GWYNEDD COUNCIL

COMMITTEE	**AUDIT COMMITTEE**
DATE	**18 DECEMBER 2008**
TITLE	**CASH DEPOSITS WITH HERITABLE BANK PLC**
PURPOSE OF REPORT	**TO INFORM THE COMMITTEE OF THE RESULTS OF A REVIEW OF THE COUNCIL'S TREASURY MANAGEMENT ARRANGEMENTS, AS REQUESTED BY THE COUNCIL BOARD**
AUTHOR	**DEWI MORGAN, SENIOR MANAGER AUDIT AND RISK**
ACTION	**TO RECEIVE THE REPORT, COMMENT ON THE CONTENTS AND SUPPORT THE RECOMMENDATIONS**

---

1. INTRODUCTION

1.1 The Head of Finance reported to the Council Board on 14 October 2008 that the Council had deposited £4,000,000 with Heritable Bank, which has subsequently been placed in administration. Gwynedd is one of over 100 local authorites, public sector bodies and charities in the UK to have deposits at risk having deposited money with Icelandic financial institutions and/or UK-based subsidiaries.

1.2 The Board resolved:

> ***(i) that the Council continues to be in constant contact with the WLGA to ensure that appropriate discussions take place between the WLGA and the Treasury, in order to bring pressure to bear to attempt to recover the £4 million;***
> ***(ii) that Internal Audit is central to the work of detailed scrutiny of the situation and to request that the Senior Audit and Risk Manager holds a thorough investigation of the matter and submit an appropriate report to the Audit Committee on 18 December.***
> ***(iii) that the report to the Audit Committee should include a review of the role of the consultants in the relevant decisions;***
> ***(iv) to request the Head of Finance to submit the latest information presented to members of the Council Board to all members of the Council in the form of a letter.***

1.3 The purpose of this report is to convey the results of part (ii) and (iii) of the above decision. That is, to report on the results of the review of the investment with Heritable, included a review of the role of the Consultants.

2. CONTEXT

2.1 Gwynedd Council has a well-established process for the short-term investment of surplus cash that it may have in its possession. For example, the Council's balance sheet as at 31 March 2008 showed that it had £77,065,000 of shot-term investments (at cost):

	Cost (£'000)
Callable Deposits	5,000
Cash	7,500
Fixed Term Deposits	64,565
	77,065

Source: Statement of Accounts 2007-08

2.2 This is not to say that the Authority had £77,065,000 of reserves available at that date; most of this money was earmarked for revenue or capital expenditure and had been invested for the short term (for fixed terms of between 1 day and several weeks) in order to generate interest income for the Authority. The amount of cash that the Council may have to deposit will vary from day to day, dependent upon the timing of payroll and creditor payments, grant income etc. It would therefore be incorrect to suggest that the Council has over £77m of "spare cash" hidden in reserves.

2.3 Given the amounts of money with which the Council deals, it is prudent for the authority to invest any surplus cash it may have on a particular day with one or more financial institutions. The responsibility for this rests with officers within the Finance Service, who will predict cash flows based on information received about income and expenditure pending. The institutions used must appear on the Council's List of Authorised Counterparties, which is a list of approved banks and building societies which the Council has deemed suitable for deposit.

2.4 On 8 September 2008 the Council deposited £4m of cash for a fixed term of 136 days (to 22 January 2009) with Heritable Bank plc, an institution listed on the List of Authorised Counterparties as being a suitable bank for deposits. On 7 October 2008 the Court of Session made an administration order in relation to Heritable Bank plc. As the bank has gone into administration, the Council is not able to withdraw funds from its account (but would not have been able to until 22 January 2009 anyway) and will be treated as an unsecured creditor of Heritable Bank plc in the administration.

2.5 In his urgent report to the Council Board, the Head of Finance noted:

- That he had personally held an urgent review into the situation and he was satisfied that the Council had acted properly when £4m was deposited in the Heritable Bank. He emphasised that the money had been deposited in accordance with the Council's Treasury Management Strategy and by following the CIPFA code [of practice for Treasury Management in the Public Services] by spreading risk and depending on recognised credit ratings.
- That the WLGA was lobbying the Government and that the Westminster Government had frozen the British assets of the Heritable and Landsbanki banks and this could assist Gwynedd to recover the money. It now appeared that over 100 local authorities had invested approximately £800m in the relevant banks.

- That there was considerable inaccurate information going around and that the Head of Finance was eager to confirm the following facts:
    - The rating of some Icelandic banks, namely Glitnir and Kaupthing had been downgraded since May (due to a risk of a hard landing in the Icelandic economy);
    - On September 8, Heritable had a credit rating of 'A' (strong rather than medium or speculative investment), and on that basis, money was deposited there;
    - The ratings of Landsbanki and Heritable were downgraded on 30 September;
    - There was no way of withdrawing money once it had been deposited for a period; and
    - No other Councils withdrew any money, they were fortunate (to be able to make informed reinvestment decisions) if their loan terms finished at the end of September, but
    - Some Councils had received proactive guidance from their consultants previously not to deposit more money in Icelandic banks.
- That £4m was an enormous amount of money but the Council was a large body that was planning to spend approximately £500m during 2008/09 and there were appropriate levels of contingency funds to deal with this situation.
- That the Heritable bank was in the hands of administrators not receivers and they had not as yet defaulted, but it was too early to assess the risk. When consideration was given to the 2009/10 Financial Strategy, it was foreseen that it would be recommended to place £4m from the general balances to one side as a contingency, until it become clearer whether it would be possible to recover the money.
- That the Council had taken steps late in September in an attempt to safeguard its money by minimising the risk by using more dependable banks as the signs appeared. Unfortunately, that occurred after the £4m had been invested with Heritable Bank until January 2009.
- That he would be turning every stone, including taking legal action as required in an attempt to recover the Council's deposit.

3. TREASURY MANAGEMENT ACTIVITIES

3.1 The Treasury Management and Investments Unit is a small team located within the Central Accountancy Unit of the Finance Service. The Unit is headed by the Pensions and Investments Officer – who has been absent on maternity leave since February 2008 – and whose post is temporarily covered by an officer from the Resource Directorate's Policy Unit. The Head of Finance is the direct line manager of the Pensions and Investments Officer. The Unit also consists of a Senior Technician, who is responsible for depositing the Council's cash flow, and an Investments Officer.

3.2 The Senior Technician is charged with the day-to-day task of implementing the Council's investment strategies and policies. He undertakes for the daily assessment of the Council's cash flow, and the deposit of any spare cash it may have with various financial institutions (usually for fixed periods) on behalf of the Finance Service. The periods of these deposits can vary between a few hours and several months.

3.3 The Council has appointed Sector Treasury Services Ltd – a subsidiary of The Capita Group – as treasury adviser to the Council, although at the time of the audit, officers within the Finance Service were unable to confirm in detail what Sector are contracted by the Council to provide. The contract with Sector was not documented in detail, and their engagement has been ongoing for several years. A review of the invoices paid to Sector show that they were paid for providing "Treasury Consultancy Services". Amongst the services they were seen to provide were information regarding financial institutions' credit ratings (both online and through monthly counterparty lists), providing seminars, advising officers and preparing briefing notes on treasury management issues.

4. ANNUAL INVESTMENT STRATEGY

4.1 The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 [SI 3239 (W.319)] requires local authorities to have regard to CIPFA's publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This CIPFA Code covers the whole range of treasury management issues, including the basic fundamental principles for making and managing investments.

4.2 Under its powers in section 15(1)(a) in the Local Government Act 2003, the National Assembly for Wales has issued statutory Guidance on Local Government Investments. Local authorities are required by section 15 of the Local Government Act 2003 to have regard to this guidance.

4.3 According to the Assembly, the "general policy objective is that local authorities should invest prudently the temporarily surplus funds held on behalf of their communities. The guidance emphasises that priority is to be given to security and liquidity, rather than yield. However, that does not mean that authorities should ignore yield. It will be reasonable and appropriate to seek the highest rate of interest or overall return consistent with the proper levels of security and liquidity."

4.4 The Assembly's Guidance on Local Government Investments has been included in full in Annex 1. The main points which are pertinent to this review can be summarised as follows:

- A local authority shall, before the start of each financial year, draw up an Annual Investment Strategy for the following financial year, which it may vary at any time. The Strategy, and any variations and appropriate arrangements for delegation are to be approved by the full Council (or at equivalent level in authorities without a Council) and are to be made available to the public.
- The Strategy should set out the local authority's policies for giving priority to the security and liquidity of its investments, rather than to the yield.
- The Annual Investment Strategy is to state:
    - how high credit rating is to be defined for the categories of investments which the local authority intends to use in the financial year.
    - that credit ratings are to be monitored and what action is to be taken when ratings change.
- A credit rating agency is one of the following three companies:
    - Standard and Poor's
    - Moody's Investors Service Ltd
    - Fitch Ratings Limited.
- The Annual Investment Strategy is to set out procedures for determining the maximum periods for which funds may prudently be committed.

4.5 The CIPFA document Treasury Management in the Public Services (referred to in paragraph 4.1 above) states further that "in particular, the Annual Investment Strategy should state the authority's policy on the use of credit ratings, the procedures for determining and limiting the use of riskier investments, and for the liquidity of investment".

4.6 The auditor can confirm that the Council has complied with the main requirements as outlined in parts 4.4 and 4.5 above:

- The Council's Annual Investment Strategy for 2008/09 was approved by the Council Board on 21 February 2008, and then by the full Council on 28 February 2008. The Strategy is available to the public as part of the agendas of these meetings as found on the Authority's website.
- The Strategy states that "The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of its capital and liquidity of its investments rather than yield. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity."
- The Strategy states:

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**	**Maximum Period**
Term Deposits with Local Authorities	High Security although Local Authorities are not credit rated.	In-house	3 months
Term Deposits with banks and building societies including callable deposits with maturities up to 1 year.	Minimum F1 (Fitch) or P1 (Moody's), short term backed by a minimum long term credit rating of A- (Fitch) or A3 Moody's.	In-house	1 year

Non-Specified Investments:
A maximum of £20 million will be held in aggregate in non-specified investments.

	Minimum Credit Criteria	**Use**	**Maximum £ of Total Investments**	**Maximum Maturity Period**
Term Deposits with banks and building societies with maturities greater than 1 year.	At the time of placing deposits for periods longer than 1 year, officers will ensure that the long term credit rating is AA (Fitch) or Aa2 (Moody's) or higher.	In-house	£20 million	3 years

- The Strategy states that "The Council uses credit ratings published by Fitch. However, if a counterparty does not have a Fitch rating, Moody's rating will be used. All credit ratings will be monitored monthly. If a counterparty's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty as a new investment will be withdrawn immediately. "

4.7 The Treasury Management Strategy Statement and Annual Investment Strategy for 2008/09 has been included as Annex 2 to this report. It was seen that the Strategy is based to great extent on a template provided by Sector Treasury Services Ltd incorporating various statutory requirements, but some sections are specific to Gwynedd Council – in particular the Council's risk appetite and levels of caution (part 4.6, second bullet point) and the List of Authorised Counterparties.

4.8 Officers within the Finance Service have confirmed that the List of Authorised Counterparties contained in the appendix of each Annual Investment Strategy is the previous year's list with any financial institution that no longer meet the minimum criteria removed and other establishments added to the list to replace them. For example, Northern Rock bank was removed from the 2007/08 list for 2008/09, to be replaced by the Scarborough Building Society and the overseas bank DePfa Bank (Republic of Ireland).

4.9 Heritable Bank and Glitnir Bank of Iceland first appeared on the List of Approved Counterparties in 2007/08, having (together with HSH Norbank of Germany, Banca Monte dei Paschi di Siena of Italy and Irish Intercontinental Bank of the Republic of Ireland) replaced Banco Bilbao Vizcaya Argentaria of Spain and Citibank and Bank of America, both of the United States.

<u>Conclusions</u>

The Council's Annual Investment Strategy complies with the statutory guidance of the National Assembly of Wales and CIPFA's Code of Practice for Treasury Management in the Public Services.

The Council's List of Authorised Counterparties is based on the previous year's, amended as institutions are removed when they fall below the minimum threshold, and is approved by the full Council. Heritable was added as a counterparty in 2007, on the basis of their appropriate credit ratings.

5. HERITABLE BANK plc

5.1 Heritable Bank plc is a UK company registered in Scotland (company registration number SC000717). The original company was incorporated in Scotland in 1877. When it entered administration, 100% of the company's shares were owned by Landsbanki Holdings (UK) plc, making Heritable a wholly owned subsidy of Landsbanki Bank of Iceland.

5.2 Credit ratings can be defined as "an assessment by professional organisations of an entity's ability to punctually service and repay debt obligations". As noted above, although companies such as Moody's and Fitch provide credit ratings for banks etc, the formulae and information sources that they use are confidential and commercially sensitive. The exact information used to score Heritable bank is therefore unclear, although it is expected that substantial reliance has been placed on the information in the Bank's balance sheet, contained within its latest financial statements. The latest set of accounts for Heritable is for the year ending 31 December 2007. An analysis of the company's balance sheet at that date does not suggest a company in imminent danger.

5.3 If the Fitch ratings were based on the balance sheet figures, it is reasonable that the rating had remained relatively healthy in the early part of 2008. Heritable went into administration because of its position within the Landsbanki group structure, and any movement of assets during 2008.

6. RELIANCE ON CREDIT RATINGS

6.1 In March 2008, CIPFA's Treasury Management Panel noted:

> ***Feedback from the Treasury Management Forum included a discussion around the role of credit ratings and how much reliance can be placed upon them. Whilst it is recognized that credit ratings do offer an independent objective assessment of potential counterparties, in using credit ratings practitioners should always ensure they are being used appropriately. The Treasury Management Code requires authorities to disclose their use of credit rating agencies and the reliance placed upon them.*** **[See paragraph 4.5 above].**

6.2 Although this advice was included in a newsletter published after the Council's Investment Strategy for 2008/09 had been approved, this advice could have been taken into consideration afterwards, as it was a particular warning that consideration should also have been given to other factors.

6.3 In its Investment Strategies for both 2006/07 and 2007/08, the Council had noted "The Council **relies** on credit ratings published by Fitch" However, in the 2008/09 strategy, the wording had been changed to "The Council **uses** credit ratings published by Fitch." However, the review of the deposits made suggests that reliance on the Fitch credit rating remained as strong as ever during 2008/09 in the period leading up to the cash deposit with Heritable. As noted in paragraph 4.7, the Council's Annual Investment Strategy is largely based on a template provided by Sector Treasury Management Ltd.

6.4 At the time of the deposit with Heritable, the Council's officers acted within the letter of the Annual Investment Strategy, which stated that the minimum high criteria for Term Deposits with credit–rated deposit takers (e.g. banks and building societies) including callable deposits with maturities up to 1 year was a minimum Fitch short term rating of F1 backed by a minimum long term credit rating of A-. The Monthly Counterparty List provided by Sector on 5th September 2008 stated the Heritable had a short term rating of F1 and a long term credit rating of A.

6.5 Despite stating in the Annual Investment Strategy that it was, by 2008/09, "using" rather than "relying on" the credit ratings provided, there was no mention within the strategy of a requirement to heed warnings provided to depositors over and above the credit ratings. Warnings about negative outlooks regarding Heritable Bank were not taken into consideration, in particular two bulletins provided by Sector on 1 April 2008 and 13 May 2008:

- Credit Rating Update 299, (1 April 2008) which warned that Fitch had put the Long and Short term ratings of Heritable Bank, the UK-based subsidiary of Landsbanki Islands, on Rating Watch Negative.
- Credit Rating Update 315 (13 May 2008) which stated that Fitch Ratings had taken rating actions on three Icelandic banks and two of their subsidiaries (including Heritable). All institutions had been removed from Rating Watch Negative and a Negative Outlook assigned. **However, they also confirmed that the Fitch ratings applicable for Heritable Bank (UK) remained at Long Term Rating 'A' and Short Term Rating 'F1'.**

6.6 The Monthly Counterparty List provided by Sector on 5th September 2008 stated that Heritable had a short term rating of F1 and a long term credit rating of A. However, it also states that "Fitch ratings have placed the long term ratings on negative outlook. Please bear this in mind when placing new deposits with the bank until such time when the rating review is completed." This suggests that whilst the ratings of Heritable was F1 (short term) and A (long term), that these rating were under review and could deteriorate – but not necessarily immediately.

6.7 A key factor in the collapse of the Icelandic banking sector was the inability of that nation's economy to support its banking sector. In an interview, the Senior Technician confirmed that the Treasury Management and Investments Unit were aware of turmoil within the Icelandic banking sector, and following the maturity of its deposit with Glitnir in August 2008 no further deposits were made with Icelandic Banks. The Senior Technician has also has confirmed that as Heritable Bank was listed in the Counterparty List as a UK Bank, he was unaware that it was a wholly owned subsidiary of an Icelandic bank, Landsbanki, until after Heritable had been placed in administration. The apparent lack of awareness about Heritable's Icelandic ownership may have contributed to the decision to deposit cash at this particular bank during September 2008.

6.8 Several other institutions in addition to Heritable had also been assigned negative outlooks at that time, and most large banks have been placed on negative watch at some point.

6.9 When asked about the contents of the Sector Credit Rating briefings (e.g. as outlined in part 6.5 above) which clearly stated that Heritable was a subsidiary of Landsbanki, the Senior Technician responded that he was only made aware of the contents of the Briefing Notes if the Pensions and Investments Officers bought matters of note to his attention. The Head of Finance has pointed out that one reason for this is the high number of such briefing notes with 16 credit rating briefing notes provided in the 38 working days between 1 April 2008 and 13 May 2008 in addition to approximately 3 other briefing notes per day.

6.10 Internal Audit has been informed by another local authority – which also uses Sector as their treasury management consultants – that they had ceased depositing cash with all Icelandic Banks, including Heritable, as a result of the negative ratings watch and subsequent negative ratings outlook contained in the two briefing notes mentioned in section 6.5 above. However, over 100 local authorities had cash deposited with Icelandic institutions or their subsidiaries based on the approved credit ratings.

6.11 Not all counterparties listed in the Annual Investment Strategy are listed in the Sector list of deposit takers, although there is further information on Sector's website. Of those institutions which appeared on the printed List of Deposit Takers on 5 September 2008, at the time of the deposit of £4m with Heritable Bank Ltd, Heritable had the joint-lowest credit ratings of any UK Bank on the list (credit rating A). Only one other UK Bank had a credit rating as low as A; that institution was not on the Gwynedd Council List of Authorised Counterparties.

6.12 This could create an impression that the deposit with Heritable, despite complying with the Annual Investment Strategy in terms of minimum credit ratings, may not – given other options which were available for deposit at the time – be consistent with the spirit of the declaration that "The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of its capital and liquidity of its investments rather than yield".

6.13 However, to put this into context, most UK building societies also had 'A' rating – the same rating as Heritable Bank – in September 2008.

6.14 On 8 September 2008, according to the Cashflow Sheet, the Senior Technician had a balance of £20.155m cash to be deposited. Based on the Council's predicted cash flow, £7.155m was deposited in an overnight account. Of the remaining £13m, £4m was deposited with Heritable Bank at an interest rate of 5.91%, with the other £9m spread across 3 Building Societies with interest rates varying between 5.76% and 5.87%. These deposits were due to mature in January 2009.

6.15 The primary reason for the limits on the deposits held within any one institution is in order to spread the potential risk and ensure that risk is minimised in case of the failure of one institution.

6.16 Whilst some deals are made with the banks directly by the Senior Technician, most are made through the use of brokers. The role of the brokers is to contact banks on behalf of the Council and try to acquire the best deal possible in terms of yield.

6.17 When interviewed, the Senior Technician confirmed that at the time of the deposit with Heritable, he would have provided the brokers with a list of all banks from the Council's List of Authorised Counterparties, and the amount that could be deposited with these institutions (considering the amount already held). This list did not contain the institutions' relative credit ratings or outlook warnings. It is important to note also that not only was there a maximum holding for each institution, but also that many of the larger banks have a minimum deposit level, or that many institutions may not actually be looking to borrow cash on a particular day, further limiting the options available.

6.18 Once the interest rates quoted by different institutions had been received from the broker, no further analysis for balancing reward with risk was undertaken, on the basis that the credit ratings of the banks had already been deemed sufficiently high to comply with the requirements of the Annual Investment Strategy. That is, on 8 September there was no process in place to balance the potential rewards derived from Heritable's higher interest rates with the higher risk of default in that this Bank was the least secure bank of those on the Council's list and had a negative outlook placed against it.

6.19 The Treasury Management and Investments Unit have been able to demonstrate that since Heritable was placed in administration, the credit ratings and outlook for each individual deposit is investigated prior to undertaking the transaction. The number of institutions with which the authority will deposit cash has been reduced, but to a level that continues to allow deposit with a diverse number of institutions.

<u>Conclusions</u>

The Treasury Management and Investments Unit were aware of turmoil within the Icelandic banking sector, and following the maturity of its deposit with an Icelandic bank (Glitnir) in August 2008 no further deposits were made with this institution.

There was a lack of awareness amongst many key staff that Heritable Bank plc, a registered UK bank, was a wholly owned subsidiary of an Icelandic bank, Landsbanki. This raises concern about the arrangements for the effective promulgation of critical information within parts of the Finance Service prior to October 2008. The Treasury Management and Investments Unit has recognised the need to improve the communication of information received from Consultants, and have acted to ensure increased awareness effecting investment decisions.

Prior to October 2008, the Finance Service had deposited cash on the basis that financial institutions that achieved the minimum credit rating were safe. Consequently, the Finance Service considered that deposits with any institution that continued to be rated at the minimum or above complied with the Council's stated policy that its investment priorities are the security of its capital and liquidity of its investments rather than yield.

The Finance Service has responded positively to the administration of Heritable plc by immediately reviewing its operations, identifying the need to make the Annual Investment Strategy more sophisticated and prioritising the security of deposits rather than the maximum yield.

Although there is a need to refine the risk management techniques used by the Treasury Management and Investments Unit, the evidence collected by the auditor shows that there is no basis in media suggestions that the Council has "gambled" – i.e. played a game of chance – with public funds. Despite being shown subsequently to be based on incomplete information, the deposit with Heritable was made at the time on an understanding that Heritable Bank plc was a secure institution. The overnight change of Heritable's rating from "good investment" (A) to default status occurred during an extraordinary and unprecendented turmoil in the global banking system.

7. RECOMMENDED ACTIONS

7.1 A two-stage methodology should be developed for placing cash deposits with institutions on the List of Authorised Counterparties, rather than the current arranagment of choosing the highest yield from any institution reaching a minimum standard. The first stage would be as now, with interest rates for a variety of institutions received from brokers. The second stage would be a methodology that compares the interest rates offered by brokers with the comparative risks of each.

7.2 The Head of Finance should put arrangements in place to ensure that information received from the Treasury Management Consultants about any institution on the List of Authorised Counterparties – and any other institutions potentially "in reserve" – is conveyed to all key personnel.

7.3 The Annual Investment Strategy should state that further information – including rating outlooks and ratings watches – will be considered along with credit ratings for all institutions.

7.4 The Council must invest its cash deposits on the basis of sound risk management. This does not mean being risk averse; the Council should not be coerced into placing its entire cash deposits in vehicles with the highest security if the returns offered by those vehicles result in the authority losing money in real terms due to yield levels lower than the rate of inflation. This should be reflected in the Annual Investment Strategy.

8. ACKNOWLEDGEMENT

8.1 The auditor would like to thank the relevant officers for their cooperation in preparing this audit report, in particular the Head of Finance, the Acting Pensions and Investments Officer and the Senior Technician.

9. RECOMMENDATION

9.1 The Committee is requested to accept this report on the investigation into the deposit with Heritable bank, comment on the contents in accordance with members' wishes, and support the recommendations already presented to the managers within the Finance Service for implementation.

Annex 1 - Guidance on Local Government Investments

Issued by the National Assembly for Wales under section 15(1)(a) of the Local Government Act 2003

Application

1. This guidance is issued to all local authorities as defined in section 23 of the 2003 Act and in regulations made under that section. It applies from 1 April 2004.

2. This guidance is also issued to community councils and charter trustees. Its application is set out in paragraphs 13-15.

Definitions

3. In this guidance, "2003 Act" means the Local Government Act 2003.

4. An investment is a transaction which relies upon the power in section 12 of the 2003 Act and is recorded in the balance sheet under the heading of investments within current assets or long-term investments. The term does not include pension fund and trust fund investments, which are subject to separate regulatory regimes and are therefore not covered by this guidance. In relation to any investments which are undertaken in accordance with Section 12 (b) of the 2003 Act (for the purposes of the prudent management of its financial affairs) local authorities shall have due regard for the requirements of the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and the CIPFA Prudential Code for Capital Finance in Local Authorities and shall give priority to the security and liquidity of those investments.

5. A long-term investment is any investment other than one which is contractually committed to be paid within 12 months or where the local authority making the investment may require it to be repaid or redeemed within 12 months of the date on which the investment was made.

6. A credit rating agency is one of the following three companies:

- Standard and Poor's
- Moody's Investors Service Ltd
- Fitch Ratings Limited.

Annual Investment Strategy

7. A local authority shall, before the start of each financial year, draw up an Annual Investment Strategy for the following financial year, which it may vary at any time. The Strategy, and any variations and appropriate arrangements for delegation are to be approved by the full Council (or at equivalent level in authorities without a Council) and are to be made available to the public.

8. The Strategy should set out the local authority's policies for giving priority to the security and liquidity of its investments, rather than to the yield. In so doing, the Strategy must deal explicitly with the matters specified in paragraphs 10, 11 and 12 of this guidance.

Security of Investments

Specified Investments

9. An investment is a specified investment if it satisfies the conditions set out below.

- The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- The investment is not a long-term investment (as defined in paragraph 5).
- The investment does not involve the acquisition of share capital or loan capital in any body corporate as defined in the Local Authorities (Capital Finance and Accounting) (Amendment)(Wales) Regulations 2004.
- Either One or both of the following conditions is met:
    - The investment is made with the UK Government or a local authority (as defined in section 23 of the 2003 Act) or local authorities in Scotland and Northern Ireland or a parish council or community council.
    - The investment is made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency (as defined in paragraph 6).
- The principal sum to be repaid at maturity is the same as the initial sum invested other than investments in the UK Government.

10. For the purposes of paragraph 9(d)(ii) above, the Annual Investment Strategy is to state:

- how high credit rating is to be defined for the categories of investments which the local authority intends to use in the financial year.
- that credit ratings are to be monitored and what action is to be taken when ratings change.

Non-specified Investments

11. With regard to non-specified investments (ie those not meeting the definition in paragraph 9), the Annual Investment Strategy is to:

- set out procedures for determining which categories of such investments may prudently be used. These investments must be denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- identify which categories of such investments have so far been identified as prudent for use during the financial year.

- state the maximum amounts upper limits which may be held in each identified category at any time during the financial year (the maximum upper limit being defined by reference to a sum of money or a percentage of the local authority's overall investments) and an overall limit for non specified investments.

Liquidity of Investments

12. The Annual Investment Strategy is to set out procedures for determining the maximum periods for which funds may prudently be committed.

Community Councils and Charter Trustees

13. All community councils and charter trustees shall have due regard to this guidance and give priority to liquidity and security rather than to yield for any investments they undertake. Each community council and charter trustee should:

- agree its Annual Investment Strategy before the start of the financial year as a minimum, this can be undertaken as a part of the budget setting process
- agree appropriate limits for each category of investments it plans to carry out
- ensure that all investments are in Sterling.

14. Paragraphs 2-12 of this guidance are applicable to Community Councils and Charter Trustees with average annual or total investments equal to and above £500,000.

15. Paragraphs 2-12 of this guidance are applicable to Community Councils and Charter Trustees with budgeted income of £500,000 set out in regulation of 6 of the Accounts and Audit Regulations 1996 (S.I. 1996/590).

APPENDIX A

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; 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 current views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

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

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: -

- 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 to the Council.

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

It is a statutory duty under Section 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 "Authorised Borrowing Limit".

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

Whilst termed an "Authorised Borrowing Limit", capital plans can be financed by both external borrowing and by other forms of liability, such as credit arrangements. The Authorised Borrowing 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 (in table 2 below) 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 by the full Council on 4 March 2004.

PRUDENTIAL INDICATOR	2006/07	2007/08	2008/09	2009/10	2010/11
(1). EXTRACT FROM PRUDENTIAL INDICATORS REPORT	**actual**	**estimate**	**estimate**	**estimate**	**estimate**
Capital Expenditure	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
General Fund	33,432	35,077	43,447	29,832	22,955
Housing Revenue Account (HRA)	5,628	6,200	5,600	5,600	5,600
TOTAL	**39,060**	**41,277**	**49,047**	**35,432**	**28,555**
Ratio of financing costs to net revenue stream					
General Fund	4.94%	4.42%	4.94%	4.96%	4.76%
HRA	12.06%	10.02%	8.39%	7.05%	5.78%
Capital Financing Requirement as at 31 March	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
General Fund	137,786	140,572	142,407	144,124	145,764
HRA	16,991	15,445	13,930	12,445	10,989
TOTAL	**154,777**	**156,017**	**156,337**	**156,569**	**156,753**
Incremental impact of capital investment decisions			**£**	**£**	**£**
Increase in council tax (band D) per annum*	-	-	£1.74	£7.70	£14.20
Increase in average housing rent per week	-	-	£0	£0	£0

PRUDENTIAL INDICATOR	2006/07	2007/08	2008/09	2009/10	2010/11
(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**actual**	**estimate**	**estimate**	**estimate**	**estimate**
Authorised limit for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
borrowing	170,000	170,000	170,000	170,000	170,000
other long term liabilities	0	0	0	0	0
TOTAL	170,000	170,000	170,000	170,000	170,000
Operational boundary for external debt -	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
borrowing	165,000	165,000	165,000	165,000	165,000
other long term liabilities	0	0	0	0	0
TOTAL	165,000	165,000	165,000	165,000	165,000
Upper limit for fixed interest rate exposure					
Net interest re. fixed rate borrowing	100%	100%	100%	100%	100%
Upper limit for variable rate exposure					
Net interest re. variable rate borrowing	50%	50%	50%	50%	50%
Upper limit for total principal sums invested for over 1 year	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
(per maturity date)	0	20,000	20,000	20,000	20,000

Maturity structure of borrowing during 2008/09	Upper Limit	Lower Limit
under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	23%	0%
5 years and within 10 years	26%	0%
10 years and above	90%	22%

4. <u>The Current Treasury Management Portfolio Position</u>

The Council’s estimated treasury management portfolio position comprises of:

		Principal £’000	**Average Rate**
Fixed rate loans as at 31 March 2008	PWLB*	149,194	6.12%
Variable rate loans as at 31 March 2008	PWLB*	0	0
Total Debt as at 31 March 2008		**149,194**	**6.12%**
Total Investments as at 31 January 2008		**83,125**	**5.82%**

*** PWLB** – Public Works Loan Board

5. The Borrowing Requirement

The borrowing requirement includes the potential to finance schemes under the Prudential Code.

	2006/07 actual £'000	2007/08 estimate £'000	2008/09 estimate £'000	2009/10 estimate £'000	2010/11 estimate £'000
New borrowing	0	0	5,000	3,000	4,000
Alternative financing arrangements*	923	2,135	2,500	2,500	2,500
Replacement borrowing	0	0	0	0	0
TOTAL	923	2,135	7,500	5,500	6,500

* Leasing. (An option appraisal needs to be undertaken in order to ensure that leasing continues to provide financial advantages to the Council, and if not, an appropriate provision needs to be made in the capital programme. Provisions also need to be made for other capital schemes. To ensure that there is provision within the capital programme, a provision of £2.5m per year for 2008/09, 2009/10 and 2010/11 has been made).

6. Prospects for Interest Rates

Gwynedd Council commission Sector Treasury Services to provide advice on treasury issues and part of their service is to assist the Council to formulate a view on interest rates. **Appendix CH** draws together a number of current City forecasts for short term or variable (the base rate) and longer fixed interest rates. The following table gives the Sector central view.

Sector View: Interest rate forecast – 24 December 2007

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010
Base Rate	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
10yr PWLB Rate	4.70%	4.60%	4.55%	4.55%	4.55%	4.55%	4.60%	4.70%	4.75%
25yr PWLB Rate	4.60%	4.55%	4.55%	4.50%	4.55%	4.55%	4.60%	4.65%	4.70%
50yr PWLB Rate	4.50%	4.45%	4.45%	4.45%	4.45%	4.45%	4.50%	4.50%	4.55%

7. The Borrowing Strategy

The Sector forecast is as follows:-

- 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.
- 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 to reach 4.70% in Q1 2010.
- 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 4.75% in Q1 2010.

This forecast indicates, therefore, that the borrowing strategy for 2008/09 should be set to take long dated borrowing towards the end of the financial year.Variable rate borrowing is expected to be more expensive than long term fixed borrowing and will therefore be unattractive throughout the financial year compared to taking long term borrowing.

Against this background caution will be adopted with the 2008/09 treasury operations. The Head of Finance will monitor the interest rate market and adopt a pragmatic approach to changing circumstances.

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 view:

- *if it were felt that there was a significant risk of a sharp rise in long and short term rates,* 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,* then long term borrowings will be postponed, and any rescheduling from fixed rate funding into short rate 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 rescheduling is now much less attractive than before that date.

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

All rescheduling will be reported to the Portfolio Leader, following its action, and if it is a matter which he believes is a matter of substance, it will also be reported to the Board.

9. Annual Investment Strategy

9.1 Investment Policy

The Council has regard to the Welsh Assembly Government's Statutory Guidance on Local Government Investments ("the Guidance"), and CIPFA's Code of Practice for managing Treasury Management in Public Services ("the CIPFA TM Code") and the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2004 SI 1010(W.107).

The general policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are the security of its capital and liquidity of its investments rather than yield. The Council will 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**	**Maximum Period**
Term Deposits with Local Authorities	High Security although Local Authorities are not credit rated.	In-house	3 months
Term Deposits with banks and building societies including callable deposits with maturities up to 1 year.	Minimum F1 (Fitch) or P1 (Moody's), short term backed by a minimum long term credit rating of A- (Fitch) or A3 Moody's.	In-house	1 year

Non-Specified Investments:
A maximum of £20 million will be held in aggregate in non-specified investments.

	Minimum Credit Criteria	**Use**	**Maximum £ of Total Investments**	**Maximum Maturity Period**
Term Deposits with banks and building societies with maturities greater than 1 year.	At the time of placing deposits for periods longer than 1 year, officers will ensure that the long term credit rating is AA (Fitch) or Aa2 (Moody's) or higher.	In-house	£20 million	3 years

The Council uses credit ratings published by Fitch. However, if a counterparty does not have a Fitch rating, Moody's rating will be used. All credit ratings will be monitored monthly. If a counterparty's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty as a new investment will be withdrawn immediately.

9.2 Investment Strategy

The Council's in-house managed funds are mainly cash-flow derived and there is a core balance available for investment over a 2-3 year period. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Given due consideration to the Council's level of cash balances over the next 3 years, the need for liquidity, its spending commitments and provisioning for contingencies, the Council has determined that £20m of its overall cash balances may be held in non-specified investments (i.e. longer term investments with a maturity exceeding a year) during the year.

Appendix B sets out the Council's current Credit Criteria, and the list of current and proposed Authorised Counterparties is shown in **Appendix C**.

Sector is forecasting that the base rate will fall 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. The Council will therefore seek to lock in longer period investments at higher rates before this fall starts for that element of its investment portfolio which represents its core balances.

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.

APPENDIX B

Section 1 - CREDIT CRITERIA

UK Banks and UK Building Societies	Max Amount	Max Period
Minimum F1 (Fitch) or P1 (Moody's) short term, backed up by a minimum long term credit rating of AA (Fitch) or Aa2 (Moody's).	£10m	3 years
Minimum F1 (Fitch) or P1 (Moody's) short term, backed up by a minimum long term credit rating of A+ (Fitch) or A1 (Moody's).	£7.5m	2 years
Minimum F1 (Fitch) or P1 (Moody's) short term, backed up by a minimum long term credit rating of A- (Fitch) or A3 (Moody's)	£5m	1 year

UK Local Authorities	Max Amount	Max Period
UK Local Authorities	£5m	3 months

Overseas Banks	Max Amount	Max Period
Minimum F1 (Fitch) or P1 (Moody's) short term, backed up by a minimum long term credit rating of AA (Fitch) or Aa2 (Moody's).	£10m	3 years
Minimum F1 (Fitch) or P1 (Moody's) short term, backed up by a minimum long term credit rating of AA- (Fitch) or Aa3 (Moody's).	£7.5m	2 year
Minimum F1 (Fitch) or P1 (Moody's) short term, backed up by a minimum long term credit rating of A+ (Fitch) or A1 (Moody's).	£5m	1 year

APPENDIX C

GWYNEDD COUNCIL'S LIST OF AUTHORISED COUNTERPARTIES

United Kingdom Banks and Subsidiaries	Recommended Deposit Limit £m		Maximum Length of Loans	
	2008/09	2007/08	2008/09	2007/08
Abbey National Group:-				
Abbey PLC.	7.5	(7.5)	2 years	(2 years)
Abbey National Treasury Services PLC	7.5	(7.5)	2 years	(2 years)
Alliance & Leicester PLC.	7.5	(7.5)	2 years	(2 years)
Bank of New York Europe Limited	5.0	(5.0)	1 year	(1 year)
Barclays Group:-				
Barclays Bank PLC	10.0	(10.0)	3 years	(3 years)
Bradford & Bingley	5.0	(5.0)	1 year	(1 year)
Bristol & West	7.5	(7.5)	2 years	(2 years)
Citibank International PLC	10.0	(10.0)	3 years	(3 years)
Close Brothers Ltd.	5.0	(5.0)	1 year	(1 year)
Clydesdale Bank (fully owned by the National Australia Bank)	7.5	(7.5)	2 year	(2 year)
Co-operative Bank Plc	5.0	(5.0)	1 year	(1 year)
Credit Suisse International	5.0	(5.0)	1 year	(1 year)
Egg Banking	5.0	(5.0)	1 year	(1 year)
HBOS Group:-				
Bank of Scotland	10.0	(10.0)	3 years	(3 years)
HBOS Treasury Services	10.0	(10.0)	3 years	(3 years)
Halifax Plc	10.0	(10.0)	3 years	(3 years)
Heritable Bank	5.0	(5.0)	1 year	(1 year)
HSBC	10.0	(10.0)	3 years	(3 years)
Lloyds TSB Group:-				
Cheltenham & Gloucester PLC	5.0	(5.0)	1 year	(1 year)
Lloyds TSB Bank PLC	10.0	(10.0)	3 years	(3 years)
Northern Rock Plc	**0**	**(7.5)**	**0**	**(2 years)**
Singer and Friedlander Ltd.	5.0	(5.0)	1 year	(1 year)
Standard Life Bank Ltd	5.0	(5.0)	1 year	(1 year)
The Royal Bank of Scotland Group:-				
National Westminster Bank PLC	10.0	(10.0)	3 years	(3 years)
Royal Bank of Scotland	10.0	(10.0)	3 years	(3 years)
Ulster Bank Ltd	5.0	(5.0)	1 year	(1 year)

NOTE:

1) **At the time of placing deposits for periods longer than 1 year, the officers will ensure that the long-term credit rating of the banks above is AA or higher.**
2) **There is a limit of £15m on banks within the same banking group.**

United Kingdom Building Societies	**Recommended Deposit Limit £m**		**Maximum Length of Loans**	
	2008/09	**2007/08**	**2008/09**	**2007/08**
Nationwide	7.5	(7.5)	2 years	(2 years)
Britannia	7.5	(7.5)	2 years	(2 years)
Yorkshire	7.5	(7.5)	2 years	(2 years)
Coventry	5.0	(5.0)	1 year	(1 year)
Scarborough	**5.0**	**(0)**	**1 year**	**(0)**
Skipton	5.0	(5.0)	1 year	(1 year)
Principality	5.0	(5.0)	1 year	(1 year)
Chelsea	5.0	(5.0)	1 year	(1 year)
Derbyshire	5.0	(5.0)	1 year	(1 year)
Dunfermline	5.0	(5.0)	1 year	(1 year)
Leeds	5.0	(5.0)	1 year	(1 year)
Cheshire	5.0	(5.0)	1 year	(1 year)
Norwich & Peterborough	5.0	(5.0)	1 year	(1 year)
Newcastle	5.0	(5.0)	1 year	(1 year)
West Bromwich	5.0	(5.0)	1 year	(1 year)

UK Local Authorities	**Recommended Deposit Limit £m**		**Maximum Length of Loans**	
	2008/09	**2007/08**	**2008/09**	**2007/08**
All UK Local Authorities	5.0	(5.0)	3 months	(3 months)

Country	**United Kingdom Branches of Foreign Banks**	**Recommended Deposit Limit £m**		**Maximum Length of Loans**	
		2008/09	**2007/08**	**2008/09**	**2007/08**
Australia	National Australia Bank Ltd	10.0	(10.0)	3 years	(3 years)
Belgium	Dexia Bank	10.0	(10.0)	3 years	(3 years)
France	Dexia Credit Local	10.0	(10.0)	3 years	(3 years)
Germany	Deutsche Bank AG	7.5	(7.5)	2 years	(2 years)
Germany	HSH Nordbank	5.00	(5.0)	1 year	(1 year)
Iceland	Glitnir Banki	5.00	(5.0)	1 year	(1 year)
Italy	Banca Monte dei Paschi di Siena	5.00	(5.0)	1 year	(1 year)
Luxembourg	Dexia Bank Belgium	10.0	(10.0)	3 years	(3 years)
Netherlands	Rabobank International	10.0	(10.0)	3 years	(3 years)
Republic of Ireland	Allied Irish Banks PLC	7.5	(7.5)	2 years	(2 years)
Republic of Ireland	Anglo Irish Bank Corporation	5.0	(5.0)	1 year	(1 year)
Republic of Ireland	Bank of Ireland	7.5	(7.5)	2 years	(2 years)
Republic of Ireland	**DePfa Bank**	**7.5**	**(0)**	**2 years**	**(0)**
Republic of Ireland	Irish Life & Permanent plc	5.0	(5.0)	1 year	(1 year)
Republic of Ireland	Irish Intercontinental Bank	5.0	(5.0)	1 year	(1 year)

NOTE:

1) **At the time of placing deposits for periods longer than 1 year, the officers will ensure that the long-term credit rating of the above UK building societies, local authorities and foreign banks is AA or higher.**
2) **There is a limit of £15m for the 3 banks in the Dexia Group.**

APPENDIX CH

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first two are individual forecasts by 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.

UBS interest rate forecast (for quarter ends) – 7 January 2008

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Base Rate	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%
10yr PWLB Rate	4.75%	4.70%	4.70%	4.65%	4.65%	4.65%	4.65%	4.70%
25yr PWLB Rate	4.60%	4.60%	4.65%	4.55%	4.55%	4.55%	4.55%	4.60%
50yr PWLB Rate	4.43%	4.50%	4.60%	4.55%	4.60%	4.65%	4.65%	4.70%

Capital Economics interest rate forecast – 12 December 2007

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
Base Rate	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%	4.00%	4.00%
5yr PWLB Rate	4.45%	4.35%	4.05%	3.95%	4.05%	4.25%	4.35%	4.75%
10yr PWLB Rate	4.45%	4.25%	4.15%	4.15%	4.25%	4.45%	4.65%	4.85%
25yr PWLB Rate	4.55%	4.45%	4.45%	4.35%	4.45%	4.55%	4.75%	4.95%
50yr PWLB Rate	4.55%	4.45%	4.35%	4.25%	4.35%	4.55%	4.65%	4.75%

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).

	Quarter ended		Annual Average Base Rate		
Bank Rate Forecasts	Q4 2007	Q4 2008	ave. 2009	ave. 2010	ave. 2011
Median	5.80%	5.30%	5.24%	5.22%	5.26%
Highest	5.80%	6.30%	6.00%	6.00%	6.00%
Lowest	5.30%	4.80%	4.50%	4.06%	4.00%