 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
- the borrowing strategy
- debt rescheduling
- the investment strategy
- any extraordinary treasury issues (such as the implications of a LSVT or ALMO).

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-

1. Increases in interest charges caused by increased borrowing to finance additional capital expenditure, and

2. any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2. Treasury Limits for 2008-09 to 2010-11

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". In England and Wales the authorised limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

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 and council rent levels is 'acceptable'.

Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing 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 2008-09 – 2010-11

The following prudential indicators are relevant for the purposes of setting an integrated treasury management strategy and are attached as Annex 1.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted on 20 February 1997 by the full Council.

4. Current Portfolio Position

		Principal		
		£m	£m	%
Fixed rate funding	PWLB	13.571		98.43
	Market	0.051	13.622	0.37
	PWLB	-		
	Market	-	-	
Other long term liabilities			0.165	1.20
TOTAL DEBT			13.787	100.00
TOTAL INVESTMENTS			14.120	

5. Borrowing Requirement

	2006-07	2007-08	2008-09	2009-10	2010-11
	£'000 Actual	£'000 Probable	£'000 Estimate	£'000 Estimate	£'000 Estimate
New borrowing	744	2,234	831	420	420
Alternative financing arrangements					
Replacement borrowing					
TOTAL	744	2,234	831	420	420

6. Prospects for Interest Rates

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 A draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Sector View: Interest rate forecast – 24.12.07

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011
Bank rate	5.50%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
5 yr PWLB rate	4.80%	4.70%	4.65%	4.55%	4.55%	4.60%	4.70%	4.75%	4.80%	4.80%	4.80%	4.85%	4.85%	4.85%
10 yr PWLB rate	4.80%	4.70%	4.60%	4.55%	4.55%	4.55%	4.55%	4.60%	4.70%	4.75%	4.75%	4.80%	4.80%	4.80%
25 yr PWLB rate	4.65%	4.60%	4.55%	4.55%	4.50%	4.55%	4.55%	4.60%	4.65%	4.70%	4.70%	4.70%	4.70%	4.75%
50 yr PWLB rate	4.55%	4.50%	4.45%	4.45%	4.45%	4.45%	4.45%	4.50%	4.50%	4.55%	4.55%	4.55%	4.55%	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% and to 5.00% in Q2 2008
- then unchanged for the following years

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

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 has cut its rate again, to 4.5% in October 2007 and to 3.00% in January and is expected to stabilise at this figure to try to stimulate the economy and to ameliorate the extent of the downturn. However, the speed and extent of these cuts will be inhibited by inflationary pressures arising from oil prices, the falling dollar increasing the cost of imports, etc. The US could well 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.

UK

- 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 $90 – 100 per barrel (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 November 2007 – 4.5%. Food prices have also risen at their fastest rate for fourteen years (6.6% 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 exceptionally strong in Q3, as has also been the growth in the money supply. The downward trend in Bank Rate is now expected to be faster than at first thought after the initial cut in December 2007 to 5.5% 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. However, if those pressures subside, then there is further downward risk to the Sector forecast which currently only allows for 0.25% cuts in Q1 and Q2 2008 before Bank Rates stabilises at 5.0% for the next two years.

7. Borrowing Strategy

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 Q3 2009 and to 4.55% in Q1 2010 and to 4.6% in Q1 2011.

- The 25 year PWLB rate is expected to fall progressively from 4.65% to reach 4.50% in Q4 2008 and to then be on the rise from Q1 2009 and to reach 4.70% in Q1 2010 and 4.75% in Q1 2011.

- The 10 year PWLB rate is expected to fall from 4.70% in Q1 2008 to 4.55% in Q3 2008 and to then gradually rise from Q3 2009 to reach 4.80% in Q3 2010.

- The 5 year PWLB rate is expected to fall from 4.70% in Q1 2008 to reach 4.55% in Q3 2008 and to then gradually rise starting in Q1 2009 to reach 4.85% in Q3 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 scheduling 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.

Against this background caution will be adopted with the 2008/09 treasury operations. The Head of Financial Management will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Council at the next available opportunity.

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. Debt Rescheduling

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 achieved through using LOBOs (Lenders Option Borrowers Option) loans and other market loans.

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.

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).

All rescheduling will be reported to the Council at the meeting following its action.

9. Annual Investment Strategy

9.1 Investment Policy

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

(a) the security of capital and
(b) the liquidity of its investments

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

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

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the 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
Term deposits – UK government	-	In-house
Term deposits – other LAs	-	In-house
Term deposits – banks and building societies	-	In-house
Money Market Funds	AAA	In-house
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold'

		basis
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis
Sovereign bond issues (i.e. other than the UK government)	AAA	In-house on a 'buy-and-hold' basis

Non-Specified Investments:

A maximum of 50% will be held in aggregate in non-specified investments.

	Minimum 'High' Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – UK government (with maturities in excess of 1 year)		In-house	50%	3 year
Term deposits – other LAs (with maturities in excess of 1 year)		In-house	50%	3 year
Term deposits – banks and building societies (with maturities in excess of 1 year)	Long-term	In-house	50%	3 year
Certificates of deposits issued by banks and building societies with maturities in excess of 1 year	Long-term	In-house on a 'buy-and-hold' basis	50%	3 year

The Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's rating will be used. 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 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: All the investment decisions for Cannock Chase District Council are made in-house and although the majority of funds are cash-flow derived there is a core amount of £5 million available for investment over two years. 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 twelve months).

Interest Rate Outlook: Our advisers are forecasting that Bank Rate has now started on a downward trend from 5.75% to 5.50% in December 2007. This will continue with further cuts forecast to 5.25% in Q1 2008 and again to 5.00% in Q2 2008. It is then expected to remain unchanged for the next two years.

Councils, should, therefore, seek to lock in longer period investments at higher rates before this fall starts for some element of their investment portfolio which represents their core balances. For 2008-09 clients should budget for an investment return of 5.00% on investment placed in 2008/09.

The Council has identified the following Minimum Investment Levels points for investments as follows:-

<<5.45%>> for 1 year lending

<<5.55%>> for 2 year lending

<<5.55%>> for 3 year lending

<<5.65%>> for 4 year lending

<<5.65%>> for 5 year lending

The minimum investment levels 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 (over night to three months) in order to benefit from the compounding of interest.

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 interest rate forecast – 24 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	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011
Base rate	5.50%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
5 yr PWLB rate	4.80%	4.70%	4.65%	4.55%	4.55%	4.60%	4.70%	4.75%	4.80%	4.80%	4.80%	4.85%	4.85%	4.85%
10 yr PWLB rate	4.80%	4.70%	4.60%	4.55%	4.55%	4.55%	4.55%	4.60%	4.70%	4.75%	4.75%	4.80%	4.80%	4.80%
25 yr PWLB rate	4.65%	4.60%	4.55%	4.55%	4.50%	4.55%	4.55%	4.60%	4.65%	4.70%	4.70%	4.70%	4.70%	4.75%
50 yr PWLB rate	4.55%	4.50%	4.45%	4.45%	4.45%	4.45%	4.45%	4.50%	4.50%	4.55%	4.55%	4.55%	4.55%	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%
5 yr PWLB rate	4.65%	4.45%	4.35%	4.05%	3.95%	4.05%	4.25%	4.35%	4.75%
10 yr PWLB rate	4.65%	4.45%	4.25%	4.15%	4.15%	4.25%	4.45%	4.65%	4.85%
25 yr PWLB rate	4.65%	4.55%	4.45%	4.45%	4.35%	4.45%	4.55%	4.75%	4.95%
50 yr PWLB rate	4.55%	4.55%	4.45%	4.35%	4.25%	4.35%	4.55%	4.65%	4.75%

UBS Economic interest rate forecast (for quarter ends) – 12 December 2007

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank rate	5.50%	5.25%	5.00%	4.75%	4.50%
10 yr PWLB rate	5.19%	5.23%	5.25%	5.30%	5.35%
25 yr PWLB rate	4.70%	4.75%	4.80%	4.85%	4.90%
50 yr PWLB rate	4.55%	4.60%	4.65%	4.70%	4.75%

2. SURVEY OF ECONOMIC FORECASTS

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

	Bank Rate Actual	Quarter ended		Annual Average Bank Rate		
		Q4 2007	Q4 2008	Ave. 2009	Ave. 2010	Ave. 2011
Median Bank Rate	5.75%	5.80%	5.30%	5.24%	5.22%	5.26%
Highest bank rate	5.75%	5.80%	6.30%	6.00%	6.00%	6.00%
Lowest bank rate	5.75%	5.30%	4.80%	4.50%	4.06%	4.00%

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