Appendix D

Treasury Management Strategy Statement

And Minimum Revenue Provision Policy Statement 2009/10

TREASURY MANAGEMENT STRATEGY STATEMENT, ANNUAL INVESTMENT STRATEGY, AND MRP POLICY 2009/10

PURPOSE OF REPORT

The Council is required annually to prepare strategies for treasury management, for the handling of its investments, and for the determination of the calculation of the annual provision for the repayment of debt (MRP). This report submits these strategies.

RECOMMENDATIONS

1. That the Treasury Management Strategy Statement (Appendix 1) be adopted.
2. That the proposed Investment Strategy (Appendix 2) be adopted
3. That the proposed MRP policy (Appendix 3) be adopted

EXECUTIVE SUMMARY

The global financial crisis has focussed attention on the risks attached to cash deposits. The Treasury and Investment Strategies outline the council's borrowing requirements, how they will be met, and how surplus cash will be deposited. The Treasury Strategy is consistent with the Council's budgets.

The MRP policy is a new requirement, regulations requiring a debt repayment policy that is "prudent" instead of that previously specified for all authorities.

REASONS FOR RECOMMENDATIONS

The Council needs to borrow money in the coming years to fund its capital programme. It is also concerned to minimise the risk in depositing surplus cash, whilst obtaining a reasonable return on its investment. The proposed Treasury and Investment Strategies address these issues.

The MRP policy is restricted by the narrow range of options afforded by the government regulations.

ALTERNATIVE OPTIONS CONSIDERED

None

1. INTRODUCTION

The Local Government Act 2003 requires the Council to prepare, annually, a **Treasury Strategy Statement** (Appendix 1). This should review the Council's treasury activities for the coming year, and should have regard to

- 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;
- the MRP policy

The Strategy Statement must also make reference to Section 33 of the Local Government Finance Act 1992. This requires 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 (including interest charges and running costs) that flow from capital financing decisions

Guidance issued subsequent to the act also requires councils to prepare an **Annual Investment Strategy**. This should set out the Council's policies for managing its cash deposits and for giving priority to the security and liquidity of those investments. The suggested Strategy for 2009/10 was approved for consultation by the Executive Cabinet on 8th January 2009. The strategy has been revised in light of that consultation and its proposals are reported at Appendix 2.

The Council is also required to make an **annual statement of the policy it will follow in calculating the Minimum Revenue Provision** for repayment of debt (MRP). In preparing this it must have regard to the Secretary of States guidance. This statement is attached at Appendix 3.

The 2003 Act and supporting regulations also 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. This report proposes relevant indicators.

APPENDIX 1

TREASURY STRATEGY STATEMENT

1 CONTEXT – ECONOMIC BACKGROUND

Introduction

- The sub prime crisis of early 2008 was supplanted by the banking crisis of autumn 2008. The world banking system came near to collapse and governments around the world were forced to recapitalise and rescue their major banks. The resulting dearth of lending from banks anxious to preserve capital led to economic forecasts being sharply reduced and recession priced into markets. This in turn led to sharp falls in oil and other commodity prices with the result that inflation, which in the UK was running at over 5%, became yesterday's story and recession fears drove interest rate sentiment and policy. A co-ordinated global interest rate cut of 50bp took place on 8th October 2008. Forecasts in the UK were for further sharp cuts in interest rates as recession hove into view.

International

- Early in 2008 the US economy was being badly affected by the housing market slump. Interest rates were at 2% and inflation was being dragged higher by the inexorable rise in commodity prices. The ECB was very concerned about rising inflation and less about the state of the economy.
- The second quarter of 2008 was torn between inflation worries on the one hand, with oil rising towards $150 per barrel, and the deteriorating economic outlook on the other.
- In the second and third quarters of the year the financial crisis erupted and escalated as the world became aware of the extent of the sub-prime fiasco and the impact it was having on institutions that had invested in these issues.
- In September Fannie Mae/Freddie Mac (the mortgage banks) and AIG, the insurance giant, had to be bailed out by the US Federal Government.
- Then in mid September, Lehman Bros., the investment bank, was allowed to fail. This triggered a domino effect with other banks and financial institutions having to be rescued or supported by governments around the world.
- After the collapse into receivership of the Icelandic banks in early October, other countries then started to feel the strain and a number had to approach the IMF for support.
- Eventually even the Asian 'Tiger' economies were affected, including India and China, and it became clear that the crisis had become a global one and no country was insulated from it.
- The financial crisis had therefore precipitated an economic crisis and there was a co-ordinated global interest rate cut with the Fed, ECB and MPC all cutting rates by 50bp on 8th October. The Fed subsequently cut rates again by 50bp to 1% on 29th October and again on 16 December to a band of 0.0% to 0.25% in an attempt to stave off the oncoming recession. Inflation was yesterday's problem.
- On 4th November the USA elected Barack Obama as President with little immediate financial impact.
- The ECB reduced rates again on 6th November by 50bp and by its biggest ever cut of 75bp on 4 December to reach 2.5%.

UK

- GDP: growth was already slowing in 2008 from 2007 before the full impact of the credit crunch was felt. Earlier in 2008 GDP was 2.3% whereas in the autumn the figure fell back to -0.3% and was then expected to continue to be negative going into 2009.
- Wage inflation remained relatively subdued as the Government kept a firm lid on public sector pay. Private sector wage growth was kept in check by the slowing economy.
- Growth slowed across the economy and unemployment rose throughout the year with forecasts of 2 million unemployed by the end of the financial year and continuing to increase thereafter through 2010.

- Notwithstanding the pressures on household finances consumer spending still continued at a reasonable clip although the trend was slowing as the year progressed.
- Bank lending came to a virtual standstill in the autumn as the credit crunch tightened its grip and various banks internationally had to be rescued, or supported, by their governments.
- The Government and Bank of England supplied massive amounts of liquidity to the banking market in an attempt to reignite longer interbank lending.
- The Government took action in September to either supply finance itself to recapitalise some of the major clearing banks or to require the others to strengthen their capital ratios by their own capital raising efforts. This was so that these banks would be seen to have sufficient reserves to last through the coming recession with its inevitable increase in bad loans etc.
- The housing market also came to a virtual standstill as lenders demanded larger deposits and higher fees. House sales and prices both dropped sharply.
- Government finances deteriorated as income from taxation dropped as the economy slowed and the cost of the bailout of the banks was added to the deficit.
- U.K. equity prices declined sharply in the 3rd and 4th quarters as the impending recession was priced into the markets. Prices hit five year lows and volatility was extremely high.
- The story of 2008 has been the credit crunch, the banking crisis and the change in economic outlook from slow growth to outright recession. After the initial concerns about the impact of the credit crunch in the earlier part of 2008 it appeared as though the storm had been weathered. The MPC had been very concerned about CPI inflation, which had been rising sharply on the back of higher commodity and food prices. Bank Rate reached a peak of 5.75% in July 2007 after which cuts of 0.25% occurred in December 2007 and February and April 2008 before the major cuts in the autumn. The economic data had been indicating a slowing economy for some while but it was not sufficiently weak to force the MPC into another cut. It was the strength of the banking crisis, pre-empted by the collapse of Lehmans in New York that eventually drove the MPC to cut interest rates by 50bp on October 8th in concert with the Federal Reserve, the ECB and other central banks. It was then appreciated that the economic downturn would be much more severe than previously thought and interest rates were subsequently slashed by 150bps on 6 November, 100bps on 4 December and 50 bps on 8 January 2009.
- The LIBOR spread over Bank Rate has also been a feature, and a concern, of 2008/9. Because of the credit fears and the reluctance of lenders to place cash for long periods 3 month LIBOR (this is the London Inter Bank Offer Rate – the rate at which banks will lend to one another) has been substantially higher than Bank Rate. This has meant that the MPC's power over monetary policy has been eroded by the widening of this spread between LIBOR and Bank Rate and it has therefore had a limited ability to bring relief to hard pressed borrowers through lower interest rates. However, the power of the Government over the semi nationalised clearing banks had considerable impact in enforcing pro rata reductions to the 150 bps Bank Rate cut in November on some borrowing rates.

The Government has abandoned its 'golden rule'. The pre Budget Report on 14 November revealed the Government's plans for a huge increase in Government borrowing over coming years as a result of falling tax revenues and also due to tax cuts and increases in Government expenditure in the short term designed to help stimulate economic growth to counter the recession.

2. PROSPECTS FOR INTEREST RATES

The Council has utilised Sector to assist the Council to formulate a view on interest rates. Appendix 4 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 interest rate forecast – 6th December 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	Q/E3 2011	Q/E4 2011	Q/E1 2012
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%
5yr PWLB rate	2.50%	2.25%	2.15%	2.15%	2.15%	2.45%	2.80%	3.15%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB rate	3.10%	2.75%	2.55%	2.55%	2.55%	2.85%	3.25%	3.65%	4.15%	4.40%	4.70%	4.75%	4.85%
25yr PWLB rate	4.00%	3.95%	3.95%	3.95%	4.00%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.00%	5.05%
50yr PWLB rate	3.85%	3.80%	3.80%	3.80%	3.85%	3.90%	4.00%	4.25%	4.40%	4.70%	4.80%	4.95%	5.00%

The table shows that the Bank rate is expected to remain low until 2011 at which point it is expected to increase.

Borrowing costs will mirror the Bank rate but will show a more incremental rise.

3. TREASURY LIMITS AND PRUDENTIAL INDICATORS FOR 2009/10 TO 2011/12

It is a requirement that authorities should have adopted the CIPFA Treasury Management Code of Practice. Financial Regulation.3.97 (Treasury management), adopted by the Council on 22/4/08 as part of its constitution, requires compliance with the code

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. A limit, which effectively represents the outer boundary of possible borrowing, must be set. This is referred to in the Prudential Code as the “Authorised Limit”.

The Prudential Code also requires authorities to determine an “Operational Boundary” which is a realistic estimate of borrowing consistent with the debt levels assumed in the budget. Both this, and the authorised limit, have to be set for the current, and two following, years.

These limits, and the others which the Council must set under the Prudential Code, are detailed in table 1 below.

TABLE 1	**2007/08**	**2008/09**	**2009/10**	**2010/11**	**2011/12**
PRUDENTIAL INDICATOR	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	actual	**probable**	**estimate**	**estimate**	**estimate**
Capital Expenditure Non - HRA	6,474	8,583	5,053	3,317	1,175
Ratio of financing costs to net revenue stream					
Non - HRA	(3.59%)	0.09%	0.76%	0.39%	0.40%
Net borrowing requirement (See Note)					
brought forward 1 April		7,000	8,917	8,882	9,151
carried forward 31 March		8,917	8,882	9,151	9,350
in year borrowing requirement		1,917	(35)	269	199
Capital Financing Requirement as at 31 March					
Non – HRA	6,319	8,917	8,882	9,151	9,350
Annual change in Cap. Financing Requirement	(7,842)	2,598	(35)	269	199
Incremental impact of capital investment decisions on Band D Council tax p.a.			**£6.35**	**£3.68**	**£4.64**

Note

The Prudential Code requires that net external borrowing (the third indicator in the above table) should not exceed the Capital Financing Requirement for the preceding year (£8,917) plus the estimated additional CFR for the current year (-£35) and next two years (£269 plus £199). Net borrowing in 2009/10 should not therefore exceed £9.350m. As described in paragraph 6 planned borrowing is less than this.

PRUDENTIAL INDICATOR	2007/08	2008/09	2009/10	2010/11	2011/12
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	actual	**probable outturn**	**estimate**	**estimate**	**estimate**
Operational Boundary for external debt -					
borrowing	8,880	8,917	8,882	9,151	9,350
other long term liabilities	120	12	10	10	10
TOTAL	9,000	8,929	8,892	9,161	9,360
Authorised Limit for external debt -					
borrowing	12,880	10,917	10,882	11,151	11,350
other long term liabilities	120	£12	10	10	10
TOTAL	13,000	10,929	10,892	11,161	11,360
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%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£0	£0	£0	£0	£0

Notes

The Operational Boundary figures quoted for 2007/8 is as per the previous Strategy Statement, approved twelve months ago. For 2008/9 the boundary is consistent with the budget, as detailed in paragraph 6.

The Authorised Limit allows for an additional £2m of borrowing if exceptional or unforeseen circumstances required it.

4. PLANNED MATURITY STRUCTURE OF FIXED RATE BORROWING 2009-10

The Council is required to set limits on the maturity structure of its borrowings. This is intended to ensure its portfolio is spread over time, and to minimise peaks and troughs in the repayment profile.

In Chorley's case, with a very small amount of debt, this risk is minimal. It is planned therefore to concentrate any borrowing in periods below 5 years, to take advantage of the low rates available in that period.

Maturity structure of fixed rate borrowing during 2009/10	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	25%	0%
10 years and above	25%	0%

5. CURRENT PORTFOLIO POSITION

The Council's treasury portfolio as at 31/01/09 comprises:

		Principal	Av. rate
		£m	%
Fixed rate funding	PWLB	4.983	3.87
	Market	0	
Variable rate funding		0	
Other long term liabilities		0.012	
TOTAL DEBT		4.995	
TOTAL INVESTMENTS		12.810	2.90

6. BORROWING REQUIREMENT

Provision has been made in the Council's budget for it to borrow up to the limit of its "capital financing requirement". This is a measure, derived from the balance sheet, of the need for loan to finance capital expenditure. Any short term cash surpluses arising as a result of this borrowing will be invested.

In practice, in the current financial climate of risk and low investment returns, borrowing will probably be delayed until it is necessary. Whilst therefore this method of calculation probably overstates the actual borrowings that will be made, it does give a solid foundation on which to base the "Operational Boundary", one of the key prudential indicators referred to in table 1.

The following table shows the additional borrowings, in each year, assumed in the budget.

	2007/8 £'000 actual	2008/9 £'000 probable	2009/10 £'000 estimate	2010/11 £'000 estimate	2011/12 £'000 estimate
Capital Financing Requirement	6,319	8,917	8,882	9,151	9,350
Borrowings at start of year		7,000	8,917	8,882	9,151
Repayments in year		(2,367)	(4,626)	(5,941)	(5,986)
Est. borrowings in year		**4,284**	**4,591**	**6,210**	**6,185**
Borrowings at year end	7,000	8,917	8,882	9,151	9,350

7. BORROWING STRATEGY

The issues to be considered in preparing a borrowing strategy are

- The amount of any borrowing
  This is considered in paragraph 6 above. The estimates have assumed borrowings of £4.284m in 2008/9, £4.591m in 2009/10, £6.210m in 2010/11 and £6.185m in 2011/12.

- The timing of borrowing
  Treasury management is concerned with optimising the timing of borrowings and investments so as to take advantage both of beneficial rates and the differences in interest rates paid and earned.
  In the exceptional circumstances resulting from the credit crunch there is risk, and very little reward, in holding surplus cash balances for investment. Borrowings will therefore be timed

to take advantage of low rates but also with a view to minimising any risk attached to holding surplus cash balances.

- Source of borrowing
  There are two basic sources from which local authorities can borrow, the PWLB and banks. In recent years many authorities have taken advantage of cheap long term borrowings from banks. However this source has dried up as a result of the credit crunch. Even if it were, as expected, to become available again in the near future, it is unlikely to be attractive given the cheapness of short, as opposed to long, term borrowing. It is therefore expected that any borrowings will be from the PWLB.

- The length of borrowing
  Currently borrowings from the PWLB cost between 1% and 2% for periods of 1 to 5 years. These rates increase to 2% to 3% for periods between 5 and 10 years, and 3% to 4% up to 20 years. It is therefore planned to borrow for periods of less than five years.

8. DEBT RESCHEDULING

Given that Chorley has only a small amount of debt, all of which has very short maturity dates, there is not currently any opportunity to obtain savings by debt rescheduling.

APPENDIX 2
ANNUAL INVESTMENT STRATEGY

1 Introduction

A proposed Strategy was submitted to the Executive Cabinet on 8th January 2009 for consultation, and was then considered by Overview & Scrutiny Committee on 19th January. The outcome of those consultations is that investments will be restricted as follows for the next six months after which investment policy will be reviewed.

2 By Country

No local authority investments are guaranteed, there is however an assumption that certain institutions will be supported if they get into financial difficulty. **The Council shall restrict its investments to financial institutions likely to be supported by the British Government for a period of six months at which point it shall be reviewed.**

3 Assessment of counterparties financial standing

This will be done by combining the various ratings applying to an institution, to give the following colour codings

Short term rating F1+, Long term AAA, AA+, AA, AA-			
Individual rating	Support Rating		
	1	2	3
A	red	red	red
A/B	red	red	green
B	red	red	green
B/C	red	red	green
C	red	red	green

Short term FI, Long term A+, A		
Support Rating		
1	2	3
red	red	green
red	red	green
red	red	
green	green	
green	green	

4 Limits applying

The maximum amount deposited with an institution shall normally be £1m. Exceptionally, if the amount to be invested cannot be placed within this limit, it shall be increased to £2m.

The maximum length of time for which a sum shall be invested shall be
- **Institutions colour coded "red" within the above matrix – 1 year**
- **Institutions colour coded "green" – 3 months**

5 Institutions on "ratings watch"

Attention shall be given to any "ratings watch" notices made by ratings agencies

6 Investment with other counterparties

It is thought likely that the inter-local authority market will increase as a result of the banking crisis. **The council shall look to invest its surplus funds with other local authorities. The Council shall also open an account with the Debt Management Office.** Effectively this is a means of lending money to the Government and has the lowest risk but also the lowest return.

APPENDIX 3

POLICY ON MINIMUM REVENUE PROVISION

1. Purpose of the Report

To set out the Council's policy on making a Minimum Revenue Provision for the funding of its loan financed capital expenditure (MRP).

2. Background

Local Authorities, in preparing their budgets, have to include a sum to meet the indebtedness resulting from capital expenditure. This is known as the Minimum Revenue Provision (MRP). In the past MRP was 4% of an amount of indebtedness calculated by means of a specified formula. New regulations require instead, that the provision be "prudent". Statutory guidance has been issued providing four methods to calculate MRP, these are outlined below. The broad aim is to ensure that debt is repaid over a period matching that over which the capital expenditure gives benefit.

Authorities have to prepare an annual statement of policy for making MRP. This will be applied retrospectively to 2007/8. The policy for 2008/9 and the retrospective 2007/8 policy have to be approved before 31st March 2009. This report covers those years and 2009/10.

3. Permitted methods of calculation

Option 1: Regulatory Method

This is the existing method (ie 4% of indebtedness), and it can be used for two types of capital expenditure.

- That incurred before 1/4/08 AND
- In years after 1/4/08 it is possible that the cost of some capital projects will be offset by additional revenue support grant. If this happens MRP on that capital expenditure can continue to be calculated using the 4% method.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for certain factors which were brought into account under the previous statutory MRP calculation. The Regulatory Method (Option 1) is preferred, being simpler, and more consistent with the RSG system of revenue support for capital borrowings.

Option 3: Asset Life Method.

This method provides that capital expenditure be financed over the life of the asset. The annual charge is to be calculated either by simply dividing expenditure on each asset by its life, or by calculating the principal portion of an annuity repayment of that expenditure

This will require much more detailed record keeping, since the calculation will have to be made for each asset on which expenditure is incurred, It is anticipated that this will result in a heavier charge compared to that which would have applied under the old rules.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

Conditions for using the options

An authority could chose to calculate its total MRP liability on the basis of options 3 and 4, but this would certainly increase the annual charge. Options 1 and 2 can only be used for a narrow range of capital expenditure (as detailed above), all other capital expenditure must be provided for by options 3 or 4.

Implications

The changes in calculating MRP will have significant implications for the capital programme. Whereas in the past MRP would be around 4% of the borrowing requirement, the MRP will now vary for each capital scheme depending on the life of the asset and the way it is funded.

In terms of capital submissions there will need to be greater clarity over the sources of funding and period over which benefits of the investment will be delivered.

In terms of funding there will be a need to be more specific about which schemes are met from supported borrowing and other sources. This will require much more detailed record keeping. It may also mean that all assets with a shorter life are, where possible, financed by grants and capital receipts whereas longer life assets are funded using prudential borrowing.

The MRP charge for 2007/8 and 2008/9 can continue to be calculated as it has in the past, since all expenditure affecting the calculations will have been incurred prior to 1/4/08.

Recommendations

- That the use of option 1 for 2007/8 be confirmed.
- That the MRP charge for 2008/9 be based on the option 1 method.
- That for 2009/10 option 1 be used for the permitted types of expenditure, and that option 3, repayment by means of equal instalments over the life of the asset, be used for all other expenditure.

APPENDIX 4

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 – 6 December 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	Q/E3 2011	Q/E4 2011	Q/E1 2012
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.75%	2.50%	3.25%	3.75%	4.00%
5yr PWLB rate	2.50%	2.25%	2.15%	2.15%	2.15%	2.45%	2.80%	3.15%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB rate	3.10%	2.75%	2.55%	2.55%	2.55%	2.85%	3.25%	3.65%	4.15%	4.40%	4.70%	4.75%	4.85%
25yr PWLB rate	4.00%	3.95%	3.95%	3.95%	4.00%	4.15%	4.35%	4.45%	4.60%	4.85%	4.95%	5.00%	5.05%
50yr PWLB rate	3.85%	3.80%	3.80%	3.80%	3.85%	3.90%	4.00%	4.25%	4.40%	4.70%	4.80%	4.95%	5.00%

Capital Economics interest rate forecast –19 January 2009

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010
Bank Rate	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
5yr PWLB rate	1.65%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%
10yr PWLB rate	2.65%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%	2.15%
25yr PWLB rate	4.15%	4.00%	3.80%	3.65%	3.65%	3.65%	3.65%	3.65%
50yr PWLB rate	4.05%	3.95%	3.85%	3.75%	3.75%	3.75%	3.75%	3.75%

UBS interest rate forecast (for quarter ends) – 12 December 2008

	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009
Bank rate	0.50%	0.50%	0.50%	0.75%
10yr PWLB rate	3.75%	4.15%	4.35%	4.65%
25yr PWLB rate	4.25%	4.55%	4.85%	5.05%
50yr PWLB rate	4.30%	4.65%	5.00%	5.25%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury – December 2008 summary of forecasts of 23 City and 12 academic analysts for Q4 2008 and 2009. Forecasts for 2010 – 2012 are based on 21 forecasts in the last quarterly forecast – November 2008.

BANK RATE FORECASTS		quarter ended		annual average Bank Rate		
	actual	Q4 2008	Q4 2009	ave. 2010	ave. 2011	ave. 2012
Median	2.00%	2.00%	1.00%	3.11%	3.97%	4.49%
Highest	2.00%	4.50%	4.00%	4.70%	5.00%	5.25%
Lowest	2.00%	2.00%	0.50%	1.00%	2.25%	3.00%