CLACKMANNANSHIRE COUNCIL

THIS PAPER RELATES TO ITEM 6

ON THE AGENDA

Report to Council

Date: 4th June 2009

Subject: **Treasury Management Strategy Statement 2009/10 and Public Works Loan Board (PWLB) Rescheduling undertaken April 2009**

Report by: **Head of Finance**

1.0 Purpose

1.1. The purpose of this report is to present the Treasury Strategy Statement to Council for approval and to notify the Council of a PWLB rescheduling exercise that took place in April 2009.

1.2. Treasury Management is a specialist area within the Finance Service, and for this reason the Service makes use of consultants (Sector Treasury Services Ltd.) to provide advice on a range of strategic and financing issues.

1.3. The Service is governed by a Code of Practice on Treasury Management, produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). Members of CIPFA and other public practitioners are expected to follow this code.

1.4. The Code aims to provide guidance on best practice in the area of treasury management. A key element of the code is the requirement to publish an annual Treasury Management Strategy Statement, detailing the expected activities of the treasury function in this financial year.

2.0 Recommendations

2.1. It is recommended that the Council approve the attached Treasury Management Strategy Statement for 2009/10.

2.2. It is recommended that the Council note the PWLB rescheduling exercise that took place in April 2009.

3.0 Considerations

3.1. The format and structure of the Statement is as required by the Treasury Policy Statement as approved by Council on 19th February 2003.

3.2. This report seeks to update Council on the current treasury position and to outline the treasury strategy against the background of the current economic trends and forecasts from a number of institutions.

3.3. The key strategy is to minimise risk rather than maximise return.

3.4. The Council's current treasury portfolio comprises some £119.4m in long term funding, as shown in section 3. Section 4 shows the borrowing requirement based on Capital Plans that the Council has approved up to 2011/12.

3.5. The interest rate forecast in Section 6 of the Appendix indicates that any additional borrowing the Council undertakes this year is likely to be for a shorter term than recently experienced. This is because interest rates for loans of up to 10 years are significantly cheaper than longer term rates, and these shorter term loans will also allow the Council to achieve a better spread in its debt maturity profile.

3.6. Section 7 of the Appendix explains that given the current level of interest rates payable on short term debt, there can be an advantage to switching from long term to short term loans. With this in mind, this section goes on to give details of a rescheduling exercise that was undertaken at the beginning of this financial year. Loans of £22.5m were converted to a shorter period, as well as a reduced average interest rate. This rescheduling will save the Council £400k in interest payments this year. This will impact on the budget figure for 2010/11 and make a positive contribution towards the Council's financial pressures.

3.7. Section 8 covers the Investment Strategy of the Council. The priorities for investment are security of capital sums coupled with availability of funds when then they are needed. Most of the Council's current investments are with our own bank - the Bank of Scotland.

3.8. A full report on the Treasury Management activity for 2008-2009 will be presented to the Council after the summer recess when the figures have been subject to the audit process.

4.0 Sustainability Implications

4.1. None

5.0 Resource Implications

5.1. Financial Details

5.2. The full financial implications of the recommendations are set out in the report. A saving of £400k due to a reduction in interest payable on the loans rescheduled will benefit the Council in the current year.

Yes ☑

5.3. Staffing

5.4. There are no staffing implications.

6.0 Exempt Reports

6.1. Is this report exempt? Yes ☐ (please detail the reasons for exemption below) No ☑

7.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities 2008 - 2011**(Please tick ☑)

The area has a positive image and attracts people and businesses	☐
Our communities are more cohesive and inclusive	☐
People are better skilled, trained and ready for learning and employment	☐
Our communities are safer	☐
Vulnerable people and families are supported	☐
Substance misuse and its effects are reduced	☐
Health is improving and health inequalities are reducing	☐
The environment is protected and enhanced for all	☐
The Council is effective, efficient and recognised for excellence	☑

(2) Council Policies (Please detail)

8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations?

Yes ☑ No ☐

9.0 Legality

9.1 In adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes ☑

10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

1. Treasury Management Strategy Statement

11.0 Background Papers

11.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes ☑ (please list the documents below) No ☐

Treasury Policy Statement referred to in Para 3.1

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NAME	DESIGNATION	SIGNATURE
Muir S Wilson	Head of Finance	M Wilson (signed)
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Appendix 1

TREASURY MANAGEMENT STRATEGY STATEMENT

1 Introduction

The Local Government in Scotland Act 2003 and supporting regulations require the Council to "have regard to" the Prudential Code and therefore to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The CIPFA Code of Practice on Treasury Management in the Public Services also requires the Council to set out its treasury management strategy for borrowing and investment.

The suggested strategy for 2009/10 in respect of the following aspects of the treasury management function is based upon the Payments Manager's 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;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy.

It is a statutory requirement under Section 93 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, a Local Authority must 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: -

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- 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 2009/10 to 2011/12

It is a statutory duty under Part 7 of the Local Government in Scotland Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to allocate to capital expenditure. The amount so determined is termed the "Affordable Capital Expenditure Limit". In Scotland the estimate of capital expenditure for 2009/10 represents the legislative limit specified in Section 35(1) of the Local Government in Scotland Act 2003.

The Council must have regard to the Prudential Code when setting the Affordable Capital Expenditure 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 Capital Expenditure 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 Affordable Capital Expenditure Limit is to be set, on a rolling basis, for the forthcoming financial year and the two successive financial years.

3 Current Portfolio Position

The Council’s treasury portfolio position at 31/3/2009 comprised:

		Principal		**Average Rate**
Fixed Rate Funding	PWLB	£95.704m		
	EIB	£ 0.222m		
	Market	£23.500m	£119.426	5.05%
Variable Rate Funding	PWLB	£ 0.000m		
	EIB	£ 0.000m		
	Market	£ 0.000m	£ 0.000m	0.00%
Other Long-term Liabilities		£ 0.000m	£ 0.000m	
Total Debt			**£119.426m**	**5.05%**
Total Investments			**£ 17.968m**	**5.44%**

4 Borrowing Requirement

	2007/08	2008/09	2009/10	2010/11	2011/12
	£’000	**£’000**	**£’000**	**£’000**	**£’000**
New Borrowing	£ 8.327	£12.040	£11.245	£ 7.393	£ 4.100
Alternative Finance Arrangements					
Replacement Borrowing					
Total	**£ 8.327**	**£12.040**	**£11.245**	**£ 7.393**	**£ 4.100**

5 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 as at 5th May 2009: -

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	1.00%	1.50%	2.00%	2.50%	3.25%	3.75%	4.00%
5yr PWLB Rate	2.50%	2.50%	2.50%	2.50%	2.50%	2.75%	3.00%	3.50%	3.65%	3.95%	4.20%	4.45%	4.60%
10yr PWLB Rate	3.30%	3.30%	3.20%	3.20%	3.40%	3.55%	3.70%	4.05%	4.30%	4.55%	4.80%	4.85%	4.90%
25yr PWLB Rate	4.15%	4.15%	4.15%	4.15%	4.30%	4.40%	4.50%	4.60%	4.70%	4.85%	4.95%	5.05%	5.10%
50yr PWLB Rate	4.30%	4.30%	4.30%	4.30%	4.40%	4.50%	4.55%	4.65%	4.75%	4.85%	4.95%	5.05%	5.15%

There is a downside risk to these forecasts if the recession proves to be deeper and more prolonged than currently expected.

Economic Background

Introduction

- The sub prime crisis of early 2008 was overtaken by the banking crisis of autumn 2008. The world banking system came near to collapse and Governments around the world were forced to inject capital in order to rescue their major banks. Banks were now anxious to preserve capital so cut back on lending which led to economic forecasts being sharply reduced. This, in turn led to sharp falls in oil and other commodity prices with the result that inflation, which in the UK had been 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 0.5% took place on 8th October 2008. Forecasts in the UK were for sharp cuts in interest rates as recession hove into view and this was subsequently brought into place over the following months.

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 increase in commodity prices. The ECB (European Central Bank) was very concerned about rising inflation and less concerned about the state of the economy.
- The second quarter of 2008/09 was torn between inflation worries on one hand, with oil prices heading 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 Fed (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 (International Monetary Fund) 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 (European Central Bank) and MPC (Monetary Policy Committee) all cutting rates by 0.50% on 8th October. The Fed subsequently cut rates again by another 0.50% 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 in November by 50bp and by its biggest ever cut of 75bp in December to reach 2.5%, January by another 50bp and another 50bp in March and 25bp in April to bring the rate down to 1.25%.
- As the pace of world recession quickened, so the price of oil plunged to around $40 per barrel by the end of 2008 and fears changed from being focused on inflation to the potential dangers of deflation.
- On 11th February 2009 Congress passed a $789bn support package for the US economy and banking system. Financial markets were disappointed by the lack of detail as to how this programme was going to work.

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- GDP (Gross Domestic Product): 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 quarter 3 it fell by 0.3% and then fell by 1.5% in quarter 4 to give a y/y figure of -1.8%. GDP forecasts for 2009 are now in the -2.5% to -3.5% area.
- 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 the increase in unemployment accelerated towards the end of the year and broke through the 2 million barrier in January 2009. Unemployment is expected to continue to increase towards 3million in 2009.
- 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 announced in October a £500bn package of measures to support the banking system and the economy. This included £37bn to recapitalise some of the major clearing banks and a requirement for the others to strengthen their capital ratios by their own capital raising efforts. The aim of this was to try to ensure that these banks would be seen to have sufficient reserves to last through the coming recession with its inevitable increase in bad loans etc. However, a second bank support package proved necessary in January 2009.
- 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.

- UK 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 (Consumer Price Index) 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 1.50% in November, 1.00% in December, and 0.50% in January, February and March 2009 to reach 0.5%.
- The LIBOR (London Inter Bank Offer Rate - the rate at which banks will lend to one another) spread over Bank Rate has also been a feature, and a concern, of 2008/09. Because of the credit fears and the reluctance of lenders to place cash for long periods 3 month LIBOR 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 1.50% 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.
- UK bank shares nose dived in mid January 2009 stoked by particular concerns around RBS incurring the largest deficit in UK corporate history of £28bn as it wrote off huge sums for over paying for the purchase of the Dutch bank AMRO at the height of the market. This was the catalyst for the Government stepping in with a second bank support package including a £250bn insurance scheme for toxic assets on bank balance sheets to put a floor on the amounts banks could lose on them. Various other measures were also announced.
- The Bank of England's Inflation Report of 11 February 2009 confirmed fears that the recession is going to be deeper and longer than previously thought. CPI Inflation was forecast to dip to 0.5% in two years time; this aroused fears that CPI could get into negative territory i.e. deflation, if economic conditions worsened more than currently expected. The Governor of the Bank of England emphasised that further Bank Rate cuts would not be sufficient to counter this recession and that Quantitative Easing would be required i.e. the use of unconventional methods to increase liquidity in the economy to promote the expansion of credit and so economic growth. The Bank of England therefore proposes to start purchases of corporate bonds and gilts.
- There are concerns as to how and how quickly the above two programmes by the Bank and the Government will be translated from being just concepts into actual action. There is also concern that any action may err on the side of caution and so prove to be insufficient to stem the tide of recession as quickly as might otherwise be possible. There are similar concerns for the parallel programmes in the US.

- In the Governments budget of 14th April it stated that the Treasury intends to £74bn of gilts in periods up to seven years, £70bn of gilts falling due between seven and fifteen years and £27bn of gilts maturing in periods of more than fifteen years. The problem here is that this comes less than one month after the DMO (Debt Management Office) failed to attract enough buyers for 40 year gilts.

6 Borrowing Strategy

Interest Rate Forecast

The Sector forecasts are based around an expectation that there will normally be variations of +/- 0.25% during each quarter around these average forecasts in normal economic and political circumstances. However, greater variations can occur if there should be any unexpected shocks to financial or political systems. These forecasts are for the PWLB new borrowing rate:

- The 50 year PWLB rate is expected to remain around current levels of around 4.30 for the remainder of 2009 then to steadily increase in 2010 to 4.65% and to 5.15% at the end of the forecast period.
- The 25 year PWLB rate is expected to remain around 4.15% in 2009 before rising steadily to around 4.6% in 2010 and then to eventually reach 5.10 at the end of the forecast period.
- The 10 year PWLB rate is expected to drop to 3.20% in quarter 3 2009 but to start rising again from quarter 1 2010 to eventually reach 4.05% by the year end then increase to 4.90% at the end of the forecast period.
- The 5 year PWLB rate is expected to remain around 2.50% until quarter 1 2010. The rate then starts rising in quarter 2 2010 to around 3.50% at the end of the year and to 4.60% at the end of the forecast period.

This forecast indicates, therefore, that there is a range of options available for borrowing strategy for 2009/10. Variable rate borrowing is expected to be cheaper than long term fixed rate borrowing and will therefore be more attractive throughout the financial year. Under 10 year PWLB rates are expected to be substantially lower than longer term PWLB rates so this will open up a range of choices for new borrowing for authorities that want to spread their debt maturities away from a concentration in long dated debt. Rates are expected to be slightly lower at the middle to end of the year than earlier on so it may be advantageous to borrow later in the year.

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

- For authorities wanting to focus on the very cheapest PWLB borrowing, the under 10 year rates will provide significantly cheaper rates than longer term borrowing. Under 5 year rates are also expected to be significantly lower than 5-10 year rates.
- For authorities wanting to lock into historically low long term rates, there is expected to be little difference between 25 year and 50 year rates. However, despite the minimally more expensive new borrowing rates expected in the 25 – 30 year period later in the year, these could be seen as being much more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates is considerably less. This then maximises the potential for debt rescheduling at a later time by minimising the spread between these two rates.

- This strategy would also mean that after some years of focusing on borrowing at or near the 50 year period, local authorities would be able to undertake borrowing in a markedly different period and so achieve a better spread in their debt maturity profile.
- When long term PWLB rates fall back to the central forecast rate of about 3.95%, borrowing should be made at any time in the financial year. A suitable trigger point for considering new fixed rate long term borrowing, therefore, would be 3.95%. 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 0.25 – 0.50% below the PWLB target rate if they become available again.

External v. internal borrowing

- The next financial year is expected to be a time of historically abnormally low Bank Rate. This opens up an opportunity for authorities to fundamentally review their strategy of undertaking external borrowing.
- For those authorities with investments in excess of their borrowing requirement over the next year and access to the cash from maturing investments within the financial year, then consideration also needs to be given to the potential merits of internal borrowing.
- As long term borrowing rates are expected to be higher than rates on the loss of investment income and look likely to be so for the next couple of years or so, authorities may prefer to avoid all new external borrowing in the next financial year in order to maximise savings in the short term.
- The running down of investments also has benefits of reducing exposure to interest rate and credit risk.

Against this background caution will be adopted with the 2009/10 treasury operations. The Head of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances.

Sensitivity of the forecast - In normal times 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.

However, after the freezing of some local authority investments by Icelandic banks now in receivership, many local authorities are currently concerned about the safety of investments and the ability of authorities to rely on credit ratings as a basis for ensuring that investments can be undertaken safely, especially for longer periods of time. The approach of this authority is therefore to use current investments, where possible, to fund new projects. It will also consider repaying some of the current debt although this may not be possible with payments to be made to our PPP partners mid year.

7 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 0.40 – 0.50% for the longest period loans narrowing down to 0.25 – 0.30% 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 LOBO (Lenders Option Borrowers Option) loans and other market loans.

Due to short term borrowing rates being expected to be considerably cheaper than longer term rates, there are likely to be significant opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of their short term nature and the likely cost of refinancing those short term loans, once they mature, compared to the current rates of longer term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a rebalancing of an authority's debt maturities towards a flattening of the maturity profile as in recent years there has been a skew towards longer dated PWLB.

Consideration will also be given to the potential for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action and other financial considerations.

As average PWLB rates in some maturity periods are expected to be minimally higher earlier on in the financial year than later on, there should therefore be greater potential for making marginally higher 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 6 above.

The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
- help fulfill the strategy outlined in paragraph 6 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.

On this point, a rescheduling exercise took place in April where we converted £22.5m of longer term loans into shorter term loans. The average interest rate on the repaid loans was 4.227% over an average period of 44.04 years.

As PWLB are non-profit making the interest due on the remaining time of the loans is payable but against this they redeem them at a given rate. The difference between the interest due and the redemption amount results in either a premium payable by or a discount due to the Council. In this instance the net result was a discount due to the Council of £8,400.64. This amount will be credited to the Loans Fund for the 2009/10 financial year.

In order to finance the gap between the repayment and the new borrowing, temporary loans of £22.5m were negotiated at an interest rate of between 0.40 and 0.55%.

On 17th April we borrowed £22.5m from PWLB immediately prior to an increase in short term PWLB interest rates. The average rate of the loans is 2.616% over an average period of 5.42 years.

The interest saving to the Council from this rescheduling exercise totals £2,062,360 over the seven year term that the replacement loans have been taken out for.

8 Annual Investments Strategy

8.1 Investment Policy

The Council will have regard to 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.

The Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's (or other rating agency if applicable) rating will be used. All credit ratings will be monitored as and when 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.
- If a body is placed on negative rating watch (i.e. there is a reasonable probability of a rating change and the likelihood of that change being negative) and it is currently near the floor of the of the minimum acceptable rating for placing investments with that body, then no further investments will be made with that body.

8.2 Investment Strategy

Interest Rate Outlook
Bank Rate started on a downward trend with a 0.5% cut to 5.50% in December 2007 and further cuts of 0.25% in February and April 2008 then 0.50% in October, 1.50% in November, 1.00% in December and 0.50% in January, February and March 2009 to a rate of 0.50% at the year end and it is expected to stabilise at this rate until starting to rise again from quarter 3 2010.

It is intended therefore, to avoid locking into longer term investments whilst the rates are down at such low levels.

At the end of the financial year a report on the investment activity will go to Council as part of the Annual Treasury Report.