CANNOCK CHASE COUNCIL

CABINET

22 FEBRUARY 2007

REPORT OF DEPUTY CHIEF EXECUTIVE

RESPONSIBLE PORTFOLIO LEADER:

TREASURY MANAGEMENT

1. Purpose of Report

1.1 To submit for Members' approval a Treasury Management Strategy Statement and Annual Investment Strategy for 2007-08.

2. Recommendations

2.1 That Members approve the Treasury Management and Annual Investment Strategy for 2007-08 and recommend the following control framework to Council:-

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

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

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

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

2.2 That Members approve the draft Treasury Prudential limits under Section 3 of the Local Government Act 2003 to apply in 2007-08 as set out in Annex 1.

3. Key Issues

3.1 The suggested strategy for 2007-08 in respect of the following aspects of the treasury management function is based upon the Treasury Officer's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser. The strategy covers:-

- treasury limits in force which will limit the treasury risk and activities of the Council;

- Prudential Indicators;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- the investment strategy;
- any extraordinary treasury issues (such as the implications of a LSVT or ALMO).

REPORT INDEX

Section 1

Background

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

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

(b) Annual Report after the year end close.

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

The 2003 Prudential Code of Capital Finance in Local Government requires the Council to set a number of Prudential Indicators which have been incorporated into the Treasury Management Strategy Statement for 2006-07 attached as Annex 1. In addition, the Council is now required to prepare an Annual Investment Strategy. This sets out the Council’s policies for making its investments and for giving priority to the security and liquidity of these investments. The Investment Strategy has now been consolidated into the Treasury Management Report.

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

Section 2

Details of Matters to be Considered

The details to be considered are included in Annex 1 of this report and include treasury limits 2007-2010, Prudential Indicators, current portfolio position, borrowing requirement and the prospect for interest rates for both lending and borrowing.

Section 3

Contributions to CHASE

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

Section 4

Section 17 Implications

There are no identified Section 17 implications in this report.

Section 5

Human Rights Act Implications

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

Section 6

Data Protection Act Implications

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

Section 7

Risk Management Implications

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

Section 8

Legal Implications

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

Section 9

Financial Implications

The draft Financial Prudential indicators now represent a fundamental part of the budget process and at this stage represent draft indicators pending determination of the budget for 2007-08.

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

There are no direct financial implications arising from this report.

Section 10

Human Resource Implications

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

Section 11

Conclusions

That the recommendations at paragraph 2 be approved.

Background Papers

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

Annexes

Annex 1: Treasury Management Strategy and Annual Investment Strategy

ANNEX 1

CANNOCK CHASE DISTRICT COUNCIL

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2007-08

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 (included as paragraph 9); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2007/2008 in respect of the following aspects of the treasury management function is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- debt rescheduling
- the investment strategy
- any extraordinary treasury issues (such as the implications of a LSVT or ALMO).

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

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

2. any increases in running costs from new capital projects

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

2. Treasury Limits for 2007-08 to 2009-10

It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the authorised limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

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

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

3. Prudential Indicators for 2007-08 – 2009-10

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

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

4. Current Portfolio Position

		Principal		
		£m	£m	%
Fixed rate funding	PWLB	13.916		97.39
	Market	0.053	13.969	0.37
	PWLB	-		
	Market	-	-	
Other long term liabilities			0.320	2.24
TOTAL DEBT			14.289	100.00
TOTAL INVESTMENTS			14.280	

5. Borrowing Requirement

	2005-06	2006-07	2007-08	2008-09	2009-10
	£'000 Actual	£'000 Probable	£'000 Estimate	£'000 Estimate	£'000 Estimate
New borrowing	818	420	2,631	420	420
Alternative financing arrangements					
Replacement borrowing					
TOTAL	818	420	2,631	420	420

6. Prospects for Interest Rates

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

Sector View: Interest rate forecast – 15.01.07

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010
Bank rate	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%
5 yr PWLB rate	5.50%	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
10 yr PWLB rate	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
25 yr PWLB rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
50 yr PWLB rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Sector's current interest rate view is that bank rate:

- will peak at 5.5% in Q2 2007
- then fall gradually to Q1 2009 to 4.50%
- then edge up to stabilise at 4.75%

The risk to this forecast is to the upside in as much as the cuts in rates could occur later than our forecast suggests, although this will not necessarily affect the timing of the first upward move in Q1 2007.

Economic background

International

- The US, UK and EU economies have all been on the upswing of the economic cycle in 2005 and 2006 and so have been raising interest rates in order to cool their economies and to counter inflationary pressures stimulated by high oil, gas and electricity prices which could feed through into increases in wage inflation, producer prices etc.

- The US is ahead of the UK and EU in the business cycle and it looks as if the Fed. rate has probably already peaked at 5.25% whereas there is an expectation in the financial markets of further increases in the EU and UK.

- The major feature of the US economy is a still steepening downturn in the housing market which is likely to drag consumer spending, and so the wider economy, down with it (e.g. house building, employment etc.). Falling house prices will also undermine household wealth and so lead to an increase in savings (which fell while house prices were rising healthily) and so conversely will lead to a fall in consumer expenditure.

- The Fed. may be reluctant and tardy to respond to the aforementioned downturn in the economy if inflationary pressures remain stubbornly high. This could exacerbate the downturn both in the US and the world economies.

- EU growth picked up strongly in the first half of 2006 and is expected to remain healthy in the second half. Growth to slow moderately in 2007 due to weaker US and global demand.

- Despite sharply increased energy prices, disinflationary pressures from falls in prices of manufactured goods from China and India have helped to keep headline inflation in the advanced economies to an average of around 3% and will fall as the energy effects go into reverse.

UK

- GDP: The UK is on the upswing of the economic cycle from a low point reached in June 2005. Robust growth is expected to continue for a little longer but a modest cooling is expected in 2007 (2006 2.5%, 2007 2.0%) and to continue at below the trend rate of 2.5% thereafter.

- Recovery in consumer spending and retail sales has underpinned this upswing in GDP.

- The housing market has proved more robust than expected; house price inflation over 8% p.a.

- Higher than expected immigration from Eastern Europe has strengthened growth and dampened wage inflation.

- MPC decision to raise Bank Rate in November 2006 and January 2007 to bring CPI inflation down to the 2% target level two years ahead. The MPC has been concerned that short term price increases (CPI has been significantly above target since June 2006) could feed through into wage settlements in the next pay round.

- Household income growth to recover in 2007 as inflation falls and pay rises. But extra income likely to go into a recovery of the savings rate, pension saving and servicing debt costs (as rates rise) rather than consumer expenditure.

- Public sector real increase in expenditure per annum to weaken to 2.5% over the next few years from 3% average over 2000-2005.

- Increases in Bank Rate in August and November and January likely to dampen the housing market and also increases in unsecured borrowing.

- World slowdown in growth in 2007 will dampen UK exports.

- OUTLOOK: When inflation is back under control, then Bank Rate will switch eventually to a falling trend in 2008 to counter above negative effects on the economy and growth.

7. Borrowing Strategy

7.1 The Sector forecast is as follows:-

- The 50 year PWLB rate is expected to remain flat at 4.25%. As the Sector forecast is in 25pb segments there is obviously scope for the rate to move around the central forecast by +/- 25bp without affecting this overall forecast.

- The 25-30 year PWLB rate is expected to stay at 4.25% in Q4 2006 before rising to 4.5% in Q1 2007 and then remaining at that rate for the foreseeable future.

- The 10 year PWLB rate will remain at 4.75% until Q1 2008 when it will fall to 4.50% and remain at that rate for the foreseeable future.

- 5 year PWLB rate will remain at 5.0% until Q3 2007 when it will fall to 4.75%. It will then fall again to 4.5% in Q1 2008 and remain at that rate for the foreseeable future.

This forecast indicates, therefore, that the borrowing strategy for 2007/08 should be set to take very long dated borrowing at any time in the financial year. Variable rate borrowing and borrowing in the five year area are expected to be more expensive than long-term borrowing and will therefore be unattractive throughout the financial year compared to taking long-term borrowing.

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

- With 50 year PWLB rate at 4.25%, borrowing should be made in this area of the market at any time in the financial year. This rate will be lower than the forecast rates for shorter maturities in the 5 year and 10 year area. A suitable trigger point for considering new fixed rate long-term borrowing, therefore, would be 4.25%.

Against this background caution will be adopted with the 2007/08 treasury operations. The Head of Financial Management will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Council at the next available opportunity.

Sensitivity of the forecast – The main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- If it were felt that there was a significant risk of a sharp rise in long and short term rates, perhaps arising from a greater than expected increase in world economic activity or in increases in inflation, then the portfolio position will be reappraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

8. Debt Rescheduling

As the first fall in Bank Rate is expected in Q1 2008, it is therefore expected that there will be a sharp difference between higher shorter term rates and cheaper long term rates in quarters 2 to 4 of 2007. Later on in 2007/08, this advantage will diminish once Bank Rate and short term rates generally, start falling. There will therefore be opportunity during quarters 2 to 4 of 2007 to restructure shorter term debt into long term in order to optimise the potential savings achievable in the financial year 2007/08. Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 7 above.

In addition, the Council will actively give consideration during the year to taking advantage of small movements in PWLB rates to reduce the cost of existing debt in the portfolio by reborrowing at lower rates without making significant changes to the type of debt (fixed/variable) or maturity periods.

The reasons for any rescheduling to take place will include:-

- the generation of cash savings at minimum risk;
- help fulfil the strategy outlined in paragraph 7 above; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

CIPFA issued a draft accounting standards document (SORP 2007) on 18 October 2006 which includes major potential changes in the treatment of the valuation of debt and investments, the calculation of interest and the treatment of premia and discounts arising from debt rescheduling. There will be a three month consultation period before proposals are finalised. It is also expected that these proposals, once finalised, may make necessary the issue of legislation by the Government to take effect from 1.4.2007. The Authority's treasury management strategy will be reviewed once the final decisions in this area are known to see whether any changes will be required in borrowing, investment or debt rescheduling strategies.

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

9. Annual Investment Strategy

9.1 Investment Policy

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

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

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

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

Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

Specified Investments:
(All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable).

	Minimum 'High' Credit Criteria	Use
Term deposits – UK government	-	In-house
Term deposits – other LAs	-	In-house
Term deposits – banks and building societies	-	In-house
Money Market Funds	AAA	In-house
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis
Sovereign bond issues (i.e. other than the UK government)	AAA	In-house on a 'buy-and-hold' basis

Non-Specified Investments:

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

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

The Council uses Fitch ratings to derive its counterparty criteria. Where a counterparty does not have a Fitch rating, the equivalent Moody's rating will be used. All credit ratings will be monitored monthly. The Council is alerted to changes in Fitch ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

9.2 Investment Strategy

In-house Funds: All the investment decisions for Cannock Chase District Council are made in-house and although the majority of funds are cash-flow derived there is a core amount of £5 millions available for investment over two years. Investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to twelve months).

Interest Rate Outlook: Our advisers are forecasting another base rate increase and then a gradual decrease in rates from Q4 to 2007 to Q4 2008 down to 4.75% before rising again to 5.00% in Q2 2009. In these circumstances we shall tend to keep investments in shorter term deposits until a downturn in rates is imminent when advantage will be taken of longer term investment opportunities. This may well be advantageous should the Council receive anticipated capital sums during 2007-08.

APPENDIX A

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions.

The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. INDIVIDUAL FORECASTS

Sector View interest rate forecast – 31 December 2005

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010
Base rate	5.50%	5.50%	5.50%	5.25%	5.00%	4.75%	4.75%	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	5.00%	5.00%
5 yr PWLB rate	5.25%	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
10 yr PWLB rate	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
25 yr PWLB rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
50 yr PWLB rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Capital Economics interest rate forecast – 15.1.2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank rate	5.25%	5.50%	5.50%	5.25%	4.75%	4.50%	4.50%	4.50%
5 yr PWLB rate	5.35%	5.05%	4.85%	4.65%	4.45%	4.55%	4.65%	4.75%
10 yr PWLB rate	4.95%	4.75%	4.45%	4.45%	4.55%	4.65%	4.75%	4.85%
25 yr PWLB rate	4.45%	4.35%	4.25%	4.25%	4.25%	4.35%	4.45%	4.55%
30 yr PWLB rate	4.25%	4.15%	3.95%	4.05%	4.05%	4.15%	4.25%	4.35%
50 yr PWLB rate	4.05%	3.95%	3.95%	4.05%	4.05%	4.15%	4.15%	4.25%

UBS Economic interest rate forecast (for quarter ends) – 15.1.2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank rate	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
10 yr PWLB rate	4.85%	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%	4.90%
25 yr PWLB rate	4.25%	4.25%	4.25%	4.30%	4.35%	4.40%	4.45%	4.55%
50 yr PWLB rate	4.15%	4.15%	4.25%	4.35%	4.40%	4.45%	4.55%	4.65%

2. SURVEY OF ECONOMIC FORECASTS

HM Treasury – November 2006 summary of forecasts of 26 City and 14 academic analysts for Q4 2006 and 2007. (2008 – 2010 are as at November 2006 but are based on 18 forecasts).

	Bank Rate Actual	Quarter ended		Annual Average Bank Rate		
		Q4 2006	Q4 2007	Ave. 2008	Ave. 2009	Ave. 2010
Indep. Forecasters BoE Bank Rate	5.00%	4.94%	4.85%	4.86%	4.88%	4.85%
Highest bank rate	5.00%	5.00%	5.50%	5.90%	5.60%	6.10%
Lowest bank rate	5.00%	4.50%	4.00%	3.75%	4.00%	4.00%

ENCLOSURE 21 .15

ANNEX 1

Prudential Indicators

	2005-06 Actual	2006-07 Projection	2007-08 Estimated	2008-09 Estimated	2009-10 Estimated
Affordability					
Ratio Financing Costs to Net Revenue Stream					
General Fund	-4.08%	-4.43%	-5.89%	-6.76%	-1.84%
HRA	8.97%	9.49%	9.53%	9.50%	9.65%
Incremental impact of capital investment decisions on Council Tax	0	0	0	0	0
Incremental impact of capital investment decisions on average weekly housing rents	0	0	0	0	0
Capital Expenditure	**£m**	**£m**	**£m**	**£m**	**£m**
Total Capital Expenditure (including external funding)					
General Fund	1.789	1.041	9.465	3.203	2.243
HRA	7.976	7.988	8.748	7.908	7.781
Capital Financing Requirement as at 31March					
General Fund	5.835	5.767	7.354	7.097	6.911
HRA	17.844	18.206	18.569	18.931	19.293
External Debt					
Authorised Limit	17.897	19.117	21.916	21.403	21.823
Operational Boundary	16.173	17.393	20.192	19.679	20.099
External Debt as at 31 March if no new borrowing undertaken	14.758	14.288	13.786	13.239	12.955
Net Borrowing (ie less Investments) as at 31 March	1.775	5.744	-6.546	-0.294	8.173

Prudence

Net Borrowing and the Capital Finance Requirement — Net Borrowing is not expected to exceed the total of the Capital Financing Requirement (except in the short term)

Interest Rate Exposure

	2007-08	2008-09	2009-10
Upper Limit Fixed			
Borrowing	100%	100%	100%
Investment	50%	50%	50%
Upper Limit Variable			
Borrowing	10%	10%	10%
Investment	100%	100%	100%

Maturity Structure Of Borrowing	**Upper Limit**	**Lower Limit**
Under 12 months	3.18%	0%
12 months to 24 months	3.40%	0%
24 months to 5 years	27.10%	0%
5 years to 10 years	2.71%	0%
10 years and above	63.61%	0%